

# **SINGLE AUDIT REPORT**

**For the Fiscal Year Ended June 30, 2005**



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

**Prepared By:**

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

**Comptroller Operations**  
*Harvey C. Eckert, Commonwealth Comptroller*

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**Commonwealth of Pennsylvania  
Single Audit Report  
For the Fiscal Year Ended June 30, 2005**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Title Page .....	i
Table of Contents .....	iii
Letter of Transmittal .....	iv
<b>INDEPENDENT AUDITORS' REPORTS</b>	
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.....	2
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Supplementary Schedule of Expenditures of Federal Awards .....	5
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	
Schedule of Expenditures of Federal Awards.....	12
Notes to the Schedule of Expenditures of Federal Awards.....	20
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	
Summary of Auditors' Results .....	24
Index to Basic Financial Statement Comments .....	27
Basic Financial Statement Comments .....	29
Index to Federal Award Findings and Questioned Costs .....	83
Federal Award Findings and Questioned Costs .....	89
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	
June 30, 1996 Single Audit .....	238
June 30, 2000 Single Audit .....	238
June 30, 2001 Single Audit .....	239
June 30, 2002 Single Audit .....	241
June 30, 2003 Single Audit .....	245
June 30, 2004 Single Audit .....	248
<b>CORRECTIVE ACTION PLANS</b>	
Corrective Action Plans – Basic Financial Statement Comments .....	256
Corrective Action Plans – Federal Award Findings and Questioned Costs.....	262
<b>APPENDIX</b>	
Legend of Abbreviations .....	272



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

MICHEAEL J. MASCH  
SECRETARY  
OFFICE OF THE BUDGET

June 30, 2006

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, 2005. This audit has been performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and satisfies the requirements of the Single Audit Amendments of 1996 and the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2005 has been issued under separate cover. The auditor's report on the supplementary schedule of expenditures of federal awards, and the reports on compliance and internal control over financial reporting and compliance with requirements related to federal programs are contained in this document.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying Schedule of Expenditures of Federal Awards reflects \$19.7 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2005. For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$30 million. Of the \$19.7 billion expended, 94.4 percent, or \$18.6 billion, represents expenditures under federal programs audited as major programs.

The Summary of Auditors' Results lists the Commonwealth's major federal programs for the fiscal year ended June 30, 2005. Most of the \$19.7 billion in federal expenditures occurred in eight state agencies, as follows:

<u>AGENCY NAME</u>	<u>FEDERAL EXPENDITURES</u> <u>(in thousands)</u>
Public Welfare	\$12,148,221
Labor & Industry	2,972,503
Education	1,665,022
Transportation	1,250,095
Health	329,364
Community & Economic Development	157,532
Insurance	140,137
Aging	108,484
Subtotal	<u>\$18,771,358</u>
Other Agencies (20)	<u>887,937</u>
Grand Total	<u>\$19,659,295</u>

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

The accompanying report for the fiscal year ended June 30, 2005 contains various comments and findings. Comments pertaining to the audit of the Commonwealth's basic financial statements are detailed in the Basic Financial Statement Comments. Findings pertaining to the audit of the Commonwealth's federal programs are detailed in the Federal Award Findings and Questioned Costs. The comments and 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 comment and finding.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

The Summary Schedule of Prior Audit Findings reflects the current status of prior, unresolved findings and recommendations. A total of 62 findings remain unresolved from single audits for the years ended June 30, 2001 through June 30, 2004.

## **INDEPENDENT AUDIT**

The Commonwealth's June 30, 2005 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of Ernst & Young LLP. The audits were performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

## **REPORTS OF OTHER INDEPENDENT AUDITORS**

Other auditors performed the single audits of the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the State System of Higher Education and the Philadelphia Shipyard Development Corporation (component units of the Commonwealth). Federal programs administered by these agencies are not included in the Commonwealth's Schedule of Expenditures of Federal Awards. These agencies will send their single audit reports directly to the Federal Audit Clearinghouse for distribution to the appropriate federal agencies.

## **ACKNOWLEDGMENTS**

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

Sincerely,



Michael J. Masch  
Secretary  
Office of the Budget

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# Independent Auditors' Reports



Commonwealth of Pennsylvania



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



■ Two Commerce Square  
Suite 4000  
2001 Market Street  
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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

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

We have jointly audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated November 30, 2005.

We did not jointly audit the financial statements of certain component units, which represent 99 percent of total assets, 99 percent of total net assets, and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies, which represent 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We did not jointly audit 100 percent of the total assets, 100 percent of total net assets, and 100 percent of the total revenues of the Pension (and Other Employee Benefit) Trust Funds. This comprises 90 percent of total assets, 96 percent of total net assets and 84 percent of total revenues of the aggregate remaining fund information. The financial statements of these component units, agencies, and Pension (and Other Employee Benefit) Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, agencies, and the Pension (and Other Employee Benefit) Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited separately 20 percent of total assets, 28 percent of total net assets, and 17 percent of total operating revenues of the discretely presented component units, as well as 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the

Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements. We believe these mandated responsibilities of the Department of the Auditor General, acting separately, do not impair the Auditor General's independence in the audit of the Commonwealth's basic financial statements and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Life and Health Insurance Guaranty Association, the PA Property and Casualty Insurance Guaranty Association, the Tuition Account Investment Program, the PA Infrastructure Investment Authority, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, the Insurance Fraud Prevention Authority, the Port of Pittsburgh Commission, the Ben Franklin Technology Development Fund, and the Patient Safety Trust Authority were not audited in accordance with *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commonwealth of Pennsylvania's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commonwealth of Pennsylvania's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Comments 05-1 through 05-24.

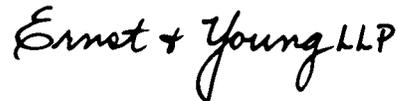
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Comments 05-1 through 05-4, 05-6 through 05-15, 05-18, and 05-23 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth of Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Comment 05-23.

We also noted certain additional matters that we reported to the management of the Commonwealth of Pennsylvania in a separate letter dated November 30, 2005.

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



November 30, 2005



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



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**Report on Compliance With Requirements Applicable to Each Major Program and  
on Internal Control Over Compliance in Accordance With OMB Circular A-133  
and on the Supplementary Schedule of Expenditures of Federal Awards**

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

Compliance

We have jointly audited the compliance of the Commonwealth of Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

The Commonwealth's basic financial statements included the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, and the Pennsylvania Housing Finance Agency, component units which received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2005. Our audit, described below, did not include the operations of these four component units because the Commonwealth engaged other auditors to perform an audit in accordance with OMB Circular A-133.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for

corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements. We believe these mandated responsibilities of the Department of the Auditor General, acting separately, do not impair the Auditor General's independence in the audit of the Commonwealth's basic financial statements and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.

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

As explained in Basic Financial Statements Comment 05-13 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient audit evidence supporting compliance of the Commonwealth with requirements governing the procurement of goods and services for competitively-bid Commonwealth contracts. This is as a result of the Commonwealth's overall policy to not release certain procurement documentation that management considers to be proprietary and confidential, and which management will not allow us to review as part of our audit. As explained in Comment 05-13, we do not agree with the Commonwealth's policy in this regard. As a result of this overall Commonwealth policy, we are prevented from reviewing documentation that would enable us to determine whether procurements in all major federal award programs were made in compliance with the Commonwealth's requirements governing the procurement of goods and services, nor are we able to satisfy ourselves as to the Commonwealth's compliance with those requirements by other auditing procedures.

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

- The Food Donation Program (CFDA #10.550) did not comply with allowable costs requirements, federal reporting requirements, and special tests and provisions related to processor recordkeeping and on-site monitoring of in-state processors as reported in Finding 05-1.
- The Food Stamp Cluster (CFDA #10.551 and #10.561) did not comply with eligibility and allowable costs requirements as reported in Finding 05-2.

- The Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559) did not comply with federal reporting requirements as reported in Finding 05-3.
- The Child and Adult Care Food Program (CFDA #10.558) did not comply with federal reporting requirements as reported in Finding 05-3.
- The Community Development Block Grants/State's Program (CFDA #14.228) did not comply with federal reporting requirements as reported in Finding 05-7 and did not comply with subrecipient monitoring requirements as reported in Finding 05-8.
- The HOME Investment Partnerships Program (CFDA #14.239) did not comply with subrecipient monitoring requirements as reported in Finding 05-8.
- The Abandoned Mine Land Reclamation Program (CFDA #15.252) did not comply with subrecipient monitoring requirements as reported in Finding 05-9.
- The Homeland Security Cluster (CFDA #16.007, #97.004, #97.042, and #97.067) did not comply with allowable costs requirements and subrecipient monitoring requirements as reported in Finding 05-11.
- The Employment Service Cluster (CFDA #17.207, #17.801, and #17.804) did not comply with allowable costs/cost principles requirements as reported in Finding 05-12.
- The Unemployment Insurance Program (CFDA #17.225) did not comply with federal reporting requirements as reported in Finding 05-13.
- The Trade Adjustment Assistance - Workers Program (CFDA #17.245) did not comply with federal reporting requirements as reported in Findings 05-14 and 05-15 and did not comply with eligibility requirements and allowable costs requirements as reported in Finding 05-16.
- The Title I Grants to Local Educational Agencies Program (CFDA #84.010) did not comply with subrecipient monitoring requirements as reported in Finding 05-20.
- The Vocational Education – Basic Grants to States Program (CFDA #84.048) did not comply with federal reporting requirements as reported in Finding 05-22 and did not comply with subrecipient eligibility requirements as reported in Finding 05-23.
- The Centers for Disease Control and Prevention Investigations Program (CFDA #93.283) did not comply with allowable costs/cost principles requirements as reported in Finding 05-26 and did not comply with subrecipient monitoring requirements as reported in Finding 05-27.
- The Temporary Assistance for Needy Families Program (CFDA #93.558) did not comply with eligibility and allowable costs requirements as reported in Finding 05-2, did not comply with a special test and provision related to individual assessment requirements as reported in Finding 05-28, did not comply with federal reporting requirements as reported in Finding 05-29, did not comply with allowable costs requirements as reported in Finding 05-30, and did not comply with subrecipient monitoring requirements as reported in Finding 05-45.

- The Child Support Enforcement Program (CFDA #93.563) did not comply with subrecipient monitoring requirements as reported in Finding 05-45.
- The Community Services Block Grants Program (CFDA #93.569) did not comply with federal reporting requirements as reported in Finding 05-32 and did not comply with subrecipient monitoring requirements, allowable costs requirements, and period of availability requirements as reported in Finding 05-33.
- The CCDF Cluster (CFDA #93.575 and #93.596) did not comply with eligibility and allowable costs requirements as reported in Finding 05-2, did not comply with subrecipient monitoring requirements as reported in Finding 05-34, did not comply with allowable costs requirements as reported in Finding 05-30, and did not comply with subrecipient monitoring requirements as reported in Finding 05-45.
- The Foster Care Program (CFDA #93.658) did not comply with subrecipient monitoring requirements as reported in Finding 05-37 and Finding 05-45.
- The Adoption Assistance Program (CFDA #93.659) did not comply with subrecipient monitoring requirements as reported in Finding 05-37 and Finding 05-45.
- The Social Services Block Grant Program (CFDA #93.667) did not comply with subrecipient monitoring requirements as reported in Finding 05-34 and Finding 05-45.
- The State Children's Insurance Program (CFDA #93.767) did not comply with eligibility requirements and subrecipient monitoring requirements as reported in Finding 05-38 and did not comply with procurement requirements as reported in Finding 05-39.
- The Medicaid Cluster (CFDA #93.775, #93.777, and #93.778) did not comply with eligibility and allowable costs requirements as reported in Finding 05-2, did not comply with a special test and provision related to the biennial review of ADP system security as reported in Finding 05-40, and did not comply with subrecipient monitoring requirements as reported in Finding 05-45.
- The HIV Care Formula Grants Program (CFDA #93.917) did not comply with eligibility and allowable costs requirements as reported in Finding 05-41.
- The Social Security - Disability Insurance Program (CFDA #96.001) did not comply with allowable costs/cost principles requirements as reported in Finding 05-42.
- For all major federal programs covered by CMIA, the Commonwealth did not comply with CMIA-90 cash management regulations as reported in Finding 05-46.

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Commonwealth's compliance with procurement requirements in its major federal programs, and except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as finding numbers 05-4, 05-5, 05-24, and 05-35.

#### Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 05-1 through 05-8, Findings 05-10 through 05-23, and Findings 05-25 through 05-46.

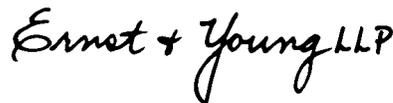
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers 05-1 through 05-4, 05-6 through 05-8, 05-10 through 05-16, 05-18, 05-20, 05-22, 05-23, 05-26 through 05-30, 05-32 through 05-34, 05-36 through 05-42, 05-45, and 05-46, as identified in the accompanying schedule of findings and questioned costs, to be material weaknesses.

The Honorable Edward G. Rendell  
Governor  
Page 6

Schedule of Expenditures of Federal Awards

We have jointly audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 30, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



May 26, 2006,  
except for the Schedule of  
Expenditures of Federal Awards,  
as to which the date is November 30, 2005

# Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
10.551	Food Stamps	1,063,354	
10.561	State Admin Matching Grants for Food Stamp Program	<u>144,220</u>	
	Total Food Stamp Cluster		1,207,574
10.553	School Breakfast Program	44,013	
10.555	National School Lunch Program	199,288	
10.556	Special Milk Program for Children	737	
10.559	Summer Food Service Program for Children	<u>11,574</u>	
	Total Child Nutrition Cluster		255,612
10.568	Emergency Food Assistance Program (Admin Costs)	962	
10.569	Emergency Food Assistance Program (Food Commodities)	<u>13,048</u>	
	Total Emergency Food Assistance Cluster		14,010
10.025	Plant & Animal Disease, Pest Control & Animal Care		2,697
10.162	Inspection Grading and Standardization		188
10.353	National Rural Development Partnership		30
10.450	Crop Insurance		1,816
10.550	Food Donation		36,229
10.557	Special Supplemental Nutrition Program for WIC		129,633
10.558	Child and Adult Care Food Program		53,108
10.560	State Administrative Expenses for Child Nutrition		3,877
10.565	Commodity Supplemental Food Program		778
10.572	WIC Farmers' Market Nutrition Program (FMNP)		3,661
10.582	Fresh Fruit and Vegetable Program		288
10.652	Forestry Research		1
10.664	Cooperative Forestry Assistance		1,423
10.665	Schools and Roads - Grants To States		6,283
10.680	Forest Health Protection		14
10.766	Community Facilities Loans and Grants		44
10.902	Soil and Water Conservation		3,479
	<b>Total - Department of Agriculture</b>		<b><u>\$1,720,745</u></b>
11.419	Coastal Zone Management Administration Awards		2,703
11.450	Automated Flood Warning Systems (AFWS)		92
11.457	Chesapeake Bay Studies		75
11.474	Atlantic Coastal Fisheries Cooperative Management Act		114
	<b>Total - Department of Commerce</b>		<b><u>\$2,984</u></b>
12.112	Payments to States in Lieu of Real Estate Taxes		176
12.400	Military Construction, National Guard		12
12.401	National Guard Military Operations and Maintenance Projects		29,367
	<b>Total - Department of Defense</b>		<b><u>\$29,555</u></b>
14.228	Community Development Block Grants/State's Program		55,969
14.231	Emergency Shelter Grants Program		2,153
14.239	HOME Investment Partnerships Program		16,132
14.241	Housing Opportunities for Persons with AIDS		1,514
14.401	Fair Housing Assistance Program - State & Local		2,402
	<b>Total - Department of Housing and Urban Development</b>		<b><u>\$78,170</u></b>

- See Notes to Schedule of Expenditures of Federal Awards -

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2005

CFDA #	CFDA Program Name		Federal Expenditures (000's)
15.605	Sport Fish Restoration	6,599	
15.611	Wildlife Restoration	7,263	
	Total Fish and Wildlife Cluster		13,862
15.250	Regulation of Surface Coal Mining		11,919
15.252	Abandoned Mine Land Reclamation (AMLR) Program		26,767
15.612	Endangered Species Conservation		16
15.622	Sportfishing and Boating Safety Act		200
15.625	Wildlife Conservation and Restoration		558
15.634	State Wildlife Grants		1,413
15.808	U.S. Geological Survey - Research and Data Collection		1
15.810	National Cooperative Geologic Mapping Program		98
15.904	Historic Preservation Fund Grants-In-Aid		780
15.916	Outdoor Recreation - Acquisition, Development and Planning		1,746
	<b>Total - Department of the Interior</b>		<b>\$57,360</b>
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training		624
16.011	Urban Areas Security Initiative		7,559
16.202	Offender Reentry Program		423
16.523	Juvenile Accountability Incentive Block Grants		6,375
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States		2,383
16.548	Title V - Delinquency Prevention Program		453
16.549	Part E - State Challenge Activities		260
16.550	State Justice Statistics Prgm for Statistic Analysis Centers		36
16.554	National Criminal History Improvement Program (NCHIP)		1,310
16.560	Natl Inst of Justice Research, Eval & Development Project Grants		144
16.564	Crime Lab Improvement - DNA Index System Backlog Reduction		155
16.574	Byrne Evaluation Partnership Program		7,990
16.575	Crime Victim Assistance		16,922
16.576	Crime Victim Compensation		863
16.579	Byrne Formula Grant Program		16,282
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants		659
16.582	Crime Victim Assistance/Discretionary Grants		393
16.586	Violent Offender Incarceration & Truth in Sent Incent Grants		946
16.588	Violence Against Women Formula Grants		4,761
16.592	Local Law Enforcement Block Grants Program		1,354
16.593	Residential Substance Abuse Treatment for State Prisoners		1,622
16.607	Bulletproof Vest Partnership Program		148
16.609	Community Prosecution and Project Safe Neighborhoods		897
16.710	Public Safety Partnership and Community Policing Grants		2,713
16.727	Enforcing Underage Drinking Laws Program		476
16.999	Miscellaneous		1,192
	<b>Total - Department of Justice</b>		<b>\$76,940</b>
17.207	Employment Service	35,711	
17.801	Disabled Veterans' Outreach Program (DVOP)	2,964	
17.804	Local Veterans' Employment Representative Program	3,865	
	Total Employment Service Cluster		42,540
17.258	WIA Adult Program	35,985	
17.259	WIA Youth Activities	37,658	

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
17.260	WIA Dislocated Workers	<u>59,045</u>	
	Total WIA Cluster		132,688
17.002	Labor Force Statistics		2,758
17.005	Compensation and Working Conditions		47
17.203	Labor Certification for Alien Workers		707
17.225	Unemployment Insurance		2,399,793
17.235	Senior Community Service Employment Program		5,012
17.245	Trade Adjustment Assistance - Workers		69,961
17.257	One-Stop Career Center Initiative		126
17.261	Employment & Training Admin Pilots, Demos, Research Projects		263
17.262	Employment and Training Administration Evaluations		57
17.600	Mine Health and Safety Grants		601
17.601	Mine Health and Safety Counseling and Technical Assistance		418
17.802	Veterans' Employment Program		657
	<b>Total - Department of Labor</b>		<b><u>\$2,655,628</u></b>
20.205	Highway Planning and Construction	1,067,775	
23.003	Appalachian Development Highway System	<u>131,437</u>	
	Total Highway Planning and Construction Cluster		1,199,212
20.600	State and Community Highway Safety	11,075	
20.601	Alcohol Traffic Safety & Drunk Driving Prevention Grants	<u>257</u>	
	Total Highway Safety Cluster		11,332
20.005	Boating Safety Financial Assistance		851
20.106	Airport Improvement Program		11,812
20.217	Motor Carrier Safety		10
20.218	National Motor Carrier Safety		6,340
20.219	Recreational Trails Program		483
20.308	Local Rail Freight Assistance		1,388
20.505	Federal Transit - Metropolitan Planning Grants		3,141
20.509	Formula Grants for Other Than Urbanized Areas		21,313
20.513	Capital Assistance Program for Elderly & Disabled Persons		4,254
20.700	Pipeline Safety		395
20.703	Interagency Hazardous Materials Training & Planning Grants		298
	<b>Total - Department of Transportation</b>		<b><u>\$1,260,829</u></b>
23.002	Appalachian Area Development		255
23.008	Appalachian Local Access Roads		374
23.011	Appalachian Research, Technical Assistance & Demo Projects		140
	<b>Total - Appalachian Regional Commission</b>		<b><u>\$769</u></b>
30.002	Employment Discrimination - State & Local Agency Contracts		1,988
	<b>Total - Equal Employment Opportunity Commission</b>		<b><u>\$1,988</u></b>
39.003	Donation of Federal Surplus Personal Property		6,445
39.011	Election Reform Payments		8,031
	<b>Total - General Services Administration</b>		<b><u>\$14,476</u></b>

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
45.025	Promotion of the Arts - Partnership Agreements	767
45.026	Promotion of the Arts - Leadership Initiatives	87
45.310	State Library Program	6,057
<b>Total - National Foundation on the Arts and Humanities</b>		<b><u>\$6,911</u></b>
64.010	Veterans Nursing Home Care	483
64.014	Veterans State Domiciliary Care	3,512
64.015	Veterans State Nursing Home Care	20,323
64.111	Veterans Education Assistance	846
<b>Total - Department of Veterans Affairs</b>		<b><u>\$25,164</u></b>
66.001	Air Pollution Control Program Support	1,834
66.032	State Indoor Radon Grants	540
66.034	Surveys, Studies, Activities Relating to the Clean Air Act	38
66.419	Water Pollution Control - State & Interstate Program Support	1,914
66.432	State Public Water System Supervision	3,732
66.438	Construction Management Assistance	13
66.454	Water Quality Management Planning	486
66.458	Capitalization Grants for Clean Water State Revolving Funds	47,222
66.460	Nonpoint Source Implementation Grants	5,942
66.461	Regional Wetland Program Development Costs	76
66.463	Water Quality Cooperative Agreements	309
66.466	Chesapeake Bay Program	2,746
66.467	Wastewater Operator Training Grant Program (Technical Asst)	12
66.468	Capitalization Grants for Drinking Water State Revolving Funds	9,004
66.471	State Grants to Reimburse Operators of Small Water Systems	183
66.472	Beach Monitoring and Notification Prgm Implementation Grants	118
66.474	Water Protection Grants to the States	143
66.500	Environmental Protection - Consolidated Research	36
66.605	Performance Partnership Grants	5,691
66.606	Surveys, Studies, Investigations and Special Purpose Grants	608
66.607	Training and Fellowships for the Environ Protection Agency	5
66.608	Environmental Information Exchange Network Grant Program	392
66.609	Protection of Children from Environmental Health Risks	9
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	546
66.707	TSCA Title IV State Lead Grants Certification	117
66.708	Pollution Prevention Grants Program	101
66.716	Surveys, Studies, Investigations, Demos and Educ Outreach	25
66.801	Hazardous Waste Management State Program Support	4,934
66.804	State and Tribal Underground Storage Tanks Program	264
66.805	Leaking Underground Storage Tank Trust Fund Program	1,672
<b>Total - Environmental Protection Agency</b>		<b><u>\$88,712</u></b>
81.041	State Energy Program	464
81.042	Weatherization Assistance for Low-Income Persons	14,395
81.105	Natl Industrial Competitiveness through Energy, Env and Econ	121
81.117	Energy Efficiency and Renewable Energy Info Dissemination	80
81.119	State Energy Program Special Projects	455

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

CFDA #	CFDA Program Name	Federal Expenditures (000's)
81.999	Miscellaneous	528
	<b>Total - Department of Energy</b>	<b><u>\$16,043</u></b>
83.105	Community Asst Program - State Support Services Element	191
83.536	Flood Mitigation Assistance	(129)
83.544	Public Assistance Grants	290
83.547	First Responder Counter-Terrorism Training Assistance	13
83.548	Hazard Mitigation Grant	(34)
83.550	National Dam Safety Program	104
83.562	State & Local All Hazards Emergency Operations Planning	1,191
83.564	Citizens Corps	295
83.999	Miscellaneous	2,103
	<b>Total - Federal Emergency Management Agency</b>	<b><u>\$4,024</u></b>
84.027	Special Education - Grants to States	387,981
84.173	Special Education - Preschool Grants	<u>14,737</u>
	Total Special Education Cluster (IDEA)	402,718
84.002	Adult Education - State Grant Program	20,758
84.010	Title I Grants to Local Educational Agencies	438,187
84.011	Migrant Education - State Grant Program	7,662
84.013	Title I Program for Neglected and Delinquent Children	1,212
84.048	Vocational Education - Basic Grants to States	47,264
84.063	Federal Pell Grant Program	595
84.126	Rehabilitation Services - Vocational Rehab Grants to States	127,243
84.169	Independent Living - State Grants	454
84.177	Rehab Serv - Indep Living Services for Older Blind Individuals	1,021
84.181	Special Educ - Grants for Infants & Families with Disabilities	14,013
84.184	Safe & Drug-Free Schools & Communities - National Programs	518
84.186	Safe & Drug-Free Schools & Communities - State Grants	18,847
84.187	Supported Employment Serv for Indiv with Severe Disabilities	1,656
84.194	Bilingual Education Support Services	(11)
84.196	Education for Homeless Children and Youth	2,103
84.206	Javits Gifted and Talented Students Education Grant Program	202
84.213	Even Start - State Educational Agencies	7,351
84.215	Fund for the Improvement of Education	17,051
84.243	Tech-Prep Education	4,228
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	234
84.281	Eisenhower Professional Development State Grants	(1)
84.282	Charter Schools	3,922
84.287	Twenty-First Century Community Learning Centers	18,206
84.298	State Grants for Innovative Programs	13,142
84.318	Education Technology State Grants	25,081
84.323	Special Education - State Personnel Development	764
84.326	Spec Educ - Tech Asst & Dissemin for Child with Disabilities	157
84.330	Advanced Placement Program	190
84.331	Grants to States for Incarcerated Youth Offenders	59
84.332	Comprehensive School Reform Demonstration	12,831
84.336	Teacher Quality Enhancement Grants	3,993
84.340	Class Size Reduction	(12)

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
84.346	Voc Ed - Occupational & Employment Info State Grants	179
84.348	Title I Accountability Grants	824
84.352	School Renovation Grants	(62)
84.357	Reading First State Grants	26,613
84.358	Rural Education	297
84.365	English Language Acquisition Grants	10,331
84.366	Mathematics and Science Partnerships	2,049
84.367	Improving Teacher Quality State Grants	112,445
84.368	Grants for Enhanced Assessment Instruments	776
84.369	Grants for State Assessments and Related Activities	15,176
	<b>Total - Department of Education</b>	<b><u>\$1,360,266</u></b>
89.003	National Historical Publications and Records Grants	30
	<b>Total - National Archives and Records Administration</b>	<b><u>\$30</u></b>
93.044	Special Programs for the Aging - Title III, Part B	24,003
93.045	Special Programs for the Aging - Title III, Part C	24,844
93.053	Nutrition Services Incentive Program	<u>9,212</u>
	Total Aging Cluster	58,059
93.575	Child Care and Development Block Grant	257,350
93.596	Child Care Mandatory and Matching Funds of the CCDF	<u>79,467</u>
	Total CCDF Cluster	336,817
93.775	State Medicaid Fraud Control Units	3,579
93.777	State Survey & Cert of Health Care Providers & Suppliers	6,880
93.778	Medical Assistance Program	<u>9,164,297</u>
	Total Medicaid Cluster	9,174,756
93.041	Special Programs for the Aging - Title VII, Chapter 3	265
93.042	Special Programs for the Aging - Title VII, Chapter 2	1,106
93.043	Special Programs for the Aging - Title III, Part D	1,134
93.048	Special Programs for the Aging - Title IV and Title II	69
93.051	Alzheimer's Disease Demonstration Grants to States	253
93.052	National Family Caregiver Support	9,265
93.103	Food and Drug Administration - Research	36
93.110	Maternal and Child Health Federal Consolidated Programs	27
93.116	Project Grants & Coop Agreements for Tuberculosis Control	571
93.127	Emergency Medical Services for Children	21
93.130	Primary Care Services Resource Coordination & Development	210
93.136	Injury Prevention and Control Research	1,784
93.150	Projects for Asst in Transition from Homelessness (PATH)	1,846
93.162	National Health Service Corps Loan Repayment Program	68
93.165	Grants for State Loan Repayment Program	76
93.197	Childhood Lead Poisoning Prevention Projects	1,251
93.230	Consolidated Knowledge Development & Application Program	4,779
93.234	Traumatic Brain Injury State Demonstration Grant Program	162
93.235	Abstinence Education Program	31
93.240	State Capacity Building	348
93.241	State Rural Hospital Flexibility Program	400
93.243	Substance Abuse and Mental Health Services - Projects	1,153
93.251	Universal Newborn Hearing Screening	185

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
93.259	Rural Access to Emergency Devices Grant	166
93.268	Immunization Grants	7,766
93.283	Centers for Disease Control & Prevention - Investigations	36,112
93.556	Promoting Safe and Stable Families	18,444
93.558	Temporary Assistance for Needy Families	780,681
93.563	Child Support Enforcement	120,291
93.566	Refugee & Entrant Assistance - State Administered Programs	7,151
93.568	Low-Income Home Energy Assistance	148,391
93.569	Community Services Block Grant	28,128
93.571	Community Services Block Grant - Discretionary Awards	137
93.576	Refugee and Entrant Assistance - Discretionary Grants	1,641
93.584	Refugee and Entrant Assistance - Targeted Assistance	962
93.585	Empowerment Zones Program	5,913
93.590	Community-Based Child Abuse Prevention Grants	1,064
93.597	Grants to States for Access and Visitation Programs	391
93.600	Head Start	289
93.602	Assets for Independence Demonstration Program	384
93.603	Adoption Incentive Payments	1,172
93.630	Developmental Disabilities Basic Support & Advocacy Grants	2,819
93.631	Developmental Disabilities Projects of National Significance	50
93.645	Child Welfare Services - State Grants	10,924
93.658	Foster Care - Title IV-E	398,987
93.659	Adoption Assistance	74,456
93.667	Social Services Block Grant	114,519
93.670	Child Abuse and Neglect Discretionary Activities	57
93.671	Family Violence Prevention and Services	3,000
93.674	Chafee Foster Care Independence Program	4,578
93.767	State Children's Insurance Program	140,137
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	663
93.779	CMS Research, Demonstrations and Evaluations	1,248
93.889	National Bioterrorism Hospital Preparedness Program	20,870
93.917	HIV Care Formula Grants	35,506
93.919	Coop Agreements for State-Based Cancer Early Detection Prgms	3,142
93.938	Coop Agreements to Support School Health Programs	112
93.940	HIV Prevention Activities - Health Department Based	4,910
93.944	HIV/AIDS Surveillance	486
93.952	Trauma Care Systems Planning and Development	14
93.958	Block Grants for Community Mental Health Services	17,524
93.959	Block Grants for Prevention & Treatment of Substance Abuse	62,992
93.977	Preventive Health Serv - Sexually Trans Diseases Control Grant	2,529
93.988	Coop Agreements for State-Based Diabetes Control Programs	398
93.991	Preventive Health and Health Services Block Grant	5,969
93.994	Maternal and Child Health Services Block Grant to the States	25,996
93.999	Miscellaneous	1,270
<b>Total - Department of Health and Human Services</b>		<b>\$11,686,911</b>
94.003	State Commissions	242
94.004	Learn & Serve America - School & Community Based Programs	1,069
94.006	AmeriCorps	5,173
94.007	Planning and Program Development Grants	98

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2005***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
94.009	Training and Technical Assistance	72
	<b>Total - Corporation for National and Community Service</b>	<b><u>\$6,654</u></b>
96.001	Social Security - Disability Insurance	71,639
	<b>Total - Social Security Administration</b>	<b><u>\$71,639</u></b>
16.007	State Domestic Preparedness Equipment Support Program	30,753
97.004	State Domestic Preparedness Equipment Support Program	5,003
97.042	Emergency Management Performance Grants	2,405
97.067	Homeland Security Grant Program	<u>2,077</u>
	Total Homeland Security Cluster	40,238
97.008	Urban Areas Security Initiative	363
97.013	State Access to the Oil Spill Liability Trust Fund	(25)
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	3,000
97.032	Crisis Counseling	967
97.036	Public Assistance Grants	46,064
97.039	Hazard Mitigation Grant	203
97.050	Federal Assistance to Individuals & Households - Other Needs	24,577
97.066	Homeland Security Information Technology & Evaluation Prgm	197
	<b>Total - Department of Homeland Security</b>	<b><u>\$115,584</u></b>
99.999	Miscellaneous	377,913
	<b>Total - Miscellaneous</b>	<b><u>\$377,913</u></b>
	<b>GRAND TOTAL</b>	<b><u>\$19,659,295</u></b>

- See Notes to Schedule of Expenditures of Federal Awards -

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Notes to the Schedule of Expenditures of Federal Awards - June 30, 2005***

### **Note A: Single Audit Reporting Entity**

The Commonwealth of Pennsylvania (the Commonwealth) includes expenditures in its schedule of expenditures of federal awards for all federal programs administered by the same funds, agencies, boards, commissions, and component units included in the Commonwealth's financial reporting entity used for its basic financial statements. However, the State System of Higher Education (SSHE), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Housing Finance Agency (PHFA), and the Philadelphia Shipyard Development Corporation (PSDC), which are discretely presented component units, elect to have their own single audits and their expenditures of federal awards are therefore excluded from the Commonwealth's schedule of expenditures of federal awards. These four component units are required to submit their own single audit reports to the federal Audit Clearinghouse.

### **Note B: Basis of Accounting**

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

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

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

Expenditures reported under CFDA #10.550, Food Donation, and CFDA #10.569, Emergency Food Assistance Program, represent the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service commodity price list in effect as of November 15, 2003.

Expenditures reported under CFDA #10.551, Food Stamps, represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' food stamp purchases during the fiscal year ended June 30, 2005.

Expenditures reported under CFDA #93.658, Foster Care Title IV-E, include \$109.4 million of costs that were disallowed by the U.S. Department of Health and Human Services subsequent to June 30, 2005. This disallowance is currently being disputed by the Commonwealth and is pending resolution.

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

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

The 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, 2005. The categorization of expenditures by program included in the schedule of expenditures of federal awards is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued on a real-time basis on the CFDA website.

# **COMMONWEALTH OF PENNSYLVANIA**

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## **Notes to the Schedule of Expenditures of Federal Awards - June 30, 2005**

### **Note D: Oil Overcharge Funds**

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

Expenditures of such funds reflected in the schedule of expenditures of federal awards include \$364,000 under CFDA #81.041, State Energy Program, and \$528,000 under CFDA #81.999, Miscellaneous.

Oil overcharge funds received by the Commonwealth that remain unexpended earn interest which is credited on a monthly basis to the oil overcharge fund for future expenditure as approved in the Commonwealth's energy plan. At June 30, 2005, the Commonwealth had unexpended oil overcharge funds including interest of approximately \$2.8 million.

### **Note E: Pennsylvania Infrastructure Investment Authority**

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

At June 30, 2005, the Authority had gross outstanding federal loans of \$661.1 million for CFDA #66.458 and \$126.6 million for CFDA #66.468. No losses were incurred by the Authority on these loans during the fiscal year ended June 30, 2005.

### **Note F: Unemployment Insurance**

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

State Regular UC Benefits	\$2,199,088
Federal UC Benefits	52,556
Federal Admin.	148,149
Total Expenditures	<u>\$2,399,793</u>

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# Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2005

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### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? X yes \_\_\_\_\_no

Reportable conditions identified not considered to be material weaknesses? X yes \_\_\_\_\_no

Noncompliance material to financial statements noted? X yes \_\_\_\_\_no

### Federal Awards

Internal control over major programs:

Material weaknesses identified? X yes \_\_\_\_\_no

Reportable conditions identified not considered to be material weaknesses? X yes \_\_\_\_\_no

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

Qualified for noncompliance in the following major programs:

Food Donation (CFDA #10.550)  
Food Stamp Cluster (CFDA #10.551 and #10.561)  
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559)  
Child and Adult Care Food Program (CFDA #10.558)  
Community Development Block Grants/State's Program (CFDA #14.228)  
HOME Investment Partnerships Program (CFDA #14.239)  
Abandoned Mine Land Reclamation Program (CFDA #15.252)  
Homeland Security Cluster (CFDA #16.007, #97.004, #97.042, and #97.067)  
Employment Service Cluster (CFDA #17.207, #17.801, and #17.804)  
Unemployment Insurance (CFDA #17.225)  
Trade Adjustment Assistance – Workers (CFDA #17.245)  
Title I Grants to Local Educational Agencies (CFDA #84.010)  
Vocational Education - Basic Grants to States (CFDA #84.048)  
Centers for Disease Control and Prevention – Investigations (CFDA #93.283)  
Temporary Assistance for Needy Families (CFDA #93.558)  
Child Support Enforcement (CFDA #93.563)  
Community Services Block Grant (CFDA #93.569)  
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)

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2005

State Children's Insurance Program (CFDA #93.767)  
 Medicaid Cluster (CFDA #93.775, #93.777 and #93.778)  
 HIV Care Formula Grants (CFDA #93.917)  
 Social Security – Disability Insurance (CFDA #96.001)  
 All Major Federal Programs Covered by CMIA

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

### Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.550	Food Donation	\$ 36,229
10.551 and 10.561	Food Stamp Cluster	1,207,574
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	255,612
10.557	Special Supplemental Nutrition Program for WIC	129,633
10.558	Child and Adult Care Food Program	53,108
14.228	Community Development Block Grants/State's Program	55,969
14.239	HOME Investment Partnerships Program	16,132
15.252	Abandoned Mine Land Reclamation Program	26,767
17.207, 17.801, and 17.804	Employment Service Cluster	42,540
17.225	Unemployment Insurance	2,399,793
17.245	Trade Adjustment Assistance – Workers	69,961
17.258, 17.259 and 17.260	WIA Cluster	132,688
20.205 and 23.003	Highway Planning and Construction Cluster	1,199,212
66.458	Capitalization Grants for Clean Water State Revolving Funds	47,222
84.010	Title I Grants to Local Educational Agencies	438,187
84.027 and 84.173	Special Education Cluster	402,718
84.048	Vocational Education – Basic Grants to States	47,264
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	127,243
84.367	Improving Teacher Quality State Grants	112,445
93.283	Centers for Disease Control and Prevention – Investigations	36,112
93.558	Temporary Assistance for Needy Families	780,681
93.563	Child Support Enforcement	120,291
93.569	Community Services Block Grant	28,128
93.575 and 93.596	CCDF Cluster	336,817
93.658	Foster Care Title IV-E	398,987
93.659	Adoption Assistance	74,456
93.667	Social Services Block Grant	114,519
93.767	State Children's Insurance Program	140,137
93.775, 93.777 and 93.778	Medicaid Cluster	9,174,756

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2005

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93.917	HIV Care Formula Grants	35,506
96.001	Social Security – Disability Insurance	71,639
97.004, 97.042, 97.067 and 16.007	Homeland Security Cluster	40,238
97.036 and 83.544	Public Assistance Grants	46,354
99.999	Miscellaneous – Temporary State Fiscal Relief	<u>377,913</u>
	Total Federal Expenditures – Major Programs	<u><u>\$ 18,576,831</u></u>

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

\$30,000,000

Auditee qualified as low-risk auditee?

    yes

  X  no

# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Comments - June 30, 2005

Comment No.	Comment	Impacted State Agency	Comment Page	CAP Page
05-1**	Encumbrance Balance in MLF Was Overstated by \$53 Million Due to a Computer Program Error	OB/BFM	29	256
05-2**	Internal Control Weaknesses Over Financial Reporting in the Department of Education General Fund GAAP Template (Prior Year Comment #04-7)	OB/LECS	30	256
05-3**	Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Comment #04-1)	OB/CS	31	256
05-4**	Internal Control Weaknesses Over Preparation of GAAP Reporting Templates	OB/BFM	32	256
05-5*	Internal Control Weaknesses Over Liability Estimation Methodologies	OB/BFM	33	256
05-6**	Internal Control Weaknesses Reconciling SAP to Revenue and Treasury Accounting Systems	OB/BFM	35	256
05-7**	Disbursements From the Health Venture Investment Account Were Not Being Reconciled to Bank Statements by DCED	DCED	39	257
05-8**	Internal Control Weaknesses Over Financial Reporting in the Tobacco Settlement Fund (Prior Year Comment #04-5)	OB/BFM CS, PHHS LECS	40	258
05-9**	Internal Control Weaknesses Result in Improper Payments in the Tobacco Settlement Fund (Prior Year Comment #04-6)	DPW	43	258
05-10**	DOH Did Not Comply With Annual Contractor and Service Provider Audit and Annual Reporting Requirements for the Tobacco Settlement Fund (Prior Year Comment #04-2)	DOH	46	258
05-11**	Internal Control Weaknesses Over Tobacco Settlement Fund Commonwealth Universal Research Enhancement Grants (Prior Year Comment #04-4)	DOH	48	258
05-12**	Weaknesses in Internal Controls Over Financial Reporting in the Motor License Fund (Prior Year Comment #04-9)	OB/BFM TRANS	53	258
05-13**	Lack of Documentation and Internal Control Weaknesses Over Contracting and Procurement (Prior Year Comment #04-10)	OB/OA	55	258

\* - Reportable Condition

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Comments - June 30, 2005

Comment No.	Comment	Impacted State Agency	Comment Page	CAP Page
05-14**	Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund	OB/LECS	60	258
05-15**	Material Errors and Internal Control Weaknesses in SAP Accounting and Reporting for Transportation Infrastructure	OB/BFM TRANS	62	258
05-16*	Asset Balances in the Statutory Liquidator Fund Were Misstated in the Preparation of the GAAP Template (Prior Year Comment #04-15)	PID OB/CS	65	258
05-17*	Internal Control Weakness in the Financial Accounting Records (Prior Year Comment #4-19)	OB/BFM	67	259
05-18**	Errors and Internal Control Weakness in Reporting Securities Lending and Investment Pools	TREAS OB/BFM	69	259
05-19*	Internal Control Weaknesses Over Agency Accounting for Capital Assets (Prior Year Comment #4-16)	OB/BFM DCNR, CORR PADOT	71	259
05-20*	Internal Control Weaknesses Over Accounting for Assets Under Construction	OB/BFM DGS, DCNR	73	259
05-21*	Internal Control Weakness Over Investment Risk Note Disclosures in Basic Financial Statements	OB/BFM LECS, CS TREAS	75	259
05-22*	Statewide Weaknesses Within the SAP Accounting System Controls (Prior Year Comment #04-18)	OB/BFM	77	261
05-23**	Noncompliance With Statutory Limits for Equity Investments (Prior Year Comment #04-11)	L&I	79	261
05-24*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System	OB/BFM EO	81	261

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 1:**

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

##### **Encumbrance Balance in MLF Was Overstated by \$53 Million Due to a Computer Program Error**

**Condition:** In our review of encumbrances, we identified a computer program error which caused a \$53 million overstatement of encumbrances in the Motor License Fund at June 30, 2005, necessitating auditor adjustments.

IES created a computerized process for populating SAP FM (budgetary) encumbrance balances in the SAP FI (financial) module which posts balances on the last day of each month. The computerized process was designed to automatically reverse the encumbrance entries in the following month. In September 2004, the computerized process did not reverse a \$53 million encumbrance posted to SAP FI for August. The \$53 million overstatement carried forward to the end of the fiscal year, undetected by management.

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

**Cause:** According to IES, the program used to post and reverse encumbrances to FI contained an error when the program ran for the first time past midnight into the next day. At midnight, the program erred due to deficient program language and failed to reverse an encumbrance. IES stated that they tested the encumbrance program, but never considered testing it by running it past midnight into the next day. Also, the output produced by the encumbrance program was not reviewed by IES, BFM, or other management, who failed to detect the problem.

**Effect:** The MLF encumbrance balance in the Basic Financial Statements (BFS) was overstated by \$53 million and an auditor adjustment was necessary.

**Recommendation:** We recommend that IES develop a process to monitor the computerized process for encumbrance postings to FI to ensure the output is accurate and agrees with expectations (i.e., record counts, check totals, etc.). We also recommend that BFM coordinate efforts with IES to develop a control which will enable users (i.e., comptroller offices, BFM, etc.) to identify and correct potential encumbrance errors in the BFS.

**Agency Response:** BFM has requested that IES provide programming to avoid this posting error. To date, IES has not completed the remedy but it is a priority item for IES.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Comments - June 30, 2005**

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### **Comment 05 – 2:**

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

##### **Internal Control Weaknesses Over Financial Reporting in the Department of Education General Fund GAAP Template (A Similar Condition Was Noted in Prior Year Comment #04-7)**

**Condition:** As in the prior audit, the Commonwealth’s Basic Financial Statements (BFS) contained material misstatements that required adjusting entries by the auditors. Because of errors and oversights in the Department of Education GAAP template preparation, expenditures were understated by \$103 million, amounts due to political subdivisions were understated by \$10.1 million, accounts payable were understated by \$93 million, and encumbrances were overstated by \$103 million in the BFS.

Also, we noted that for the current fiscal year, the Department of Education GAAP template was subjected to a supervisory review by the LECS Comptroller Office after submission to the auditors. This review detected encumbrance errors totaling \$83 million in addition to the errors mentioned above, for which correction was made by management. According to BFM, this supervisory review is not a formal standardized procedure and is not being performed for all GAAP templates every year, only those templates with auditor or BFM adjustments in the prior year.

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

**Cause:** The undetected misstatements were again caused by inadequate preparation and review of the GAAP template by the LECS Comptroller Office.

**Effect:** The government-wide and fund financial statements for the Department of Education were misstated and required auditor adjustment. In addition, the noted weaknesses in internal controls could result in additional misstatements in the future.

**Recommendation:** The LECS Comptroller Office should review its methodologies and internal review procedures for the Department of Education and other GAAP templates it prepares to ensure account balances and accruals are correct. BFM should establish a system of supervisory review procedures so that material GAAP templates are subjected to such a review each year.

**Agency Response:** The LECS Comptroller Office is currently reviewing our internal review procedures for preparing the 2006 GAAP templates. Also, GAAP Team Leaders are required to attend General Accounting User Group meetings to enhance their understanding of SAP GAAP related functions. In addition, we plan to supplement the BFM Reviewer’s Checklist with an internal document to insure that the identified material misstatements and oversights are not repeated in future templates.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Comments - June 30, 2005**

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### **Comment 05 – 3**

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

##### **Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Comment #04-1)**

**Condition:** The Central Services Comptroller Office prepared the Lottery Fund's GAAP template with a \$27 million understatement in the liability accrual for the Property Tax/Rent Rebate (PTRR) Program. We also detected a \$5.5 million overstatement in accrued liabilities for Lottery. As a result of testing Lottery gaming activity, we identified smaller-dollar misstatements in Lottery revenue and in accrued prizes payable.

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

**Cause:** The above-noted misstatements were caused by clerical/methodology errors and by inadequate preparation and review of the GAAP template for the Lottery Fund by the CS Comptroller Office.

**Effect:** Accounts in the government-wide and fund financial statements were materially misstated and required auditor adjustment. In addition, the noted weaknesses in internal review procedures could result in additional misstatements in the future.

**Recommendation:** The Central Service Comptroller Office should review and revise its preparation and internal review procedures for the Lottery GAAP template to ensure Lottery amounts in the BFS are correct.

**Agency Response:** Central Services met with the Director of the Bureau of Fiscal Management, Department of Revenue and has concluded that the appropriation request for the Property Tax/Rent Rebate Program reflects the most accurate figure for accruing this liability. Therefore, Central Services will use this amount as the accrued liability in the future.

The \$5.5 million overstatement in accrued liabilities was a result of preparer errors and inaccurate Lottery data. The template preparer has researched and identified how this information can be verified against another report to ensure the accuracy of the data. Also, the template preparer has extensively reviewed the errors that were made and altered the spreadsheets as necessary. Additionally, the preparer has adjusted the preparation instructions for the areas in which problems occurred to ensure they are accurate and thoroughly reviewed before the template is finalized.

Regarding the smaller-dollar misstatements, Central Services will examine how and why the errors occurred and work proactively to minimize similar problems in the future.

To improve the review of the Lottery Fund GAAP template, Central Services will incorporate and implement a supplemental review checklist to ensure the Property Tax/Rent Rebate Program accrued liability reflects the most accurate figures, analyze and test data provided by Lottery that supports other accrued liabilities, insure that spreadsheets reflect accurate data, and verify that the adjusted preparation instructions referred to above are followed. We will also analyze variances more closely and provide detailed justification for the variances identified.

**Auditors' Conclusion:** CS Comptroller staff should ensure that supervisory reviews are done by an individual who is different than the preparer of the GAAP template. Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 4:**

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

##### **Internal Control Weaknesses Over Preparation of GAAP Reporting Templates**

**Condition:** The GAAP Template preparation internal control process contains material weaknesses which resulted in the templates being misstated. Overall, the Bureau of Financial Management made 75 adjusting entries and the auditors proposed 45 additional adjusting entries to correct amounts in the Commonwealth's Basic Financial Statements (BFS).

GAAP templates are prepared out of the SAP accounting system for numerous special funds and General Fund business areas to report the fiscal activity of each fund/business area in the BFS. BFM uses these templates as building blocks to prepare the statewide BFS. We found that the templates contained numerous errors which would have materially misstated the BFS without the 120 BFM and auditor adjustments.

**Criteria:** Strong internal controls should ensure that balances are reported in the BFS templates accurately and appropriately reviewed and approved by management. These controls should exist at the individual Comptroller level and at various points throughout the CAFR preparation process. All GAAP template preparers and supervisory reviewers should be knowledgeable and well prepared regarding the accounts and balances they are responsible for, and all significant GAAP template entries should be adequately reviewed for propriety, accuracy, and compliance with GAAP.

**Cause:** The 120 adjusting entries made to correct the GAAP templates were a result of errors and omissions of the GAAP template preparers and reviewers. The relative newness of SAP contributed to the number of adjustments.

**Effect:** BFS account balances were materially misstated and required 120 adjusting entries which were proposed by both BFM and the auditors.

**Recommendation:** We recommend that the GAAP template preparers and reviewers give the template creation process better scrutiny. We also recommend that BFM more thoroughly review the templates to detect errors and omissions more timely to avoid subsequent adjustments to the BFS.

**Agency Response:** We do not agree entirely with this comment because, to an important degree, BFM needs to use reporting Period 15 for posting necessary adjustments. We are expecting to post less than 75 adjustments for June 30, 2006, but we will not be able to eliminate such entries entirely. We believe that the Comptroller Offices can reduce some of the Period 15 activity based on our discussions with them; and they are taking steps to educate their staff to minimize the number of entries. BFM will not be performing template reviews; this is a Comptroller Office responsibility and a cross review process was put in place for the June 30, 2005 template preparation.

**Auditors' Conclusion:** We acknowledge the major challenge faced by BFM in attempting to minimize adjustments to BFS amounts and we recognize that based on our prior year knowledge and experience, BFM is not able to eliminate BFS adjustments entirely. However, the combined 120 adjusting entries noted above, 75 made by BFM and 45 proposed by the auditors, indicate significant control weaknesses in management's procedures over ensuring the preparation of accurate BFS amounts and timely issuance of each year's CAFR. Without improvement in these preparation procedures, there is an increased risk of inaccurate BFS being prepared and an untimely issuance of Pennsylvania's CAFR in future years.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Comments - June 30, 2005**

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### **Comment 05 – 5:**

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

##### **Internal Control Weaknesses Over Liability Estimation Methodologies**

**Condition:** Comptroller offices developed new methodologies in the current year to estimate accrued liabilities at fiscal year end. Each comptroller office developed its own method of estimating its liabilities responsive to the nature of its related funds and business areas. We found that the methodologies contained errors and data which were inappropriate for reporting accurate liabilities in the BFS. For example, where estimated liabilities were based on prior-year expenditure and liability balances, we found instances in which those methodologies inappropriately used financial data from the budgetary (i.e., FM) module of SAP, instead of the full accrual (i.e., FI) module which ties into the BFS. We also found instances in which the methodologies used unadjusted liability amounts from the prior fiscal year that were not final CAFR amounts, and the calculations contained clerical errors.

Additionally, the look-back process used by OB to compare estimated to actual liabilities relies on data in SAP known as “value date” (used to identify the date a liability is incurred). Comptroller offices asserted to the auditors that the value date was being appropriately applied to input data. However, the auditors found that the value date field was not being correctly recorded in SAP. As a result, the auditors performed additional testing on Capital Facilities Fund liabilities which resulted in an \$18 million adjustment to the BFS.

**Criteria:** Strong internal controls should ensure that liability balances in the BFS are reported accurately and appropriately reviewed and approved by management. These controls should exist at the individual Comptroller level and at various points throughout the CAFR preparation process. All GAAP template preparers and supervisory reviewers should be knowledgeable and well prepared regarding the liability accounts and balances they are responsible for, and all significant GAAP template entries should be adequately reviewed for propriety, accuracy, and compliance with GAAP.

**Cause:** BFM requested the comptroller offices to develop liability methodologies to expedite the preparation and issuance of the CAFR. It appears that the methodology worksheets were not detail reviewed prior to booking the template entries for liabilities. Also, liability amounts from prior years were taken from the initial unadjusted template amounts, rather than factoring in subsequent BFS adjustments for the final CAFR.

**Effect:** Flaws in Comptroller methodologies and undetected errors in calculating the estimates could result in material misstatements in the BFS in future years.

**Recommendation:** We recommend BFM and Comptroller Office template preparers and supervisory reviewers reevaluate the methodologies used to estimate liabilities for the CAFR. BFM and Comptroller Offices should ensure that relevant (e.g., from the FI Module), accurate, and available data is utilized in GAAP template liability estimates, and clerical errors are corrected.

**Agency Response:** We believe that the condition does not provide adequate perspective regarding the number of instances where estimates were not prepared appropriately or where value date was not properly used. In relative terms, the condition does not provide the extent to which the entire liability estimate population required auditor adjustment. Our belief is that the conditions cited are not broad-based, but are limited to several specific instances. We believe that we can improve some of our liability estimate methodologies but that our existing process is functioning properly.

**Auditors’ Conclusion:** We agree that the actual current-year liability adjustments proposed by the auditors were not material, and that BFM and the Comptroller Offices were successful in properly reporting BFS liabilities in the first year with their new estimation methodologies. The flaws we noted above did not turn out to significantly impact the BFS for the SFYE June 30, 2005. However, our comment and recommendation stands because we believe that the flaws noted above, if not corrected, could significantly impact liability amounts estimated in future CAFR’s if circumstances change. For instance, significant future liability estimation errors could occur if there happened to be material differences between

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 5: (continued)**

current-year FM and FI Module balances, or between unadjusted and final CAFR balances from prior fiscal years. We believe that management needs to fully consider the deficiencies in its methodologies noted above to ensure future BFS liability amounts are estimated and reported properly. We will review any improvements in these methodologies in our subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 6:

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

##### Internal Control Weaknesses Reconciling SAP to Revenue and Treasury Accounting Systems

**Condition:** In our review and testing of the Commonwealth's key reconciliations of SAP budgetary revenues to the Revenue Accounting System (RAS) and SAP budgetary expenditures to Treasury, we noted overall improvement in these reconciliations from our audits in prior years. However, internal control weaknesses still existed in these reconciliations as follows:

We found that the RAS-SAP reconciliation, although begun during the last quarter of the fiscal year, was not timely since no monthly reconciliations were done by BFM for any months prior to May of 2005, and no RAS-SAP reconciliations were finalized until after fiscal year-end. In addition, the documentation of the reconciliation provided a poor audit trail that was difficult to follow. It appears that the reconciliation performed by an individual in BFM was not independently detail reviewed to ensure it was accurate. The reconciliation was done on a complex EXCEL worksheet that contained voluminous supporting worksheets. The auditors found that, unknown to BFM, the RAS data used in the reconciliation was initially incorrect, so the reconciliation needed to be subsequently revised by BFM.

We deemed the untimeliness of the RAS-SAP reconciliation to be significant to the BFS based on the following errors we noted:

- In our sales tax revenue testing, we noted a duplicate posting that caused SAP revenue and cash-in-transit to be overstated by \$85 million in November of 2004. We determined that Treasury and RAS posted the revenue correctly and reflected the correct balance; however, SAP accounting for revenue was incorrect. During our inquiries with Department of Revenue (DOR) and BFM, we learned that BFM detected the error during their August 2005 RAS to SAP reconciliation and made an adjustment to decrease SAP revenue for \$85 Million in August, nine months after the overstatement occurred. We consider the nine month delay in BFM detecting and adjusting this error to be untimely and inappropriate in the financial reporting process.
- Based on various audit procedures and extensive inquiries with DOR and BFM, we noted \$40 Million that was receipted by Treasury and posted to RAS in April of 2005, but failed to post in SAP as tax revenue and resulted in an understatement of SAP revenue. In addition, we noted \$52 Million that was not receipted by Treasury or posted to RAS, but was posted as revenue and cash-in-transit in SAP in June of 2005 for financial reporting. Since the RAS - SAP reconciliations were not performed until August of 2005, not periodically throughout the fiscal year, these types of errors in SAP are not being detected timely.

For the \$40 million and \$52 million in SAP revenue errors noted above, we also found that both DOR and BFM incorrectly deemed them to be timing differences in its RAS-SAP reconciliation, and failed to make adjustments to SAP as a result. As disclosed above, these were actually revenue posting errors in the SAP FI Module which required BFS adjustment as a result of our audit inquiries.

Additionally, we found a weakness in SAP fund reconciliations with Treasury. We identified an SAP fund related to payroll deductions in Executive Offices that was never reconciled to Treasury, and should have been, but BFM was not aware of it. After reviewing the SAP fund as a result of auditor inquiries, BFM realized that a \$34 million adjustment to the SAP FI Module and the BFS was necessary. It appears that OB does not have a proper procedure in place to ensure the completeness and accuracy of the FI Module in its SAP fund reconciliations.

**Criteria:** Strong internal controls should ensure that BFS balances are properly reconciled to Treasury, and reported accurately and appropriately reviewed and approved by management.

**Cause:** It appears that BFM did not establish and implement its current-year RAS-SAP reconciliation process until near the end of the fiscal year, and due to resulting time constraints, no independent or supervisory review was performed to ensure it was accurate. Additionally, BFM mistakenly believed the comptrollers were reviewing all SAP fund

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 6: (continued)

reconciliations with BFS impact, and did not follow up to ensure each one was covered. Also, the cash-in-transit account on SAP, which is not included in reconciliations of SAP cash to Treasury cash, was not being properly or timely reviewed and considered in verifying that total SAP cash account postings were correct. Management also stated that the complexity of the reconciliations is caused by the complexities of the SAP system.

We learned from DOR, Revenue Accounting, that during the revenue posting process, certain errors occur due to interface problems of DOR's various revenue legacy systems to SAP. These errors or misstatements are typically caused by human oversight and systems problems. When errors are detected by DOR, Revenue Accounting, IES has approved a manual process in which manual postings are made to the SAP cash-in-transit account to ensure that SAP remains in balance and cash with Treasury agrees with SAP cash (excluding cash-in-transit) at all times.

There is a lack of written procedures, guidelines, and resolution measures for revenue processing and quality control at DOR and BFM that addresses in detail how to identify, process, and document various revenue errors and corrections. Also, there are no comprehensive written procedures that address oversight controls, supervisory reviews, and related reconciliations.

**Effect:** The RAS-SAP reconciliation and SAP fund reconciliations failed to timely detect misstatements in the FI Module in SAP and in the BFS. Furthermore, the auditors identified BFS adjustments that were necessary.

The SAP FM (or budgetary) module was also misstated by the above amounts during fiscal year ended June 30, 2005. This is due to the automated interface of FI to FM. Revenue posted to FI is also posted to FM; therefore, if errors are posted to FI, they are also transmitted to FM. This could be a significant weakness where various users in the Commonwealth are using FM data in lieu of RAS during the year for financial analysis/budgetary purposes.

**Recommendation:** We recommend that BFM review and improve its procedures for RAS – SAP reconciliations and its SAP and COPA fund reconciliations to ensure they are complete and proper, and all reconciling items are properly followed up on to ensure the BFS are accurate.

Also, DOR and BFM should develop written procedures, guidelines, and resolution measures that address in detail how to identify/process/document various errors and corrections to include oversight controls, supervisory reviews, and related reconciliations.

In addition, DOR and BFM should develop procedures to ensure that correcting entries posted directly to SAP reflect accurate account and amount information within all applicable accounting systems, including Treasury's.

**Agency Response:** BFM undertook revenue reconciliation in FY 2004 to reconcile the revenue postings between SAP FI and SAP FM, continuing through with reconciliation to the Revenue Accounting System. Approximately 194,000 RAS Revenue Documents valued at \$954 billion, 291,000 SAP FM Documents valued at \$952 billion and 290,000 SAP FI Documents valued at \$950 billion were included within the FY 2004 Revenue Reconciliation. The three issues identified have a cumulative overstatement impact of \$97 million, which is only .01 percent of the value reconciled, and was only .23 percent of the \$42.3 billion reported in General Fund Revenues. The items presented by the auditors as issues within Comment 05-6 are immaterial in both the number of documents identified and their associated value.

BFM did initially begin developing its reconciliation process during the third quarter of the fiscal year, with adjustments made during the fourth quarter, and additional refinements made during the final review undertaken beginning in July 2005 and finalized in August 2005.

BFM ran a final FY 2004 revenue query against the RAS Oracle table once the RAS to TABS reconciliation was complete for Period 12, which was on July 1. It was subsequently determined that the query was run prior to the final updates posting to the RAS Oracle table. The timing difference of 20 minutes between the two did impact the initial reconciliation effort at year-end.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 6: (continued)**

The reconciliation itself was primarily undertaken as a project in the Audit Control Language (ACL), with only the results posted to the complex Excel spreadsheet. The final ACL project resulted in a 7 Gigabyte file, due to the volume of data reconciled, the complexity of reconciling from SAP FI to SAP FM to RAS, and the variety of ACL 'cuts' needed to complete the project. Initial documentation on the process was maintained, primarily through an ACL Flowchart worksheet in Excel that documented the ACL project process. Since the process was continually under refinement, it was impossible to finalize the procedures since they were still in development. BFM believes that its documentation approach did sufficiently document the overall approach even though a finalized version was not issued. To support this fact, it should be noted that when the ACL project suffered a fatal program error rendering the project data inaccessible, the results could be consistently regenerated as requested by the Department of the Auditor General, based on the documentation maintained.

The complex Excel worksheet is used to identify the SAP FI balances, the SAP FM balances, and RAS balances by revenue code and nuances within each area. It is used to recognize the results of the reconciliation effort; it is not used as the reconciliation itself. Since the effort is complex due to the full circle of FI to FM to RAS postings reconciled, the resulting identification via the Excel worksheet is also complex. That complexity is inherent to the nature of the effort.

During the reconciliation undertaken in the fourth quarter, the duplicate posting that caused the SAP revenue to be overstated by \$85 million was detected; however the correcting entry was not posted prior to June 30.

The COPA Fund reconciliation process is strictly a reconciliation of the cash postings between SAP and Treasury. It is not intended to, nor should it, include the Cash-In-Transit account since its inclusion in the COPA Fund reconciliation would always result in a reconciliation difference equal to the cash in transit balance. Since the \$40 million receipted by Treasury did post properly to the cash account in both SAP and Treasury, there was no reconciliation difference in the COPA Fund reconciliation; the item was strictly a revenue recognition issue. The \$52 million SAP revenue error noted also did not create a COPA Fund reconciliation difference since neither SAP nor Treasury reported any related cash. The item was strictly a revenue recognition issue. The COPA Fund reconciliation process should not have detected the RAS-SAP errors identified. Therefore, it is BFM's position that the COPA Fund reconciliation process is properly detecting the true cash reconciliation between SAP and Treasury since it does identify true timing differences related to cash deposits received through revenues.

The \$40 million item noted above was posted in SAP as a debit to cash and a credit to cash in transit. The process used by DOR officials to subsequently enter a debit to cash in transit and a credit to revenue does not impact or override the COPA Fund reconciliation process; it simply ensures the correct recognition of revenues while simultaneously recognizing that the cash in transit account has been cleared. Thus, we agree the Cash-in-Transit account needs to be reviewed monthly for aged, uncleared line items.

Although the initial FY 2004 reconciliation did not properly detect the true nature of the \$40 and \$52 million revenue errors identified, a follow-up review of the FY 2004 data did disclose that these types of issues were not a widespread problem, nor were there additional adjustments required.

SAP FM revenues are always impacted by SAP FI revenue postings. However, if an error is posted in FI, it does not necessarily result in a corresponding error in FM. SAP FM and SAP FI are not interfaced; they are integrated. There are numerous revenue postings in SAP FI that only impact SAP FM revenue postings at net \$0, such as an accounts receivable invoice. FM recognizes revenues at the point received and FI accounts for revenues when they are recognized as earned. Although the \$40 and \$52 million errors identified did carry through in both FI and FM, it would be misleading to believe that all revenue errors misstate the FM data.

BFM agrees that it is critical for timely and accurate financial reporting of revenues that the revenue reconciliation process continues to improve in both its timeliness and accuracy.

BFM acknowledges that a review of the SAP fund reconciliation process along with proper supervisory reviews in the Comptroller offices is necessary to ensure unreconciled differences are identified and corrected prior to financial reporting in the CAFR.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 6: (continued)**

**Auditors' Conclusion:** As stated above, we acknowledge that OB has continually improved its various reconciliation procedures in the SAP system. However, based on our current-year testing, we also believe that without continued improvement to internal controls over the above reconciliations, errors can occur in future fiscal years which could be material to the financial statements. In assessing the effectiveness of internal controls, we do not believe it is appropriate to net positive and negative BFS errors together, and use a smaller netted amount to analyze the impact of these errors, as management does in its agency response. Furthermore, if future circumstances should change and the client oversight errors involve larger-dollar postings to SAP, BFS errors could end up to be material. Therefore, the finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 7:**

#### **Department of Community and Economic Development**

##### **Disbursements From the Health Venture Investment Account Were Not Being Reconciled to Bank Statements by DCED**

**Condition:** Tobacco Settlement funds of \$60 million were appropriated under the Health Venture Investment Account (HVIA) for venture capital investments in health care related companies; as a result the Commonwealth entered into partnership agreements with venture capital investment firms. As these firms find companies to invest in, a capital draw request is sent to DCED. When DCED approves a request for a capital draw by a venture capital investment firm, the approved request is sent to the PA Treasury Department to disburse the approved amount to an account set up at Mellon Bank. Mellon is then responsible for disbursing the funds to the proper venture capital investment firm and properly accounting for such activity. Our review of the disbursement process of venture capital investments disclosed that, although no exceptions were noted in our current-year testwork, DCED personnel did not perform adequate bank reconciliations for HVIA disbursements in order to ensure the funds were accounted for accurately by Mellon bank and properly transferred to the intended venture capital investment firm.

**Criteria:** An effective system of internal controls over financial accounting and reporting should contain a structured process whereby accounts are timely reconciled/analyzed on a periodic basis and such reconciliations/analyses are subject to supervisory review.

**Cause:** Procedures are in place to properly approve requests for a capital draw from HVIA investment firms and prepare appropriate supporting documentation. However, once the funds are released there is no reconciliation performed to ensure that the total requests for capital draws processed by DCED equal the total transactions processed by Mellon. This Mellon bank account serves as a clearing account for HVIA disbursements before being forwarded to the intended recipient. Per discussions with DCED personnel, both DCED and Treasury Department personnel have tried to reconcile the capital draw requests to the transactions posted by Mellon. However, due to the confusing nature of the Mellon bank statements, this reconciliation has not been successfully performed.

**Effect:** DCED has not maintained adequate control over HVIA capital draw disbursements, which amounted to approximately \$6.4 million for SFYE June 30, 2005. As a result, DCED has limited assurance that transactions processed for capital draws disbursed to HVIA investment firms were accurately recorded by Mellon, that the Mellon records agree to DCED disbursements, or that the amount of the disbursement was properly transferred to the intended recipient.

**Recommendation:** DCED personnel should perform monthly or quarterly reconciliations of the Mellon bank statements to ensure that transactions processed by DCED agree to the bank statements. These procedures should also include a supervisory review of the reconciliation. This would give DCED a better system of checks and balances and better control over assets under its management.

**Agency Response:** DCED personnel will review all of the Health Venture Investment Account capital draw requests against the Mellon bank reports. When discrepancies are identified, DCED personnel (under supervisor approval) email Mellon bank and the Treasury Department with a description of the problem. DCED personnel will continue to notate the discrepancy and maintain supporting documentation until Mellon bank corrects the transaction. Therefore, there is a system of checks and balances and control over assets under DCED management.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 8:

**Office of the Budget – Bureau of Financial Management  
Public Health and Human Services Comptroller Office  
Labor, Education, and Community Services Comptroller Office  
Central Services Comptroller Office**

**Internal Control Weaknesses Over Financial Reporting in the Tobacco Settlement Fund (A Similar Condition Was Noted In Prior Year Comment #04-5)**

**Condition:** Our audit of the Commonwealth’s Tobacco Settlement Fund (TSF) for the fiscal year ended June 30, 2005, disclosed that financial activity was not properly reported in the TSF GAAP Template used to prepare the Basic Financial Statements (BFS). Our audit identified several misstatements in the TSF in the fund level statements, which also caused misstatements in the government-wide statements. Auditor adjustments were necessary to ensure TSF amounts were presented in accordance with GAAP as detailed below.

- The Reserved for Other account balance was understated by \$240.9 million due to \$37.2 million reserved for DCED venture capital investments (i.e., other) being inaccurately recorded in the Reserve for Encumbrances account and \$203.7 million in reserves improperly recorded as Unreserved/Undesignated Fund Balance. In addition, the Reserve for Encumbrances balance was overstated by \$37.2 million.
- \$86.3 million of accrued revenue was not recorded to reflect a receivable due to DOH based on agreements with four Blue Cross/Blue Shield companies. These agreements, collectively known as “Community Health Reinvestment” (CHR), were signed in March, 2005 and require these companies to forward CHR payments to the Commonwealth for the calendar year beginning in 2005. Since the payments were being received during the period from September through December of 2005, Accounts Receivable and Other Revenue were understated by \$86.3 million in the full-accrual government-wide statements, and Unearned Revenue was understated in the fund-level statements at June 30, 2005.
- DCED disbursements totaling \$6.3 million from the Health Venture Investment Account were inappropriately accounted for as temporary investments during the fiscal year and had to be adjusted to long term investments. In our prior year finding, we noted these transactions were inappropriately accounted for as expenditures.
- \$6.8 million that was invoiced to the General Fund for reimbursement of costs paid out of the TSF were not properly eliminated as Interfund Activity in accordance with GAAP. As a result, an internal elimination entry was necessary to reduce both accrued revenues and accrued expenditures by \$6.8 million within the TSF.
- The Due to Other Funds account balance was understated \$7.1 million as payments made out of the General Fund prior to July 1, 2005, but not yet reimbursed by the TSF until after the balance sheet date were inappropriately accounted for as Accounts Payable within the TSF.

In addition, many entries in the TSF GAAP template included unclear written explanations or documentation on the purpose of the accounting entries, which need to be better documented.

**Criteria:** GAAP requires financial activity to be accurately and properly accounted for in the Commonwealth’s BFS. Internal controls should ensure that these accounting transactions are presented in the financial statements in accordance with GAAP.

**Cause:** OB-BFM and the Comptroller Offices did not develop proper internal controls covering the procedures and approvals necessary for accurate preparation of the Tobacco Settlement Fund GAAP Template. While some instructions were developed for accomplishing specific tasks related to GAAP Templates in general, these instructions did not address or document how account balances are developed, nor did they address the control procedures that managers must perform and document. Further, the Commonwealth has not officially updated its written Manual of Accounting

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 8: (continued)

(M310.3) since July of 1996, and as a result, the Manual does not address the current SAP accounting system. In fact, many Commonwealth accounting manuals, such as the General Ledger Subsystem manual (M310.12), which was last updated in March of 1989, document the old ICS accounting system processes, and therefore, are outdated and no longer useful.

**Effect:** As a result of the above internal control weaknesses, the BFS were not materially correct for the TSF, and auditor adjustments were necessary to correct the BFS. Furthermore, if the internal control weaknesses are not corrected, the BFS will continue to be misstated in the future.

**Recommendation:** We recommend that OB-BFM and the Comptroller Offices strengthen internal controls over the reporting of financial transactions in the TSF GAAP Template, including providing better written explanations and documentation for transactions posted. We also recommend that applicable accounting manuals be developed and/or updated to further ensure accuracy and consistency in the preparation of GAAP templates for all funds. These manuals should include written procedures identifying the applicable internal control components for each financial statement account balance.

**Agency Response:** \$37.2 million was reclassified from Reserve for Encumbrance to Reserved–Other to remove the encumbrance for payments related to DCED’s Health Venture Investment Account. These payments were to be recorded as long-term investments; therefore, should not be encumbered. PHHS did verify the Reserved for Encumbrance classification with BFM during GAAP package preparation. \$203.7 million was reclassified from Unreserved/Undesignated to Reserved–Other; \$188.7 million to move balances related to the Health Endowment and Health Venture accounts, in accordance with the Act 77 of 2001 which creates and restricts the use of the accounts, and \$14.9 million to properly reflect the available balances of the continuing Ledger 2 appropriations. LECS approved the \$188.7 million adjustment to the Reserved–Other account balance to reflect balances related to the Health Endowment and Health Venture accounts. PHHS did make an adjustment for the continuing Ledger 2 appropriation when preparing the GAAP package; however, because the dollar amount of the \$188.7 million entry was derived utilizing the node account balance, PHHS proposed and agreed to a \$14.9 million adjustment for the available balances of the continuing Ledger 2 appropriations.

PHHS Comptroller Office was not aware that the Insurance Department reached such an agreement with the four Blue Cross/Blue Shield companies or that such payments were forthcoming at the time the GAAP package was prepared. PHHS will work with CS and record future receivables.

PHHS agrees that the Health Venture Investment Account is a long-term investment and should be correctly classified in SAP as such; however, prior to the posting of this adjustment, and as instructed by BFM, the Temporary node balance reflected Treasury account balances and the Long-term node balance reflected Mellon Bank balances at June 30, 2005. LECS is reviewing SAP classification to ensure proper reporting of investments.

In preparing the GAAP package, PHHS followed the historical accounting treatment established in the Lottery Fund. PHHS will eliminate TSF activity related to IGT in the future.

PHHS accrued \$7.1 million of expenditures in the TSF for DPW’s Home and Community Based Services and Medical Care for Worker’s with Disabilities (MAWD) appropriations. Expenditure Adjustments were processed to transfer expense from the DPW General Fund to the Tobacco Settlement Fund to absorb available balances transferred from prior year appropriations per Act 77.

The LECS Comptroller Office is in the process of analyzing current accounting practices and developing monthly financial statements for internal Commonwealth use and for the use of the Tobacco Settlement Investment Board. LECS has since stopped the Treasury update of out-of-scope activity and is inputting monthly journal entries to account for Mellon Bank investment activity. LECS is in the process of developing monthly financial statements. PHHS, LECS, CS, DCED, BFM and the Governor’s Budget Office have met on several occasions throughout fiscal year 2005 to ensure all Tobacco Settlement Fund activity and enacted legislation is properly accounted for in SAP.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 8: (continued)**

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 9:

#### Department of Public Welfare

##### **Internal Control Weaknesses Result in Improper Payments in the Tobacco Settlement Fund (A Similar Condition Was Noted in Prior Year Comment #04-6)**

**Condition:** Our testing of uncompensated care (UC) payments to hospitals in the Tobacco Settlement Fund disclosed carry-forward internal control weaknesses at DPW from the prior year which caused improper payments from the Tobacco Settlement Fund as noted below.

When calculating payments under Section 1103 of the Tobacco Settlement Act, for the number of Medicare SSI days as a percentage of total inpatient days, which is one of three key percentages used to determine a qualified hospital, DPW inappropriately used different fiscal years in the numerator vs. the denominator. For budget year 2003-04, DPW used Medicare SSI days for the fiscal years 00, 01 and 02 in the numerator, but total inpatient days in the denominator were for fiscal years 99, 00 and 01. Since one hospital was right at the median score, which was the minimum to qualify for a UC payment, a small change in the scoring could have caused that hospital to score below the median and not be eligible for its calculated payment of \$661,485. The total impact of the overall inconsistency on Section 1103 payments was not determined by DPW, nor could it be determined by the auditors.

In addition, the Department of Auditor General, in separate audit engagements performed by the Bureau of State-Aided Audits of Section 1105 extraordinary expense claims for Budget Year 2003-04, disclosed that \$4,665,967 of the payments received by the hospitals should be returned to the Commonwealth. This net overpayment consisted of seventy facilities receiving overpayments totaling \$6,319,574, eighteen facilities being underpaid by \$1,668,456, and one facility was overpaid \$14,849 due to an upper payment limitation. Of the \$14,312,003 in payments made to hospitals by DPW, only \$9,646,036 was actually eligible for reimbursement in accordance with the Act.

For the 2004-05 budget year DPW began using the same fiscal years (01, 02 and 03) data in the numerator and the denominator; however, based on the law DPW should have used data from the immediate preceding three years 02, 03, and 04. Further, no independent audits of the hospital data related to Section 1103 payments have been performed since the 2001-02 budget year, so this data is not being properly verified by DPW.

The above inconsistencies did cause improper eligibility determinations and Section 1103 and 1105 UC payments to the hospitals in question. Further, DPW has not developed an adequate audit or monitoring plan to prevent, detect, and resolve the submission of erroneous data by hospitals, thus causing inappropriate TSF payments.

**Criteria:** The Tobacco Settlement Fund Act 77 of 2001 states:

#### *Section 1102. Definitions*

*"Qualified hospital." An eligible hospital which has an uncompensated care score at or exceeding the median score of all eligible hospitals.*

#### *Section 1103. Hospital uncompensated care payments.*

*(b) Department responsibilities. The department has the following powers and duties:*

- (3) Calculate uncompensated care scores for eligible hospitals under Section 1104(c).*
- (4) Calculate and make payments to qualified hospitals under Section 1104(d) on an annual basis.*

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 9: (continued)

#### Section 1104. Eligibility and payment.

(c) *Uncompensated care scoring.* The department shall annually calculate the uncompensated care score of each eligible hospital from collected data. If information necessary to determine the uncompensated care score of an eligible hospital is unavailable due to the refusal of the hospital to provide the information, the hospital shall not be eligible for payment from the Hospital Uncompensated Care Program. If the department determines that such data cannot be provided after due diligence, the department shall use the average of the collected data. An eligible hospital's uncompensated care score shall be the sum of the following, using three-year average data as determined by the department:

(2) *The number of Medicare SSI days as a percentage of total inpatient days based on the most recent data available to the department.*

(f) *Three-Year Average.* -- ...For fiscal years 2003-2004 and thereafter, the term "three-year average" shall be the average of the immediately preceding three years.

#### Section 1105. Reimbursement for extraordinary expense.

(d) *Payment methodology.* -- Payment to a hospital under this section shall equal the lesser of the cost of:

(1) *The extraordinary expense claim; or*

(2) *The prorated amount of each hospital's percentage of extraordinary expense costs as compared to all eligible hospitals' extraordinary expense costs, as applied to the total funds available in the hospital extraordinary expense program for the fiscal year.*

**Cause:** Regarding the use of inconsistent fiscal years in the calculation of Medicare SSI percentages, and not using data from the immediate preceding three years for the 2003-04 year and thereafter, DPW personnel stated that in all cases they used the latest data available, without regard to consistency between the numerator and the denominator of the equation.

Regarding the lack of audits of Section 1103 payment data DPW decided to rely on the above-mentioned audits of the various hospitals performed by the Department of Auditor General, Bureau of State-Aided Audits which have only covered extraordinary expense claim data since budget year 2002-03.

Section 1105 payments were in error due to incorrect patient payor designations within data submissions by hospitals.

**Effect:** The above data discrepancies caused improper UC payments to hospitals from the Tobacco Settlement Fund. If the noted internal control weaknesses are not corrected, these improper payments will continue into the future.

**Recommendation:** DPW should establish procedures to ensure that UC Section 1103 and 1105 claims data submitted by hospitals is valid and properly supports payments per the Tobacco Settlement Act. This should include an audit or monitoring plan that will ensure data submitted by hospitals is accurate, and includes appropriate audit resolution when inaccurate data is submitted. In addition, DPW should resolve all issues related to the UC payments made to hospitals after ensuring that they are based on correct and accurate data and make the necessary payment adjustments to each hospital.

Further, DPW's calculations of its regular Section 1103 UC payments should be based on a methodology which is reasonable and avoids the inconsistencies in fiscal years identified above. For fiscal years 2003-04 and thereafter, the calculations should be based on the average of the immediate preceding three years as required by the new law.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 9: (continued)**

**Agency Response:** DPW strongly disagrees with the auditor’s finding and most of its recommendations. DPW is using data consistently and has what we feel is a comprehensive process to validate the data prior to calculating the UC payments and the processing of the payments. DPW continues to follow the criteria outlined in the Tobacco Settlement Act of 2001 and will strive to consistently use the best available data. As noted in earlier responses to previous GAAP Audit findings, DPW has initiated an internal and external validation process. Beginning with FYE 02 tobacco payments, DPW implemented an internal validation process that includes computer programming cross checks to ensure the accuracy of data outcomes and a core team of personnel who individually analyze the calculations for facilities. As an external validation, all data is sent to each facility for verification and the final calculations are reviewed and accepted by the hospital industry. These processes and improvements to them have been explained in responses.

The auditors’ statement that described inconsistencies “did cause improper eligibility determinations and Section 1103 and 1105 UC payments to hospitals in question,” is unwarranted and based on supposition or assumptions. As referenced in the finding, the Bureau of State-Aided Audits previously audited UC payments for the FY 2001-2002 payments. While they did find some concerns with data, they did not think they were of a major concern deserving their attention and have concentrated on the Extraordinary Expense (EE) payments. DPW agrees that there are issues with the EE payments and has taken previously described steps along with the Pennsylvania Health Care Cost Containment Council (PHC4) to improve the claims data accuracy. DPW is open to discussions with the auditors on providing additional audit coverage for the UC payments

Also, DPW is aware of the requirement for the UC payments to use data from the three immediate preceding years starting in Fiscal Year 2003-2004. As stated in the response to last year’s finding, it is not possible to comply with this provision of the Act. Hospitals are not required to submit their cost reports until November 30<sup>th</sup> following the end of the Fiscal Year. For example, FYE 04 cost reports have not all been desk reviewed at this time and could contain substantial errors leading to incorrect tobacco calculations (a stated concern in the finding). SSI data is also not available in a timeframe that would facilitate the payments within established timelines. Consequently, a decision was made to use the best available data to ensure the most accurate outcome in calculations. DPW is at a loss as to how to comply with this provision of the law, especially given the stated concerns of the auditors related to data accuracy.

**Auditors’ Conclusion:** While DPW may have validation processes in place, those processes alone do not detect all potential reporting errors. Given the high historic error rates in hospital data which have not been detected by DPW’s current validation processes, audits or other testing of documentation supporting the data appear necessary. Separate audits of hospital data continue to disclose high dollar value error rates as noted in the condition above. Further, DPW’s decision to focus audit efforts only on EE payment data is not reasonable. Without any audits or testing of documentation supporting the data that hospitals submitted for Section 1103 payments, there remains limited assurance that the data is correct to ensure these payments are in accordance with the law.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 10:

#### Department of Health

##### **DOH Did Not Comply With Annual Contractor and Service Provider Audit and Annual Reporting Requirements for the Tobacco Settlement Fund (A Similar Condition Was Noted in Prior Year Comment #04-2)**

**Condition:** Our testing of the receipt of contractor audits during the SFYE June 30, 2005 under the Tobacco Use Prevention and Cessation program disclosed that DOH did not ensure an annual audit was conducted or followed up on for Tobacco Settlement funding received for the SFYE June 30, 2004 by two of five contractors we sampled for testing. The two entities received \$1.7 million out of the \$4.1 million received by the five contractors we sampled, from a population of \$49.0 million awarded to 57 contractors during the SFYE June 30, 2004. Further, DOH could not provide annual reports from any service providers, nor did DOH timely complete and post to its website the annual report on the use of Tobacco Use Prevention and Cessation funds for the SFYE June 30, 2004. The annual report was not signed by the Secretary of Health and distributed publicly until April of 2005, nor was it posted to the DOH website until after September of 2005 or over nine months after the November 30, 2004 deadline required by law.

Similar internal control weaknesses over contractor audits and service provider reports were reported in our prior-year audit with inadequate follow-up by DOH to correct the weaknesses in the current year.

**Criteria:** The Tobacco Settlement Act 77 of 2001 applicable to Tobacco Use Prevention and Cessation states:

##### *Section 703. Powers and Duties of the Department*

*(10) To prepare and submit a report no later than November 30, 2002, and annually thereafter to the Chair and Minority Chair of the Public Health and Welfare Committee of the Senate and the Chair and Minority Chair of the Health and Human Service Committee of the House of Representatives. The Annual Report shall be made available for public inspection and posted on the Department's publicly accessible world wide web site.*

##### *Section 707. Service Providers*

*(b) Service Provider Annual Report. – A service provider awarded a grant under this chapter shall annually report to the primary contractor and to the Department all of the following:*

- 1. Expenditures made with grant awards.*
- 2. Whether the goals set by the primary contractor have been met and the methodology utilized to measure program results.*

##### *Section 709. Accountability.*

*(a) Audits. Contracts with Statewide contractors and primary contractors and grants to service providers shall be subject to audit as provided by law. Contracts with Statewide contractors and primary contractors and grants to service providers shall be subject to an annual audit by the department. Audits of these contracts and grants are to be conducted in accordance with generally accepted government auditing standards.*

**Cause:** DOH personnel indicated that the lack of audits for these contractors for the SFYE June 30, 2004 was due to misunderstandings at some entities, and that audit monitoring procedures to ensure compliance with Section 709 of the Tobacco Settlement Act were being enhanced during the SFYE June 30, 2005 for audits submitted in 2006. Regarding the annual report being transmitted late, DOH personnel indicated there is a large amount of “red-tape” to go through to get the reports approved, printed and posted to the Department’s website. No explanation was available for the lack of annual reports from service providers.

**Effect:** Since DOH personnel did not receive an audit for two of five contractors tested for the SFYE June 30, 2004, DOH did not comply with Section 709(a) of the Tobacco Settlement Act. Due to the overall internal control weakness,

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 10: (continued)

without audits of these contractors, DOH cannot be assured the funds are being spent in compliance with the Act. Also, DOH is not in compliance with Section 707 of the Tobacco Settlement Act as it relates to the service provider reporting. Further, DOH is not complying with the reporting requirements of Section 703 in a timely manor.

**Recommendation:** DOH should ensure that all annual reports and audits required by Section 703(10), 707(b) and 709(a) of the Tobacco Settlement Act are completed, received, and followed up on as necessary.

**Agency Response:** Upon receipt of the fiscal year closeout reports from primary and statewide contractors, the annual report was drafted summarizing the activities and outcomes of the comprehensive Tobacco Prevention and Cessation programs administered through the Tobacco Master Settlement funds. This draft requires extensive review and approval within DOH. The report for 2004-2005 will be posted on the DOH website as soon as it has cleared DOH's approval process.

To ensure that future Annual Reports are provided by November 30<sup>th</sup>, DOH will establish additional criteria for the timely submission of the annual report including:

- May – Notification letters and a standardized template sent to statewide and primary contractors for submission of outcome data by July 15.
- July 31 – Follow-up reminders sent to individual contractors who have not responded.
- September 1– Draft Annual Report finalized for DOH internal reviews.
- November 30 – Approved Annual Report posted to the website.

Service Providers fulfill their requirement through the submission of their reports to the Primary Contractors. The Primary Contractors fulfill their requirement by submitting the Annual Report Template through the DOH web-based reporting system. These reports contain the necessary expenditure information and program results as required by Act 77.

To ensure future audit and reporting requirements are met, DOH has taken the following steps:

- A letter was issued March 16, 2005 to all Primary Contractors, clarifying and reminding them of their audit requirements.
- A revised **AUDIT REQUIREMENTS** appendix that is specific to the Tobacco Use Prevention and Cessation program was incorporated into the new contractual documents, effective May 1, 2005. The audit threshold for the tobacco prevention and cessation program-specific audit of state funds has been lowered from \$300,000 to \$100,000 to ensure compliance by all contractors.
- All contractors are now required to include budgetary provisions in their yearly budgets to ensure that required audits will be conducted.
- A list of contractors whose expenditures equal or exceed \$100,000 during the state fiscal year will be submitted to DOH's Bureau of Administrative and Financial Services, Audit Resolution Section, to provide additional oversight in ensuring the required audit reports are submitted to the Department.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 11:

#### Department of Health

##### Internal Control Weaknesses Over Tobacco Settlement Fund Commonwealth Universal Research Enhancement Grants (A Similar Condition Was Noted in Prior Year Comment #04-4)

**Condition:** Our testing of DOH Tobacco Settlement Fund expenditures revealed that, since inception, all monies granted to eligible institutions under the Commonwealth Universal Research Enhancement (CURE) program have been paid upfront and in full to the grant recipients at the start of each fiscal year's grant, without adequate monitoring of these funds by DOH.

The majority of DOH contracts with the 39 CURE grant recipients extend far beyond the end of one fiscal year, and up to four years in length. In addition, as reported in the 2004-2005 Annual CURE Report maintained on the DOH website, since the inception of the CURE grants in 2001, only \$165.1 million of \$300.5 million, or 54.9 percent of all CURE funds distributed in the aggregate have been expended by grant recipients as of June 30, 2005. Since the \$135.4 million in unexpended grant funds (or 45.1 percent of the CURE grant program) is no longer in Commonwealth bank accounts, the Commonwealth does not have direct control over this excess cash and these grant funds being held by the outside grant recipients are subject to an increased risk of loss to the Commonwealth. Furthermore, since DOH decided to pay out this grant money upfront at the start of each grant year, internal controls over DOH monitoring of this grantee cash should have been significantly enhanced. However, as explained below, this has not occurred.

DOH personnel indicated that audits of CURE grants were being received in 2005 which would mitigate the risk involved with the advance funding of grants. However, DOH provided a list of only nine of the 39 grantees which forwarded audits to the Department during SFYE June 30, 2005 related to CURE awards expended during SFYE June 30, 2004. These nine grantees received only \$41.6 million of the \$81.2 million in CURE funding (or about 50 percent) awarded and paid out during the prior SFYE June 30, 2004. Further, our review of a sample of five of the nine audits disclosed that the audit provided for Pennsylvania State University (PSU) was not an audit of PSU CURE grant expenditures, but an audit of a different state grant. As a result, PSU received \$13.9 million in unaudited CURE funding awarded during SFYE June 30, 2004, and at most only \$27.7 million of the \$81.2 million mentioned above (or only 34 percent) was audited as required.

We also noted that another grantee that received the most CURE funding during SFYE June 30, 2004 (\$15.7 million) and did not submit an audit to DOH, had fraud allegations leveled against it and entered into a settlement agreement with the U.S. Department of HHS to resolve their liability for allegedly engaging in grant fraud in the course of conducting NIH- and FDA-funded clinical research. However, DOH personnel did not enhance their monitoring of CURE research grants at this grantee as a result of this disclosure to ensure that CURE research funding was not subject to any undue risk of loss.

In addition, we requested that DOH provide us access to performance reviews required to be completed under Section 910 (a) of the Tobacco Settlement Act for grants to eligible institutions under the CURE program. However, officials at DOH refused to provide us access to any performance review reports for CURE grants. In reply to our request DOH officials wrote: "It is our policy to not release the performance review reports to anyone except the Principal Investigator on the nonformula grants and the Grant Coordinator on the formula grants." Therefore, in addition to the control weaknesses, we could not verify that the required performance reviews were performed.

Several of our prior-year audits have disclosed the same internal control weaknesses noted above over this CURE funding with inadequate corrective action by DOH continuing through the end of the current year.

**Criteria:** Prudent use of Commonwealth funds dictates that payments to grantees normally be made as reimbursements or as close to a grantee's cash needs as is reasonably possible. If advanced payments are deemed necessary by management, steps should be taken to significantly increase the monitoring of the program.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 11: (continued)

Contracts with CURE grantees include an audit clause that requires an audit to be performed in accordance with *Government Auditing Standards* whenever the grantee expends \$300,000 or more in state grant funds within a year.

The Tobacco Settlement Act 77 of 2001 states:

*Section 910. Accountability Procedures.*

(a) *Requirements.* – An Applicant that receives a research grant under this chapter shall be subject to a performance review by the Department upon completion of a research project or more often as deemed necessary by the Department. ...Information shall...include, as applicable, the following:

(1) *The progress made in achieving expected research goals and objectives.*

(b) *Penalty.* – Notwithstanding any other provision of this chapter, an applicant that receives an unfavorable review by the Department under Subsection (A) may be subject to a reduction in or ineligibility for research grant funding under this chapter.

**Cause:** DOH personnel indicated that CURE grant recipients had to be paid the full amount of the contract by October 31 of the subsequent fiscal year or any remaining funds would lapse without special approval of the Office of the Budget (OB). Further, DOH personnel indicated that they initially requested OB to make the CURE appropriations continuing appropriations so the funds would not lapse in the subsequent fiscal year; however, OB did not approve the DOH request. Based on this, DOH personnel felt their best option was to pay all grantees in one advance payment and require that the funds be kept in interest bearing accounts. DOH personnel could not explain why all required grantee audits were not submitted.

Regarding the DOH policy on performance reviews, DOH officials further stated that if they were to release the reports to the public, the Department would face challenges by institutions that would not want to have any negative comments in the reports. Almost all reports include weaknesses; therefore, it is likely that most institutions would object, if they knew the reports were going to be made public. Performance review costs would increase, as grantees would appeal the reviews and DOH would have to repeat the performance reviews with new experts. DOH is also concerned about possible legal challenges and the diversion of staff effort to respond to press inquiries.

**Effect:** Since over \$135 million in Tobacco Settlement funds (or about 45 percent of the entire CURE program since its inception in 2001) remain unexpended in the possession of grantees as of June 30, 2005, and in addition are not being properly monitored by DOH, the Commonwealth is exposing significant amounts of Tobacco Settlement funds to the risk of loss by the grantee through possible financial failure, or other risk of nonperformance. As indicated above, this condition has been occurring for the last four years since the 2001 inception of the CURE grant program. Further, since DOH is not placing any limits on the amount of fiscal year advances to its grantees, the Commonwealth is not able to maximize the amount of investment income for the State's Health Endowment Account.

Since grantees are not submitting their required audits, DOH cannot determine if grantees are administering CURE grants in compliance with CURE legal and contract requirements.

Since DOH officials will not provide CURE grantee performance review reports to us, we could not test compliance with the Accountability Procedures requirements of Section 910 of the Tobacco Settlement Act.

**Recommendation:** DOH, in conjunction with OB, should consider establishing procedures to either reimburse grant recipients for the actual cost of research services performed or, at a minimum, establish procedures that continue to allow for advancing of grant funds in a manner that resembles the grant recipient's needs, but with significantly enhanced DOH program monitoring. We noted, for example, that if DOH more closely limited and/or monitored the advance cash of at least its larger grantees, which are small in number, internal control would be strengthened for a large percent of the CURE funding being paid out. By doing this, the Commonwealth would be better safeguarding its own assets and also have a stronger hand in monitoring the actual expenditures by the grant recipients.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 11: (continued)**

Also, the State's Health Endowment Account would achieve additional investment income which is necessary to continue funding Tobacco Settlement Fund health programs after tobacco settlement payments from cigarette manufacturers cease in the future.

Further, DOH needs to ensure that all annual CURE grantee audits required to be submitted are completed, received, and followed up on as necessary. This would provide better assurance that CURE grant funds are being properly expended and would enhance DOH's monitoring controls over the excess cash sitting in grantee accounts over long periods of time.

DOH should allow the auditor access to CURE grantee performance review reports so we can test for compliance with the Accountability Procedures requirements of Section 910 of the Tobacco Settlement Act.

**Agency Response:** DOH believes it took the appropriate steps necessary to ensure grant recipients were reimbursed in the best manner possible, and at the same time, took into consideration steps to safeguard the Commonwealth's funding.

When the Tobacco Settlement Act was passed with specific requirements related to the Research Grants, DOH consulted with its Legal Office, Comptroller's Office, and the Office of the Budget on the best course of action to take to effectively utilize, monitor and manage these funds. Full concurrence was received from all parties that language should be inserted in the grant agreements to provide for advance payments. These grant agreements were developed and fully executed, with approvals from DOH's Agency Head, Comptroller's Office, Legal Office, Office of General Counsel and the Attorney General's Office.

All health research grant recipients are required to invest the funds in an insured interest bearing account and all interest earned must be invested in the health research. Grantees are required to report how the funds generated by interest earned are used for health research. Any unspent funds – on original grant funds and interest earned – must be returned to the Commonwealth at the end of the grant.

Health research grant recipients are research institutions that have received at least three consecutive years of funding from the National Institutes of Health. As such, all grantees have proven records of performance.

The Tobacco Settlement Act funds for health research were intended to be administered as grants, not contracts. The act states that recipients must adhere to federal ethical and procedural standards related to research grants and that the state should select the competitive health research grants using federal criteria for the award of research grants. Upfront payments allow the institutions to competitively hire world-class researchers and to purchase needed equipment without delays. As a result, they are able to complete research faster, improving the likelihood of attracting additional research funding into the state and bringing research results to commercial development in a timelier manner.

Health research grantees are held accountable for the dollars invested in health research by a performance review process. In accordance with the Tobacco Settlement Act, all research projects upon completion are subject to a performance review. If a recipient receives an unfavorable review, the grantee may be ineligible for future funding. This system ensures that health research funds are invested productively and that unproductive grantees will not receive future health research funding.

Upfront payments have also eliminated the need for DOH to create an extensive bureaucracy to manage the program. If the payment system is changed to require cost reimbursement or reimbursement based on expenditures, DOH would need to add at least one professional and two full time administrative staff to process the invoices/expenditure reports, budget revisions, and grant amendments. Thus, the Commonwealth ultimately may lose more money than it gains if the system is changed to a cost reimbursement system. Furthermore, the Tobacco Settlement Act does not permit expenditures on staff to manage the program; so these additional positions would be state funded.

In addition to the burden imposed on the state, the cost reimbursement system would create more paperwork for grantees, both for the researchers managing the projects and their administrative staff. This would translate into less money being used for research by the grant recipients, thus defeating the intent of the Act.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 11: (continued)

DOH contracts with CURE grantees include an audit clause that requires an audit to be performed in accordance with *Government Auditing Standards* whenever the grantee expends \$300,000 or more in state grant funds within a year.

It has become apparent that there has been some discrepancy with the audit reporting periods. This could have resulted in one or more audits not being properly submitted. For the CURE program, grant expenditures are reported to DOH based on the State Fiscal Year (SFY: July 1 – June 30). The Audit Period, however, is defined in the grant agreement as, “the twelve-month period immediately following the effective date of the contract...and any successive twelve-month period thereafter.” In most cases, the Audit Periods are not the same as the State Fiscal Years, and further, they are not the same as the organizations’ fiscal year. In addition, some organizations use “stub periods” as a way to change their Audit Periods to match state or organization fiscal years.

Nevertheless, DOH only receives the SFY financial information, and thus, has been using these expenditures to monitor audit compliance. In addition, some institutions have been using the SFY or their own fiscal years to determine if audits are necessary. Therefore, as audits are only required when the grantee expends \$300,000 or more within a year, small differences in exact expenditures between the audit year and the state fiscal year may have resulted in audits not being filed or being filed incorrectly.

DOH is in the process of ensuring that audits for previous Audit Periods were/are submitted in accordance with the grant agreements. For each grant of \$300,000 or more, grantees will be asked to complete an Audit Submission Report which will include expenditures for each 12-month audit period, dates when the audit reports were submitted to DOH (or will be submitted, if the due date is past or in the future) and an electronic copy of all audit reports that have been submitted.

As mentioned above, health research grantees are held accountable for the dollars invested in health research by a performance review process. In accordance with the Tobacco Settlement Act, all research projects upon completion are subject to a performance review. If a recipient receives an unfavorable review, the grantee may be ineligible for future funding. This system ensures that health research funds are invested productively and that unproductive grantees will not receive future health research funding.

It has been the policy of DOH not to release the performance review reports to anyone except the Principal Investigator on the nonformula grants and the Grant Coordinator on the formula grants. This has been the policy because almost all performance reports include weaknesses and criticisms. Thus, there is concern that if the institutions knew these reports might be made public, they would formally object to the reports and file numerous appeals because they would not want to have any negative comments in the reports. As a result, DOH would have to repeat the performance reviews with new experts. This would increase costs for DOH and the program and would lessen the amount of money available for actual research, thus defeating the intent of the Act. DOH is also concerned about possible legal challenges should this information be released.

With that said, however, DOH is willing to release individually requested performance review reports to the Department of the Auditor General provided that the Department of the Auditor General agrees in writing that the information in the reports (including, but not limited to, the specific grantee names, project ratings, and reviewer comments) will not be publicly released. The reports may be referenced for statistical purposes regarding DOH’s compliance, but the specific grantees are not to be identified in any publicly released reports.

**Auditors’ Conclusion:** We acknowledge the points made in DOH’s agency response, but our conclusion that there is a continuing weak control environment over the proper maintenance of these funds has not changed. Over 45 percent of the funds remain unspent after four years of DOH’s payouts, so on average, nearly two years’ worth of funds paid out have obviously not been needed as of yet by the grantees to operate their programs. In addition, since the \$135.4 million in TSF cash sitting in grantee accounts represents over 25 percent of total TSF revenues in the current year and nine percent of total TSF net assets at year end, we consider this DOH practice, which has continued for the last four years

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 11: (continued)**

with similar results, to be unreasonable to the TSF overall. Also, the DOH response failed to address the part of our recommendation stating that DOH should strengthen controls over at least its larger grantees to mitigate the potential financial impact of this control weakness, and at the same time minimize the additional cost to the parties implementing corrective action.

Regarding the missing CURE grantee audits, the DOH response focuses only on those smaller grantees near the \$300,000 threshold required for obtaining audits as a cause of the missing audits; however, DOH does not address why two of the largest grantees totaling almost \$30 million in annual CURE payments did not have required audits. Also, DOH did not address actions we recommend be taken at the grantee where fraud was alleged with other research funds to ensure that CURE funding is not at undue risk of loss at that grantee.

Regarding DOH's stated willingness in its response to provide individual performance reviews to the auditors after initially refusing our requests, the timing of DOH's change in policy is significantly beyond the completion date of all our audit procedures for the Commonwealth's CAFR. Therefore, examining these reviews after this change in DOH policy is beyond our current audit scope, and our finding remains as previously stated.

Accordingly, our comment and recommendation, with the above clarifications, remain as previously stated.

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 12

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

#### Weaknesses in Internal Controls Over Financial Reporting in the Motor License Fund (A Similar Condition Was Noted in Prior Year Comment #04-9)

**Condition:** During our review of the Department of Transportation (PADOT), Motor License Fund (MLF) systems and internal controls in the SAP environment, we noted material errors and misstatements totaling to \$8 billion in the Basic Financial Statements (BFS) as follows:

- The SAP Report to liquidate and adjust the reserve for encumbrance balance was deemed inaccurate and unreliable. In an effort to close period 14 year end account balances, PADOT comptroller recorded an estimate to liquidate and adjust encumbrances in the amount of \$204 million. As part of overall procedures established by BFM, PADOT Comptroller was to subsequently adjust the estimate amount in period 15 by the actual number determined by SAP, or \$374 million. However, as the result of our testwork of the \$374 million, we determined that the number was inaccurate and materially overstated. PADOT concurred with our conclusions and indicated that, according to further analysis and comparisons with prior year accounts, the initial estimate of \$204 million was also overstated. Accordingly, we performed additional testwork and proposed an adjustment based on historical data and reduced the \$204 million liquidation of encumbrances by \$93 million to an adjusted liquidation of \$111 million.
- The Statement of Revenues, Expenditures, and Changes in Fund Balances required a \$7.9 billion adjustment to correct a misstatement in expenditures between the functional areas of Transportation and Capital Outlay. This adjustment was identified subsequent to the closing of period 14 as a result of our audit inquiry on unusual balances. BFM indicated that this misstatement was the result of challenges encountered with the July 1, 2004 conversion of historical infrastructure assets from the prior-year FMIS accounting system (legacy system) to SAP.
- The Statement of Revenues, Expenditures, and Changes in Fund Balances required a \$42 million adjustment to correct a misclassification in expenditures between the functional areas of Transportation and Direction and Support Services. This misstatement was the result of an incorrect period 14 adjustment by PADOT Comptroller which recorded a \$42 million Operating Transfers Out in the Transportation functional area. The misstatement was detected by the auditors subsequent to the close of period 14.

**Criteria:** Sound business practices for financial reporting should include strong internal controls to ensure the organization has the ability to initiate, record, process, and report financial data consistent with the assertions of management in the BFS. The system of internal controls should safeguard against undetected material errors in the accounting system and financial reporting. Sound business practices should include a financial reporting model that has adequate and relevant reports, such that the user can ascertain the validity and provide support for the account balances being presented in the BFS. Furthermore, the timeframe to complete the BFS should allow for adequate time to complete, review, and verify the account balances for accuracy and completeness.

**Cause:** Weak internal controls in the preparation and review of adjustments and reports for financial reporting led to the liquidation of encumbrance errors and misstatements. The adjustments made to correct the \$42 million misstatement was the result of an oversight by PADOT Comptroller Office when posting various expenditures. This went undetected by both BFM and the Comptrollers Office. The \$7.9 billion misstatement was the result of various entries related to the incomplete infrastructure conversion between FMIS and SAP at July 1, 2004. The financial statements were clearly incorrect due to the misstatements which went undetected by PADOT Comptroller.

**Effect:** The BFS for MLF were materially misstated and required auditor adjustments. The material misstatements will continue into the future if related controls over input and review for financial reporting are not strengthened.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 12: (continued)**

**Recommendation:** Office of the Budget should improve controls over financial reporting in SAP to prevent and detect material errors. Improved controls should include better records to support financial statement amounts, along with strengthened and more timely reviews of SAP balances and related adjustments to ensure that account balances in the BFS are accurate and complete.

In addition, PADOT Comptroller Office involvement in the preparation and review of financial statements should not diminish. Since the implementation of SAP the involvement of BFM in this process has increased substantially. Comptroller Office personnel have the specialized expertise of the agency operations that would better safeguard against such errors.

The encumbrance Liquidation Report and closing adjustments to the reserve should be evaluated and corrected to present and record the MLF reserved, unreserved, and liability balances correctly in the BFS.

**Agency Response:** The error pertaining to the reserve for encumbrances is due to the fact that the SAP report is inaccurate for PADOT reporting purposes. This situation was detected two years ago. This will be an annual finding until the report can be redesigned.

The other two conditions noted were due to errors made during the GAAP preparation process and were merely misclassifications of expenses between functional areas. These conditions should not recur.

**Auditors' Conclusion:** Our recommendation seeks to improve detection controls on the part of the Budget Office so these types of errors are discovered in the preparation of the financial statements and not in the audit of the financial statements. This will also help improve the timeliness of the issuance of the Commonwealth's financial statement report. Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

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## *Basic Financial Statement Comments - June 30, 2005*

### **Comment 05 – 13:**

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

#### **Lack of Documentation and Internal Control Weaknesses Over Contracting and Procurement (A Similar Condition Was Noted in Prior Year Comment #04–10)**

**Condition:** During prior audit periods, the Commonwealth awarded numerous statewide technology contracts to modernize and upgrade the Commonwealth's information systems technology, to outsource agency data center computer operations, and to consolidate the acquisition of telecommunications services. The contracts awarded for these types of technology services total to over \$1.5 billion and involve all major agencies in the Commonwealth. In our prior-year audits for the fiscal years ended June 30, 2004 and prior, we reported that management refused to provide us with key procurement documentation to enable us to audit the awarding of these contracts and to verify compliance with Commonwealth procurement regulations. We also disclosed numerous weaknesses in the Commonwealth's internal controls over documentation supporting procurement of these contracts in the prior year. It should be noted that these prior-year disclosures also involved contract awards, other than for technology, which were limited to specific agencies and funds.

Our current year follow up for the fiscal year ended June 30, 2005, disclosed that, as in the prior year, management continues its policy of refusing to provide us with key procurement documentation to enable us to audit the awarding of contracts to verify compliance with Commonwealth procurement regulations. Documentation again not provided to us for the above contract awards consisted of the following:

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

Furthermore, in our current follow up on the internal control weaknesses noted in the prior-year, management provided no information or documentation to demonstrate that these weaknesses were corrected in the current year. The noted internal control weaknesses are as follows:

- There are multiple systemic control weaknesses in the Commonwealth Contractor Responsibility Program (CRP) which fail to prevent the Commonwealth from contracting with nonresponsible contractors. These internal control weaknesses, which were identified in a separate audit engagement by the Department of the Auditor General and disclosed in a report issued in December 2002, include: the failure to adequately track and recoup tax and other liabilities owed by contractors to the Commonwealth; an inadequate statewide database (or Contractor Responsibility File) for tracking and rendering information on nonresponsible contractors; inadequate oversight of the statewide CRP by management; and systemic control weaknesses in agencies' procedures for checking the CRF and verifying that their contractors are responsible in accordance with established CRP mandates.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 13: (continued)

- We found significant unresolved inconsistencies, without management follow-up, between amounts and terms in RFPs vs. actual terms of executed contracts which call into question the sufficiency of original RFPs used in competitively bidding contracts.
- There is inadequate documentation maintained to demonstrate that management is sufficiently monitoring contract amendments to ensure increasing contract costs are reasonable and properly controlled. In particular, there is no documented support for contractor-estimated costs, contractor billing rates used, or impact studies by management to verify the necessity for increasing contract costs. In addition, management does not track cumulative total costs for a large statewide telecommunications contract, does not document or analyze billing rates for reasonableness, does not adequately track contract change requests for increasing costs and maintain a contract log when required, and did not implement a reasonable segregation of duties to ensure contract amendments were accurate, justified, and properly reviewed before approval.

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

- Evaluation Committee*      21. *Determines that the offeror and the proposed subcontractors are responsible in accordance with Management Directive 215.9, Contractor Responsibility Program. The date of determination should be recorded for future reference.*
- Evaluation Committee*      25. *Performs final technical and cost evaluations after discussions have been completed (i.e. score sheets).*
- Agency Comptroller*      38. *Reviews for fiscal responsibility, budgetary appropriateness and availability of funds....*

Governor’s Executive Order (EO) 1990-03, dated June 29, 1990, established the statewide Contractor Responsibility Program (CRP) to “identify, evaluate, and sanction appropriately, contractors that do not meet the standards of responsibility, that render deficient performance, or that engage in wrongdoing or other activity adversely affecting their fitness to contract with Commonwealth agencies.” Commonwealth Management Directive (MD) 215.9 was issued by the Governor’s Office on July 17, 1990 in order to implement the CRP within the Commonwealth as directed by EO 1990-03.

The stated purpose of MD 215.9 was “*To ensure that the Commonwealth’s contractors are competent and responsible and that the contracting process is free of fraud, waste, and abuse. To identify, declare ineligible, and sanction contractors that have rendered deficient performance or engaged in other activities that adversely affect their fitness to contract with Commonwealth agencies.*” This MD applied to all departments, boards, and commissions under the Governor’s jurisdiction.

A strong system of internal control should ensure that contract amendments and related costs are properly justified and supported and adequately reviewed prior to amending original contracts. Strong internal controls should also ensure that the CRP is functioning as intended by Governor’s EO 1990-03 and Commonwealth MD 215.9 to ensure that Commonwealth agencies only contract with responsible vendors.

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 13: (continued)

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

Management has also referred to a letter from HHS stating that HHS considered this matter reported in a prior-audit comment to be resolved. For Commonwealth compliance with state procurement regulations, however, the HHS letter has no impact on our comment since a violation of state regulation is outside the jurisdiction of the federal cognizant agency. Furthermore, during our recent implementation of a new auditing standard related to testing fraud and abuse in federal programs, we noted that management’s refusal to provide adequate information on its procurement activities was significant to at least one major federal program (CFDA #93.778 – Medical Assistance) which is by far the largest federal program in the Commonwealth, and a separate finding to report fraudulent activity in MA was issued in the prior-year Single Audit Report. Therefore, our comment and conclusions have not changed in this regard.

For the internal control issues above, management indicated that its position on these issues has not changed from the prior year, and has provided no new information to demonstrate improved controls. Management believes the Commonwealth’s sign-off on the change documents applicable to the technology contracts is the key evidence of management’s detailed review that is necessary and appropriate. The documentation supporting the contract amendments is considered by management to be adequate. Also, management considered the change orders affecting certain contracts to be too limited in number to warrant an official log record.

Regarding the CRP, management stated that it did not agree with our conclusions and claimed that the CRP collected approximately \$83 million in liabilities owed the Commonwealth since its inception up through 2004. However, the separate audit engagement referred to above noted far more in outstanding tax and other liabilities owed the Commonwealth than this amount claimed as collected, without proper internal controls to monitor and ensure collection from contractors. Management further stated that the CRP would be strengthened with the statewide implementation of its new SAP system involving automated key controls and maintaining better suspension and debarment records. However, no new information or evidence of strengthened internal controls through the new SAP system has been provided to us by management.

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

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

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts disclosed above. More specifically, we could not verify that management awarded contracts to the most qualified vendors or that the appropriate Commonwealth

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 13: (continued)

officials conducted proper fiscal reviews of amendments that substantially increased contract costs. We also cannot ascertain whether proper controls are in place to prevent fraud, abuse, or other inappropriate activity from occurring during the contract procurement process. In short, management imposed scope limitations on our audit procedures.

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

We again noted that the system of internal controls over the review and approval of changes to contract terms and increasing total costs is weak. Documentation supporting a proper review of contract changes and increasing costs by management is lacking. Any errors in change-order documents should be detected and corrected during a proper review prior to management approval. If these weaknesses are not corrected, we can have only limited assurance that the overall procurement system is functioning as intended and that services are being properly contracted out. Close scrutiny over contract change requests is critical to effective contract cost management. Otherwise, management may not realize the desired savings and other benefits intended by the guidelines set forth in the Field Procurement Handbook.

Also, the Commonwealth is contracting with nonresponsible contractors and is not recouping tax and other liabilities owed the Commonwealth as required by the CRP in MD 215.9.

**Recommendation:** We recommend that management more closely monitor its statewide and agency contracts to ensure Commonwealth funds are being properly committed at the most reasonable cost. The fiscal impact of amendments and their amounts should be better justified and documented, and proper support should be adequately reviewed and approved by management prior to amending the contracts; and vendor activities should be adequately monitored and better documented in the future to ensure that services are appropriate and at the most reasonable cost. In addition, internal controls need to be strengthened within the CRP to ensure that Commonwealth agencies are adequately following the provisions of MD 215.9 in procuring and awarding contracts to outside parties.

We also recommend that management evaluate the disclosures above for their impact on the overall procurement and accounting functions, and take similar corrective action where considered necessary on an overall basis.

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

**Agency Response:** As stated in prior year responses to this repeat finding, the Commonwealth continues to take exception to this comment. In particular, we take exception to the auditor's ongoing reference to their 2002 audit report of the Commonwealth's Contractor Responsibility Program as a basis for criticizing a program that has yielded over \$85 million of collections since its inception. However, in light of the federal government's recent comment urging a compromise in order to enable the auditors to audit procurement activities that affect federal programs, the Commonwealth will undertake an initiative to meet with the auditors and discuss potential solutions to this ongoing issue.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 13: (continued)**

**Auditors' Conclusion:** As in prior years, management has not provided any updated evidence to demonstrate that it has corrected the internal control weaknesses in the CRP specified in our separate CRP 2002 audit report. Therefore, management cannot support, and we conclude on, the reasonableness of the \$85 million collection amount mentioned in the agency response above. In the meantime, we will review and discuss with management any corrective actions on this comment in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Comments - June 30, 2005**

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### **Comment 05 – 14:**

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

##### **Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund**

**Condition:** The Commonwealth's Basic Financial Statements (BFS) contained material misstatements in the Unemployment Compensation (UC) Fund that required material adjusting entries by the auditors. Our testing of the UC Fund GAAP template led to four adjusting entries by the auditors totaling \$141.1 million resulting in a net decrease in fund balance of approximately \$139 million.

The largest audit adjustment, in the amount of \$130.6 million, was related to the receivable for benefit overpayments. During the current year under audit, L&I and LECS Comptroller personnel changed their methodology for calculating the receivable for benefit overpayments. As a result, we questioned various aspects of their new methodology resulting in a net decrease of \$130.6 million. With respect to the other adjustments, one was the result of using estimated/projected figures and one was the result of an oversight by LECS personnel in which they inadvertently double counted an amount in their calculation. Furthermore, the LECS internal review procedures did not detect and correct these errors.

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

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

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

**Recommendation:** LECS should evaluate its methodology and its internal review procedures for preparing the UC Fund GAAP template and ensure accruals are accurate.

**Agency Response:** At the time of statement preparation, the full accrual amount was posted because data for determining uncollectible amounts was not available. LECS was fully aware that an adjustment would be necessary and agreed to work with the auditors during the audit stage as agency data became available for evaluation. It appears this situation is the result more of a timing issue with the availability of data coupled with LECS efforts to improve statement preparation than an internal control weakness.

Due to the statement preparation time being moved forward, more estimates would be needed due to the unavailability of data. The most recent quarterly information was used where actual amounts were not known. We feel these are not internal control issues but instead are timing issues as well.

The adjustment needed for the Unemployment Assessment program receivables was an error due to double accounting. Special notes have been made to the LECS Combined UC GAAP template package to help insure future accuracy in statement preparation.

**Auditors' Conclusion:** Regarding the \$130.6 million error in the receivable for benefit overpayments, LECS and L&I developed a methodology and recorded a receivable for the GAAP template. It was not until the auditors reviewed the methodology that the errors were detected and the adjustment was deemed necessary. LECS internal controls over preparation and review did not detect this material error, and our conclusion that the error was the result of inadequate internal controls has not changed.

We recognize management's point that its use of estimates to speed up BFS preparation may cause more errors due to a lack of timely accurate data. However, this increased risk of errors still needs to be properly addressed by management

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 14: (continued)**

in its implementation of internal controls to ensure its BFS are materially correct each year. In its response, management attempts to make a distinction between “timing issues” vs. “internal control issues,” but we do not agree that these are separate issues in ensuring the accuracy of the BFS. That is, management needs to implement proper internal controls to specifically address all significant timing issues that are identified as being present in the preparation of accurate BFS.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 15

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

#### Material Errors and Internal Control Weaknesses in SAP Accounting and Reporting For Transportation Infrastructure

**Condition:** During our audit of the Department of Transportation, Highway and Bridge Infrastructure for the SFYE June 30, 2005 Basic Financial Statements (BFS), we noted material errors totaling to \$407 million and weaknesses in the SAP infrastructure reporting process as follows:

- We identified three projects amounting to \$112 million in our testwork that were double-counted in depreciable infrastructure assets. These three projects were included in the beginning balance of fixed assets as of 7/1/04 when they were loaded directly to the SAP fixed assets submodule. These projects were also identified as current assets and recorded again during SFYE June 30, 2005 as a result of the weak controls over the settlement of historic projects. We proposed an auditor adjustment of \$112 million to reduce depreciable infrastructure assets.
- Our testwork disclosed that a number of projects were either incorrectly included in non-depreciable AUC (Assets Under Construction) or in depreciable infrastructure assets, which resulted in total errors of \$279 million. We identified \$85 million in projects that were recorded in AUC that were constructively complete as of June 30, 2005 and should have been settled to depreciable infrastructure assets. We also identified \$194 million in depreciable infrastructure assets that were not constructively complete at June 30, 2005 and should have been recorded in AUC. These net errors amounted to a \$109 million overstatement of depreciable infrastructure assets which was adjusted by the auditors for financial reporting purposes.
- We determined that current-year depreciation expense was understated by a net \$20 million due to the use of an incorrect useful life for highways and lack of adherence to PADOT's mid-year convention policy for highway and bridge depreciation. PADOT's established useful life for highway assets of 25 years was not used in 04/05 settlements; a useful life of 20 years was incorrectly used in all cases. In addition, we determined that the settlements of highway and bridge assets in SFYE June 30, 2005 were all calculated using the last month of the fiscal year rather than the actual inception date of the asset. As a result, the depreciation expense of these new assets recorded only one month of depreciation. Since the mid-year convention was followed in prior years, an auditor adjustment to increase depreciation expense was made to record a mid-year convention.
- The various BFM adjustments to balance the government-wide statement of activities and statement of net assets for infrastructure lacked a sufficient audit trail to adequately support them. Due to the challenges of loading beginning balance infrastructure balances at July 1, 2004 from the FMIS legacy system and related current project costs into the SAP project systems, the related audit trail was insufficient and difficult to follow. We performed alternate audit procedures to ensure the reasonableness of related account balances in the financial statements.

**Criteria:** Sound business practices for financial reporting should include strong internal controls to ensure the organization has the ability to initiate, record, process and report financial data consistent with the assertions of management in the BFS. The system of internal controls should safeguard against undetected material errors in the accounting system and financial reporting.

**Cause:** Due to limitations in the infrastructure SAP settlement process, challenges were encountered loading beginning infrastructure assets of \$22.3 billion from the old FMIS system into the new SAP system, and properly presenting SAP account balances at July 1, 2004. The volume of historic assets and incomplete records on project systems for older construction projects precluded the beginning balances from being properly entered using the fixed asset settlement process automated within the SAP software. The \$22.3 billion beginning balance included over 20 years of construction activity; however, only \$15.4 billion in costs were active on FMIS (legacy system) and converted to SAP, leaving \$6.9 billion out of the beginning balance on SAP. To compensate for the incomplete conversion, the full beginning balance

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 15: (continued)**

of infrastructure assets at July 1, 2004, totaling \$22.3 billion, was loaded manually by IES to the Fixed Asset Submodule on SAP, thus circumventing the automated settlement process. In doing so, this created an imbalance in the SAP system due to the two separate conversion postings. As a result, numerous aggregate adjustments were booked by BFM to balance the differences which impacted the equity and expense accounts.

Due to the nature of the automated settlement process in SAP, when the historic project data from FMIS was loaded it caused additional difficulties. The settlement process in SAP was designed to capture all projects including FMIS projects as infrastructure assets; however, since the historic FMIS projects were already included in fixed asset accounts due to the direct load by IES, BFM had to develop an approach using contra-accounts and off-balance sheet accounts to run these projects through the settlement process without double-counting them. The system limitation contributed to the poor audit trail, lack of understanding, and weak internal controls over infrastructure accounting.

Furthermore, in prior fiscal years the infrastructure accounts were recorded on the system only in the General Fund. Starting on July 1, 2004 when SAP was implemented at PADOT, infrastructure assets began to be recorded in the Motor License Fund, where the actual project expenditures originate. As a result, the balance of infrastructure and related adjustments was in two funds in the current year, which contributed to difficulties in following the audit trail and supporting the adjustments. When we questioned BFM on the support for various adjustments, they had a difficult time demonstrating the accuracy, explaining and supporting the adjustments due to the fact that they were aggregated for both infrastructure and non-infrastructure accounts at PADOT, and were posted in both the General and Motor License Funds. In the CAFR, the infrastructure accounts are reported in entity-wide statements as full accrual, and are not presented by fund. Recording on the system was extremely complicated and deteriorated the audit trail.

**Effect:** The financial statements for MLF were materially misstated and required numerous auditor-recommended adjustments. PADOT infrastructure is susceptible to future material errors if internal controls are not strengthened and the SAP infrastructure reporting process is not improved to ensure accuracy of settlements and related adjustments.

**Recommendation:** PADOT Comptroller and BFM should ensure that all infrastructure reporting is complete, accurate, and in accordance with the accounting standards. Internal control review procedures should be strengthened and revised to improve infrastructure GAAP reporting.

**Agency Response:** BFM agrees that the 2004 GAAP audit of PADOT infrastructure presented many challenges and much of the related financial data was very difficult to present in a manner that allowed for ease of audit. However, many decisions were made in prior years that dictated the steps that needed to be taken to adjust, gather and present the data related to PADOT infrastructure. BFM worked with PADOT staff to convert the data into SAP but BFM had no recourse but to develop and follow the process that best ‘cleansed’ the balance sheet for financial presentation. Because the infrastructure was both loaded twice in the system and moved between the General Fund and the Motor License Fund, and because of the integration inherent in SAP, many non-conventional entries were required to effect an accurate presentation of infrastructure on the balance sheet.

The load of infrastructure data to SAP will not be a factor for the 2005 GAAP audit. However, the appropriate presentation of infrastructure data remains a significant part of financial statement preparation and continues to challenge both PADOT and BFM. BFM has and continues to work closely with PADOT personnel to achieve consistent and timely entry of settlement rules so that projects are settled to final, depreciable fixed asset master records when projects reach the 90 percent settlement threshold. Analysis of programs for the 90 percent completion threshold and entry of related settlement rules remains within the purview of PADOT. Although regular entry of settlement rules did not commence until February of the current fiscal year, settlement rules are now entered by PADOT on a monthly basis. This will produce depreciation expense calculations that, while not on the half-year basis, will be on a basis that reflects actual expense based on the month of construction completion.

BFM has devoted considerable resources to analysis of project settlements – both to assets under construction and to final, depreciable assets. A three-way partnership of PADOT, IES, and BFM personnel has been employed to manage and respond to problems detected in the settlement process.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 15: (continued)**

During the current fiscal year, BFM directed IES to change the default depreciable life on highway asset master records to 25 years. All asset master records with the depreciable life of 20 years were changed to the correct 25-year life early in the current fiscal year.

Finally, BFM has written, within the past year, Management Directive 310.27 - Month-end Closing Processes. This directive provides clear guidance regarding the appropriate actions required to maintain an orderly and timely process of project settlements to AUC and final, depreciable capital assets.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 16:

#### Insurance Department

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

#### Asset Balances in the Statutory Liquidator Fund Were Misstated in the Preparation of the GAAP Template (A Similar Condition was Noted in Prior Year Comment #04-15)

**Condition:** We noted several errors and control weaknesses in our audit of the Statutory Liquidator Fund requiring auditor-proposed adjustments as follows:

- Statutory Liquidator failed to record \$40.5 million in other assets which consisted of real estate held by one of the companies in liquidation. The information was provided by the company but was overlooked by the Insurance Department and CS Comptroller. It appears that proper review of the documentation provided did not occur nor did a comparison of current year information to prior year information take place.
- Statutory Liquidator incorrectly determined the investment balances because temporary investments were overstated by \$124 million and long-term investments were understated by \$123 million. We noted numerous journal entries that were posted and then later reversed indicating that the Insurance Department and CS Comptroller did not understand the composition of the accounts.
- Statutory Liquidator identified \$36 million in investment differences between information provided by the companies in liquidation and information provided by the custodians. These differences were not investigated to determine who in fact had the correct balance in total and in detail, and therefore were not categorized into the proper investment type under GASB 40 and were misstated in total.

**Criteria:** Strong internal controls should ensure that balances are reported accurately and consistently, and appropriately reviewed and approved by management. This would include performing fluctuation analysis between current year balances and prior year balances, assembling documentation in a manner necessary to ensure its completeness, and obtaining the essential knowledge to perform a proper review.

**Cause:** In recording the investment balances for the insurance companies in liquidation, the Insurance Department simply reported the amounts per the companies' accounting departments even though confirmations obtained directly from the custodians reported different amounts. No investigations were performed to conclude why and where differences occurred and who was correct. In addition, underlying documentation was not assembled completely which caused the Insurance Department to overlook the real estate investments for one of the companies as well as the misclassification of temporary and long-term investments. Finally, it appears a proper and thorough review of the GAAP template did not occur because the previously discussed items would have been discovered and corrected.

**Effect:** Other assets, temporary investments and long-term investments were misstated in the basic financial statements, requiring auditor adjustments due to the internal control weaknesses.

**Recommendation:** We recommend that procedures be put in place to ensure that all assets of insurance companies are reported correctly, both in dollars reported and classification. Recommended procedures include performing fluctuation analysis and investigating differences, completing documentation accurately, and conducting a proper review. In addition, those responsible for the fund's investments should be knowledgeable about the investment balances for each company in liquidation as well as GASB 40 presentation.

**Agency Response:** A checklist has been developed and implemented to improve internal control over the Statutory Liquidator GAAP template preparation. In the future, there will be a comparison of the prior year GAAP financial data and current year data, before the GAAP template is completed. The implementation of this internal control will assist CS Comptroller Office in identifying significant variances between the prior and current periods, and reduce the risk of material errors.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 16: (continued)**

To meet the timeline for completing this GAAP template, several staff and several spreadsheets were used to compile the balance sheet data from the insurance companies in liquidation. Because we recognize that stronger internal control over this part of the process is needed to mitigate material errors from occurring, this approach has been changed and one person will compile the data from one database.

CS Comptroller Office is in a learning curve regarding the classification of temporary and long-term assets, which is why the GAAP auditors were consulted on the classification of short and long-term assets, and numerous reversals and adjustments were made. In fiscal year-end June 30, 2006, temporary and long-term assets will be reported by portfolio; i.e., insurance company in liquidation, not asset maturity dates. Temporary assets will represent companies that will be liquidation in one year.

In discussions with the GAAP audit staff prior to completion of the GAAP template, it was agreed that the higher \$36 million dollar custodian confirmed amount should be booked.

Subsequently, the \$36 million in investment differences were identified in detail confirming that the decision was correct. The net difference, resulted primarily from inclusion by the custodian of an Insurance Company in Liquidation affiliate assets, special deposit accounts, and investment earnings that were not included on the Insurance Company in Liquidation detail support data. A meeting was held with GAAP auditors to explain the reconciliation process performed by CS Comptroller Office, which has resolved the \$36 million dollar difference.

Central Services is employing several measures to address this corrective action plan by working to increase their knowledge through more frequent communication with the Office of Liquidations and Rehabilitations (OLR) and their Insurance Company in Liquidation managers to better understand company investment practices and asset classifications, initiating the confirmation process earlier to allow time for reconciliation and understanding of differences between custodian confirmation and Insurance Company in Liquidation data, and early detection of possible problems through variance analysis of the Insurance Company in Liquidation quarterly and semi-annual reports to the Department of Insurance.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated for points one and two. With respect to point three, the \$36 million investment difference was not corrected until the auditors identified the issue, and future enhancements to the reconciliation process should be designed to ensure all differences are investigated and resolved.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 17:**

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

##### **Internal Control Weakness in the Financial Accounting Records (A Similar Condition Was Noted in Prior Year Comment #04-19)**

**Condition:** In performing our review of the Commonwealth’s internal control procedures with respect to the GAAP financial reporting system, we noted that there were numerous Balance Sheet accounts which were not reconciled, analyzed or reviewed on a timely basis. Fundamental to any system of internal control over accounting records is a required process where significant Balance Sheet accounts are reconciled to subsidiary records or analyzed/reviewed at the account line item level if a particular account does not have a subsidiary ledger. Failure to perform such a reconciliation/analysis on a timely basis could allow for material errors to exist in the financial records that would go unidentified, ultimately resulting in misstated financial statements.

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

**Cause:** The SAP implementation did not include a process whereby all significant Balance Sheet accounts would be “open item managed” and automatically cleared. This functionality would enable an analyst to determine easily on a detailed level what discrete transaction or groups of transactions comprise a particular Balance Sheet account, and make corrections as appropriate. Current tools available do not provide analysts with adequate information to determine with relative speed and ease open line items of a Balance Sheet account. We understand that BFM is currently in the process of developing this functionality.

**Effect:** Primarily as a result of not implementing a method to open item manage Balance Sheet accounts, numerous accounts were not reconciled/analyzed.

**Recommendation:** Procedures should be established whereby each Balance Sheet account is reviewed, and significant accounts are reconciled/analyzed on a monthly basis. The Commonwealth should work to provide the ability to “open item manage” and autoclear each significant Balance Sheet account. SAP should be configured to provide for automatic clearing of accounts where appropriate. Additionally, all reconciliations/analyses should be performed and documented monthly and prior to the finalization of the GAAP templates. Finally, monthly and prior to template finalization, the reconciliations/analyses should be timely reviewed by a knowledgeable supervisor, and this review should also be documented.

**Agency Response:** BFM continues to make open item management a priority in the current fiscal year. BFM has partnered with IES in an effort to determine which additional balance sheet accounts should be open item managed and to establish procedures that allow users in the agencies and Comptroller Offices to determine what transactions in selected balance sheet accounts comprise the balance in those accounts. Over the past several weeks, BFM has manually cleared thousands of prior-year documents in many of the open item managed accounts that failed to clear when clearing programs run. Currently, BFM personnel are analyzing and researching prior-year documents that do not clear for automated clearing criteria and cleansing of old items.

BFM has written, within the past year, Management Directive 310.27 - Month-end Closing Processes. The directive includes clearance of open item managed accounts as one of the month-end closing steps.

BFM is also leading an effort to match purchase order line items from prior years so that open items in the GR/IR account (2100100) clear. Clearing these documents results in a better presentation of the GR/IR account.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 17: (continued)**

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 18:

#### Treasury Comptroller Office

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

#### Errors and Internal Control Weakness in Reporting Securities Lending and Investment Pools

**Condition:** We noted several errors and control weaknesses in our audit of Temporary Investments in the Basic Financial Statements (BFS) requiring auditor-proposed adjustments as follows:

- Treasury's allocation of the Securities Lending collateral and related liability for funds participating in Pools 098 and 099, and the Securities Lending collateral and related liability for Fund 065, Workers Compensation Administration Fund, was incorrect. In determining the value of the collateral for Pools 098 and 099 and for the Workers Compensation Administration Fund, Treasury incorrectly used the value of the original cash collateral received plus non-cash collateral received, rather than the 6/30/05 value of investments purchased with the cash. These errors resulted in an understatement of \$3.6 million in allocated collateral. Further, when allocating the collateral among Pool 098, Pool 099 and the Workers Compensation Administration Fund, Treasury incorrectly allocated the collateral on the basis of income received from Securities Lending transactions, rather than on the basis of the securities on loan from each pool and from the fund. As a result, the total collateral allocated to Pool 098 was understated by \$33.7 million, the collateral allocated to Pool 099 was overstated by \$36.9 million, and the collateral allocated to Workers Compensation Administration Fund was understated by \$6.7 million. The incorrect allocation resulted in potentially material errors in the Motor License and Tobacco Settlement Funds' financial statements. The first revised reallocation of securities lending collateral provided to the Bureau of Financial Management (BFM) by Treasury was also incorrect.
- Treasury's allocation of the Securities Lending collateral for Pool 124 was incorrect. In determining the collateral to be allocated, Treasury included both the cash and noncash collateral. As a result, the total collateral allocated was overstated by \$6.3 million.
- BFM did not record the adjustment in the amount of \$18.5 million to Pool 098 securities lending for one fund. In addition, when recording the non-pool securities lending adjustment for a second fund, BFM recorded only a part of the cash collateral received.

We also noted internal control weaknesses that resulted in additional errors disclosed below:

- In reporting accrued interest receivable for participants in Pool 099, Treasury allocated the receivable for investments sold, as reported on the Pool 099 balance sheet, to participating funds on the basis of each fund's balance in the Pool on 6/30/05. Pool 099 income is distributed to participating funds on the basis of their daily balances in the Pool for each day of the month. The total overstatement of accrued investment income for funds in Pool 099 was \$2.4 million. Because the overstatement was not material for any fund, no adjustments were proposed.
- In reporting the fair value of shares and accrued interest receivable for funds participating in Pool 124, Treasury double counted \$2 million by including it in the fair value of pool investments and as accrued interest receivable. Because the error was not material and BFM did not record the accrued income for Pool 124 in the BFS, no adjustments were required.
- The original allocation of the Net Asset Value (NAV) provided by Treasury to BFM for Pool 098 was based on the average cost basis of investments held by each fund, rather than the number of shares held. This was discovered by BFM after all NAV adjustments for Pool 098 were recorded. As a result, Treasury was required to reallocate the

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 18: (continued)

NAV, which resulted in an adjustment to the Lottery fund of \$4.3 million. In addition, additional audit time was required in order to determine whether there were material misstatements in the investments reported in the BFS. Note that this is the second year that BFM has found an error in the Pool 098 NAV.

**Criteria:** As stated in GASB 28, paragraph 6, “Cash received as collateral on securities lending transactions and investments made with that cash should be reported as assets.” In addition, GASB #28, paragraph 7 states, “Securities lending transactions collateralized by letters of credit or by securities that the governmental entity does not have the ability to pledge or sell unless the borrower defaults should not be reported as assets and liabilities in the balance sheet.”

Strong internal controls should ensure that securities lending collateral and the related liabilities are reported accurately and in accordance with the applicable governmental reporting standards. Investment balances, including securities lending assets and liabilities, the Pool 098 NAV, and accrued investment income reported by Treasury should be appropriately reviewed and approved by management. In addition, BFS adjustments should be properly reviewed and approved by management.

**Cause:** In our discussions with Treasury and BFM staff, it appears that the errors were in part the result of the limited time and staff available to research and prepare information required to accurately report year-end investment balances.

**Effect:** Temporary investment balances and securities lending collateral were misstated for nine funds in the BFS, requiring auditor adjustments due to the internal control weaknesses reported above. Furthermore, errors in the BFS and errors in Treasury’s allocations and accrued income on the Pool 098, 099 and 124 spreadsheets that were submitted to BFM for financial reporting required additional audit work in assessing the effect of the numerous errors on the BFS.

**Recommendation:** Treasury Comptroller’s staff who are responsible for preparing and reviewing year-end investment balances need to be knowledgeable about the reporting standards for investments and securities lending. In addition, adequate staff time needs to be made available to prepare and review investment allocation spreadsheets for pooled investments. Adjustments to investment accounts made by BFM should be reviewed by a knowledgeable individual to ensure that all required adjustments have been accurately recorded

**Agency Response:** We concur with the recommendations that the Treasury Department should establish procedures to ensure Temporary Investments are reported accurately. The Treasury Department, Comptroller’s Office will establish procedures to better ensure that all financial information provided to BFM is complete and accurate. The Comptroller’s Office will implement a supervisory review of all Temporary Investments including investment and securities lending data for completeness and accuracy.

A recommendation was also made that the Treasury Department, in conjunction with the Governor’s Office of the Budget, Bureau of Financial Management (BFM), implement procedures to have the Treasury Department review investment account adjustments to ensure that such adjustments are recorded properly. Historically, BFM has not requested the Treasury Department to perform such a function. However, we will advise BFM that we are willing to participate in a process to review all auditor recommended and/or BFM prepared investment account adjustments to Treasury Department submitted investment information to ensure that the financial statements in the CAFR are fairly stated and in compliance with reporting standards. It should be noted that Treasury’s ability to perform this function is dependent on timely notification from BFM and the auditors of the adjustments being made to the Treasury Department’s original submission.

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

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

# COMMONWEALTH OF PENNSYLVANIA

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## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 19:

**Office of the Budget – Bureau of Financial Management  
Department of Conservation of Natural Resources  
Department of Transportation  
Department of Corrections**

**Internal Control Weaknesses Over Agency Accounting for Capital Assets (A Similar Condition Was Noted in Prior Year Comment #04-16.)**

**Condition:** Management Directive 310.14, *General Capital Asset and Other Fixed Asset Accounting and Reporting in SAP*, established policies and responsibilities for the proper recording of the Commonwealth's General and Proprietary Fund Capital Assets in the SAP Fixed Assets sub-module. It further recognized that the transition to SAP required two significant operational changes, identifying capital assets and appointing Agency Fixed Assets Coordinators. General and Proprietary Fund Capital Assets must be identified prior to initiating any type of procurement using the SAP system because an Asset Master Record Number needs to be established. This number is obtained through the Agency Fixed Asset Coordinator who should possess substantial knowledge of the SAP Fixed Asset, Procurement and Finance modules, and who has considerable experience and expertise regarding proper acquisition, use, and control of agency fixed assets.

We noted during the performance of fieldwork and through discussion with Bureau of Financial Management staff that the above mentioned Departments were not adhering to the policies and responsibilities of the Directive. This caused BFM to post numerous adjustments to the Basic Financial Statements (BFS), including auditor identified adjustments, because Capital Assets were not identified prior to the initiation of transactions and therefore were not being properly captured in the SAP Fixed Assets sub-module.

**Criteria:** Good internal control dictates that Agency Fixed Assets Coordinators possess the appropriate knowledge and expertise to ensure that the amounts in the Fixed Assets sub-module are accurate and properly presented in accordance with GAAP.

**Cause:** The errors in the Fixed Assets sub-module were primarily due to the Commonwealth's implementation of the statewide SAP accounting system. Even though SAP was implemented three years ago, Fixed Assets Coordinators still do not possess the substantial knowledge of the SAP modules required for accurate Capital Assets reporting, nor do they have the experience and expertise regarding proper acquisition, use, and control of agency fixed assets.

**Effect:** The Fixed Assets sub-module will continue to be misstated in the future if internal controls are not strengthened and proper training of Agency Fixed Asset Coordinators does not occur.

**Recommendation:** We recommend that the Directive be adhered to fully to ensure the proper reporting of the Commonwealth's Capital Assets within the SAP Fixed Assets sub-module. We further recommend that Agency Fixed Assets Coordinators participate in extensive training so that they do possess the necessary knowledge of the required SAP sub-modules and gain experience and expertise regarding proper acquisition, use, and control of agency capital assets.

**Agency Response:** BFM has provided training, on an on-going basis, for both agency and Comptroller Office fixed asset coordinators. In many cases, training has been on an individual, situational basis. On numerous occasions BFM has also provided training to small groups of personnel from the various offices. Our efforts have been hampered by personnel turnover in several agencies – Correctional Industries and Department of General Services have been particularly affected. Additionally, it is apparent that some agencies, Department of Corrections for example, have insufficient human resources dedicated to the task of maintaining fixed asset records.

We do not believe that agencies have significant deficiencies with identifying assets at the initiation of the procurement process. BFM monitors fixed asset expenditure G/L accounts on a regular basis for asset acquisitions that have not been

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 19: (continued)**

posted to the fixed assets sub-module and rarely finds such instances. More likely is the possibility that agencies have disposed of assets and failed to retire such assets from the system. BFM has asked agencies to monitor inventories of aging capital assets more closely in the future.

BFM has written, within the past year, Management Directive 310.27 - Month-end Closing Processes. This directive provides clear steps for agencies with regard to the actions needed, on a monthly basis, to maintain accurate fixed asset records.

BFM is working with agencies to raise their awareness of the need for accurate fixed asset and AUC reporting. BFM has worked with Comptroller Offices and agencies during the past several years in an effort to have all agencies produce accurate quarterly reports of fixed asset transactions on a timely basis and to analyze the reports to ensure accurate reporting of agency fixed assets.

**Auditors' Conclusion:** We agree that there has been additional emphasis on training by BFM to enhance the accuracy of Capital Assets financial reporting. However, several of the causes listed in the Agency response still exist after the 2004-2005 fiscal year. As a result, our comment and recommendation remain as stated above, and the effectiveness of the remediation will be tested in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

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## Basic Financial Statement Comments - June 30, 2005

### Comment 05 – 20:

#### Office of the Budget – Bureau of Financial Management Department of General Services Department of Conservation of Natural Resources

##### Internal Control Weaknesses Over Accounting for Assets Under Construction

**Condition:** The Assets Under Construction (AUC) balance in the Basic Financial Statements (BFS) is comprised of construction projects that are not complete and therefore are not placed in service. When these projects are complete and ready to be placed in service, a settlement process should occur in SAP whereby the project is removed from AUC and transferred to General Capital Assets to begin being depreciated.

We noted during the performance of fieldwork and through discussion with Bureau of Financial Management (BFM) staff that the above-mentioned agencies were improperly settling completed AUC projects or not settling them at all. This caused BFM to post numerous adjustments to the BFS, including auditor identified adjustments, in order to correctly capture the balances of AUC, General Capital Assets, Accumulated Depreciation and Depreciation expense.

**Criteria:** Good internal control dictates that agency personnel possess the appropriate knowledge and expertise to ensure that the Agency's AUC data can be properly maintained in SAP. This includes ensuring that old projects do not remain in the AUC balance year after year and that completed projects are properly transferred to General Capital Assets.

**Cause:** The errors caused by the improper settling to SAP were primarily due to the Commonwealth's implementation of the statewide SAP accounting system. Even though SAP was implemented three years ago, agency personnel continue to lack requisite knowledge of the settlement process.

**Effect:** AUC, General Capital Assets, Accumulated Depreciation and Depreciation expense will continue to be misstated in the future if internal controls are not strengthened and proper training of agency personnel does not occur.

**Recommendation:** We recommend that procedures be developed that provide proper instruction for Agency personnel to ensure proper reporting. We further recommend that agency personnel participate in extensive training so that they do possess the necessary knowledge of the required SAP sub-modules and gain experience and expertise regarding how to properly maintain the agency's AUC balance in SAP.

**Agency Response:** The significant failures with respect to timely AUC settlements trace to a number of factors: agency personnel turnover, the difficulty in getting all of the PADOT prior year construction costs settled properly, and a configuration problem with SAP's project systems module that did not allow agencies other than PADOT and DGS to settle to AUC.

BFM has conducted numerous training sessions during the current fiscal year in an effort to help agency personnel understand and better perform their duties with relation to settlement to AUC. On March 23, 2006, IES was able to configure the project systems module to allow settlement of projects for all agencies. As a result, BFM will provide training and assistance to DCNR in the next several months so that the agency can settle to both AUC and final, depreciable assets by the end of the current fiscal year.

BFM has written, within the past year, Management Directive 310.27 - Month-end Closing Processes. The directive details specific steps that agencies must undertake at each month-end closing to insure that settlements, both to AUC and to final, depreciable assets are undertaken on a timely basis.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 20: (continued)**

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Comments - June 30, 2005***

### **Comment 05 – 21:**

**Office of the Budget – Bureau of Financial Management  
Treasury Department Comptroller Office  
Labor, Education, and Community Services Comptroller Office  
Central Services Comptroller Office**

#### **Internal Control Weakness Over Investment Risk Note Disclosures in Basic Financial Statements**

**Condition:** We noted numerous errors and control weaknesses in our audit of the Basic Financial Statement (BFS) note disclosures required by Governmental Accounting Standards Board Statement No. 40, entitled “Deposit and Investment Risk Disclosures,” as follows:

- In our review of the first draft of the note disclosure, we noted that the various comptrollers’ offices were not using uniform definitions of investment types in aggregating investments for the interest rate risk disclosure. As a result, investments reported by some funds as “mortgage-backed,” were titled “mortgage loans” by another fund and as “U.S. Government Agencies” by another.
- In one case, based on our review of the support provided by the fund, we determined that the amounts submitted to BFM and reported as effective duration were actually modified duration.
- In our review of the disclosures for one fund, we determined that investments in money market mutual funds characterized as cash equivalents on the fund’s investment summary reports were incorrectly disclosed as maturing in 21-30 years in the segmented time disclosure.
- In our review of the duration disclosures for two funds, we determined that the method used to calculate interest rate risk was weighted average duration instead of effective duration as reported in the note disclosure.
- In our review of the aggregate duration summary provided by BFM, we determined that BFM assigned a duration to investments of one fund because the interest rate risk disclosure was not provided by either Treasury or the fund that reported the investments.
- In comparing BFM’s disclosure summary to the support provided to us by one fund, we determined that the fund had revised their disclosures but had not provided BFM with the changes to correct the BFS.
- In our review of the support for the duration disclosures for two funds, we determined that calculation errors were made in determining the aggregate effective duration for a category of investments.
- In our review and testing of the support for the credit quality disclosure, we noted that investment quality was not being reported on a consistent basis by the Comptrollers’ Offices. BFM requested that investment quality be disclosed using ratings by a specific national rating organization to the extent possible. If that specified organization’s ratings were not used, BFM requested that the source of the quality rating be provided. In our testing of the quality disclosures, we noted that several funds were providing ratings for one or more types of investments using a different organization’s ratings. However they did not indicate to BFM that an alternative rating organization was the source. In the case of one fund, it appeared that an “average” rating was improperly used for some investments.
- In our review and testing of the foreign currency risk disclosure, we noted that the fund had used the incorrect report to determine the investments subject to disclosure, resulting in errors in the disclosure.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 21: (continued)**

**Criteria:** GASB Statement # 40, paragraph 4, states, “Unless otherwise required, investment disclosures should be organized by investment type, such as U.S. Treasuries, corporate bonds, or commercial paper. Dissimilar investments.... should not be aggregated into a single investment type.” In order to comply with this requirement, all Comptroller’s Offices should aggregate investments using uniform investment types when preparing fund and pool disclosures.

Strong internal controls should ensure investments are consistently and accurately disclosed as required by the applicable governmental accounting standards and that disclosures are appropriately reviewed and approved by management. This should include a review of the support for the summary-level information provided to BFM prior to its submission.

**Cause:** Based on our discussions with BFM and the various comptrollers’ offices, it appears that disclosure information for some funds was not readily available because it was not timely requested from the service provider. In one case this was due to a misunderstanding about who was responsible for ensuring that the information be available. In other cases it appeared that either the need for the information was overlooked or that there was a misunderstanding about who was responsible for providing the GASB #40 disclosures. In addition, some preparers did not correctly interpret BFM’s request for investments to be categorized by type for the interest rate risk disclosure. There was no indication that the summary-level information provided to BFM was properly reviewed for accuracy prior to its submission.

**Effect:** There were numerous errors and inconsistencies in the GASB #40 note disclosure information provided to BFM for inclusion in the BFS. These ranged from simple calculation errors and mistakes in transferring figures from calculation worksheets to the summary forwarded to BFM, to errors in identifying rating organizations, incorrect identification of investments subject to foreign currency risk, misclassification of investments by type, and inconsistent and inaccurate reporting of effective duration for the interest rate risk disclosure. As a result, BFM was required to make--and the auditors, to test--numerous revisions to the disclosure.

**Recommendation:** We recommend that procedures be put in place to ensure that GASB #40 investment disclosure summaries are reviewed and compared to the supporting detail prior to being reported. In addition, the comptrollers’ offices responsible for preparing the investment disclosures for each fund and pool should ensure that the required disclosure information is available from the applicable service provider as of the report date. If information is not available for effective duration for a specific fund or pool, the interest rate risk for that fund or pool should be disclosed using an alternative method and that method should be clearly identified on the disclosure submitted to BFM.

We recommend that BFM provide clear, detailed instructions, including examples, on the investments to be included in each investment type disclosed to all comptroller’s offices preparing the GASB #40 disclosures. In addition, we recommend that BFM and the various comptrollers’ offices adopt a consistent approach to reporting investment credit quality and that the rating organization used for each fund and pool be clearly identified on the information provided to BFM.

**Agency Response:** BFM is taking a number of remedial actions to improve the following: 1) the various information providers’ understanding of the various disclosure requirements, 2) the central compilation of the fund-specific data, and 3) the quality of the final, published disclosure.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 22:**

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

##### **Statewide Weaknesses Within the SAP Accounting System Controls (A Similar Condition Was Noted in Prior Year Comment #04-18)**

**Condition:** In our review and testing of the Commonwealth’s internal controls over transactions posted to the SAP accounting system, we noted internal control weaknesses regarding segregation of duties in the SAP environment. There were a number of users who were granted an excessive number of profiles in the SAP system, including 166 users who had over 300 profiles/authorizations assigned. There were also two outside consultants who were granted access to the SAP environment. In addition, there were 641 users having segregation of duties conflicts in relation to posting expenditures on the SAP system.

We also performed segregation of duties testing that was specific to PADOT and LCB. During our detailed testing of PADOT and LCB, we noted that four of the five LCB employees selected for testing, had segregation of duties conflicts and three of the five PADOT employees selected for testing, had segregation of duties conflicts in SAP role assignments.

Changes made to the BW Reporting hierarchies are not adequately tested by IES and BFM, prior to the migration of the changes to the Production environment. Proper user testing should be performed prior to the migration of changes to the production environment in order to determine if the changes will have the correct intended effect. During our walkthrough with IES, it was noted that a separate test, or a Quality Assurance (QA), in the production environment exists. However per our review, it does not appear as though these separate environments are being used effectively for change testing or approval of BW changes.

Furthermore, the Bureau of Audits (BOA) has not performed all the responsibilities outlined in SAP Security Procedures Document Section 2.2.4 “Audit Services.” This procedure indicates that BOA is responsible for role mapping, role development, review of user requests, review of user access, review of User IDs, review of IES roles, review of documentation/activity logs/audit logs, etc. Further, after reviewing initial role mapping requests and notifying agencies about incompatible roles, BOA does not conduct follow-up reviews of revised role assignments to verify an appropriate segregation of duties was achieved.

Finally, it appears that there is no formal procedure for monitoring the SAP security log on a regular basis to ensure that there are no potential user access issues and to mitigate the control weaknesses noted above.

**Criteria:** Proper segregation of duties on the SAP System is critical in minimizing and mitigating the risks of inappropriate transactions occurring. Verifying that third parties, such as consultants, do not have access to production environments is also important to be consistent with best practices (as per the Management Directive 205.37, dated June 13, 2005).

**Cause:** It appears that these roles and conflicts were created in order to provide consultants, IES staff, and others within the agencies with the ability to assist in multiple situations during an expedited implementation timeframe, and to overcome problems noted during the transition from the old ICS accounting system to SAP. However, it does not appear that the requisite revocation and refinement of roles has occurred since the bulk of the implementations occurred during our prior audit periods.

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 22: (continued)

**Recommendation:** We recommend that the segregation of duties issues noted above be investigated and excessive access detected within SAP be revoked as deemed necessary by management. If specific business justification exists (i.e., administrators, short term needs, etc.), a minimal number of staff should be assigned administrative roles, rather than granting an excessive number of profiles/authorizations, which would provide the same administrative access. SAP roles in expenditure posting should be closely monitored, and potential segregation of duties conflicts on the SAP System should be appropriately justified in writing on an as needed basis. We recommend that there be a documented review of the SAP Security Log on a regular basis to ensure that there are no potential user access issues.

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

Overall, we recommend that the Commonwealth revisit the requirements and assignments surrounding SAP security as outlined by SAP Security Procedures Document Section 2.2.4 "Audit Services" and by Management Directive 205.37 to determine if modification is required to fulfill the overall objective of an effective control environment.

**Agency Response:** BOA and IES have reviewed activity logs and are in the process of procuring a user monitoring and segregation of duties software package to better detect, report and mitigate segregation of duties issues and improve role mapping and assignments. The IES Security Team has implemented procedures that include:

- \* Monthly maintenance of withdrawn users
- \* Monthly review of inactive users, locking them and reporting them to HR
- \* Delimiting users with blank SNC fields
- \* Checking for duplicate or invalid SNC addresses daily (prevents access to another user's information)
- \* Run weekly comparisons of HR type 105 records with user records to ensure accuracy of user creation
- \* Perform periodic comparisons of SNC data across all production systems

Management Directive 205.37, Role Assignment, Security, and Internal Control, issued June 13, 2005, establishes policy and procedures to assist agencies in the process to request and maintain role assignments to ensure segregation of duties and avoid role conflicts where possible.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 23:

#### Department of Labor and Industry

##### Noncompliance With Statutory Limits for Equity Investments (A Similar Condition Was Noted in Prior Year Comment #04-11)

**Condition:** In accordance with Article XV of the Pennsylvania Workers' Compensation Act (Act 338 of 1915, as amended), SWIF is limited in the amount of equity securities it may own. As indicated in the criteria section below, SWIF's investment in equity securities is limited to the lesser of seven and one-half percent of the book value of its assets or seventy-five percent of its unassigned surplus.

During the prior audit we noted that SWIF's equity investments exceeded the legal limit by \$35,471,000 as of December 31, 2003. Our current year audit procedures disclosed that the same condition existed for the audit period ending December 31, 2004. As of December 31, 2004, SWIF's book value of its assets was \$1,677,529,000 and the unassigned surplus totaled \$160,478,000. Using the lesser of these limitations noted, SWIF was statutorily limited to \$120,359,000 in equity securities at year end. However, as of December 31, 2004, SWIF held a total of \$174,609,000 in equity securities (actual cost of long-term investments of \$159,735,000 in SWIF's separate long-term investment pool plus \$14,874,000 in Treasury's short term investment pool). Therefore, SWIF's equity investments exceeded the legal limit by approximately \$54,250,000 at December 31, 2004.

In addition, during the audit period ended December 31, 2004, SWIF had no formal process in place to document their compliance with these investment limitations.

**Criteria:** The Pennsylvania Workers' Compensation Act (Act 338 of 1915, as amended), Article XV, Section 1512 provides the following regarding SWIF's investments:

*The board may invest any of the surplus or reserve belonging to the fund in such securities and investments as are authorized for investment by savings banks.*

The Banking Code of 1965, Section 504(b)(vi) provides the following with respect to investments in equity securities:

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

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

- (I) surplus, unallocated reserves, undivided profits and subordinated securities, in the case of a mutual savings bank, or*
- (II) capital, surplus and capital securities, in the case of a stock savings bank at the time of acquisition of each of such shares*

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

**Cause:** In response to the prior year finding, SWIF personnel indicated that they were aware of the limitation on equity investments and monitor the equity limitation on an ongoing basis. However, SWIF personnel have not provided any documentation to support their ongoing monitoring for compliance with these investment limitations. In addition, SWIF personnel believe they are fiscally responsible in avoiding bad timing in large liquidations of equities.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Comments - June 30, 2005***

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### **Comment 05 – 23: (continued)**

**Effect:** SWIF is in violation of the PA Workers' Compensation Act, since it was over-invested in equity securities at December 31, 2004 and throughout the year under audit. In addition, since SWIF did not provide evidence of adequate procedures in place to monitor compliance with these requirements, there is limited assurance that SWIF will be in compliance with the PA Workers' Compensation Law in future periods.

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

**Agency Response:** The auditor states that as of December 31, 2004, SWIF had no formal process in place to document compliance with statutory limitations of equity investments of the lesser of seven and one-half percent of the book value of assets or seventy-five percent of unassigned surplus, and that SWIF exceeded these statutory limitations.

SWIF's investment advisor provides the SWIF Board and SWIF executive staff with a monthly report of all investments. The report is comprehensive and lists investments by type, returns, amount and investment manager. The Board and the investment manager strategize on a regular basis to ensure that assets are invested in a manner that complies with statutory requirements and that meets SWIF's needs in terms of asset/liability match and duration.

During 2005, the Legislature enacted legislation that permits SWIF to invest the lesser of twenty percent (20%) of its assets or statutory surplus in equities (72 P.S. §1731-A (2005)). During this same time frame, the SWIF Board passed a new investment policy which incorporates this legislative change and which delineates SWIF's investment strategy and the responsibilities of the investment consultant and money managers.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Comments - June 30, 2005**

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### **Comment 05 – 24:**

#### **Executive Offices**

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

#### **Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System**

**Condition:** In our review and testing of the Commonwealth's internal controls over the One-Time Vendor Payment function within the SAP system, we noted internal control weaknesses regarding the One-Time Vendor Payments posted. There are inadequate formal policies related to the use of the One-Time Vendor functionality in SAP. Also we noted that in some Comptroller Offices, the SAP system allows an Invoice Processor to input a One-Time Vendor invoice and forward the payment request over to Treasury without on-line supervisor review and approval. Additionally, there are no apparent automated controls in the SAP system to prevent an Invoice Processor from approving and entering any One-Time Vendor Invoice, or amending vendor information on SAP after a one-time vendor payment is made.

We did not identify any erroneous or unauthorized payments to One-Time Vendors on SAP as part of our audit testwork, nor based on our audit inquiries, has Treasury noted any errors due to these weaknesses as part of its independent fiscal review process. However, our One-Time Vendor Payment analysis procedures demonstrated that multiple payments are routinely recorded in SAP to the same vendor as One-Time Vendor disbursements. In these instances One-Time Vendor accounts in SAP are not being used for a single instance payment, as originally intended, thereby increasing the risk that a vendor may be paid multiple times for the same invoice. Additionally, we identified instances where payments were made using the One-Time Vendor Account in SAP where a vendor account existed in the SAP Vendor Master tables which should have been used for those payments. We also found one employee vendor with two employee vendor numbers.

In addition, the SAP audit logs are not reviewed on a regular basis to specifically determine the extent of multiple transactions posted for One-Time Vendors on SAP, and check on the appropriateness of this practice and related costs.

**Criteria:** Restricting the use of the One-Time Vendor accounts in SAP and the proactive monitoring of the One-Time Vendor account activity are vital to protecting the Commonwealth from potential undetected improper vendor payments.

**Cause:** These issues related to the One-Time Vendors are caused by programmatic weaknesses in the SAP system, and exacerbated by the lack of a specific One-Time Vendor audit review to determine if improper payments are made. In addition, the interfaces into SAP from legacy systems have not been mapped, in that legacy vendor numbers are not converted to a standard SAP vendor number, but rather the legacy information is mapped directly to the One-Time Vendor account. Further, it appears that a large number of employees have the ability to post a One-Time Vendor Payment in SAP, and there are no detailed formalized policies and procedures in place to guide the users as to the proper use of the One-Time Vendor codes.

**Effect:** The lack of effective One-Time Vendor Payment policies and procedures, the lack of a post transaction review specific to One-Time Vendor Payments, and the lack of mapping legacy vendor activity to SAP vendor codes, increases the future risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity. The increase in these risks would be significant in areas where manual controls outside the SAP system are not in place and effectively functioning to prevent or detect erroneous or unauthorized payments. Further, such situations clearly increase the need for more manual monitoring, review, and verification of One-Time Vendor activities and transactions. Additionally, the built-in SAP functionality (and that in Treasury) to identify duplicate payments is very limited for One-Time Vendor Accounts, making the detection of duplicate payments to a vendor subject to normal review procedures only.

**Recommendation:** We recommend that formal policies and procedures be established for the One-Time Vendor Payment process. At a minimum, these standards should provide guidelines on when a One-Time Vendor Payment can be issued and a course of action that establishes preventative and detective controls to reduce the likelihood of processing incorrect or unauthorized payments. Policies and procedures should consider control areas such as who has

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Comments - June 30, 2005

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### Comment 05 – 24: (continued)

access to post invoices utilizing the One Time Vendor accounts, monitoring of the use of these accounts, and standards for documentation. We recommend strengthening the security surrounding the use of the One-Time Vendor code and limiting the use of the One-Time Vendor Invoice Processors to processing invoices, and disabling their ability to approve the same invoices.

We also recommend reviewing the current legacy vendor feeds into SAP to determine if recurring payments to the same vendor can be mapped to an individual vendor account, rather than to the One-Time Vendor Accounts in SAP. Further, we recommend that manual controls be in place to regularly review the activity in the One-Time Vendor Accounts to provide additional assurance that inappropriate payments are not being made.

**Agency Response:** Paragraph 2 of your Condition infers that this functionality is intended to be used for single instance payments. This is incorrect. The "one-time" vendor records were not established to literally mean one-time only. The records were established to facilitate operational efficiencies for two functions - manually entered invoices and interface payments. For manually entered invoices, the vendor records are to be used, in general, when a determination is made that the vendor most likely will be paid infrequently and a vendor record does not exist. Interface payments were developed using the one-time vendor functionality to facilitate certain payments. These interfaces were not intended to determine if a vendor record was already established or meant for infrequent payments.

The Governor's Office of the Budget recognizes the need to strengthen internal controls over the use of the one-time vendor records. The following corrective actions are being taken:

OB/BFM developed policy to address the use of the one-time vendor records. This policy will be issued in conjunction with system modifications that require supervisory review and approval for all payments to one-time vendors.

The existing one-time vendor records will contain system edits that allow only interface payments to post. These interface payments were developed to post using the one-time vendor functionality, regardless of whether the vendor is established in SAP and regardless of the number of payments to the same entity. Comptroller Operations will continue to work with agencies to transition these interfaces to utilize vendor records where operationally feasible. These agency generated payments are subject to review by the Comptroller.

Two additional one-time vendor records will be established for agency- and comptroller-entered payments. The agency-entered payments for advancement accounts and PADOT invoices are reviewed and approved by the comptroller offices. The comptroller-entered invoices will automatically block and require supervisory review and approval to post.

Changes can currently be made to a one-time vendor invoice after the payment has been processed to facilitate the 1099 reporting of that payment. There are proposed modifications to this process that will not permit these changes in the future. Any changes made to an invoice document are available for viewing after the changes occur under "document changes."

We believe these internal controls will adequately address the use of the one-time vendor records.

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

**The corrective action plan for this comment, 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, 2005

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
05-1**	10.550	Food Donation Program	Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$3,651 (Prior Year Finding #04-2)	\$3,651	AGRI	89	262
05-2**	10.551 93.558 93.575 93.596 93.778	Food Stamps Program Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds Medical Assistance	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #04-3)		DPW	94	262
05-3**	Various 10.558	Child Nutrition Cluster Child and Adult Care Food Program	Internal Control Weakness Over Submission of SF-269 Financial Status Report to USDA		OB/ LECS	100	262
05-4**	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Noncompliance in DOH Submission of the WIC Financial Management and Participation FNS-798 Report Results in \$325,137 in Questioned Costs (Prior Year Finding #04-5)	\$325,137	DOH	101	262
05-5*	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Noncompliance and Internal Control Weaknesses in DOH Systems Result in \$27,598 in Questioned Costs (Prior Year Finding #04-4)	\$27,598	DOH	104	262
05-6**	10.561 93.658	State Admin Matching Grants for Food Stamps Program Foster Care IV-E	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA and Statewide Subrecipient Payment Records		DPW PHHS	107	262
05-7**	14.228	Community Development Block Grants/ State's Program	Performance/Evaluation Report Submitted to HUD Was Inaccurate		DCED	109	262
05-8**	14.228 14.239	Community Development Block Grants/ State's Program HOME Investment Partnerships Program	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #04-6)		DCED	112	262
05-9	15.252	Abandoned Mine Land Reclamation Program	Noncompliance With OMB Circular A-133 Pass-Through Entity Requirements		DEP	115	262

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2005

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
05-10**	16.007 97.004 97.042 97.067	Homeland Security Cluster	Internal Control Weakness in Reporting Expenditure Information on the SEFA		OB/PPR	116	262
05-11**	16.007 97.004 97.042 97.067	Homeland Security Cluster	Unallowable Equipment Purchases Result in Questioned Costs of \$2,625 and Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring	\$2,625	PEMA	118	263
05-12**	Various 17.225 17.245 84.126	Employment Service Cluster Unemployment Insurance Trade Adjustment Assistance - Workers Rehabilitation Services – Vocational Rehabilitation Grants to States	Weaknesses Exist in the SAP FARS Replacement System Resulting in an Undetermined Amount of Questioned Costs up to \$17,731,902 (Prior Year Finding #04-8)	\$17,731,902	L&I LECS	124	263
05-13**	17.225	Unemployment Insurance	Incorrect Quarterly Financial Report Submitted to USDOL		L&I	130	263
05-14**	17.245	Trade Adjustment Assistance – Workers	Inaccurate Data and Weaknesses in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (Prior Finding #04-9)		L&I	132	263
05-15**	17.245	Trade Adjustment Assistance – Workers	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #04-10)		L&I	135	263
05-16**	17.245	Trade Adjustment Assistance – Workers	Unallowable Benefit Payments Result in Questioned Costs of \$17,041 (Prior Year Finding #04-11)	\$17,041	L&I	141	263
05-17*	66.458	Capitalization Grants for Clean Water State Revolving Funds	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding #04-13)		PENN- VEST	145	264

84

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2005

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
05-18**	83.544 97.036	Public Assistance Grants Public Assistance Grants	Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting (Prior Year Finding #04-14)		OB/PPR	147	264
05-19*	83.544 97.036	Public Assistance Grants Public Assistance Grants	Internal Control Weaknesses in PEMA's System of Cash Management		PEMA	149	264
05-20**	84.010	Title I – Grants to Local Educational Agencies	PDE Does Not Properly Monitor LEAs for Compliance With Title I Comparability Requirements		PDE	154	264
05-21*	84.010	Title I – Grants to Local Educational Agencies	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #04-18)		PDE	156	264
05-22**	84.048	Vocational Education – Basic Grants to States	Errors and Internal Control Weaknesses in PDE's VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #04-19)		PDE	159	265
05-23**	84.048	Vocational Education – Basic Grants to States	PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #04-20)		PDE	164	267
05-24	84.048	Vocational Education – Basic Grants to States	Unallowable Use of Subgrantee Equipment and Uncollected Questioned Costs of \$62,941	\$62,941	PDE	166	267
05-25*	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #04-21)		L&I	167	267
05-26**	93.283	Centers for Disease Control & Prevention - Investigations	Noncompliance and Internal Control Weaknesses Result in \$73,982 in Questioned Personnel Costs	\$73,982	DOH	169	267
05-27**	93.283	Centers for Disease Control & Prevention - Investigations	Weaknesses in DOH Program Monitoring of CDC Subgrantees		DOH	172	268

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2005

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
05-28**	93.558	Temporary Assistance for Needy Families	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #04-23)		DPW	174	268
05-29**	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #04-24)		DPW	176	268
05-30**	93.558 93.575 93.596	Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758	\$271,758	DPW PHHS	182	268
05-31*	93.563	Child Support Enforcement	Internal Control Weaknesses in the Administration of Child Support Enforcement Program Collections		DPW	186	268
05-32**	93.569	Community Services Block Grant	LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program (Prior Year Finding #04-26)		OB/LECS	188	268
85 05-33**	93.569	Community Services Block Grant	Weaknesses in Internal Controls Over Subgrantees Result in \$420,182 in Questioned Costs (Prior Year Finding #04-27)	\$420,182	DCED	190	268
05-34**	93.575 93.596 93.667	Child Care and Development Block Grant Child Care Mandatory & Matching Funds Social Services Block Grant	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #04-29)		DPW	193	268
05-35*	93.575 93.596	Child Care and Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,221,990 (Prior Year Finding #04-28)	\$3,221,990	DPW	196	268
05-36**	93.658	Foster Care – Title IV-E	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #04-30)		DPW PHHS	199	269

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2005

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
05-37**	93.658 93.659	Foster Care – Title IV-E Adoption Assistance	DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete		DPW	202	269
05-38**	93.767	State Children’s Insurance Program	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers		PID	204	269
05-39**	93.767	State Children’s Insurance Program	Internal Control Weaknesses in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates		PID	206	269
05-40**	93.778	Medical Assistance	Internal Control Weaknesses in the Administration of the MA Program (Prior Year Finding #04-32)		DPW	208	269
05-41**	93.917	HIV Formula Care Grants	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$24,574,951 (Prior Year Finding #04-33)	\$24,574,951	DPW	211	269
05-42**	96.001	Social Security – Disability Insurance	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #04-35)		L&I	218	269
05-43*	10.557 93.283	Special Supplemental Nutrition Program for Women, Infants and Children Centers for Disease Control & Prevention - Investigations	An Internal Control Weakness Exists in DOH’s Subrecipient Audit Resolution Process		DOH	220	270
05-44*	Various 93.558	WIA Cluster Temporary Assistance for Needy Children	An Internal Control Weakness Exists in L&I’s Subrecipient Audit Resolution Process		L&I	222	270
05-45**	Various	Various	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports		DPW	224	270

87

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Index to Federal Award Findings and Questioned Costs - June 30, 2005***

<u>Finding No.</u>	<u>CFDA No.</u>	<u>CFDA Name</u>	<u>Finding Title</u>	<u>Questioned Costs</u>	<u>Impacted State Agency</u>	<u>Finding Page</u>	<u>CAP Page</u>
05-46**	Various	Various – All Major Programs Covered by CMIA	Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a \$560,548 Known Understatement of the CMIA Interest Liability (Prior Year Finding #04-37)		OB	226	270
Total Questioned Costs				<u>\$46,733,758</u>			

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 1:

#### CFDA #10.550 – Food Donation Program

##### Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$3,651 (A Similar Condition Was Noted in Prior Year Finding #04-2)

**Condition:** As part of the FD Program, BFD enters into contracts with processors to convert certain donated commodities into end products. These end products are then distributed by the processors to eligible recipient agencies. BFD uses information submitted electronically from the processors to record distributions of donated commodities used in end products by individual recipient agencies for the year. The total processor distributions to all recipient agencies recorded on BFD's system and reported by BFD on the June 30, 2005 SEFA was \$13,318,123.

In our prior year audit, our testwork revealed questioned costs and major weaknesses in BFD's system used to accumulate and report inventory information from the processors monthly performance reports. Our follow up and testwork for the current year disclosed that similar weaknesses existed throughout our audit period. In particular, our testing of BFD's system used to account and report for the processing of donated commodities revealed the following:

- In order to test the accuracy of the processor distributions reported by BFD for the current year on the SEFA, we selected a sample of 25 recipient agencies receiving end products from processors. We then selected one donated commodity and one month for each recipient agency to support BFD's recording of the total pounds of donated commodity that were used in the production of the end product distributed to the recipient agency for the month selected. The total dollar value of donated commodities tested for our 25 items was \$25,952 out of the \$13 million population for processors disclosed above. For 3 of the 25 recipient agencies, we were unable to determine the accuracy of the monthly distributions of the sampled commodity reported on the SEFA, as shown below, resulting in unsupported questioned costs of \$3,651 (or 14 percent of the amount tested):

<u>School Number</u>	<u>Distributions Reported by BFD on SEFA</u>	<u>Distributions Supported by Processor Usage Reports</u>	<u>Unsupported Questioned Costs</u>
2-03-08-900	\$2,149	\$0	\$2,149
2-08-09-700	148	0	148
2-08-23-850	1,354	0	1,354
Total	<u>\$3,651</u>	<u>\$0</u>	<u>\$3,651</u>

- BFD is required to submit an Annual Processor Reconciliation Report to USDA for each processor participating in the FD Program which reports all inventory activity for each donated commodity on hand at the processor location. In order to test the accuracy and completeness of the Annual Processing Reconciliation Report submitted to USDA for the year under audit, we selected a sample of ten processors and one commodity for each processor. We then compared the inventory activity (i.e., beginning inventory balances, receipts, shipments, etc) reported by BFD for each processor and related commodity to the processor monthly performance reports. Based on our testing of the report, we noted the following:
  - For three of the ten commodities tested, BFD was unable to provide any documentation to support either the shipments, beginning inventory, ending inventory or adjustments reported by BFD. Additionally, for eight of the ten commodities, there were discrepancies between the amounts reported by BFD and the amounts contained in the processor performance reports. BFD was unable to explain these variances or could not provide support for the variances. Also, for one of the ten commodities tested, BFD indicated that although the receipts amount agreed to the processors monthly performance reports, the amount reported was understated since it was missing one receipt. However, no documentation was provided to support this discrepancy.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 1: (continued)

- We tested the price per pound used by BFD to value distributions on the SEFA for each of the ten commodities in our sample. For one of the ten commodities in our sample, while the quantity distributed was deemed allowable, we noted that BFD used an invalid commodity code which resulted in an incorrect price per pound. As a result, all distributions reported on the SEFA for this commodity code were incorrectly priced and resulted in an overstatement on the SEFA of \$3,006.
- The total distributions (usage dollar value) on the Annual Processor Reconciliation Report of \$13,388,969 do not agree to the total distributions from processors reported on the SEFA of \$13,318,123. This \$70,846 SEFA difference remains unresolved.
- During our walkthrough of the procedures used by BFD to prepare the Annual Processor Reconciliation Report, we noted that the monthly processor performance report for the processor selected for our walkthrough included a “backhaul” commodity. These backhaul commodities are to be reported by the processors as transfers out when shipped to the schools to avoid double reporting of distributions since the distributions are initially reported to BFD by the warehouses when shipped to the processors for conversion to end products. However, we determined that these distributions were reported as shipments to BFD by the processor and were included as distributions on the SEFA by BFD. Therefore, the distributions were reported twice on the SEFA by BFD resulting in an overstatement on the SEFA of \$13,188.
- BFD has no procedures in place for the supervisory review and approval of the amounts contained on the Annual Processing Reconciliation Report to ensure amounts reported are accurate, complete and tie to its books and records.

In the prior year we noted that BFD’s procedures for the on-site monitoring of its in-state processors did not address two of the four areas that are required by federal regulations. Specifically, BFD’s on-site monitoring did not include procedures to review the processor’s production and quality control records to support the figures on the processor’s end product data schedule and did not include procedures to ensure adequate measures and procedures are in place to protect the donated food. Our current year follow up revealed that this weakness still existed for the year under audit since BFD did not address these two areas during their on-site monitoring of in-state processors. Further, for one of the two in-state processors that we selected for testing during the year under audit, BFD could not provide adequate documentation to support the performance of the other two monitoring areas that are required by federal regulations.

**Criteria:** 7 CFR, Part 250.16 (a) regarding maintenance of records, states, in part:

(a) *General requirements. (1) Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods including:*

(i) *End products processed from donated foods. . .*

7 CFR, Part 250.30 regarding processor reporting states:

m. *Performance reports. (1) Processors shall be required to submit to distributing agencies monthly reports of performance under each processing contract with year to date totals. . . . The report shall include:*

- (i) *A list of all recipient agencies purchasing end products under the contract;*
- (ii) *Donated-food inventory at the beginning of the reporting period;*
- (iii) *Amount of donated foods received during the reporting period;*
- (iv) *Amount of donated foods transferred to and /or from existing inventories;*
- (v) *Number of units approved end products delivered to each eligible recipient agency during the reporting period and the number of pounds of each donated food represented by these delivered products;*
- (vi) *Donated food inventory at the end of the reporting period.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 1: (continued)

USDA Memo #04-011 dated April 8, 2004 regarding the Policy on the Submission of Quarterly Processing Performance Reports states:

*We will discontinue the requirement to submit quarterly processing performance reports to the Regional Office and will use the reconciliation reports to verify beginning inventory levels, shipments, usage and excess inventory levels.*

The USDA State Processing Program Handbook, page 57, provides the following guidance regarding on-site reviews of processors:

*On-Site Reviews: Every year each distributing agency must conduct on-site reviews of 50 percent of the processors whose total operations are conducted within that State. This means that a review of all “In-State” processors must be completed by the distributing agency every two years.*

*Planning the Review: The following four areas must be evaluated during each review:*

- *Adequate records are being maintained to ensure program compliance;*
- *The sales documentation supports the inventory reductions reported on the monthly performance reports;*
- *The production and quality control records support the figures on the end product data schedules; and*
- *Adequate measures and procedures are in place to protect the donated food.*

OMB Circular A-87, Attachment A, Section C.1., regarding the factors affecting allowability of costs states in part:

*j. Be adequately documented.*

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

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

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

**Cause:** Regarding the differences in commodity distributions reported on the SEFA for the three sampled recipient agencies, which involved the same processor, BFD was unable to obtain information from the processor on the conversion factor used to calculate the pounds contained in the cases reported by the processor as being shipped to these three agencies. Therefore, we could not determine the accuracy of the pounds reported by BFD. Further, BFD indicated that they were having difficulty in obtaining accurate information from this processor and that they were uncertain of the actual pounds that should be reported for each of these schools.

Regarding the discrepancies cited for the Annual Processor Reconciliation Report, BFD was unable to obtain the necessary supporting documentation from certain processors and does not have any supervisory review procedures in place to verify the accuracy of the information that is included in this report prior to submission to USDA. Further, BFD does not have adequate procedures in place to ensure that processors are properly accounting and reporting for backhaul commodities.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 1: (continued)**

With respect to the on-site monitoring of in-state processors, BFD did not believe it was necessary to perform all of the procedures outlined in the USDA Handbook. Regarding the lack of adequate documentation for the on-site monitoring of the one in-state processor, BFD could not explain why the documentation was not available or why they did not follow their established procedures.

As in the prior year, BFD also stated that staffing changes have taken place in the last several years and the related development of new computer software to handle the volume of data associated with the FD Program have contributed to the internal control weaknesses and errors cited in the condition.

**Effect:** BFD did not provide adequate processor documentation to support the allowability of processor distributions for 3 of the 25 recipient agency commodities tested, which represented an error rate of 14 percent in our sample. Based on the lack of supporting documentation for our sample testwork, total processor distributions reported by BFD on the SEFA of \$3,651 are questioned. In addition, our sampling and testing of processor distributions disclosed that FD program expenditures on the SEFA are not accurate. Although SEFA misstatements in the current-year were not material, significant SEFA errors could recur in future years.

Further, BFD did not have an adequate system in place during the year under audit for the proper recording, reporting, and monitoring of inventory information that was transmitted electronically from the processors, including the preparation and submission of the Annual Processor Reconciliation Report to USDA. Further, BFD did not have adequate documentation to support the performance of on-site monitoring for one of its in-state processors and BFD's on-site monitoring procedures did not address all of the areas in the USDA Handbook. As a result, BFD has little assurance that these processors are complying with program requirements. Additionally, there is an overall lack of segregation of duties with respect to the processor recordkeeping and reporting by BFD.

**Recommendation:** We recommend that BFD pursue appropriate settlement of the \$3,651 in questioned costs with USDA.

Further, we recommend that BFD ensure that there is a proper segregation of duties with respect to the processor recordkeeping and reporting. This would include adequate supervisory review procedures to verify the accuracy of the processor information reported on the SEFA from BFD's system (including the reporting of backhaul commodities), and in the Annual Processing Reconciliation Report submitted to USDA. Additionally, we recommend that BFD expand their existing on-site monitoring procedures of in-state processors to adequately address all areas specifically identified in the USDA Handbook and ensure that the performance of any on-site monitoring procedures is supported by adequate documentation in accordance with BFD's established procedures.

**Agency Response:** Response of BFD:

#### 1) Questioned Costs:

BFD will, for the recipient agencies identified, confirm with the processor the proper amount of costs reportable for each agency for the 2004-05 program year, and advise each agency in writing of the correct amount.

BFD will also ensure that when Single Audit Reports for the affected program year are submitted by the affected agencies for review by BFD, that the proper amount of SEFA is reported.

#### 2) Segregation of Duties:

BFD believes that sufficient segregation of duties does exist and that supervision is adequate. The deficiencies noted in the finding stem from several factors.

- a. Continued confusion by processors on how to report activity on "backhauled" commodity when compared to activity for "direct diverted" commodity; and

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 1: (continued)**

- b. An inordinately large turnover of processor staff charged with USDA commodity reporting to Pennsylvania and other states.

BFD's corrective action for the deficiencies noted, includes the monthly reconciliation of USDA commodity inventories for each processor, and for each USDA commodity used by each processor for Pennsylvania, to ensure that 1) "backhauled" commodity are not reported, and therefore not duplicated in SEFA documents, and 2) BFD's annual reconciliation report submitted to USDA processor inventory records fairly represents processors inventory balances and yearly activity.

The discrepancy between Annual Processor Reconciliation Report (APRR) and the processing value reported under SEFA was caused by a software deficiency. Adjustments made to individual Agency Summary Reports (ASRs), which total to reported SEFA figures, were not reflected in the Processor Reconciliation Report. That software deficiency is being corrected; and along with the monthly reconciliation of commodity inventory described above, should ensure that the APRR and SEFA activity reconcile.

### 3) In-State Processor Reviews:

BFD believes that for the affected "in-state" processors subject to state review, especially in view of the specific USDA commodity each of those processors use, its review procedures have established that reported activity by the affected processors fairly represents USDA commodity activity.

Nevertheless as a corrective action, BFD will develop a more comprehensive review form for its 2005-06 and subsequent reviews which will capture the "spirit" or the intent of the procedures outlined in the referenced USDA Handbook, even if those procedures are not followed precisely.

A careful analysis of the four areas that "must be evaluated during each review," under Planning the Review at the bottom of page 57, concludes that first 3 of the 4 essentially measure the same thing. An evaluation to ensure that "adequate records are being maintained to ensure program compliance," by definition, ensures that "sales documentation supports the inventory reductions..." and that "production and quality control records support the figures on the end product data schedules." A rather simple review is all that is deemed necessary. Accordingly, BFD's review will ensure: 1) recipient agencies receive the proper commodity credit for items purchased; 2) USDA commodity inventory records are fairly represented; and, 3) each processor has documentation to demonstrate that its facilities are regularly inspect by health inspectors of the governmental agency having jurisdiction.

BFD believes it is (and always has been) impractical to follow with precision, the procedures and recommendations of the existing USDA Handbook, even for "in-state" processing reviews. When most of the in-state processors in Pennsylvania only use USDA flour (a substitutable commodity), and then only use that flour for dusting baking pans and other production surfaces, because the USDA protein content is so unreliable for direct use in baking of finished product, a review of "production records and quality control records" and other suggested procedures within the USDA Handbook is unrealistic and unnecessary. The end products received by Pennsylvania recipient agencies are products made entirely from commercial product, even though those agencies receive "USDA commodity value" credit against each purchase made. Therefore, the most important tasks of the review are to ensure that proper commodity credit is given for each sale to eligible recipient agencies and that USDA commodity inventory is properly tracked, which the three steps outlined above should accomplish.

**Auditors' Conclusion:** Based on BFD's response, no additional information was provided to mitigate the condition in the finding. Therefore, the finding and recommendation remain as stated above. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 2:**

**CFDA #10.551 – Food Stamps Program**

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

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

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

**CFDA #93.778 – Medical Assistance**

### **Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #04-3)**

**Condition:** In connection with our audit of the TANF and FS Programs, we reviewed reports issued by other auditors during our audit period in order to determine if the reports had any impact on the programs. Based on our review, we noted that another bureau within the Department of the Auditor General performed separate audits of certain DPW County Assistance Offices (CAOs) in order to determine if public assistance payments for the TANF and FS programs were made only to eligible recipients. Based on our review of these individual CAO audit reports issued during our audit period (which covered various prior audit periods up through June 30, 2005), we noted that the other auditors identified internal control weaknesses which are systemic in nature when evaluated on a statewide basis.

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

- The CAO caseworkers are not properly completing or including certain forms required by DPW's Cash Assistance Handbook to support eligibility determinations in the case records. The other auditors did not report the specific eligibility forms that were incomplete or missing; they indicated that completed forms were not on file, so weaknesses exist over CAO support for eligibility determinations.
- The CAO caseworkers do not adequately monitor recipient compliance with court-ordered payment plans for fines, costs and/or restitution associated with criminal convictions. Per state law (Act 1996-35) and DPW's Cash Assistance Handbook, recipients that are not in compliance with the payment plans are not eligible to receive public assistance benefits.
- The CAO caseworkers are not entering or are incorrectly entering the recipients' and legally responsible relatives' social security numbers in case records. Additionally, the caseworkers also are not entering the recipients' or legally responsible relatives' social security numbers in the State's Client Information System and/or the Income Eligibility and Verification System.
- The CAO caseworkers are entering the incorrect codes into DPW's Automated Restitution Referral and Computation (ARRC) System, which is used to track and recover overpayments. In most cases, the improper coding stops the system's processing of an overpayment and refunding these overpayments to HHS. Additionally, the CAO caseworkers are not following the procedures relative to investigating suspected overpayments, controlling and documenting investigations, and referring overpayments timely.
- The State has established and implemented an Income Eligibility and Verification System (IEVS), which is used for coordinating data exchanges with other federally assisted benefit programs. The CAO caseworkers are required to access this information and compare the information against the case file when making eligibility determinations. However, the CAO caseworkers are not reconciling the information in IEVS to the income information in the case file and are not verifying or failing to document verification of the information in IEVS with third parties. Additionally, the caseworkers are not using IEVS on eligibility re-determinations.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 2: (continued)

- The CAO caseworkers are not correctly calculating the appropriate amount of food stamp benefits issued to recipients. Specifically, the recipient’s income is not being properly determined and the incorrect shelter costs are being utilized. A recipient may reduce income by the appropriate shelter costs to determine if allowable income exceeds the food stamp benefit threshold.
- The CAO caseworkers are not correctly determining the recipients’ requests for special allowances are legitimate and necessary. Special allowances are paid to TANF recipients for items such as transportation, clothing, shelter and childcare.

In analyzing the above results, we noted that the internal control weaknesses which led to these errors would also impact eligibility determinations in the Medical Assistance Program. Additionally, the weakness relative to the caseworkers not determining DPW special allowances correctly would impact the allowability and eligibility of payments in the Child Care Cluster.

As part of the Welfare-to-Work program under TANF, DPW employed individuals receiving Cash and Food Stamp assistance. In a separate investigation conducted by DPW and the Pennsylvania Inspector General’s Office, we were informed during the prior year Single Audit that some individuals employed under the Welfare-to-Work program were assigned to CAOs and given improper access to the Cash and Food Stamp benefits authorization system; as a result, these individuals had the ability to fraudulently grant themselves and other family members additional Cash and Food Stamp benefits for which they were not eligible. Since DPW had no overall policy in place restricting the access of these benefit recipients within the benefits authorization system, an internal control weakness is present. As of June 30, 2005 DPW has not implemented corrective action for this issue.

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

We randomly selected a sample of 25 CAOs to ensure that required CSRs and TSRs were performed by DPW for the period under audit. For each CAO in our sample, we haphazardly selected one month and requested a certain number of CSRs or TSRs based on the number that were required to be completed by the CAO for the month. Our testing disclosed that of the 719 CSRs and TSRs that were required to be completed by the 25 CAOs, a total of 166 or 23.1%, in eight CAOs were not completed as follows:

CAO	Month Selected	Number of CSRs or TSRs not Completed
Alle-Kiski District of Allegheny County	July 2004	25
Three Rivers District of Allegheny County	July 2004	27
Southern District of Allegheny County	August 2004	25
Montour County	September 2004	8
Clarion County	October 2004	25
Delaware Headquarters	November 2004	6
Juniata County	December 2004	25
Warren County	May 2005	25
	TOTAL	166

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 2: (continued)

We noted this to be an internal control weakness over eligibility determinations and re-determinations since CAOs are not following established control procedures.

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

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

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

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

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

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

Sources of verification include:

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

DPW regulations and Act 1996-35 state:

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

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

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

The FNS Handbook 310, Chapter 11, states:

*A household may deduct some or all of its excess shelter expenses. Excess shelter expense=Total Shelter costs-(Income-Other Deductions)/2). Shelter costs include rent or mortgage, property insurance, property taxes and utilities. Households other than elderly/disabled may deduct their excess shelter expenses up to the limit for their area. The State agency must use the limit for the sample month.*

Cash Assistance Handbook, Section 135.44 states:

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 2: (continued)

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

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

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

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

*An overpayment exists when a client receives assistance for which he is ineligible.*

*The DPW is responsible by law to identify overpayments and recover overpayments from clients.*

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

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

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

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

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

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

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

With regard to the monitoring of compliance with court-ordered payment plans, state law and the Cash Assistance Handbook require the caseworkers to verify compliance with court-ordered payment plans. This occurs at the initial application and at eligibility re-determinations. Since the re-determinations are typically at a six or twelve-month interval, some recipients make a court-ordered payment at the initial application and at eligibility re-determinations but not during the intervening months. The CAO interprets this as being in compliance and authorizes benefits for months

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 2: (continued)**

in which no court-ordered payments are made. We further noted that, in the Philadelphia metropolitan area, where by far the largest federal program payments are made, there is little or no enforcement of Act 1996-35 or DPW's Cash Assistance Handbook requiring adherence to court-ordered payment plans to ensure continuing client eligibility.

With respect to the CSRs and TSRs that were not completed for the three CAOs in Allegheny County, we were informed that these CAOs did not complete their required CSRs/TSRs since 25 of the supervisors were involved in the training of 60 new employees during July and August 2004. For Montour County, DPW indicated that the CAO was in a transition with respect to their supervisors during the review month selected. For Clarion County, DPW stated that an audit was being performed during the review month selected and that the supervisors were spending their time on questions in connection with this audit. With respect to Delaware Headquarters and Juniata County, the necessary CSRs/TSRs were not completed due to staffing shortages. For Warren County, DPW stated that no CSRs/TSRs have been completed since February 2005.

**Effect:** Due to the control weaknesses identified at the DPW CAOs, there is limited assurance that DPW's eligibility determinations and related benefit payments are being made in accordance with federal regulations and that overpayments and over-issuances are being processed by DPW accurately and completely. Errors are occurring in eligibility determinations for MA, TANF and FS and not being detected by DPW on a timely basis.

**Recommendation:** We recommend that DPW ensure the CAO caseworkers receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations. We also recommend that DPW and its CAOs strengthen system access controls for Welfare-to-Work participants employed at the CAOs, and establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-ordered payment plans.

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

**Agency Response:** The Office of Income Maintenance (OIM) concurs with the four audit findings that recommend that DPW and the County Assistance Offices (CAOs): 1) Ensure the caseworkers receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determination and re-determination; 2) Strengthen system access controls for Welfare-To-Work participants employed at the CAOs; 3) Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-ordered payment plans; and 4) Comply with the requirement mandating CAOs perform Comprehensive Supervisory Reviews (CSRs) or Targeted Supervisory Reviews (TSRs) on a monthly basis.

In reference to the first recommendation for CAO caseworker training and supervision, DPW has ensured that the caseworkers receive additional training by utilizing e-learning modules offered through the Staff Development program. Staff have easy access to updated information. The management will reinforce to staff the importance of following established DPW policies and procedures regarding eligibility determination and redeterminations. Supervisors do in fact conduct periodic CSRs and TSRs to make sure staff are following established DPW policies and procedures regarding determining eligibility and redeterminations. These periodic reviews are done on an ongoing basis.

Secondly, in response to the recommendation that DPW and its CAOs strengthen system access controls for welfare-to-work participants employed at the CAOs, an Operations Memorandum 050705, dated July 7, 2005, to Executive Directors provides a process for each CAO to review internal procedures. The Security Process Overview is a self-assessment tool to be used by CAO management staff. Statewide security standards for the CAOs were issued in 2005.

In the related recommendation to strengthen procedures that will ensure compliance with Act 1996-35 and ensure recipient compliance with the court-ordered payment plans, OIM uses the Income Eligibility Verification System (IEVS) 'Exchange 10' which allows for communication with local courts and other authorities and the exchange of information. IEVS Exchange 10 screens have recently been revised which has made it easier for the caseworker to

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 2: (continued)**

interpret the information on the screens. Policy clarifications and a desk guide have also been issued to staff to strengthen compliance in this area. Local CAOs have collaborative arrangements with courts to exchange information to address inquiries and updates.

OIM agrees with the intent of the recommendation that all CAOs perform CSRs on a monthly basis but would like to clarify certain aspects of the cited Condition which led to the recommendation. Due to a substantial reduction in staff complement, CAOs are currently in the process of reengineering the workflow processes to ensure the review of records. As a result of the audit, a corrective action plan is being designed to ensure monthly reviews continue. Additionally, internal audits have been increased for grant reviews.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 3:**

**CFDA #10.553 – School Breakfast Program**

**CFDA #10.555 – National School Lunch Program**

**CFDA #10.556 – Special Milk Program for Children**

**CFDA #10.558 – Child and Adult Care Food Program**

**CFDA #10.559 – Summer Food Service Program for Children**

#### **Internal Control Weakness Over Submission of SF-269 Financial Status Report to USDA**

**Condition:** Our testing of SF-269 FSRs submitted to USDA during our audit period disclosed that for the quarter ended June 30, 2004, LECS Comptroller incorrectly included July 2004 expenditures in Child Nutrition Cluster and CACFP totals on the June 30, 2004 Report. Although the incorrect amounts were later corrected by LECS officials in the next quarterly report, which includes cumulative totals for each grant, we noted an internal control weakness in that the LECS Comptroller Office supervisor is not timely reviewing amounts reported on the FSRs prior to submission to ensure they are correct.

**Criteria:** Good internal control dictates that supervisory reviews of amounts reported on FSRs be timely and adequate to detect incorrect amounts entered by the preparer prior to submission to USDA.

**Cause:** The preparer of the FSR input the wrong period in extracting quarterly expenditure information from SAP Business Warehouse, inadvertently including four months of expenditure information instead of the required three months, and supervisory review procedures were not performed timely to detect the error prior to submission.

**Effect:** The FSRs for the Child Nutrition Cluster and CACFP for the QE June 30, 2004 reported incorrect expenditure amounts to USDA. Although this reporting discrepancy was subsequently corrected by LECS, and expenditures did not exceed grant awards, FSRs are not being timely reviewed in the Comptroller's Office prior to submission to ensure amounts are correctly reported.

**Recommendation:** We recommend that LECS Comptroller pursue corrective action with USDA on the re-submission of a corrected June 30, 2004 quarterly FSR. LECS should also perform supervisory review and approval procedures for the FSR prior to submission to ensure amounts reported are correct for each period reported.

**Agency Response:** The LECS Comptroller already identified and pursued corrective action with respect to the SF-269 that was filed for the 3<sup>rd</sup> Quarter FFY 2004 (Quarter ending 06/30/04). This quarter was reviewed and subsequently submitted prior to the due date for the report. Subsequent correspondence with Pennsylvania Department of Education dated September 2, 2004 references the adjustment that was required and made in the SF-269 filed for the 4<sup>th</sup> Quarter (Rev.1) on November 16, 2004. Therefore, and as confirmed with USDA, there is no further corrective action to pursue. In addition, LECS Comptroller also confirmed that it is proper procedure to reflect an adjustment for a given period in the subsequent period.

As stated, supervisory review of the SF-269 is in fact done prior to submission and every effort is made to assure an accurate and timely submission. This continues to be supervisory review procedure.

**Auditors' Conclusion:** No new information or documentation was provided in the agency response to resolve the reporting error and internal control weaknesses reported in the finding. Therefore, our finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 4:

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

##### Noncompliance in DOH Submission of the WIC Financial Management and Participation FNS-798 Report Results in \$325,137 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #04-5)

**Condition:** Our review and testing of the WIC Financial Management and Participation FNS-798 Closeout Report for Federal fiscal year ended September 30, 2004 (FFY 2004), submitted to FNS in March of 2005, revealed that the amount reported for the Year-to-Date NSA Costs Net Federal Outlays on Line 26 does not agree to the Commonwealth's general ledger used to prepare the SEFA (i.e., SAP grant accounting records) for the FFY 2004 WIC Grant. Therefore, DOH did not fully implement corrective action to our prior-year finding on this issue. The current-year discrepancy is as follows:

##### Year-to-Date NSA Net Federal Outlays Line 26:

As reported on the FFY 2004 FNS-798 Closeout Report	\$39,996,594
SAP Grant Accounting for the FFY 2004 WIC Grant	<u>39,671,457</u>
Difference	<u>\$ 325,137</u>

The amounts we utilized from the SAP Grant Accounting System in the above comparison were as of the end of our current audit period at June 30, 2005. Since \$325,137 in expenditures reported on the FNS-798 Closeout Report is more than the amounts recorded on the Commonwealth's general ledger (SAP), per instructions from our Single Audit Federal Cognizant Agency (HHS OIG), these costs are questioned for the WIC program.

In addition, our testing of other line items in the above FNS-798 Report disclosed additional discrepancies which, although they are immaterial in the current year and require no adjustment to amounts originally reported, point to internal control weaknesses at DOH in the preparation of this report.

Furthermore, as part of following up on this prior-year finding issued for the last two fiscal years in which we questioned costs, we noted that an adjustment was posted to SAP on May 20, 2005 to move expenditures of \$4,370,994, which we questioned two years ago, from the FFY 2003 Food Grant Y00352 to the FFY 2002 Food Grant Y01252. This adjustment was made to post FFY 2002 closeout adjustments (per a memo prepared over two years earlier on March 10, 2003) which had never been previously posted. We reported these questioned costs in prior year Single Audit Finding #03-4. After this adjustment was made, the Net Food Outlays of \$89,899,794 reported on the FFY 2002 FNS-798 closeout report submitted to FNS in March 2003 agreed to expenditures posted in SAP for FFY 2002 Food Grant Y01252. However, the difference between Net Federal Food Outlays per the FFY 2003 FNS-798 closeout report and expenditures reported in SAP for FFY 2003 Food Grant Y00352, in which we previously questioned costs of \$735,711 in our prior year Single Audit Finding #04-5, has increased by \$4,370,994, to \$5,106,705, as follows:

##### Net Federal Food Outlays Line 12:

As reported on the FFY 2003 FNS-798 Closeout Report (revised January 2005)	\$87,359,837
SAP Grant Accounting for the FFY 2003 WIC Grant	<u>82,253,132</u>
Difference	<u>\$ 5,106,705</u>

WIC management stated that they are in the process of determining transfers needed between the FFY 2004 and 2003 grants, 2005 and 2004 grants, and 2006 and 2005 grants in addition to revising FNS-798 reports for closed grant years FFY 2002 to 2004 in order to eliminate these discrepancies. Since DOH's corrective action only involved shifting prior-year questioned costs from one federal grant year to another, no questioned costs from these prior-year findings have actually been repaid to USDA.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 4: (continued)

**Criteria:** Regarding financial management systems, 7 CFR 246.13 states:

- (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.
- (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.

Closeout procedures requirements are specified in 7 CFR 246.17:

- (a) *General.* State agencies shall submit preliminary and final closeout reports for each fiscal year. All obligations shall be liquidated before closure of a fiscal year grant. Obligations shall be reported for the fiscal year in which they occur.
- (b) *Fiscal year closeout reports.* State agencies -
  - (2) Shall submit to FNS, within 150 days after the end of the of the fiscal year, final fiscal year closeout reports;

Recordkeeping and Reporting requirements are specified in 7 CFR 246.25:

- (a) *Recordkeeping requirements.* Each State and local agency shall maintain full and complete records concerning Program operations. Such records shall comply with 7 CFR part 3016 and the following requirements. . .
- (d) *Source documentation.* To be acceptable for audit purposes, all financial and Program performance reports shall be traceable to source documentation.

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

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

**Cause:** DOH is using sources other than the Commonwealth's SAP accounting system as the basis for their federal reporting and is supposed to make subsequent adjustments to SAP to agree accounting records to the FNS-798 federal report. However, DOH is not subsequently reviewing SAP to ensure that expenditures being recorded in SAP Grant Accounting and reported on the SEFA agree to what is reported to FNS.

WIC management stated that they have recently completed a review of FFY 2002 through 2004 grants and will be preparing adjustments and revising their FNS-798 closeout reports in the near future. The Comptroller's Office is going to be reviewing the same grants to determine if any indirect cost adjustments are needed. For the FFY 2004 report, DOH included a large obligation amount because the indirect cost rate for the state fiscal year had not been approved by the time of closeout and it was anticipated that more indirect costs needed to be posted to SAP. Later, the actual approved rate was much smaller than anticipated, and therefore, the amounts claimed on the FNS-798 report were overstated.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 4: (continued)**

Once a review of these old grants are completed, adjustments are made, and revised FNS-798 closeout reports are prepared, controls will be put on closed grants in SAP so that posting errors will not be made. Also, WIC will review any postings to closed grants and move the expenditures accordingly to the correct grants.

**Effect:** Federal WIC expenditures recorded in the Commonwealth's SAP Grant Accounting system (and reported on the SEFA) do not support, and are less than, amounts reported on DOH's WIC FNS-798 closeout report for FFY 2004 for Line 26, Year-to-Date NSA Net Federal Outlays. As a result, per instructions from HHS-OIG, our Federal Cognizant Agency for the Single Audit, we question the difference of \$325,137 between the current year amount reported on the FNS-798 and SAP for Net Federal Outlays.

In addition, prior-grant WIC expenditures recorded in the Commonwealth's SAP Grant Accounting system do not support, and are less than, amounts reported on DOH's WIC FNS-798 closeout report for FFY 2003 for Line 12, Net Federal Food Outlays. In accordance with Federal Cognizant Agency guidance, we had previously questioned differences between the FFY 2002 FNS-798 closeout report and SAP in prior year finding 03-4, and between the FFY 2003 FNS-798 closeout report and SAP in prior year finding 04-5. After posting a current-year adjustment to transfer FFY 2003 food expenditures to FFY 2002, the revised difference between the FFY 2003 closeout report and SAP at June 30, 2005 is \$5,106,705 which, per HHS-OIG Cognizant Agency guidance, remains questioned from prior fiscal years' Single Audits. Without proper corrective action on the control weaknesses causing FNS-798 reporting errors, these errors will continue into future years.

**Recommendation:** DOH should pursue appropriate settlement of the \$325,137 in current year questioned costs and \$5,106,705 in prior years' questioned costs with FNS, including preparing any necessary adjustments and revising FNS-798 closeout reports for FFY 2002 to 2004. We also recommend that WIC implement sufficient controls over the preparation of the FNS-798 and 798A Reports and the grant closeout process to ensure that accurate expenditures are reported to FNS which are properly supported by the SAP grant accounting records used to report expenditures on the SEFA.

**Agency Response:** DOH, through the Division of WIC, will pursue resolution of the questioned costs in this finding with USDA's Food and Nutrition Service (FNS).

DOH agrees that the FNS-798 Report should agree with the Commonwealth's grant accounting system and appropriate adjustments are being made to both SAP and the FNS-798 Report to ensure expenditures are properly recorded. Since adjustments are often needed to correct incorrect postings, procedures were implemented to track adjustments and reduce the chance of unwanted postings in the future.

DOH's Division of Budget will now send DOH's Division of WIC confirmation of adjustment postings to ensure better tracking of them. In addition, DOH's Comptroller Office will put a stop on certain codes to reduce unwanted posting after grant closings. Further, DOH will do quarterly reviews of closed grants to reveal any discrepancies between the FNS-798 reports and SAP. Action will be taken to correct SAP or revised FNS-798 reports will be prepared if any differences are found.

DOH recently completed a review of the FFY 2002 through FFY 2004 grants. Revised FNS-798 reports will be completed by May 31, 2006 for these grants.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 5:

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

##### Noncompliance and Internal Control Weaknesses in DOH Systems Result in \$27,598 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding # 04-4)

**Condition:** Our review and testing of DOH's systems for food instrument (FI) redemption and FI disposition revealed that corrective action to our prior-year finding was not implemented by DOH since there were unresolved discrepancies with the FI data in WIC's database system as follows.

- **Food Instrument Redemption.** As part of our review of FI redemptions, we selected a sample of twenty days to test during SFYE June 30, 2005. For each sampled day, we compared the total amount from the SAP reimbursement to the bank for the day to the total FIs recorded in DOH's WIC database system as redeemed for that day. The total FI redemptions for these 20 days were \$10,795,172 or an average of \$539,759 in FI redemptions per day. Our testing disclosed that for the 20 days tested, \$27,598 in total payments were made without supporting RFIs recorded on the database, or an average of \$1,380 in unsupported overpayments per day.

WIC management stated that the above differences are accounted for on RFI Monthly Error Reports which include FI numbers that do not match records on the system, voided FIs, redeemed FIs, and FIs with invalid check digits. However, WIC stated that during SFYE June 30, 2005 these error reports were not reviewed to ensure that the RFIs are validly redeemed.

- **Food Instrument Disposition.** A state agency must account for the disposition of all FIs within 150 days of the FIs' first valid date for participant use. The state agency must identify all FIs as either issued or voided and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as either validly issued, lost or stolen, expired, duplicate, or not matching valid enrollment and issuance records. In order to comply with this requirement, WIC relies on computer generated reports mentioned above – RFI Error Monthly Reports. However, as stated above, WIC is not reviewing these reports or respective FIs for accuracy and propriety. Also, since implementation of the QuickWIC computer system in March 2002, DOH could not provide documentation showing that the disposition of all FIs was accounted for within 150 days of the FIs' first valid date for participant use since the reports mentioned above contained no summary data and include only checks with errors, voids, lost, or stolen.

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

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

In addition, 7 CFR 246.12(k) states:

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 5: (continued)

Regarding Food Instrument redemptions and disposition, 7 CFR 246.12(q) states:

- (q) *Food instrument disposition. The State agency must account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed. Redeemed food instruments must be identified as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment and issuance records. In an EBT system, evidence of matching redeemed food instruments to valid enrollment and issuance records may be satisfied through the linking of the Primary Account Number (PAN) associated with the electronic transaction to valid enrollment and issuance records. This process must be performed within 150 days of the first valid date for participant use of the food instruments and must be conducted in accordance with the financial management requirements of Sec. 246.13. The State agency will be subject to claims as outlined in Sec. 246.23(a)(4) for redeemed food instruments that do not meet the conditions established in paragraph (q) of this section.*

Further, 7 CFR 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.*
- (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.*

OMB Circular A-87, *Cost Principles for State and Local Governments*, Attachment A, Section C.1 states that to be allowable, a cost must meet the following general criteria:

- (a) *Be necessary and reasonable for proper and efficient performance and administration of Federal awards. . . .*
- (d) *Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. . . .*
- (i) *Be the net of all applicable credits.*
- (j) *Be adequately documented.*

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

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

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

**Cause:** In regard to FI redemption, WIC personnel stated that for SFYE June 30, 2005 the RFI Monthly Error Reports were not reviewed to ensure that the RFIs were validly redeemed. WIC personnel stated that subsequent to our audit period ended June 30, 2005, procedures were implemented to follow up on the FIs with errors on a sample basis.

In regard to FI disposition, DOH relies on the WIC computer system to report FIs as issued or voided, issued FIs as redeemed or unredeemed, and redeemed FIs as validly issued, lost or stolen, expired, duplicate, or not matching issuance records. However, WIC has no manual controls to review these computer generated reports or to reconcile all FIs within 150 days of the first valid date for participant use.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 5: (continued)**

**Effect:** We question \$27,598 in unallowable WIC payments which are not supported by the WIC database redemption files and have not been properly investigated and are, therefore, unallowable. In addition, without adequate controls, food instruments can be inappropriately redeemed without DOH's knowledge which could lead to unallowable costs being charged to the federal WIC grants in the future.

**Recommendation:** DOH should pursue appropriate settlement of the \$27,598 in questioned costs with FNS, and review its WIC system for additional questioned costs due to the discrepancies in food instrument disposition identified above. We also recommend that WIC implement sufficient controls over the FI redemption and disposition process. DOH should ensure that problems encountered with the QuickWIC computer database system are identified, timely followed up on, and properly corrected.

**Agency Response:** DOH, through the Division of WIC, will pursue resolution of the questioned costs in this finding with USDA's Food and Nutrition Service (FNS).

It is important to note there were no Food Instruments (FIs) that were posted to the accounting system that were not appropriately produced and processed through DOH's banking contractor. The discrepancy was identified on the FI error reports. In a resolution of the prior year finding, DOH agreed to start reviewing the Redeemed/Voided, Lost or Stolen FI Monthly Report by April of 2004. This was done ahead of schedule. In reviewing the various reports, DOH determined that a new and more comprehensive report should be developed, then produced and reviewed. The new report went into production as of July 1, 2005.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 6:

#### CFDA #10.561 – State Admin Matching Grants for Food Stamps Program

#### CFDA #93.658 – Foster Care IV-E

#### Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA and Statewide Subrecipient Payment Records

**Condition:** Our review of SAP postings within the Foster Care Program (CFDA # 93.658) disclosed that \$4,853,762 in funds paid by the PHHS Comptroller Office to a subrecipient, the University of Pittsburgh (or Pitt), were incorrectly recorded on SAP as payments to a SSHE university, which is not a subrecipient, but is reported in the BFS as a component unit in accordance with GAAP. As explained in Note A to the SEFA, SSHE is not a part of the Commonwealth reporting entity in our statewide Single Audit, and all SSHE accounts on SAP are excluded from the Statewide SEFA since SSHE submits its own separate agency Single Audit to the Federal Audit Clearinghouse each year. Therefore, the \$4.8 million in payments to Pitt were posted to SAP accounts that were excluded from the Commonwealth's SEFA. However, Pitt is not a SSHE university, so these payments should have been included as expenditures on the Commonwealth's SEFA and, therefore, required an auditor adjustment to the SEFA.

In addition, discussions with the PHHS Comptroller Office on this issue disclosed an additional \$9,950,667 of payments made to another subrecipient, Pennsylvania State University (or Penn State), under the Food Stamps Admin Program (CFDA #10.561) that were also incorrectly recorded as payments to a SSHE University, and were erroneously excluded from the Commonwealth's SEFA under the same circumstances as described above. Therefore, an auditor adjustment was required to the SEFA.

We also noted that the above mispostings of subrecipient payments to SSHE accounts on SAP caused OB's statewide universe of subrecipient payments to be understated for subrecipient audit tracking/monitoring purposes.

In addition to the incorrect SEFA amounts disclosed above, we also noted the PHHS Comptroller Office reported \$109,388,796 of costs on the SEFA under the Foster Care Program that were questioned (i.e., deferred) by HHS and disallowed subsequent to SFYE June 30, 2005, and are under appeal as of our audit fieldwork date. However, no footnote disclosure was made to the SEFA to fully disclose the status of this \$109,388,796 of costs reported on the SEFA, and an auditor-recommended footnote disclosure was proposed.

**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.*

In addition, an adequate internal control system should ensure that federal awards expended are properly reported on the SEFA.

**Cause:** Regarding the SEFA errors from the postings to SSHE accounts, the PHHS Comptroller Office indicated the contracts were miscoded by DPW and PHHS personnel did not detect the errors.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 6: (continued)**

Regarding the Foster Care disallowance issue, there is no written policy within OB on SEFA footnote disclosures for costs deferred or disallowed by federal awarding agencies.

**Effect:** The miscoding of Pitt and Penn State payments caused the SEFA to be understated in the programs and amounts noted above. In addition, since payments under these contracts are being miscoded each year, these subgranted funds are not being included on subrecipient SEFAs in OMB A-133 subgrantee audit reports received by the Commonwealth, nor are they being recorded on OB's statewide universe for subrecipient audit tracking/monitoring purposes.

Due to the lack of a SEFA footnote disclosure for the Foster Care disallowance, the SEFA lacks complete and full disclosure on these reported expenditures.

**Recommendation:** We recommend that PHHS Comptroller Office strengthen supervisory review of transactions posted to its accounting system to ensure proper G/L accounts are used. This would provide better assurance that the federal awards reported on the SEFA are complete and accurate, and ensure the subgrantee universe of payments is complete and subgrantee audits properly include all pass-through funding.

In addition, DPW management should ensure that federal program amounts mis-posted to SSHE accounts in SAP are properly subject to audit at the subrecipient level as required.

Also, federal awarding agency deferrals and disallowances should be fully disclosed in the footnotes to the SEFA.

**Agency Response:** The DPW will provide a copy of this Single Audit Finding with additional identification information, to the appropriate Commonwealth agency responsible for maintaining the Single Audit Tracking System. The DPW will request inclusion of the University of Pittsburgh and Penn State University in the listing of subrecipients to whom federal pass-through funds have been provided, and for which an audit report in accordance with Circular A-133, and program laws and regulations is required.

In addition, PHHS concurs with the audit finding and has made the necessary SEFA adjustments in SAP. Additionally, PHHS will implement a process to review general ledger eliminations for the SEFA in more detail to reduce the probability of these errors occurring in the future.

Also, in the future, PHHS will disclose federal awarding agency deferrals and disallowances in the footnotes to the SEFA.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 7:

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

##### Performance/Evaluation Report Submitted to HUD Was Inaccurate

**Condition:** DCED is required to file a Performance/Evaluation Report (PER) with HUD for each grant that is open during the year. The report must be submitted to HUD by March 30 of the following year. For the calendar year 2004, DCED was required to submit a total of 5 Performance/Evaluation Reports by March 30, 2005 which covered the grant years 2000-2004.

We haphazardly selected the PER for the 2004 grant year that covered the period from January 1, 2004 to December 31, 2004 to determine if the financial data presented on the PER was complete and accurate. Our testing of the PER revealed the following:

- The total reported by DCED in Section 1, Line C, “Amount Drawn Down” was \$0. However, the total amount drawn down from HUD’s Integrated Disbursement and Information System (IDIS), which is the source for the drawdown information, was \$2,370,231. In addition, during our testing of Section 1, Line C for the 2004 grant year, we also noted that DCED incorrectly reported zeros in Section 1, Line C for the remaining federal grant years of 2000-2003. The total difference as a result of the above errors is summarized below:

Federal Grant Number and Year	Amount Drawn Down as Reported in Section 1, Line C	Cumulative Amount Drawn Down on IDIS	Difference
B-00-DC-42-0001 (2000)	\$0	\$56,629,870	\$56,629,870
B-01-DC-42-0001 (2001)	0	57,184,591	57,184,591
B-02-DC-42-0001 (2002)	0	43,471,473	43,471,473
B-03-DC-42-0001 (2003)	0	20,056,488	20,056,488
B-04-DC-42-0001 (2004)	0	2,370,231	2,370,231
Total	\$0	\$179,712,653	\$179,712,653

- The “Amount Obligated to Recipients” for DCED projects is required to be reported by DCED in Section 1, Line B of the PER. DCED is then required to report the use of the obligated amount by National Objective in Section 2, Lines B (1) through B (5). In order to determine the accuracy of the financial data reported by DCED in Section 1, Line B, and Section 2, Lines B(1) through B(5), we obtained the project detail in support of these line items and haphazardly selected a sample of 20 subrecipient projects. We then compared the obligated amounts reported by DCED to the most recent budgets submitted to DCED by the subrecipients. For 4 of the 20 subrecipient projects tested, we noted that the amounts reported by DCED did not agree to the subrecipient budgets on file at DCED as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 7: (continued)

Subgrantee	Activity Name	Annual Report Section/Line Affected	Amount on Report Submitted to HUD	Amount on Subrecipient Budget	Difference Over (Under)
County of Butler	Storm Sewer Improvements-Slippery Rock	Section 1, Line B Section 2, Line B (1)	\$ 96,000	\$ 95,000	\$ 1,000
	Storm Sewer Improvements-Harrisville Borough	Section 1, Line B Section 2, Line B (2)	44,879	49,879	(5,000)
County of Elk	Recreational Facilities	Section 1, Line B Section 2, Line B (1)	34,200	34,700	(500)
County of Mercer	Storm Sewer Improvements	Section 1, Line B Section 2, Line B (1)	73,905	73,095	810
County of Union	Administration	Section 1, Line B Section 2, Line B (5)	16,283	52,200	(35,917)
	Administration	Section 1, Line B Section 2, Line B (5)	17,750	17,550	200
Total			<u>\$283,017</u>	<u>\$322,424</u>	<u>\$(39,407)</u>

In addition, we noted that DCED's existing procedures for the supervisory review and approval of the PER submitted to HUD are not adequate.

**Criteria:** 24 CFR 91.520 states, in part:

- (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 . . .
- (b) *Affordable housing.* The report shall include an evaluation of the jurisdiction's progress in meeting its specific objective of providing affordable housing . . .
- (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 . . .

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

*Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

**Cause:** DCED personnel stated that they inadvertently entered zeros for all federal grants when completing Section 1, Line C on the PER for the year ended December 31, 2004. Additionally, although DCED has indicated that they perform a comparison of the information reported in Section 1, Line C to IDIS, DCED's procedures were not adequate to detect

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 7: (continued)**

these material errors. With respect to the errors in reporting of obligated amounts for the subrecipient projects, DCED indicated that the errors were caused by keying errors when entering the information into the PER and were not detected by DCED.

**Effect:** The PER submitted to HUD for the year ended December 31, 2004 for all grant years was materially inaccurate. Further, DCED's existing review and approval procedures for ensuring the accuracy of amounts reported on the PER are not adequate. As a result, there is limited assurance that reports prepared in the future will be materially accurate.

**Recommendation:** We noted that DCED resubmitted the PER to HUD for the year ended December 31, 2004 in order to accurately report the amounts drawn down from IDIS in Section 1, Line C for all five affected federal grants. Due to the other errors in obligations noted in the condition, DCED should consider additional resubmission of the PER to HUD to correct these errors. Also, we recommend that DCED strengthen existing procedures for the supervisory review and approval of the PER to ensure that the information entered into the PER is complete and accurate in accordance with federal regulations.

**Agency Response:** DCED acknowledges that errors were made in the manual inputting of data into the PER. Given the sheer volume of activities that are manually entered for the PER, the process of preparing this report needs to be improved in order to reach our goal of eliminating all errors in the PER. Correcting this weakness is a significant task given that DCED has roughly 1,200 open contracts virtually all with multiple activities that must be manually input. A large portion of the errors contained in the 2004 report were identified as misreading data from the handwritten sources of that data or miss-keying and inverting numbers.

DCED is concerned about occurrence of these errors and will institute both a short-term and long-term corrective action plan.

The short-term plan entails having supervisory staff give greater attention to this year's (2005) data entry and supervisory review will occur. This will include not only sampling of actual entries for accuracy but also cross-checking of totals.

The long-term solution is being instituted for activities performed and reporting to be done for calendar year 2006. DCED is implementing use of a new module of the federal Integrated and Disbursement Information System (IDIS) which HUD is releasing in 2006. (Inadequate performance reports are a problem HUD experiences nationwide.) DCED's sub-grantees have been instructed to record their performance activities into this system because HUD will use that system to obtain PER information at the end of each program year. This new feature of IDIS should eliminate the errors since data will be entered once, and not manually reentered for the PER. Since the sub-grantees enter only their own information, and their ability to drawdown money is tied to the accuracy of the data inputted, they have a significant incentive to do so correctly.

DCED has resubmitted the corrected 2004 PER information on the amounts drawn down from IDIS for the five federal grants. DCED will make additional checks and resubmit the other corrections to the 2004 PER on obligations by activity and transmit those additional corrections to HUD.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 8:**

#### **CFDA #14.228 – Community Development Block Grant**

#### **CFDA #14.239 – HOME Investment Partnerships Program**

#### **DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #04-6)**

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

As part of our audits of the CDBG and HOME Programs, we performed procedures to determine if DCED's during-the-award monitoring procedures were adequate on-site. Based on our review of the DCED 2004-2005 Monitoring Schedule, we noted that a total of 91 CDBG subrecipients and 56 HOME subrecipients were scheduled for on-site visits. However, our inquiry revealed that on-site visits were completed for 56 CDBG subrecipients and 27 HOME subrecipients. Accordingly, DCED only completed 62 percent and 48 percent of the on-site visits scheduled for the CDBG and HOME Programs, respectively. Further, the results of our testing within the CDBG and HOME Programs disclosed that for three of the 20 subrecipients selected from the DCED schedules of subrecipients DCED claimed to have monitored, the on-site monitoring reports were not yet completed. Therefore, DCED's during-the-award monitoring of its subrecipients was not adequate to provide reasonable assurance of the subrecipients' compliance with federal regulations.

During the year ended June 30, 2005, DCED reported subrecipient expenditures for the CDBG and HOME Programs of \$55,160,136 and \$15,446,192, respectively. These expenditures represented approximately 98 percent of the total CDBG program expenditures and 96 percent of the total HOME program expenditures. There were a total of 322 and 129 subrecipients with current year expenditures for the CDBG and HOME Programs, respectively.

Within our testing of A-133 subrecipient audits, we found a material amount of subrecipients under both the CDBG and HOME programs received less than \$300,000/\$500,000 during SFYE June 30, 2004 and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2005. As a result, we consider inadequate during-the-award monitoring noted above to be a material weakness in each program.

In addition, DCED only closed out 5 HOME subrecipient projects during SFYE June 30, 2005 and only 2 projects during SFYE June 30, 2004 compared to 47 and 79 projects closed out during prior SFYE June 30, 2003 and June 30, 2002, respectively. DCED cannot closeout the projects until monitoring is performed.

Two of the five HOME projects closed out during SFYE June 30, 2005 noted above were Community Housing Development Organization (CHDO) operating grants. We selected one of these two closed projects (Carlisle Borough DCED Contract #22-190-0026) in order to follow up on DCED's corrective action to prior year finding #04-06. Our prior year finding disclosed that DCED does not perform on-site monitoring for CHDO operating grants. DCED stated that their procedures for reviewing CHDO operating grants include: 1) Review of initial application to ensure all costs are allowable; 2) Review of Fiscal Status Report submitted at contract closeout by the subgrantee to ensure that all costs are recorded as CHDO operating expenditures; and 3) Obtain and review a single audit if required to be submitted by the subgrantee. Effective January 29, 2002, DCED implemented additional procedures which require CHDO's to provide additional documentation at closeout which was to be reviewed by DCED for compliance with HOME regulations and eligibility of operating costs. Additional documentation should include CHDO's total operating costs for the fiscal year, two expenditure invoices each from categories of travel, training, and equipment purchases, and evidence that a housing project is completed or underway. In May 2003, HUD reviewed DCED's CHDO operating grant monitoring procedures and approved the procedures that DCED implemented on January 29, 2002, with the exception that DCED should require CHDOs to submit a complete list of expenditure invoices and DCED should select which invoices are to be reviewed.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

### **Finding 05 – 8: (continued)**

However, during our review of DCED's closeout procedures for the Carlisle Borough, DCED Contract #22-190-0026, we noted that DCED only obtained and reviewed expenditure invoices for the final \$10,000 of expenditures. DCED did not obtain a complete list of expenditures for the entire \$53,000 operating grant and did not select a sample of invoices to be reviewed from this entire population of expenditures for the grant as specified in the procedures approved by HUD in May 2003.

During SFYE June 30, 2005, CHDO operating grants were \$338,646, or 2.1 percent of total DCED HOME program expenditures of \$16,131,741.

Furthermore, during SFYE June 30, 2005 HUD OIG performed an audit of the Commonwealth's HOME Program for the purpose of determining whether the Commonwealth was adequately monitoring subrecipients to ensure HOME funds are expended on allowable HOME activities and whether the Commonwealth was properly allocating staff time for administration of the program. The HUD OIG audit report contained 2 findings with a combined 11 recommendations. HUD OIG concluded that the Commonwealth is not adequately monitoring its subrecipients to ensure HOME funds are expended on eligible HOME activities and is improperly allocating its staff's time for the administration of the HOME Program. In addition, HUD performed a monitoring review of the Commonwealth's HOME Program on June 20 through 24, 2005. The focus of this review was the Commonwealth's responsibility for managing the day-to-day operations of the HOME Program. HUD concluded that the Commonwealth failed to demonstrate it has adequate oversight of the day-to-day operations of the HOME Program. This evaluation resulted in one finding for which corrective action is required. Problems disclosed in the findings reported by HUD OIG and HUD existed during our audit period SFYE June 30, 2005, and resolution to these findings between DCED and HUD remain ongoing through our testing date.

**Criteria:** Regarding subrecipient monitoring, 24 CFR Section 85.40 (a) states:

*Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.*

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

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

In addition, HUD stated that the CHDO should provide a listing by category, by vendor, by invoice with cost and purpose, and DCED should choose the invoices with supporting documentation to be provided.

**Cause:** DCED indicated that staffing shortages prevented DCED from completing all of the on-site visits that were scheduled in their monitoring cycle. Further, DCED indicated that the on-site visits that were not completed on the 2004-2005 Monitoring Schedule will be added to the 2005-2006 Monitoring Schedule. Due to monitoring not being completed, DCED could not closeout the subrecipient projects.

Regarding monitoring of CHDO operating grants, DCED procedures were not in compliance with the procedures approved by HUD in May 2003 since a complete list of expenditures was not obtained and reviewed for the Carlisle Borough CHDO operating grant prior to closing out the grant.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 8: (continued)**

**Recommendation:** We recommend that DCED ensure that all on-site visits are completed within the scheduled monitoring cycle to provide reasonable assurance that subrecipients are complying with federal regulations and subrecipient projects get closed out in a timely manner. In addition, we recommend that DCED strengthen its monitoring of CHDO operating grants by implementing the procedures approved by HUD in May 2003. Furthermore, DCED should implement corrective action to resolve the findings reported by the HUD OIG audit and the HUD monitoring review.

**Agency Response:** Retirements during the past few years have resulted in approximately a 50 percent reduction in Grant Manager staffing and similar reduction in number of grantees monitored. DCED anticipated these retirements months prior to actual retirements occurring; instituted a process for recruitment of qualified candidates; and, began the recruitment as early as possible to hire replacements. The significant number of retirements, delays in the hiring process, unanticipated early resignations by some of the new hires, and the learning cycle for new staff to gain experience have all collectively contributed to not being able to fully accomplish our monitoring goals over this period. During that time, the existing staff have been called upon to fill the gaps where possible. The staffing events of the past few years have been unusual and while staffing changes could certainly occur in the future, they should not be as significant. Moreover, we anticipate being able to absorb those changes without as great a disruption.

The monitoring schedule developed for 2005-06 was an aggressive one which attempted to catch up on all the monitoring not accomplished in the previous two years; the number of monitoring visits completed was actually close to a normal year's schedule. As for the 2006-07 schedule, which is closer to a normal year's schedule in the number of visits to be completed, it is expected DCED will fully complete this schedule because we are once again fully staffed with five Grant Managers.

We have revisited the closeout instructions for CHDO Operating grants and expect to see this process fully met in the future. In addition, we anticipate completing a significantly greater number of closeouts for both CDBG and HOME contracts now that we are fully staffed.

DCED has submitted a draft response to HUD to draw to a close the HUD OIG Audit and Program Monitoring. During 2006, DCED will be receiving training and technical assistance from Dennison Associates, a HUD TA Provider, on shoring up our staff's understanding of the HOME Program as well as our recordkeeping and monitoring process of our subrecipients.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendations remain as previously stated. Based on the numerous findings mentioned above in the current-year HUD audit and review of the HOME Program, DCED needs to work closely with HUD to improve its monitoring of subrecipients in a number of areas in the future.

Based on HUD's results, these areas include: reviewing potential conflicts of interest at the local level, improving local self-assessment procedures and documentation, and employing a sufficient number of staff and fully utilizing available HOME administrative funds to improve DCED's program oversight. In addition, HUD is also recommending improvements in DCED's on-site monitoring documents to better support the extent of its review and verification process, improve explanations supporting DCED conclusions, better track subrecipient monitoring correspondence and follow up, improve DCED verification of subrecipient program income, obtain more timely and pertinent information on subrecipient compliance and performance, and improve the overall grant closeout process and related documentation.

Furthermore, since DCED is working closely with HUD to resolve the findings in HUD's reports, DCED's internal controls over its subrecipients are in the process of changing. We will audit these ongoing program changes, as mandated by HUD, in future Single Audits.

**The 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, 2005

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### Finding 05 – 9:

#### CFDA #15.252 – Abandoned Mine Land Reclamation Program

##### Noncompliance with OMB Circular A-133 Pass-Through Entity Requirements

**Condition:** During the state fiscal year ended June 30, 2005, DEP provided \$6,652,000 under the Abandoned Mine Land Reclamation (AMLR) program to 21 different subrecipients. Of the total subrecipient funding, \$1,433,000 under Federal Grant Numbers GR107420 and GR207420 was provided to one subrecipient, AMD Reclamation, Inc. to construct an acid mine drainage treatment plant in Greene County. Our review of the grant agreement between DEP and AMD Reclamation, Inc. relative to this funding disclosed that DEP did not inform the subrecipient of the CFDA title and number associated with the funding. In addition, there was no provision in the grant agreement requiring the subrecipient to have an audit performed in accordance with OMB Circular A-133.

**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, provides the following:

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

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.*
- (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.*
- (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.*

**Cause:** DEP personnel indicated that this project was originally established and funded using State appropriated funding. However, in February 2005, DEP obtained approval from USDOL, Office of Surface Mining to transfer the funding to the Federal AMLR program. Therefore, since the project was started under a State funding source, the standard Federal language was not included in the original grant agreement. DEP personnel did not amend the grant language upon transferring the funding under this project to the AMLR program.

**Effect:** DEP materially did not comply with the pass-through entity responsibilities as outlined in OMB Circular A-133. In addition, since this subrecipient was not informed of the federal laws and regulations applicable to this funding, there is limited assurance that this subrecipient will receive an audit in accordance with OMB Circular A-133.

**Recommendation:** DEP should inform this subrecipient of the federal laws and regulations applicable to this funding. In addition, DEP should ensure that funding under this project is audited in accordance with OMB Circular A-133.

**Agency Response:** The Bureau of Abandoned Mine Reclamation (BAMR) has requested that the subrecipient in question prepare and submit an audit report in accordance with OMB Circular A-133 that covers the year ended December 31, 2004. Once the audit report has been received, we will notify the auditors.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 10:

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

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

**CFDA #97.042 – Emergency Management Performance Grants**

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

### Internal Control Weakness in Reporting Expenditure Information on the SEFA

**Condition:** The PPR Comptroller Office reported federal expenditures totaling \$43,731,585 and \$4,524,911 on the Schedule of Expenditures of Federal Awards (SEFA) under CFDA #16.007 and CFDA #97.042 (HS Cluster), respectively, for the year ended June 30, 2005. Based on our review of the grant awards for such expenditures, we subsequently determined that a total of \$7,975,415 and \$43,602 in expenditures reported under CFDA #16.007 and CFDA #97.042, respectively, should have been reported under other CFDA #s that are not part of the HS Cluster. (These other CFDA #s include CFDA #16.011-Urban Areas Security Initiative Program-\$7,558,701; CFDA #97.008-Urban Areas Security Initiative Program-\$362,951; CFDA #10.766-Community Facilities Loans and Grants-\$43,602; and CFDA #97.036-Public Assistance Grants Program-\$53,763).

Further, we also noted that a total of \$5,002,691 in expenditures reported under CFDA #16.007 for the U.S. Department of Justice should have been reported under CFDA #97.004 for the U.S. Department of Homeland Security under the State Domestic Preparedness Equipment Support Program, which is part of the HS Cluster. Additionally, we noted that a total of \$2,076,734 reported by PEMA under CFDA #97.042 should have been reported under CFDA #97.067 (Homeland Security Grant Program), which is also part of the HS Cluster.

The SEFA was adjusted for the above errors as a result of our audit.

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

*(b) The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:*

- (3) Provide total federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.*

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

**Cause:** PPR indicated that USDOJ and USDHS grants were sometimes set up in SAP prior to receipt of the grant award document, with a CFDA number for a similar grant, and that PPR did not always verify the CFDA number assigned. Additionally, PPR indicated that the award documents and guidelines for the FY 2005 HS Grant Program included a number of different award numbers and it was difficult to determine the proper CFDA number for SEFA reporting.

**Effect:** The total amount reported on the SEFA for the programs under the HS Cluster (16.007 and 97.042) was materially overstated by \$8,019,017 for the year ended June 30, 2005. Further, a total of \$7,079,425 in expenditures was reported under the incorrect CFDA numbers within the HS Cluster. As a result, material auditor adjustments to the SEFA were necessary for the SFYE June 30, 2005 to correct these errors. Without adequate internal controls in place, the SEFA for these HS Cluster programs may continue to be misstated in the future.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 10: (continued)**

**Recommendation:** We recommend that PPR Comptroller Office improve procedures for the preparation and review of the expenditure information reported on the SEFA. This should include procedures to carefully review the information contained in each grant agreement received from USDHS to ensure that expenditures of federal awards are assigned the correct CFDA number on the SEFA. Additionally, if no CFDA number is identified in the grant agreement or if there is uncertainty as to the assignment of the CFDA number, PPR should contact USDHS to determine how the award is to be reported on the SEFA.

**Agency Response:** PPR Comptroller's Office concurs with the CFDA adjustments to the Schedule of Federal Awards (SEFA) in the finding.

As indicated in the finding, the errors occurred for several reasons. In a couple of cases, there were clerical errors made when the grants were established on SAP. Also, Homeland Security used multiple numbers for the same award.

The original Homeland Security equipment grants were awarded from the U. S. Department of Justice, Office of Domestic Preparedness, with a CFDA number of 16.007 and 16.011 for the Urban Area Security Initiative (UASI) Program. After the establishment of the U. S. Department of Homeland Security, the CFDA numbers for the 2004 fiscal year grants were changed to 97.004 for Homeland Security and 97.008 for the UASI Program.

For the 2005 fiscal year, Homeland Security combined several programs (State Homeland Security Program, Urban Area Security Initiative, Law Enforcement Terrorism Prevention Program, Citizens Corps Program, Emergency Management Performance Grant Program, and the Metropolitan Medical Response System Program) into one award. The program guidelines for the award include a chart listing the funding allocation for each state with CFDA number for each program. Some of the CFDA numbers are different than the previous numbers. These were the CFDA numbers this office established on the grant master data for SEFA reporting. We were unaware that the program guidelines, which are in excess of 100 pages, included another new CFDA number, 97.067, for all of the programs in the award.

As a result of the above situations with the Homeland Security CFDA numbers changing with each grant, some errors were made when we established the grants on the Commonwealth accounting system. To emphasize the complexity of the CFDA numbering structure for the Homeland Security program, the Single Audit is for a Cluster of CFDA numbers rather than one number.

The CFDA number is included in the program guidelines for each grant. We do review these documents for the proper CFDA number for each award but as indicated above, the 2005 document listed multiple CFDA numbers in different sections.

PPR has revised the SEFA for the 2004 Single Audit and reviewed all of the Homeland Security CFDA numbers for the 2005 fiscal year. As recommended, future grants will be reviewed more carefully to determine the proper CFDA number or numbers. No further corrective action is necessary.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 11:**

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

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

**CFDA #97.042 – Emergency Management Performance Grants**

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

### **Unallowable Equipment Purchases Result in Questioned Costs of \$2,625 and Internal Control Weaknesses and Noncompliance in PEMA’s Subrecipient Monitoring**

**Condition:** In order to test the allowability of the HS Cluster program expenditures, we judgmentally selected a sample of 50 payments for equipment purchased by PEMA, consisting of 40 payments for nine local task forces (subrecipients) and ten payments for other state agencies during the year ended June 30, 2005. Additionally, we selected a sample of 9 cash payments to the local task forces and other subrecipients during the year ended June 30, 2005. Our testing disclosed the following unallowable cash payment:

- PEMA uses U.S. Department of Homeland Security’s Office of Domestic Preparedness (ODP) grant funds to reimburse the local task forces for counter-terrorism training, planning, and exercise needs as well as costs associated with increased security measures at critical infrastructure sites. Further, for one ODP grant, PEMA reimbursed the task forces for purchases of domestic preparedness equipment. Additionally, PEMA also reimbursed the 67 counties for personnel and benefit costs under the Emergency Management Performance Grants. Our testing of allowability of these cash payments to subrecipients revealed that one of the 9 cash payments to a local task force in the amount of \$2,625 was not supported. Further, PEMA could not provide any documentation to justify the payment was for an allowable use of ODP grant funds. As a result, a total of \$2,625 is questioned. The nine sampled cash payments totaled to \$275,708 out of \$5,485,605 in total cash payments made by PEMA for the year.

PEMA also purchases specialized emergency response equipment on behalf of the local task forces and other state agencies using grant funds provided by ODP to enhance their capabilities and increase their preparedness to respond to acts of terrorism. The purchases made on behalf of the local task forces are based on detailed lists prepared by the task forces and submitted to PEMA. Further, these purchases are considered non-cash assistance to the task forces and, therefore, are required to be included on their SEFAs, and audited in accordance with OMB Circular A-133.

While our testing showed that cash payments to the task forces and equipment purchases made by PEMA on behalf of the task forces and other state agencies were necessary and reasonable, except for the unsupported payment as discussed above, we noted control weaknesses and noncompliance with respect to PEMA’s monitoring of these local task forces. Specifically, we noted the following:

- PEMA does not have formal procedures in place to review the detailed equipment lists submitted by the task forces to ensure the items being requested are included on the federal government’s authorized list of allowable equipment under the grant agreement and address the task force’s actual needs. Further, our testing of equipment purchases by PEMA revealed that for 17 of the 40 purchases in our sample that related to the task forces, PEMA did not have a properly signed receiving report or other reasonable documentation to support the receipt of the equipment by the designated location within the task force’s region.
- PEMA does not conduct any on-site visits within the area served by each task force or have any other means to ensure that the equipment purchased is at the proper location and is being used for its intended purpose.
- For grants beginning in federal fiscal year 2003, the contract with each local task force requires submission of a semi-annual “interim performance report” to PEMA to document the status of the task force’s terrorism planning, training, program administration and exercise activities. However, we noted that no reports were submitted by the task forces during the year under audit since PEMA did not have procedures in place to monitor the submission of these performance reports.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 11: (continued)

- Our testing of PEMA's contracting with the local task forces revealed that PEMA is not communicating award information such as CFDA name and CFDA number for non-cash assistance to the task forces as required by federal regulations. Since the majority of federal assistance covered under these contracts is in the form of non-cash assistance, this lack of award communication increases the likelihood that these expenditures are not being properly reported by the task forces on their respective SEFAs, or properly subject to audit at the subrecipient level.

During the year under audit, the expenditures for these task forces reported on the SEFA totaled \$27,494,652 or 68 % of the total HS Cluster expenditures of \$40,237,478. A total of \$24,832,231 of the \$27,494,652 in expenditures to the task forces was in the form of non-cash assistance. Therefore, we consider the weaknesses and noncompliance to be material.

In addition to the noncompliance and internal control weaknesses noted during our Single Audit testing, we also noted noncompliance and several related internal control weaknesses cited in a separate investigation conducted by the Pennsylvania Department of Auditor General. This investigative report covered the period from Jan 1, 2004 through March 31, 2005 and involved one of the nine established task forces expending funds under the HS Cluster. The noncompliance and control weaknesses cited in this report included unsupported expenditures and inadequate controls over payments of grant funds by the task force, non-submission of performance reports to PEMA and noncompliance with established procurement policies.

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

#### 1. Activities Allowed-General

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

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

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

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

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

OMB Circular A-87, Cost Principles for State and Local Governments, Attachment A, Section C.1., states that to be allowable, a cost must meet the following general criteria:

- a) *Be necessary and reasonable for proper and efficient performance and administration of Federal awards....*
- j) *Be adequately documented.*

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 11: (continued)

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

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

*A pass through entity is responsible for:*

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

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

The contract between PEMA and each task force for all grants starting in federal fiscal year 2003 includes the following provision:

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

**Cause:** We noted that DGS, in conjunction with their purchase of the equipment, performs a limited review of the equipment being requested by the task force for overall reasonableness. However, DGS indicated that their review does not include any type of procedures to ensure that the purchase is authorized under the applicable federal and subgrant agreements and addresses the actual needs of the task force. Further, we were informed that the planners at PEMA are responsible for performing the review of the equipment lists submitted by the task forces to ensure the purchases are authorized under the federal and subgrant agreements. However, in discussions with the planners, we were informed that no such review was performed during the year under audit. Regarding the missing or unsigned receiving reports, DGS stated that they had verified that the equipment was received by the recipient but neither DGS nor PEMA were able to provide sufficient documentation to support the receipt.

With respect to the performance reports, PEMA indicated that they currently have a system in place to enforce the requirement for submission of these reports, but the system was not in place during the year under audit. Further, there was no system in place to conduct on-site visits of the task forces.

The lack of communication of award information to the task forces for non-cash assistance appears to have been an oversight since we noted that PEMA did adequately provide this communication to its other subrecipients expending cash assistance under the HS Cluster.

**Effect:** Payment to a task force under grant #2002-TE-CX-0109 in the amount of \$2,625 is questioned as unallowable since the payment was unsupported. Further, PEMA did not have adequate procedures in place during the year under audit to perform during-the-award monitoring of the nine local task forces to ensure compliance with federal regulations. Additionally, PEMA did not communicate the federal award information to the task forces for non-cash assistance during the year under audit. As a result, PEMA is not fulfilling its responsibilities under OMB Circular A-133 with respect to subrecipient monitoring.

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 11: (continued)**

**Recommendation:** We recommend that PEMA pursue appropriate settlement with DHS regarding the \$2,625 of questioned costs. Further, we recommend that PEMA establish formal procedures to review the list of equipment purchases being requested by each task force to ensure all items being requested are authorized under the federal and subgrant agreements and address the needs of the task force. Additionally, we recommend that PEMA establish a system to perform on-site visits of the areas served by the task forces or develop other means to ensure that the equipment is being used for its intended purpose. Also, PEMA should enforce the requirement for task forces to submit interim performance reports and review the reports on a timely basis to ensure compliance with the terms of the grant agreements. Additionally, we recommend that PEMA communicate the federal award information to the local task forces for non-cash assistance through an addendum to existing contracts and ensure that all future contracts include this required information.

**Agency Response:** The invoice in question was part of a reimbursement totaling \$191,749.10. This reimbursement occurred during the infant stages of this program. At that time, one-third of our task forces purchased WMD equipment independently. Although there is no clear understanding on what was specifically purchased with the \$2,624.67, we have in our possession a shipping document that denotes the purchase order number, date shipped, invoice number, invoice date, ship to, bill, etc. We have since requested from the task force additional information to the support this invoice. Upon receipt of this additional documentation, it will be placed with the invoice on file to make the purchase completely documented as authorized. Also, since those early years of purchasing, by order of the Governor of Pennsylvania, all WMD equipment has been shifted to a centralized purchasing team located here at PEMA.

PEMA Procurement Team Fiscal Assistant's normal practice is to require that the Task Forces submit by fax or mail a signed copy of the shipping documentation. While waiting for this documentation, a verbal confirmation or email is accepted. Many times the vendors that are supporting these equipment purchases are unable to supply shipping documents depending on the type of equipment requested. In addition, occasionally shipping documents are not included with the shipment. In some instances, the Fiscal Assistant may have to track the shipping documents months after the equipment reaches its final destination. It is PEMA's standard to always seek supporting documentation for all equipment received.

PEMA, serving as the State Administering Agency (SAA), realizes that the guidelines under the Homeland Security Grant Program require site visits. PEMA has recognized the need to implement these site visits. As a means to become proactive and to better align the agency with The Office of Grants and Training (OGT) grant guidelines, the Director, Bureau of Administration initiated quarterly site visits prior to this audit. These site visits have been scheduled to begin in June 2006 for all open Homeland Security Grant programs.

In December 2005, PEMA Director had staff develop a template for Task Force progress reports and facilitated a statewide conference call with the states' counterterrorism task forces as well as other state agencies receiving funding under the Homeland Security Grant Program for standardized reporting. This conference call addressed the need for all grant sub-recipients to submit spending plans for current funding balances and also the need to collect past and present progress reports. PEMA followed this request with an electronic template shell progress report and sample of a completed report to all. To date, most of our grant recipients have submitted their homeland security progress reports dating back to January 2005.

PEMA devised a spreadsheet of all CFDA numbers in December 2005. This spreadsheet was furnished to all of our task forces. Also, prior to the creation of the spreadsheet, communication of which CFDA number to use depending on the grant, was also communicated to our Task Forces by telephone or email when requested. Lastly, whenever a task force receives reimbursements through any of the homeland security clusters, the CFDA number pertaining to the reimbursement is referenced on the cover letter to the fiduciary county. Although we believe this is adequate communication regarding this issue, in the future it is our intention to also place the CFDA number on all letters of intent to all homeland security grant sub-recipients.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 11: (continued)**

Prior to July 2003, the task forces provided PEMA with a list of requested equipment purchases for review. The list was compared by a planner to the 1999 *State Based Needs Assessment & Three Year Statewide Domestic Preparedness Strategy* to ensure that the equipment supported goals and objectives in the *Strategy*. Additionally, the equipment purchaser in the PEMA finance office communicated with the planner to verify that all equipment purchases were appropriate. After July 2003, due to significantly enlarged homeland security funding awards, federal requirements associated with the awards and the consequent workloads on the static (and in some cases, diminished) PEMA planning, finance and equipment purchasing staff, the reviews were discontinued. Since that time, the planners have neither received nor reviewed equipment lists except for an occasional review of a specific piece of equipment.

Regularly, the PEMA hazardous materials (hazmat) team certification planner performs on-site visits with the 38 Commonwealth certified hazmat teams. During these visits, he routinely inspects equipment purchased for the teams by the task forces and finds the equipment purchases appropriate and on the ODP-approved equipment list.

When viewing this nation's Homeland Security Program, it is essential to recognize that it was created in response to an attack on this nation. It represents an on-going effort to identify and address potential all hazards-based risks to our communities and residents. The program, which began in 1999 with a very modest federal investment in first responder preparedness, expanded dramatically after the September 11, 2001 attack.

Since that time the federal department that oversees the funding and related program requirements was created and continues to evolve. The internal federal program management changes annually, as does the amount of funding and eligible spending categories authorized by Congress.

In an effort to maximize the use of our limited agency staff and the complexity of our commonwealth form of government, PEMA with the 67 county emergency managers created the Regional Counterterrorism Task Force structure now recognized by Act 227 of 2002. This initiative allows Pennsylvania's emergency management community to identify potential risks and manage the multi-government resources needed for effective response. The very nature of a multi-county task force presents challenges to traditional equipment purchasing and tracking. Like our national Homeland Security Program, this too is a work in progress. We are aware that there are issues within our management process that must be addressed. This Administration and PEMA are constantly striving to ensure proper and responsible program oversight. The recommendations of the audit team will be included in our on-going self-assessment review.

As the State Administering Agency (SAA), PEMA is responsible for overseeing all federal Homeland Security funding allocated to the Commonwealth. By Congressional directive, at least 80% of these funds must be directed to support community-based first responders. This is a continuing challenge for one of the smallest state government agencies with no additional resources.

Since the program was created, PEMA has successfully managed the investment of more than \$300 million in federal program funds to help improve all-hazards preparedness in Pennsylvania's 2,567 communities for our twelve million residents.

**Auditors' Conclusion:** With respect to the communication of award information to the task forces, we agree that PEMA did have procedures in place during the year under audit to communicate the award information to the task forces for any cash reimbursements. However, as stated in the finding, the majority of federal assistance covered under the contracts with the task forces is in the form of non-cash assistance and no formal procedures were in place to communicate the award information for the non-cash assistance.

Regarding PEMA's on-site visits and inspection of equipment purchases by the PEMA hazmat planner, we were never informed of such visits, nor did PEMA provide any documentation to support the performance of these on-site visits and inspections of equipment. Further, these inspections would not cover all equipment purchases by the task forces.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 11: (continued)**

Based on the agency response, while we certainly recognize and appreciate PEMA's many challenges and accomplishments in the homeland security area, the finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 12:**

#### **CFDA #17.207, 17.801, and 17.804 – Employment Service Cluster**

#### **CFDA #17.225 – Unemployment Insurance**

#### **CFDA #17.245 – Trade Adjustment Assistance – Workers**

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

### **Weaknesses Exist in the SAP FARS Replacement System Resulting in an Undetermined Amount of Questioned Costs up to \$17,731,902 (A Similar Condition Was Noted in Prior Year Finding #04-8)**

**Condition:** For the State Fiscal Year ended June 30, 2005, \$17,623,402 was allocated to the ES Program Cluster through the new SAP FARS replacement cost allocation system, representing over 41 percent of ES Cluster costs of \$42.5 million reported on the current SEFA. These costs were required to be allocated to the ES Cluster in accordance with L&I's Cost Allocation Plan (CAP) submitted to and approved by USDOL. Three categories of costs were allocated through this system: Cost Center Overhead (CC O/H), Administrative Staff and Technical (AS&T) charges, and employee leave. We selected one overall sample of 31 items from the population of ES Cluster allocated costs as a whole, consisting of 20 AS&T, nine CC O/H, and two leave items, and the results of our testwork were as follows:

- We requested documentation to support the allocations for each sampled item, and IES personnel provided a methodology (walkthrough) to be used for each category of cost allocation. However, IES personnel informed us that a key piece of the audit trail for each item could not be provided. The SAP cost allocation program utilized "internal tables" to calculate the actual distribution percentages for the costs allocated and charged to the ES Cluster, but these tables were not retained. Therefore, for all the items in our sample, the auditors attempted to reconstruct the allocation percentages to support the allocated amounts.
- The auditors recalculated all nine of the CC O/H items in our sample and consider the allocation method for individual charges in this category to be working in accordance with the CAP approved by USDOL. However, as disclosed below, the total CC O/H costs charged for the year could not be verified.
- Auditors were unable to recalculate eight of the remaining 22 items in our sample (seven AS&T allocations and one leave allocation). Furthermore, auditors were unable to recalculate two of these eight items because the allocation had not calculated completely in the SAP system, leaving unallocated amounts in the cost pool, as evidenced by the R/3 screen shots provided by IES. The inability to recalculate these eight items also prevented us from tracing these items back to the original cost postings; therefore, we were unable to determine allowability for these items in accordance with the USDOL-approved CAP.
- For the remaining 14 items (13 AS&T allocations and one leave allocation) in our sample, auditors recalculated and verified four AS&T allocations to the exact amounts allocated. For the other 10 items (nine AS&T allocations and one leave allocation), auditors recalculated each allocation to within approximately 5% of the sampled amounts. Since these 10 items did not recalculate to the exact amounts, auditors contacted IES personnel and asked for the sampled items' allocated amounts in SAP R/3. Auditors then learned that inconsistent criteria and different methodologies from the original walkthroughs were needed to reconstruct these 10 allocations to within 5% of the allocated amounts in SAP R/3.

In addition, the auditors were unable to separate the CC O/H and AS&T costs in the data files provided by management. The LECS Comptroller's Office represented that CC O/H and AS&T costs are separated in the GA-14 Report from the Business Warehouse (BW); however, we were unable to verify the separation of costs with the data files from which we selected our samples.

We also noted that total allocated costs, along with the breakout between AS&T and CC O/H costs, in relation to total ES program costs as a whole for the current year do not appear reasonable on the new SAP FARS replacement system compared to prior years on the old FARS system, which we audited in prior years and found to be accurate. Management has not adequately supported the appropriateness of the differences. In particular, we noted that SFYE 6/30/05 allocated

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 12: (continued)

costs in SAP represent over 41 percent of total ES Cluster costs while pre-SAP totals from the old FARS system in SFYE June 30, 2003 (Note: SFYE June 30, 2004 was a mixed year with costs charged from both systems.) represented only about 25 percent of the total program. Further, for SFYE 6/30/05, the combined \$17,623,402 in SAP allocated costs were charged as \$3,123,587 to AS&T (or 17.7 percent), \$9,446,156 to CC O/H (or 53.6 percent), and \$5,053,659 to an “other” category of allocated costs on the GA-14 report, not categorized as either AS&T or CC O/H. According to management, this “other” category is a combination of employee leave, along with AS&T and CC O/H allocations that did not originally post to the proper accounts on BW on the new system. For SFYE 6/30/03 in the old FARS system, the breakout involved only the AS&T and CC O/H categories, not a third category, and they were approximately 50 percent each.

Further, during the audit period neither IES nor the LECS Comptroller’s Office had written policies or procedures for allocating these costs, assigning oversight responsibilities, recalculating the allocations, reviewing the allocations to ensure they are complete and correct, or for correcting any allocations that are incorrectly calculated. Finally, key LECS Comptroller’s Office personnel responsible for running the SAP R/3 allocation process appear to be inadequately trained, since they were being trained at the same time as the auditors to research and develop documentation, as evidenced by the need for the auditors to demonstrate which R/3 screens were needed for the audit.

In addition to detail testing allocated costs charged to the ES Cluster, we also sampled two allocated charges to the RSBS program for employee leave, and attempted to verify the allowability of these costs and the amounts charged. Total costs allocated through the SAP FARS Replacement System and charged to RSBS for SFYE June 30, 2005 amounted to \$108,500. Because we encountered the same problems noted above for the ES Cluster in attempting to audit these RSBS charges, we determined that we could not verify the allowability of the charges to RSBS allocated through this system as well.

The above weaknesses in the SAP FARS Replacement System also affect the UI and TAA programs at L&I, since these major programs also include similar costs charged through this same cost allocation system. It should be noted that we only detail tested costs allocated to the ES Cluster due to their major significance (i.e., 41 percent) in relation to total ES Cluster expenditures as a whole. We did not include these other major programs in our testing since allocated costs in these other programs constitute a much smaller percent (< 2 percent) to total program expenditures as a whole.

Finally, it should be noted that USDOL’s Employment and Training Administration, in response to our prior-year June 30, 2004 audit finding reporting similar unallowable allocated costs, issued an Initial Determination letter in May 2006 sustaining the prior-year finding until L&I demonstrates it has effective internal controls and proper source documentation to prove that its allocated costs were appropriately charged to the correct federal programs.

**Criteria:** 29 CFR 97, Subpart C states:

*97.20 Standards for financial management systems.*

*(a) A state must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and procedures of the State, as well as its sub grantees and cost-type contractors, must be sufficient to –*

*(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.*

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

With respect to record retention, 29 CFR 97.42 states:

*(b) Length of Retention Period. (1) Except as otherwise provided, records must be retained for three years from the starting date...*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 12: (continued)**

In addition, OMB Circular A-87, Attachment A, Section C.1., regarding the factors affecting allowability of costs states in part:

*a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*

*j. Be adequately documented.*

**Cause:** The old FARS System was developed by the Interstate Conference of Employment Security Agencies (ICESA) to allocate Employment Service Agency indirect costs among the various Employment Service grants and programs. As part of SAP implementation in February 2004, the Commonwealth customized several SAP programs intended to function in the same manner as the old FARS system. This system was developed and implemented quickly, apparently with little or no user involvement in acceptance testing prior to implementation.

During the prior-year audit, we learned that for the monthly cost allocations, the programs utilized “internal tables,” as mentioned above, in order to calculate distribution percentages and actual amounts that were distributed. The “internal tables” were saved to temporary print files (or spool files) available to auditee users for five days. These temporary print files were not retained by auditee officials. There appears to be misunderstanding and contention between IES and LECS Comptroller officials about who is responsible for monitoring the allocation system and maintaining related documentation to ensure costs are being allocated properly.

Also, because of the high use of computing resources, the SAP FARS replacement application was terminated abnormally at different times during the audit period by IES personnel to run other priority applications (i.e., payroll). As a result, not all costs in the pool were allocated. We learned that the AS&T process alone creates almost one million detail line items per month and that over 80% of the line-item allocations in the population were less than one dollar.

IES personnel indicated that some of the errors in processing were caused by invalid and inconsistent data, e.g., users entering invalid cost centers. Also, certain prior year allocations were re-run because of errors found that needed to be corrected in the current year.

Regarding the verification of the completeness of the monthly allocations, IES personnel stated that they performed an informal, undocumented review each month to make sure that all costs were allocated. However, based on the incomplete allocations found during our testing, these informal procedures were not effectively functioning during our audit period.

Regarding the comparison of AS&T and CC O/H amounts and percents on the new SAP system to allocations from the old FARS system in prior years, LECS Comptroller officials have verbally explained to us that the new SAP system allocates costs using dollars as a base while the old FARS system used hours as a base, and that this is likely the reason for the differences, which they believe are appropriate. However, management has not provided any documentation or information to support its verbal statements in this regard.

Also, written policies and procedures were developed in November 2005 and were not in place during our audit period.

Finally, although similar conditions were noted in our prior-year audit finding, IES and LECS Comptroller’s Office personnel indicated they did not have enough time to follow up and implement corrective action on the prior-year deficiencies in our current audit period.

**Effect:** Although the CC O/H allocation process for individual charges appears to be working correctly, we were unable to reasonably verify the separation and breakout of total allocated costs for the year between CC O/H and AS&T. In addition, CC O/H and AS&T amounts recorded on SAP in the current year versus these amounts recorded on its decommissioned FARS System in prior years are materially different, and management did not adequately support the appropriateness of the differences. Further, we were not able to verify the amounts of AS&T and leave costs in our samples via complete audit trails using a consistent allocation methodology in accordance with the CAP approved by

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 12: (continued)**

USDOL. As a result, we are unable to determine whether these charges are allowable or the exact amount of costs which should be questioned. Therefore, an undetermined amount of costs up to the total of \$17,623,402 in ES Cluster allocated costs and \$108,500 in RSBS allocated costs are questioned as unallowable.

Based on the results of our testing, we cannot conclude that AS&T and Leave costs were allocated correctly. Further, without documentation that all allocated costs have been distributed, there is no assurance that all costs were correctly allocated among L&I's major federal programs.

**Recommendation:** L&I should pursue appropriate settlement with the federal government for the unknown questioned costs up to \$17,623,402 in the ES Cluster and \$108,500 in the RSBS program.

The LECS Comptroller's Office should work with IES, and both groups should work with USDOL audit resolution officials, to ensure the allocation process is consistent with the methodology approved by USDOL in the CAP. Further, system manuals, procedures, and other documentation should be reviewed and understood to aid in the operation and control of the system.

The LECS Comptroller's Office also needs to work with IES to consider the possibility of increasing the dollar value at which the allocations are occurring to reduce the voluminous amount of allocations that are less than one dollar.

The LECS Comptroller's Office, with the help of IES, should review the SAP FARS replacement system to identify and correct any amounts in the above major federal programs that remain unallocated within the application for our audit period.

Further, the LECS Comptroller's Office and/or IES should perform procedures and/or review reports to ensure that costs for all major federal programs have been properly allocated each month. These reports should be reviewed by supervisory personnel, and reasonable evidence of that review should be retained as support.

Finally, key LECS Comptroller's Office personnel, working with IES as deemed necessary, who are responsible for running the allocation program should receive adequate training to enable effective operation of the program in the future.

**Agency Response:** We agree that the SAP "internal tables" utilized for the cost allocation programs were not available for the audit period as an audit trail for the auditors to use to verify the amounts allocated for leave, CC O/H and AS&T. Therefore, IES personnel provided the auditors with a template and a methodology for recreating the calculations based upon the processing logic utilized by the allocation programs. A program change was put in effect in November 2005, to automatically save the "internal tables" utilized by SAP's cost allocation programs. The internal sender, receiver and allocation calculation files for leave, CC O/H and AS&T are currently being written to documentation files on a shared directory after the programs have completed processing. The documentation files are retained online by IES for 60 days after creation then backed up to tape for one year. Beginning with the March 2006 allocation cycle, the nine documentation files are also forwarded to a Comptroller Operations shared server to provide improved accessibility to the LECS Comptroller Office. The server where the files reside is backed up on a regular basis to ensure the continued availability of the audit trail.

The auditors have stated that they were able to recalculate all nine of the CC O/H items in their sample and consider the allocation method to be working in accordance with the USDOL approved CAP. However, it was indicated that the total CC O/H costs could not be verified and the auditors are questioning all allocated costs. It was noted by the auditors that of the \$17,623,402 pertaining to the ES Cluster Costs, \$9,446,156 or 53.6 percent, was allocated to the CC O/H area. Additionally, another \$5,053,659 or 28.7 percent, was charged to the "other category" encompassing a combination of CC O/H, AS&T and employee leave. Given the percentages utilized by the auditors, if 53.6 percent of the "other category" pertained to CC O/H, it would total \$2,708,761. Potentially then, a total of \$12,154,917 is included as part of the total of questioned costs that shouldn't be. We respectfully request that the auditors reduce the amount questioned accordingly, in keeping with their proven testing of the CC O/H allocation process.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 12: (continued)**

Of the eight items, which the auditors were unable to recalculate, IES personnel utilized the same methodology as previously provided to the auditors to recalculate five additional AS&T sample items and thus identify the original cost postings. The recalculation of these AS&T items was within 5% of the sample item amount. The auditors indicated that this information was not utilized to update the current finding because the testing phase of their fieldwork period had ended. Two of the remaining sample AS&T items which the auditors were unable to recalculate were posted during July 2004 as corrections to prior periods (May 2004 and June 2004) when processing was terminated abnormally.

The 14 other items recalculated by the auditors ranged in value from \$6.29 to \$18.58 on the original sample. The auditors contend that they could only recalculate 4 of the items to the exact amount and 10 of the items to within 5% of the original value. A 5% variance in the calculation equals less than \$1.00 and should be considered immaterial due to rounding and other errors that may have been corrected during actual processing. We agree that the methodologies to calculate the allocations are different for leave, CC O/H and AS&T; however, these methodologies were consistently applied during the audit period except for a program change to the AS&T calculation that was moved to production during May 2005 and affected 1 of the 20 AS&T sample items. The change to the program logic was provided to the auditors during fieldwork.

We agree that the auditors were unable to separate the data files provided by management into the leave, CC O/H and AS&T components because they were using a copy of the Split Ledger file to select their sample items. This file did not contain a text field, which the programs populate with hard coded descriptions of the type of allocation, e.g., FARSAS&T, FARSORG, and LILEAVE every time the programs are run. The coding in the text field was demonstrated to the auditors at the beginning of their fieldwork when they were unable to differentiate between the sample items. Due to time constraints, the auditors did not request a new copy of the Split Ledger file. The utilization of this data by the auditors would have provided verification of the total CC O/H costs. IES provided the auditors with copies of extracts of the COEP table in SAP for each period from which a sample item was selected. This information was utilized by the auditors to successfully recalculate certain sample item amounts. No other needs for data were identified.

We do not agree with the auditors contention that total allocated costs compared to total ES program costs for the year do not appear reasonable on the new FARS replacement system when compared to prior years on the old FARS system. Allocations are based upon a plan approved by the Federal Cost Negotiator. Approval was received from the Federal Cost Negotiator to change the method of allocation in the new FARS replacement system. The new FARS system allocates costs based on salary/wage dollar amounts charged to grants via payroll postings. The old FARS system allocated costs based on time/hours charged to grants on timesheets. In addition, the new FARS system allocates leave benefits at the organization level, while the old FARS system allocated leave at the individual employee level by charging leave to specific grants. Each method is valid yet can produce different results. Management contends comparing the systems is not appropriate. And as previously identified to the auditors, corrections to prior periods (May 2004 and June 2004) were posted during July 2004 that would appear to inflate the allocations for the current audit period.

We agree written policies and procedures did not exist during the audit period. However, written policies and procedures were developed during October 2005 and issued in November 2005 and continue to be enhanced. These policies and procedures identify the responsibilities of IES and the LECS Comptroller Office and provide guidance in selecting the criteria and specific instructions for scheduling the monthly allocation programs. Procedures for generating and reconciling monthly reports are also included in the document. Since October 2005, the monthly reports have been methodically reviewed by IES personnel in order to identify allocation problems and correct any errors and are currently being retained for audit purposes.

In addition, hardware upgrades that occurred after the end of the audit period have resulted in more efficient use of system resources and have reduced the risk of abnormal program termination. Processing time for the cost allocation programs has been reduced from 5 days to 8-10 hours. The programs run very long because of the extreme detailed nature of the distributions. We agree with the auditors that the programs create more than one million detail line items

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 12: (continued)**

per month and over 80% of the line items are less than one dollar. Prior to the issuance of the audit finding, a meeting had already been scheduled to discuss how to improve the application. The Department of Labor and Industry, the LECS Comptroller Office and IES are committed to this end.

**Auditors' Conclusion:** For the first, next-to-last, and final paragraphs in the agency response above, management indicates corrective actions after the end of our current audit period, so we will review management's corrective actions in our subsequent audit.

Regarding management's request to reduce the total questioned costs in our finding, the information provided in the response is not adequate, given the overall disclosures reported in the finding, to resolve the CC O/H category and the "other" category of allocated costs that we could not verify.

Regarding management's contention that the errors for the remaining 14 items should be considered immaterial, we do not agree with this conclusion. The 18 of our 22 sampled items for AS&T and leave that could not be exactly traced and verified represent 82 percent of our random sample for AS&T and leave, which would be material over the population of costs allocated to these categories for the year. In addition, we believe that an adequate cost allocation system with millions of individual cost items allocated should not show variances in individual sampled allocations, and exact amounts should be supported and verified on an individual basis.

Regarding management's statement of retaining the files by IES for 60 days after creation then backed up to tape for one year, we refer you to the criteria cited above, that states, "Except as otherwise provided, records must be retained for three years from the starting date ..."

Regarding the missing text field referred to by management in the split ledger file which would contain hard-coded descriptions of the types of allocations, we were informed by management in the beginning of the audit that this field was not populated correctly for the entire audit period; therefore, the auditors did not request a new copy of the split ledger file. Furthermore, because of our prior year finding and the similar results noted in our current-year samples, combined with the additional disclosures on management's lack of support to demonstrate the reasonableness of cost allocations on its new system, we concluded that a revised split ledger file does not significantly change our general conclusions on inadequate support and overall questioned costs for the system as a whole.

Regarding the change in allocation method causing the significant increase in costs allocated to ES under the new SAP system, management has provided no documented evidence to demonstrate that it has monitored or actually verified the reason for the increase, or that the significant increase is reasonable. We believe that timely comparing costs allocated through the current vs. the prior system, with reasonable documented follow-up on major increases, is a reasonable verification step to ensure the new system is allocating costs to federal programs properly.

Therefore, after our review of the agency response, our finding and recommendation, with the above clarifications, remain as previously stated.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 13:

#### CFDA #17.225 – Unemployment Insurance

##### Incorrect Quarterly Financial Report Submitted to USDOL

**Condition:** Our testing of the ETA-UI3 Quarterly Financial Report submitted by L&I to USDOL during SFYE June 30, 2005 disclosed that, for the test quarter ended March 31, 2005, the report was incorrect. Section A, reporting UI Program Staff Year Usage, had the following errors on Line 4 for Support/AS&T:

<u>Staff Years</u>	<u>Total Reported</u>	<u>Correct Total</u>	<u>Total Difference</u>	<u>% Difference</u>
Worked (SYW)	317.01	442.91	125.90	39.7%
Paid (SYP)	381.02	528.60	147.58	38.7%
Year-to-date (SYP)	377.98	450.64	72.66	19.2%

As a result of Line 4 being reported in error, Line 7 reporting Total Staff Years for Worked, Paid, and Year-To-Date was also in error by the same total differences listed above.

**Criteria:** Good internal control dictates that required federal reports are prepared accurately and properly reviewed by supervisors prior to submission.

**Cause:** According to officials in L&I's Bureau of Financial Management and the LECS Comptroller's Office, the data used for the March 31<sup>st</sup> ETA-UI3 report was extracted from SAP (GA-12A Report) on 5/2/05, which was two days prior to the monthly IES posting of the March leave allocation for UI on 5/4/05. Therefore, the SAP March leave allocation was incorrectly excluded from the GA-12A extraction and from Line 4 of the UI3 Report, resulting in the large errors noted above. It should also be noted that L&I's supervisory review procedures for the ETA-UI3 Report did not detect the errors prior to submission to USDOL.

**Effect:** Line 4 and Line 7 Data in Section A of the ETA-UI3 Report for 3/31/05 was submitted to USDOL with material errors as noted above. In addition, L&I supervisory review procedures for the ETA-UI3 are inadequate and could result in future errors in this report. It should be noted that since these errors were timing errors only, the March leave allocation would have been included in the next quarter's (i.e., June 30) cumulative year-to-date numbers, so the year-to-date numbers would be automatically corrected in the next report submission.

**Recommendation:** L&I should pursue appropriate corrective action with USDOL on the errors in the March 31, 2005 ETA-UI3 Report as noted above. We also recommend that L&I review the other three quarters in our current year, and pursue additional corrective action with USDOL on any other errors noted in the quarterly UI3 Reports. Finally, we recommend that supervisory review procedures for the UI3 Report be strengthened to ensure that preparer errors on the quarterly reports are detected and corrected prior to submission to USDOL.

**Agency Response:** Since Line 4 of SECTION A does not affect NET DOLLAR ENTITLEMENT in SECTION B, the Department of Labor and Industry tried to take Corrective Action with respect to this Quarter's UI-3 by resubmitting to USDOL but was stymied by the following message "Report Date is too old to be able to UPDATE or ADD."

Per the auditor's recommendation, total hour usage for QTR and YTD for the other three quarters in FFY05 was verified by rerunning GA12As on June 2, 2006. In all cases the new GA12As agreed with those run on February 2, 2005; August 1, 2005; and October 27, 2005, respectively.

To insure that this mistake will not occur in the future, a sequence of emails between the LECS Comptroller's Office and IES both triggering and confirming Leave Allocation each month is being cc'd to BFM.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 13: (continued)**

**Auditors' Conclusion:** Based on the agency response, L&I should contact USDOL regarding the resubmission of the UI-3 Report in question. The finding and recommendation remains as previously stated. We will review any corrective action in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 14:**

#### **CFDA #17.245 – Trade Adjustment Assistance-Workers**

##### **Inaccurate Data and Weaknesses in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (A Similar Condition Was Noted in Prior Finding #04-9)**

**Condition:** L&I is required to submit a Trade Act Participant Report (TAPR) to USDOL on a quarterly basis. The TAPR tracks program performance and participant outcomes for the TAA and NAFTA-TAA programs. Each report is to consist of 49 fields of information for each TAA participant who exited the program during a particular quarter. L&I electronically submits a file to USDOL that contains the aforementioned data.

We tested the accuracy of the data initially submitted to USDOL for the quarter ended June 30, 2005, which reported on TAA participants who had exited TAA during the quarter January 1, 2004 through March 31, 2004. We selected 40 participants from the TAPR out of a total of 620 participants and compared the key data (ten separate data fields) for each participant to supporting documentation. Our testing revealed the following:

- Seven of the 40 participants in our sample had incorrect exit dates in Field 39 and were improperly included on the report. Two of the individuals had exit dates subsequent to the reported quarter of exit while the other five individuals had exit dates prior to the reported quarter of exit.
- The most recent qualifying separation date (Field 17) was incorrect for six of the participants in our sample. Since the correct separation date was not in the same quarter as the incorrect date used by L&I, the related wage information in the required two fields (Field 44-earnings three quarters prior to most recent qualifying separation and Field 45-earnings two quarters prior to most recent qualifying separation) was incorrectly reported by L&I.
- The date of birth (Field 3) for one of the participants in our sample was incorrect. The date of birth is used along with an identifier assigned by L&I to ensure that the information is being reported for the proper individual.

In addition to the errors noted in our sampling, we also noted, in conjunction with our walkthrough of L&I's procedures for retrieving the out-of-state wages from the WRIS database, that the wages for three participants included on the aforementioned report did not include all out-of-state wages that were uploaded from the WRIS database. As a result, the wages in Field 47 (earnings in the second quarter following exit) were incorrect for two of these participants and the wages in Field 48 (earnings in the third quarter following exit) were incorrect for the other participant.

In connection with our testing of the completeness of the TAPR, we identified one individual from our prior years benefit payment testing that had exited the program during the quarter January 1, 2004 through March 31, 2004 but was not included on the report tested. Through discussions with L&I personnel regarding this individual, we were informed that L&I had subsequently submitted a revised TAPR to USDOL in December 2005 for the quarter ending June 30, 2005. L&I stated that this report was resubmitted because L&I identified an additional 310 exiters, including the individual from our prior years testing, who were not included in the initial submission of the TAPR to USDOL.

During our prior year audit, we noted the following weaknesses in L&I's controls over preparation and submission of the TAPR, as follows:

- The data for the TAPR is accumulated from various sources and entered into the TAPR system for each participant who has been identified as exiting the program for the quarter. In the prior year, we noted that L&I personnel performed a limited supervisory review of the data input, which we found to be inadequate based on the errors noted in our prior year testwork. Our current year follow up revealed that L&I did implement additional supervisory reviews of this data, including the wage data, and did implement additional edit checks. However, due to the number of errors noted during our current year testing, the procedures in place were not adequate.
- L&I's procedures for identifying exiters to include on the TAPR were not adequate. Based on the significant number of exiters that were not included in L&I's initial submission of the TAPR as discussed above, this control weakness continued during the year under audit.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 14: (continued)

- PA has a data sharing agreement with various states to obtain out of state wage information from the WRIS wage database. This agreement enables L&I to request and report out of state wage information for individuals included on the TAPR. The information obtained from WRIS is electronically fed into the TAPR database. However, in the prior year we noted that this data feed did not appear to consider individuals with more than one wage entry for the reporting quarter. Further, L&I was not performing any comparison of the WRIS wage data file to the wage data on the TAPR to ensure the completeness of the WRIS data interface. Our current year follow up revealed that L&I did implement procedures to verify the completeness of the WRIS data interface. However, our current year testing disclosed that L&I did not include WRIS wages on the TAPR for individuals with more than one wage entry for the quarter and therefore, these procedures were not adequate.

**Criteria:** The instructions for the TAPR are contained in USDOL's Training and Employment Guidance Letter No. 11-00, and state in part:

#### *General Instructions:*

1. *TAPR reports must be submitted each quarter. Each report is to consist of records for Trade Act participants who have exited during a particular quarter.... The quarter of exit is the quarter in which the participants, whose records are in the report, exited the Trade Act program. The reporting quarter is the quarter during which the records for the exiters should be completed and the report assembled.... The reporting quarter is five quarters after the quarter of exit.*

#### *Revised Participant Record Layout, Section III: Outcomes:*

*Field Number 3, Date of Birth-Record the individual's date of birth in the following format: YYYYMMDD.*

*Field Number 17, Most recent qualifying separation-Record the most recent date of separation from trade-impacted employment that qualifies the individual to receive benefits and/or services under the Trade Act. Use the YYYYMMDD format.*

*Field Number 39, Date of exit-Record the last date on which Trade Act-funded services or WIA Title I partner services were received by the participant.*

*Field Number 44, Three quarters prior to most recent qualifying separation-Earnings in the third full quarter prior to the participant's most recent qualifying separation.*

*Field Number 45, Two quarters prior to most recent qualifying separation-Earnings in the second full quarter prior to the participant's most recent qualifying separation.*

*Field Number 47, Second quarter following exit-Earnings in the second full quarter after the participant has exited.*

*Field Number 48, Third quarter following exit-Earnings in the third full quarter after the participant has exited.*

In addition, good internal controls would ensure that the data included on the TAPR is accurate and complete.

**Cause:** The data for the TAPR is compiled from a variety of databases and input into the TAPR system. Although L&I has review procedures in place, including various edit checks, to verify the accuracy of the reported data, these procedures were not adequate during the year under audit based on the number of inaccuracies cited in the condition.

With regard to the significant number of exiters that were not identified and included in L&I's initial submission of the TAPR for the quarter ended June 30, 2005, L&I indicated that individuals in the CareerLink system were not added to the TAPR database prior to submission of the report.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 14: (continued)**

**Effect:** Based on the errors noted in the condition, TAPR data is not accurate and TAA did not comply with federal reporting requirements. Also, the control weaknesses cited in the condition provide little assurance that the information reported for the TAA participants on the TAPR is accurate and that all participants who exited the program are identified and reported in the proper quarter.

**Recommendation:** L&I should strengthen existing procedures to verify the completeness and accuracy of the TAPR information that is accumulated and transmitted to USDOL. These procedures should also ensure that all of the WRIS wage data for individuals with more than one employer is properly reported on the TAPR. In addition, with the transition to Common Measures during the 2006 fiscal year, L&I should evaluate existing procedures used for the TAPR to ensure that the proper system controls, access controls and interface controls are in place for the new Common Measures reporting.

**Agency Response:** The agency response is that with Common Measures we will no longer be required to prepare the TAPR. Several changes made for Common Measures and in CWDS could eliminate some of the issues.

- For Common Measures, staff will now be required to verify actual course Start and End dates.
- CWDS will include online attendance sheets that will also aid in actual Start and End dates.
- CWDS will eliminate the TRA feed from UC as this has never been accurate and the source of many TAA problems. Instead the staff will access the UC claim information and add the most recent date of separation as part of each Trade application.

The agency had taken steps in the past to minimize reporting errors. The Agency sent directives to the PA CareerLink staff advising them to terminate applications of exiters. The TAA desk guide used by PA CareerLink staff has always said the applications had to be terminated and part of that process was entering the exit date. This was also stressed in Trade 101 training attended by more than 300 PA CareerLink staff. The agency resubmitted the report almost immediately upon its submission. Some of the items cited in the finding were corrected in the resubmission.

Additionally, in a May 11, 2006 Initial Determination Letter regarding findings cited in the 2004 Single Audit, USDOL indicated that based on responses and corrective actions submitted to them by our Agency that the TAPR finding within that Audit was considered corrected.

**Auditors' Conclusion:** We reviewed the USDOL Initial Determination Letter dated May 11, 2006 regarding the TAPR finding from the 2004 Single Audit which indicated that USDOL had seen evidence that the TAPR reporting system was completely revamped and as a result, considered the finding to be corrected. We also agree that L&I did implement new procedures to address some of the control weaknesses cited in the 2004 finding. However, our current year testing again revealed material inaccuracies in the data reported on the TAPR. Therefore, L&I did not actually implement proper corrective action to resolve the prior-year finding, and L&I's procedures for the preparation and submission of the TAPR were not adequate during the year under audit.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 15:

#### CFDA #17.245 – Trade Adjustment Assistance-Workers

##### Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (A Similar Condition Was Noted in Prior Year Finding #04-10)

**Condition:** L&I is required to submit an ETA 563 Report titled “Quarterly Determinations, Allowance and Reemployment Services Under the Trade Act,” to USDOL on a quarterly basis. The ETA 563 report provides information on eligibility determinations, income support payments, reemployment services and training. The data supplied on the ETA 563 is used by USDOL to measure the effectiveness of the TAA and NAFTA-TAA programs in helping adversely affected workers adjust and find new employment. A separate report is required to be filed for each certified employer petition under which services are provided.

Each quarter, L&I submits the ETA 563 in electronic format to USDOL. The submission includes a separate report for each certified petition under regular TAA and NAFTA-TAA. Each separate report contains 37 data fields used to report both financial and statistical information by petition number; seven data fields include financial and 30 data fields include statistical information.

In order to test the accuracy of the information submitted to USDOL, we obtained the ETA 563 submitted for the quarter ended 6/30/05 for the TAA petitions. This report contained 1086 petitions, many of which only had one or a minimal number of data fields completed. We judgmentally selected a sample of ten of the larger petitions with the most data submitted, and requested documentation to support the financial and statistical information reported by L&I in the 37 data fields for each petition. The petitions selected were #41917, #50123, #51010, #51522, #52312, #52924, #53467, #54295, 55652, and #56075. We haphazardly selected a sample of 40 individuals from the supporting documentation provided by L&I for the ten petitions in order to determine if the information for the individual was properly reported in each of the 37 data fields. Our testing of the ten petitions disclosed discrepancies for 25 of the 37 data fields as follows:

- For 12 of the 37 data fields, there were differences between the statistical information reported and the supporting documentation provided by L&I as follows:

<u>Field</u>	<u>Total Number Reported for all Ten Petitions</u>	<u>Total Number Supported for all Ten Petitions</u>	<u>Difference</u>
2a-Number Determined Entitled	416	250	166
3a-First Basic Payment	380	212	168
6a-Final Basic Payment Exhaustions	99	53	46
2b-Number (Additional TRA) Determined Entitled	53	47	6
10-Training Waivers Issued	48	41	7
11-Training Waivers Revoked	114	88	26
12-Overpayments Total Number	30	17	13

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 15: (continued)

Field	Total Number Reported for all Ten Petitions	Total Number Supported for all Ten Petitions	Difference
13-Overpayments Total Amount	\$30,395	\$5,848	\$24,547
18-Job Referrals	2098	1170	928
20-Title III Participants	209	170	39
24-In Training	492	228	264
26-Obtained Job After Training	4	0	4

- For 12 of the 37 data fields, there were differences between the statistical information reported and the supporting documentation provided by L&I as follows:

Field	Total Number Reported for Ten Petitions	Total Number Supported for Ten Petitions	Difference
1a-Request for Determination of Entitlement	89	22	67
4a-Weeks of Basic Paid	10,146	4,852	5,294
5a-Amount of Basic Paid	\$2,082,999	\$2,143,296	\$(60,297)
7a-Final Basic Payment, Eligibility Expired	26	21	5
4b-Additional TRA Weeks Paid	3600	1937	1663
5b-Amount of Additional TRA Paid	\$706,126	\$712,648	\$(6,522)
6b-Final Additional TRA Payment, Exhaustions	2	1	1
19-Obtained Job	21	11	10
21-Entered Occupational Training	143	104	39
25-Completed Training	76	31	45
27a-Training Related Cost-Number of Benefits	69	71	(2)
27b-Training Related Cost-Amount of Benefits	\$235,448	\$245,285	\$(9,837)

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 15: (continued)**

Further, based on our sampling of 40 individuals from the supporting documentation, we noted additional discrepancies in the above data fields as follows:

For field 1a, we noted that four of the 40 individuals in our sample were improperly excluded as support for the field. Specifically, we noted that all four individuals had filed an “Application Under the Trade Act of 1974” during the reporting quarter and therefore should have been included in this field.

For field 4a, 5a, 4b and 5b, we noted that the number of basic weeks paid (field 4a), the amount of basic paid (field 5a), the number of additional TRA weeks paid (field 4b) and the amount of additional TRA paid (field 5b) were incorrectly reported for five of the 40 claimants in our sample.

For field 7a, we noted that one of the 40 individuals in our sample was incorrectly included in the support for this field.

For field 6b, we noted that three of the 40 individuals in our sample should have been included as support for this field.

For field 19, we noted that one of the 40 individuals in our sample obtained a job during the reporting quarter and should have been included as support for this field.

For fields 21 and 25, we noted that one of the 40 individuals in our sample entered and completed training during the reporting quarter and should have been included as support for fields 21 and 25. Additionally, we noted that another one of the 40 individuals in our sample had completed training during the reporting quarter and should have been included as support for field 25.

For field 27b, we compared the reported amount in this field for all petitions on the 563 report to the amount in L&I’s SAP accounting system for the reporting quarter. Our comparison indicated that the amount in SAP was higher than the reported amount by \$3,365,001. As a result of this significant dollar difference, it appears that the supporting documentation provided for field 27a did not include all individuals.

- For field 3b, there were no discrepancies between the statistical information reported and the supporting documentation. However, we noted that two of the 40 individuals in our sample should have been included as support for this field since both individuals received their first payment of additional TRA during the reporting quarter.

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

- In the prior year, we noted that L&I did not appear to be using the proper definition in accumulating data for Field 16, “Applicants New”. Our current year follow up revealed that L&I did obtain clarification from USDOL on the definition that should be used in compiling information to report in this field. However, this clarification was obtained subsequent to the completion of our current year testing and as a result, the program used to accumulate data for this field for the reports submitted during the year under audit was not based on this definition and therefore there is little assurance that the information in this field is accurate and complete. Further, we were unable to test the data in this field due to the uncertainty as to what individuals were required to be included.
- In the prior year, we also noted that the definition used by L&I to accumulate data for Field 17, “Applicants Active”, only included individuals who had an active ES registration and were TAA eligible. However, if an individual was in TAA training, had a waiver, or was receiving benefits but did not have an open ES registration, the individual was not included in this field which appeared to contradict the reporting instructions. Our current year follow up revealed that L&I used the same definition for this field on the current year reports and therefore this weakness has not been corrected.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 15: (continued)

- For two of the data fields, Field 8, "Disqualifications-EB Work Test" and Field 9, "Disqualifications-Training", we noted that L&I reported zeros on the report for all petitions since L&I had no procedures in place to compile information for these fields.

In addition to our detail testing of the 563 report for the quarter ending June 30, 2005, we also performed a reconciliation of the total benefit payments on the four quarterly ETA 563 reports for the year ended June 30, 2005 to the total reported on the SEFA. Our testing revealed that the total benefit payments on the four quarterly 563 reports were \$1,301,953 less than the total benefit payments reported on the SEFA, which agreed to L&I's accounting records, and L&I was unable to provide an explanation of the difference.

**Criteria:** 20 CFR 617.57 states:

- (a) *Recordkeeping. Each state agency will make and maintain records pertaining to the administration of the Act as the Secretary requires and will make all such records available for inspection, examination and audit by such Federal officials as the Secretary may designate or as may be required by law. Such recordkeeping will be adequate to support the reporting of TAA activity on reporting form ETA 563 approved under OMB control number 1205-0016.*

Part D, Chapter III of the ETA Handbook 315 on the Trade Adjustment Assistance Program provides the reporting instructions for ETA 563 and states in part:

2. *General Instructions. Each report is for reporting activity under a specified certified petition. A separate report is required for each certified petition under which services are provided.*
4. *Preparation of the Report. "Overview. The ETA 563 report has three basic types of data items-counts of people, counts of actions (TRA payments, job referrals, etc.), and dollar amounts. With few exceptions, the data items which report numbers of people are meant to be accurate counts of claimants under the petition number. Please be careful not to double-count people in these categories, i.e., do not include the same person more than once in any quarterly report or in reports for more than one quarter. Exceptions will be noted below where the item is discussed...."*

*"d. Section C, Reemployment Services (line 300). (1) Column 16 Applicants, New. Enter on line 300 the number of newly-registered applicants for reemployment services. Include previously registered applicants newly identified as TAA adversely affected workers."*

*"d. Section C, Reemployment Services (line 300). (2) Column 17, Applicants, Active. Enter on line 300 the number of applicants in active status as of the end of the reporting period. Include applicants currently enrolled or participating in TAA approved training. Within one reporting period, there must be no double-counting of applicants. However, the same applicant(s) may remain active, and be reported as such, in more than one reporting period."*

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

*Overview of Funding Process-ETA is adopting an annual process for disbursing TAA funds for training and associated administrative costs. The annual allocation process will utilize a set formula for distributing 75% of available TAA training funds. .... The factors that will be used in determining each state's share of the formula funds include prior year allocations of trade training funds and participant levels.*

*Program Reporting-The new funding process emphasizes the importance of accurate and timely reporting of program participant and expenditure data on the ETA 563 and SF 269. Reported data on these forms will take on increasing importance in determining the level of funds states may receive each year for serving trade affected workers. ....*

**Cause:** L&I indicated that the errors noted in the condition are primarily due to the use of so many different systems to accumulate information for this report. L&I could not explain the differences cited in the condition between the

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

### **Finding 05 – 15: (continued)**

supporting documentation provided and the numbers or amounts reported. Also, the programming for certain data fields on the report is based on definitions that do not capture all individuals that should be included in the respective field. Further, L&I does not have adequate procedures in place to prevent the above errors and ensure the accuracy and completeness of amounts on the ETA 563 report submitted to USDOL. With respect to the difference between the total benefit payments reported on the 563 reports and the amount reported on the SEFA, L&I could not provide an explanation.

**Effect:** Based on the number of errors cited in the condition and the lack of supporting documentation for information on the ETA-563 for the quarter ended June 30, 2005, and based on the unreconciled difference between the total benefit payments reported on the 563 reports for the year and the SEFA, L&I did not comply with federal reporting requirements. L&I's procedures also provide limited assurance that the information submitted to USDOL on the ETA 563 is accurate and complete. Further, inaccuracies in the amounts reported on the ETA-563 could directly affect the future funding levels for TAA since the factors used in determining each state's share of formula funds include information reported on the ETA 563.

**Recommendation:** L&I should modify their existing systems to ensure that information being provided is accurately accumulated and reported to USDOL. Further, we recommend that L&I review all data fields that categorize individuals based on definitions to ensure the criteria used is in accordance with the reporting instructions and federal program regulations. Further, we recommend that L&I store their data used to generate the quarterly 563 reports and ensure that the data can be retrieved in order to fully support the information being reported to the federal government. Also, L&I should ensure that amounts reported on the 563 reports agree to the accounting records supporting the SEFA.

**Agency Response:** The Department agrees with most of the audit findings. However, the Department specifically disagrees with the finding for Field 1a, and weaknesses in our reporting procedures for the EB work test and training disqualifications. In addition, the Department is providing a partial explanation for the difference between the SEFA amounts and the TRA amounts reported on the ETA-563 Quarterly Report.

**Field 1a:** The Department collects data for Field 1a when the TEA/TRA claim is established in the Information Management System (IMPS). These four workers would have already been counted as a Request for Determination in Field 1a in a previous quarter. Three would have been reported in the 1st Quarter of 2005, and one in the 3rd Quarter of 2004.

**Procedure for reporting EB Work Test Disqualifications and Training Disqualifications:** The Department's procedure for reporting EB Work Test Disqualifications and Training Disqualifications is in the Manual of Operations and Procedures (MOP), Part III, Section 3, Title 32, The TAA Program, Item 905. The Department has attached the procedure from Title 32 to report denials issued based on EB work test failure and training attendance. The Auditor did not cite any cases where either one of these Disqualifications were incorrectly excluded from the ETA-563 Quarterly Report, and the Department cannot attach SSNs if the report shows a count of zero.

**Difference between SEFA amounts and ETA-563 TRA amounts:** Based on a preliminary review, Federal Withholding, Child Support, and Supplemental payments were not included on the ETA-563 Quarterly Reports for SFYE June 30, 2005, while the SEFA reports included these amounts. Beginning with the 4th Quarter of 2005, these amounts are now included in the ETA-563, so the Department anticipates that these balances will more closely match the amount provided in the SEFA report. A partial explanation for the difference is that the ETA-563 amount is based on the check issue date, while the SEFA amount is based on the date the amount is posted. There is usually at least a one business day difference, but could be longer during a weekend or holiday break. When this occurs at the monthly or quarterly reporting dates, the amounts in the two reports will necessarily be different. The Department is continuing to investigate for other disparities or processing anomalies that may further account for the differences in the amounts, and modifications have been included in the Department's Corrective Action Plan.

**Planned improvements:** The first time the Department was requested to provide original electronic source data by individual SSN to verify the data reported was during the 2004 Single Audit. The Department did not receive the audit findings regarding errors in the data reported until August 2005, which was after the sample period for this audit. The

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 15: (continued)**

Department has agreed to submit quarterly updated corrective action plans to the USDOL Regional Administrator beginning with the 4th Quarter of 2005. These are prepared by the workgroup formed within the Department to review procedures and requirements for the documentation of TRA activity reported on the quarterly ETA 563 Report. Continuing improvements through the 1st Quarter of 2006 have been issued to the Regional USDOL Office in Philadelphia. A copy of the most recent progress report is attached.

Proposed changes to the ETA-563 Report: The Federal Register issued on March 23, 2006, requested comments from states, on or before May 22, 2006, regarding a proposed revision of the ETA-563 Quarterly Report. The Federal Register indicates the revision "...eliminates non-essential data elements or duplication of data collected elsewhere, and simplifies the reporting process." The proposed revision of the ETA-563 Quarterly Report reorganizes the report into three sections, eliminates certain fields that are reported on the current ETA-563 Quarterly Report, and adds a completely new section and a new field in each section.

Only referring to TRA, the fields being eliminated are Line 100, Field 1 (Request for Determination), Lines 100 & 110, Field 2 (Determined Entitled), Lines 100 & 110, Field 6 (Final Payment), Line 100, Field 7 (Expiration), Line 200, Field 8 (EB Work Test Disqualifications), Line 200, Field 9 (Training Disqualifications), and Line 200, Fields 12-15 (Overpayments). The three sections are Basic TRA, Additional TRA, and a new area for Additional Remedial TRA payment reporting. The proposed revision also requires a count of the total number of individuals who received each TRA benefit (Basic, Additional, and Additional Remedial). The Department believes it is in compliance with all of the fields that are on the current ETA-563 Quarterly Report and that will also be on the proposed ETA-563 Quarterly Report revision. Additionally, the Department was already collecting Additional Remedial TRA information separately to prepare for this anticipated revision.

Pennsylvania is using Common Measures to report TAA information to USDOL, so the proposed revisions regarding TAA (training, waivers, employment, etc.) are no longer reported via the ETA-563 Quarterly Report.

It should be noted that in a May 11, 2006 Determination Letter from the U.S. Department of Labor, the related prior year Single Audit Finding #04-10 was determined to be resolved after review of the additional corrective action forwarded on March 28, 2006, as well as quarterly progress reports that are submitted for their review.

**Auditors' Conclusion:** Regarding the discrepancies cited in the data for field 1a, the Request for Determination is based on the completion of a manual form by the claimant titled "Application Under the Trade Act of 1974, as Amended." As stated in the finding, the four claimants completed this form during the reporting quarter and therefore should have been included in this field.

With respect to the procedures for reporting EB Work Test Disqualifications and Training Disqualifications in Fields 8 and 9, we met with L&I personnel during the planning phase of our audit in order to walkthrough the procedures used to accumulate the data for the fields on the 563 report. During our meeting, we were informed by L&I personnel that the information for these two fields was not being compiled by any of the individuals involved in the 563 reporting process. Accordingly, while we do not dispute that there is a policy in place to report this information, it appears the L&I personnel responsible for the accumulation of data for the 563 were not aware of this policy.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 16:

#### CFDA #17.245 – Trade Adjustment Assistance-Workers

##### Unallowable Benefit Payments Result in Questioned Costs of \$17,041 (A Similar Condition Was Noted in Prior Year Finding #04-11)

**Condition:** As part of our testing of TAA program expenditures, we randomly selected 35 Trade Readjustment Assistance (TRA) weekly benefit payments made to claimants during SFYE June 30, 2005 and determined whether claimants were eligible for TRA and whether they received the correct benefit amount. Our testing disclosed the following overpayments:

- Claimants receiving TRA benefit payments under petitions filed after 11/4/02, are required to be enrolled in TAA approved training within a specified period of time or receive a waiver of the training requirement. For one of the 35 claimants in our sample (Claimant A), we noted that the claimant was not enrolled in training within the required time period and did not receive a training waiver. Accordingly, all payments made to this individual during the audit period of \$8,120 were ineligible and are, therefore, questioned.
- For one of the 35 claimants in our sample (Claimant B), we noted that the number of weeks used to calculate the claimant's TRA maximum benefit amount (MBA) was not reduced by the number of TEUC weeks that the individual was eligible to receive. As a result, the claimant received a total of \$4,059 in basic TRA payments that were ineligible and are, therefore, questioned.
- Claimants receiving additional TRA payments are required by federal regulations to make a bona fide application for training within a 210-day time frame. For one of the 35 claimants in our sample (Claimant C), L&I did not provide adequate documentation to support the claimant's bona fide application for training within the 210-day time frame. As a result, the entire amount of additional TRA benefit payments made during our audit period to this claimant in the amount of \$4,862 is ineligible and, therefore, questioned.

Therefore, the total amount questioned in our TRA testwork (Federal Grant No. UI-14457-Q00) is as follows:

Claimant	Weekly Benefit Amount	Weeks in Question	Amount of Overpayment	Total Questioned Costs
A	\$290	28	\$ 8,120	\$ 8,120
B	451	9	4,059	4,059
C	374	13	4,862	4,862
Total			\$17,041	\$17,041

For Claimant A, the 28 payments questioned are for the check week ending dates of 10/30/04 through 5/7/05 and include the benefit payment in our sample for check week ending date of 1/29/05. For Claimant B, the nine payments questioned are for the check week ending dates of 11/13/04 through 1/8/05 and include the benefit payment in our sample for check week ending date of 12/4/04. For Claimant C, the 13 additional TRA payments are for the check week ending dates of 3/12/05 through 6/11/05, but the benefit week in our sample was for a basic payment, not an additional TRA payment, and is therefore not included in the total questioned costs.

In our testing of TRA benefit payments, we also noted incorrect underpayments of benefit amounts. For one of the 35 claimants in our sample (Claimant D), the weekly benefit amount (WBA) was based on the UI WBA for the most recent qualifying separation date versus the first qualifying separation date. As a result, the claimant was underpaid basic TRA for 26 weeks during our audit period for a total underpayment of \$1,650. Additionally, for another claimant in our sample (Claimant E), we noted that the MBA excluded one week of additional TRA that the claimant would be entitled to subsequent to our audit period. Although these errors did not result in any questioned costs, we believe the errors are a result of a control weakness relative to L&I's calculation of the weekly and maximum benefit payment amounts.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 16: (continued)

The total amount of the 35 benefit payments tested was \$12,589 which consisted of 26 payments for basic TRA totaling \$9,130 and 9 payments for additional TRA benefits totaling \$3,459. The total TRA benefit payments made during the year were \$44,498,810. Based on the federal ETA-563 reports submitted for the year under audit, the TRA benefit total consisted of approximately \$30,421,755 for basic TRA and \$14,077,055 for additional TRA benefits.

**Criteria:** Section 114 (b) of the Trade Act of 2002 amended Section 231(a)(5)(A) of the 1974 Act regarding Qualifying Requirements for Workers, as follows:

*Section 231 (a) -Payment of a trade readjustment allowance shall be made to an adversely affected worker covered by a certification under subchapter A who files an application for such allowance for any week of unemployment which begins more than 60 days after the date on which the petition that resulted in such certification was filed under section 221, if the following conditions are met:*

*“(5) Such worker*

*(A)(i) is enrolled in a training program approved by the Secretary under Section 236(a) of this title, and*

*(ii) the enrollment required under clause (i) occurs no later than the latest of –*

- (I) the last day of the 16<sup>th</sup> week after the worker’s most recent total separation from adversely affected employment which meets the requirements of paragraphs (1) and (2),*
- (II) the last day of the 8<sup>th</sup> week after the week in which the Secretary issues a certification covering the worker,*
- (III) 45 days after the later of the dates specified in subclause (I) or (II), if the Secretary determines that there are extenuating circumstances that justify an extension in the enrollment period, or*
- (IV) the last day of a period determined by the Secretary to be approved for enrollment after the termination of a waiver issues pursuant to subsection (c).”*

20 CFR 617.14 regarding the Maximum amount of TRA states:

*(a) General rule. Except as provided under paragraph (b) of this section, the maximum amount of TRA payable to an individual under a certification shall be the amount determined by:*

- (1) Multiplying by 52 the weekly amount of TRA payable to such individual for a week of total unemployment, as determined under 617.13(a) and;*
- (2) Subtracting from the product derived under paragraph (a)(1) of this section, the total sum of UI to which the individual was entitled (or would have been entitled if the individual had applied therefor) in the individual’s first benefit period described in 617.11(a)(1)(iv) or, as appropriate 617.11(a)(2)(iv).*

20 CFR 617.15(b)(2) states in part:

*To be eligible for TRA for additional weeks, an individual must make a bona fide application for training- (i) within 210 days after the date of the first certification under which the individual is covered, or(ii) if later, within 210 days after the date of the individual’s most recent partial or total separation under such certification.*

20 CFR 617.3(i) defines a bona fide application as follows:

*Bona fide application for training means an individual’s signed and dated application for training filed with the State agency administering the TAA training program, on a form necessarily containing the individual’s name, petition number, local office number, and specific occupational training. This form shall be signed and date by a State agency representative upon receipt.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 16: (continued)

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

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

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

**Cause:** Regarding the errors that led to TRA benefit overpayments for Claimants A, B & C and the errors in benefit payment calculations for Claimants D and E, L&I stated that established procedures were not followed when determining the eligibility and/or amount of benefit payments for these claimants. Further, L&I did not have adequate procedures in place to detect these errors.

**Effect:** Since TRA benefits were overpaid to the three claimants listed above, there are ineligible questioned costs of \$17,041. Also, based on the questioned costs and the underpayments cited in the condition, L&I's existing procedures are not adequate to ensure that TRA eligibility determinations and related benefit payments are being made in accordance with federal regulations.

**Recommendation:** We recommend that L&I repay the \$17,041 in questioned costs, or pursue appropriate settlement with, the U.S. Department of Labor. L&I should also pursue appropriate settlement regarding the underpayments of TRA benefits noted in the condition above. Additionally, we recommend that L&I strengthen existing procedures at the PA CareerLink sites and at the agency level to ensure that TRA benefit payments are made only to eligible claimants and for the proper amount.

**Agency Response:** The Department believes these errors are due to manual input error and could not have been identified by programming changes because all were completed contrary to Department policies and procedures.

**Claimant A:** This worker was determined to have met the 8/16 week training enrollment requirement by the UC Service Center. However, Department procedure, which has been in effect since the Trade Act of 2002 was implemented, requires the UC Service Center to individually review the most recent qualifying separation and confirm that the Trade Act of 2002 training enrollment requirement has been met for each worker. In this case, the Department erred in determining Claimant A met the training enrollment requirement.

**Claimant B:** This worker was determined to be eligible for a total of \$11,726 of Basic TRA benefits. This amount did not reduce the total amount due to TEUC benefits received during the TRA-qualifying UC claim, which totaled \$5,863. Department procedure requires the deduction of all other UC benefit entitlement, including TEUC, based on the worker's TRA-qualifying UC claim from the worker's maximum TRA benefit amount (MBA). In this case, the Department erred in not reducing Claimant B's MBA by the worker's TEUC entitlement of \$5,863. However, the worker received only \$4,059 of this amount because he discontinued filing for TRA benefits prior to exhausting all TRA benefits.

**Claimant C:** This worker was determined to be eligible for Additional TRA benefits because she met all Additional TRA benefit requirements, including the 210-day training application requirement. The UC Service Center had a training application date from a Form ETA 8-58, generated through the CareerLink system that did not meet the 210-day requirement. The UC Service Center requested clarification from the CareerLink to see if this was the correct application date. The CareerLink did not process a valid training application form, but believed an undated, generic 'Trade Assessment Form' was equivalent to a Form ES-1927, or its online version. The CareerLink believed the Trade Assessment Form was completed on October 29, 2003. The UC Service Center relied on this information to establish eligibility for Additional TRA benefits. In this case, the Department erred in using an invalid training application date for Claimant C.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 16: (continued)**

Claimant D: This worker was determined to be eligible for a TRA weekly benefit amount (WBA) of \$355. The UC Service Center and Wage Record used the most recent UC Claim for the WBA, instead of the TRA-qualifying UC claim, which would have resulted in a WBA of \$430. The Department policy, which has been in effect since the Trade Act was established in 1974, requires Wage Record to set up the WBA based on the TRA-qualifying UC claim. The Department will issue a new financial determination at the \$430 WBA and issue supplemental payments as appropriate for Claimant D.

Claimant E: This worker was eligible for TRA entitlement through week ending August 13, 2005. Wage Record read a training end date of August 2, 2005 instead of the correct training end date of August 12, 2005, and incorrectly established TRA entitlement through week ending August 6, 2005. The Department will issue a new financial determination to add one week of entitlement (\$288) for Claimant E, and will issue payments as appropriate after the worker submits the necessary claim and attendance forms for week ending August 13, 2005.

**Auditors' Conclusion**: Based on the agency response, L&I should strengthen its existing oversight to ensure that TRA benefit payments are not being made contrary to established policies and procedures, regardless of whether the errors are manual or from weaknesses in programming. Therefore, our finding and recommendation, with the above clarification, remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 17:**

#### **CFDA #66.458 – Capitalization Grants For Clean Water State Revolving Funds**

##### **Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding #04-13)**

**Condition:** PENNVEST requires CWSRF loan recipients to submit annual financial statements within specified timeframes, which are then used to evaluate each recipient's fiscal position and its ability to repay the loans back to PENNVEST (PV). PV sends the statements to a CPA firm who reviews them in detail for any adverse conditions. PENNVEST maintains a tracking system to control the review process, which includes the date financial statements are received, date sent to the CPA firm, and date CPA returns their written analysis.

Our audit sampled 20 CWSRF loans out of 402 active loans during the current year. Our test results disclosed 6 instances out of 20 in which PV did not receive the financial statements timely within the required 150 days. We also identified 3 instances in which the CPA firm did not return the results of its review timely within the required 45 days.

In addition to the 20 loans tested, we reviewed the entire tracking system and found that in total, PV did not receive the financial statements timely within the required 150 days for 158 loans, or about 37 percent. We also identified a total of 59 loans, or about 15 percent, in which the CPA firm did not return the results of its review timely within the required 45 days.

We also noted that 27 Federal loans were erroneously not listed on the tracking system as required to submit financial statements. Finally, we noted that financial statements were not received for 53 loans as required (15 of these loans were included in the 27 not listed as required to submit). Certified letters had been sent to only 25 of the 53 entities by PV.

As a result of all of the above, internal controls at PV over its tracking system for monitoring the financial status of CWSRF subrecipients need improvement.

**Criteria:** Section 3(m) of the loan agreement requires loan recipients to submit financial statements within 150 days after the end of each fiscal year. PENNVEST is required to use these financial statements to monitor the subrecipient's ability to repay the loan.

The A-133 Compliance Supplement Part 3 M. Subrecipient monitoring references the requirements of the USC 7502(f)(2)(B) which states:

*Each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means.*

**Cause:** It appears that PV is not maintaining the monitoring system up to date by requiring the timely submission of financial statements by subrecipients and a timely review by the CPA firm. In addition, it appears that the monitoring system documentation is not complete.

**Effect:** An inadequate monitoring system could cause some subrecipients not to be monitored since they would not be required to submit financial statements. The untimely submission and review of the financial statements could delay the identification and follow up on adverse conditions which would disclose the entity's inability to repay the loan.

**Recommendation:** We recommend that PV establish controls to track and ensure the timely submission and review of all subrecipient financial statements. PV should also identify the entities failing to submit financial statements and should contact the entities requesting they be submitted.

**Agency Response:** We are in partial agreement that PENNVEST is not maintaining the monitoring system up to date to determine the status of financial statement submissions. The manual tracking system maintained by a single employee

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 17: (continued)**

that is responsible for tracking over 1,400 financial reports is in need of improvement. Management is taking steps to automate the administratively burdensome workflow and implement email notification to improve consistency of work assignments. In addition, management is working with Public Protection and Recreation Comptroller Audit division to deploy auditors where borrowers fail to respond to notices of noncompliance.

It was noted that similar monitoring condition #04-13 was issued in the prior audit year. The management information system has undergone several revisions that included the transfer of data from one information system to another system. It has been determined that report information is often incorrect due to information that is misaligned in the new computer system. It is management's position that the audit data reviewed had not had an integrity quality control review. When reviewed for audit response, information reflected that the monitoring system is updated in a timelier manner than suggested.

The PENNVEST loan monitoring system as a whole provides a comprehensive risk assessment and loan monitoring program. Multiple notices of non-compliance of reporting are issued and program impacts are implemented where available. Given the size of the loan portfolios and limiting staff solutions, management is working with an information design consultant to computerize many of the problematic issues.

As of July 2005, PENNVEST has deployed an interactive financial statement collection system. Financial information is faxed to the PENNVEST scanner. The scanner reads the federal identification number and sweeps the financial information into a management information system. Information that cannot be read by the scanner is reported for manual updates. Emails are transmitted to the PENNVEST financial consultant that the referenced information is available to review and analysis performed. Final designs are underway to have the financial consultant report findings electronically. Information will be tracked electronically including dates of receipts and reviews. Management believes that with the improvements, the loan monitoring system will be more reliable and audit reportable conditions will not be issued.

**Auditors' Conclusion:** Based on the Agency Response, the finding and recommendation remains as previously stated. While we acknowledge that PENNVEST is making improvements in its loan monitoring system, weaknesses still existed throughout our current period under audit. We will review PENNVEST's continuing corrective actions in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 18:

#### CFDA #83.544 – Public Assistance Grants

#### CFDA #97.036 – Public Assistance Grants

#### Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting (A Similar Condition Was Noted in Prior Year Finding #04-14)

**Condition:** The PPR Comptroller Office is required to submit a Financial Status Report (FSR), FEMA Form 20-10, to FEMA on a quarterly basis for each open disaster grant under the Public Assistance Grants Program (PAG). In addition, PPR uses the Payment Management System (PMS) operated by the Division of Payment Management (DPM) to draw federal funds. On a quarterly basis, PPR receives PSC 272 reports from DPM. These reports include a PSC 272-E, Major Program Statement, which lists individual payments during the quarter by major program (Part I) and provides a cash accountability for all advances received through PMS by major program (Part II).

Our testing of the FEMA Form 20-10 Report for the quarter ending March 31, 2005 for Disaster #1557 revealed that the amount reported on Line 10h “Total Federal funds authorized this funding period” did not agree to the amounts authorized by DPM on the PSC 272 report as follows:

<u>Disaster Grant</u>	<u>Reported Federal Funds Authorized</u>	<u>Federal Funds Authorized by DPM</u>	<u>Difference</u>
1557	\$48,417,713	\$46,762,888	\$1,654,825

During our prior year audit, we also noted that PPR had no procedures in place for the supervisory review and approval of amounts on the FEMA Form 20-10 reports that are submitted to FEMA. In addition, we noted that PPR did not have adequate procedures in place to verify and document its review of the amounts reported by DPM on PSC 272-E for the grants under PAG. Our follow-up for the current year ended June 30, 2005 revealed that PPR did implement supervisory review procedures for the FEMA Form 20-10 and for the verification of amounts on the PSC 272-E. However, these procedures were not implemented until after June 30, 2005 and therefore the control weakness cited above existed during the entire year under audit.

**Criteria:** 44 CFR 13.20 regarding standards for financial management systems states:

*(b) The financial management systems of other grantees and subgrantees must meet the following standards:*

- (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.*

In addition, adequate internal controls over federal reporting would include the supervisory review and approval of financial data reported prior to submission to the federal agency.

The OMB A-133 Compliance Supplement Part 3, L. Reporting, states:

*Once a quarter, using the authorized amounts provided by the Federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PSC-272 reports. ...The reports are either mailed to the recipient or electronically downloaded by the recipient using DPM's Electronic 272 System. Recipients should verify the reported amounts.*

**Cause:** As noted above, PPR did implement changes in its internal controls over federal reporting in response to our prior year finding. However, these procedures were implemented subsequent to the year under audit and therefore these procedures were not in place during the audit period. Regarding the error noted on the FEMA Form 20-10 Report, PPR stated that this was an oversight when preparing the report. Additionally, since no review procedures were in place during the year under audit, this error was not detected by PPR.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 18: (continued)**

**Effect:** Since PPR submitted inaccurate information on Line 10h of the FEMA Form 20-10, PPR was not in compliance with federal reporting requirements. Additionally, PPR did not have any procedures in place during the year under audit for the supervisory review and approval of the FEMA Form 20-10 to ensure accurate and complete financial reporting. Further, PPR did not have adequate procedures in place during the year under audit to verify and document its review of the accuracy of the data reported by DPM on the PSC 272-E Report for the grants applicable to the PAG Program.

**Recommendation:** We understand, as discussed above, that PPR has implemented corrective action to address the internal control weaknesses cited above. Accordingly, we recommend that PPR continue performing their supervisory reviews of the FEMA Form 20-10 to ensure that amounts reported are accurate and complete and continue to perform verifications of amounts reported by DPM in Parts I and II of the PSC 272-E each quarter. Additionally, PPR should also ensure that the performance of these control procedures is adequately documented. PPR should submit a revised Form 20-10 Report to FEMA to correct the above-noted error.

**Agency Response:** As indicated in the finding, the Comptroller's Office implemented procedures for supervisory review after a similar finding was issued for the June 30, 2004 Single Audit. The procedures were not implemented until after June 30, 2005 due to the late completion of the June 30, 2004 Single Audit.

In response to the specific item in the finding, this simply was a clerical error. The error was for disaster 1557, Hurricane Ivan. When a new disaster first becomes active, the authorized amount changes daily. Therefore, we use the total amount authorized from the Health and Human Services Federal Cash Transactions Report, PSC - 272, as the authorized amount on the quarterly Financial Status Report, FEMA Form 20-10. For the period ending March 31, 2005, an incorrect authorized amount was reported on the FSR. Our office prepares a large volume of federal reports for a variety of state agencies. Due to this volume, this type of error will occur occasionally regardless of the number of reviews. All other information on the report was accurate and the authorized amount was reported correctly on the following quarterly report.

A revised FEMA Form 20-10 has been submitted to FEMA. No additional corrective action is necessary.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 19:

#### CFDA #83.544 – Public Assistance Grants

#### CFDA #97.036 – Public Assistance Grants

#### Internal Control Weaknesses in PEMA's System of Cash Management

**Condition:** The amount and timing of the payment of federal funds for public assistance grants is dependent on whether the project is small or large. For small projects, (< \$54,100), FEMA requires the full federal share of the eligible costs to be paid to the subrecipient/applicant as soon as possible following approval of the Project Worksheet (PW) by FEMA and PEMA and obligation of the federal share by FEMA. If the actual cost for small projects is less than the estimated cost on the approved PW, FEMA generally will not ask for a refund. For large projects, (>\$54,100), FEMA requires the federal share to be paid to the subrecipient/applicant on the basis of actual costs incurred as the work is completed and the applicant submits requests for reimbursement to PEMA.

During our testing of PEMA's subrecipient payments for expenditures incurred under the Hurricane Ivan Disaster (#1557), we noted that payments to 11 subrecipients for large projects were not supported by the FEMA-required request for reimbursement from the subrecipient. Further, we noted that the payment represented the full federal share of the total eligible costs on the approved PW rather than actual costs incurred to date. Through inquiry of PEMA personnel, we were informed that a decision was made to advance the entire federal share to subrecipients for large projects under this disaster upon approval of the PW by FEMA and PEMA, and obligation of the federal share by FEMA. As a result, the subrecipients were not required to submit requests for reimbursement to PEMA as costs were incurred.

We noted, in conjunction with our testing of subrecipient monitoring, that PEMA has procedures in place to review supporting documentation for actual project costs at project closeout for all large projects under this disaster. However, PEMA has no procedures in place to monitor these subrecipients for excess cash on hand during the project, which is in violation of federal cash management standards.

We also noted that PEMA paid, via interagency transfers, the full federal share to PADOT for large projects under this disaster upon approval of PADOT's PWs by FEMA and PEMA. PEMA then drew down the funds from FEMA to cover these interagency transfers. However, there were no procedures in place to coordinate and minimize the time between the drawdown of federal funds by PEMA and the disbursement for the project costs by PADOT, which is also in violation of federal cash management standards.

A total of \$46,009,698 in federal expenditures was reported on the Schedule of Expenditures of Federal Awards (SEFA) under CFDA #97.036 for the year ended June 30, 2005. A total of \$45,764,744 of these expenditures was reported under grant #1557 for the Hurricane Ivan Disaster.

**Criteria:** US Treasury Regulations in 31 CFR, Part 205, Part B, provides the rules applicable to federal assistance programs not included in a Treasury-State Agreement as follows:

- (a) *A State must minimize the time between the drawdown of Federal funds from the federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs.....States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.*
- (b) *Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 19: (continued)

In addition, 44 CFR 13.37 regarding subgrants states:

(a) *States shall follow state law and procedures when awarding and administering subgrants of financial assistance to local and Indian tribal governments. States shall:*

(4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

**Cause:** PEMA indicated that a directive was issued to PEMA from the Governor's Office to advance the full federal share to all applicants for large projects under this disaster as soon as the funding became available in order to expedite the recovery work. PEMA stated that this was done without obtaining FEMA approval.

**Effect:** PEMA is not adequately monitoring advances made to subrecipients for large projects under the Ivan disaster for excess cash on hand. As a result, there is limited assurance that these subrecipients are complying with federal cash management regulations. Further, the Commonwealth violated cash management standards since draws were not based on the program's immediate needs. However, since PAG is not included in the CMIA Treasury-State Agreement, there is no CMIA interest liability with respect to these draws.

**Recommendation:** We recommend that PEMA establish procedures to monitor advances to subrecipients for large projects under the Ivan disaster and any future disasters or obtain approval from FEMA for such advances prior to any disbursement of federal funds to the subrecipients and other state agencies.

**Agency Response:** During previous disasters, PEMA did in fact execute its cash payments procedures as outlined above by the auditors. Tropical Storm Ivan presented some unique circumstances for the Commonwealth. This was the third Presidential declaration within a month and a half period for the Commonwealth. Although the two previous declarations, FEMA 1538 and 1555, were for Individual Assistance only, the situation across the Commonwealth was rapidly deteriorating when Ivan severely damaged infrastructure statewide. The Commonwealth Coordinating Officer (CCO) made a decision to pay the full federal share to applicants for large projects as soon as possible. Because the original CCO for that disaster is no longer employed by the Commonwealth, it is difficult to determine if he consulted with the Federal Coordinating Officer (FCO) for waiver of administrative conditions as allowed by the Stafford Act, as amended by Pub. L. 106-390, October 30, 2000 (Stafford Act).

This response contends that the Stafford Act does allow states the authority to issue the full federal share without obtaining requests for reimbursement from subrecipients. The Stafford Act, 44 CFR, 31 CFR, and OMB Circular A-102 presents conflicting guidance on the intent of Congress and the President on management and administration of this grant program. However, the Stafford Act and 44 CFR clearly relay the intent that the delivery of disaster assistance shall be expedited.

#### 1. §5141 of the Stafford Act Provides for Waiver of Administrative Conditions

*Any Federal agency charged with the administration of a Federal assistance program may, if so requested by the applicant State or local authorities, modify or waive, for a major disaster, such administrative conditions for assistance as would otherwise prevent the giving of assistance under such programs if the inability to meet such conditions is a result of the major disaster.*

Ivan was a major disaster. It is clear that the CCO issued a directive to expedite payment of the full federal share. It was common knowledge throughout the field that the full federal share would be paid once the Project Worksheets (PW) were approved. The onsite FEMA trained Public Assistance Officers never once made a complaint or offered a suggestion that the Commonwealth had stepped out of the boundaries of grant administration. It appears that the prominent placement of the above stated waiver in the Stafford Act clearly invokes a sense of urgency in delivery of assistance. Regardless, since the Public Assistance Officers were aware and didn't put a stop to the practice, the state argues that any violation of this is deemed waived.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 19: (continued)

#### 2. § 206.200 General 44 CFR Subpart G—Public Assistance Project Administration

*(a) Purpose. This subpart establishes procedures for the administration of Public Assistance grants approved under the provisions of the Stafford Act.*

*(b) What policies apply to FEMA public assistance grants? (1) The Stafford act requires that we (FEMA) deliver eligible assistance as quickly and efficiently as possible consistent with Federal laws and regulations. We expect the Grantee and the subgrantee to adhere to Stafford Act requirements and to these regulations when administering our public assistance grants.*

*(2) The regulations entitled “Uniform Requirements for Grants and Cooperative Agreements to State and Local Governments,” published at 44 CFR part 13, place requirements on the State in its role as Grantee and gives the Grantee discretion to administer federal programs under their own procedures. We expect the Grantee to:*

*(i) Inform subgrantees about the status of their applications, including notifications of our approvals of Project Worksheets and our estimates of when we (FEMA) will make payments;*

*(ii) Pay the full amounts due to subgrantee as soon as practicable after we (FEMA) approve payments, including the State contribution required in the FEMA-State Agreement;*

This section of 44 CFR informs the Grantee to, “Pay the full amounts due to subgrantee as soon as practicable after we (FEMA) approve payments, including the State contribution required in the FEMA-State Agreement.” This section of 44 CFR also supports payment of the full amount. It clearly and unequivocally says to pay the full amount as soon as practicable after FEMA approves payments. § 206.201 of 44 CFR (j) says:

*(j) Project approval means the process in which the Regional Director, or designee, reviews and signs an approval of work and costs on a Project Worksheet or on a batch of Project Worksheets. Such approval is also an obligation of funds to the Grantee.*

*(k) Subgrant means an award of financial assistance under a grant by a grantee to an eligible subgrantee.*

*(l) Subgrantee means the government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided.*

Again it appears to be not only the intent of Congress but also FEMA in their regulations that the full amount will be paid when the project is approved (§ 206.201 of 44 CFR). In examining the two sections of 44 CFR, the conclusion is that PEMA was justified in paying the full federal share as soon as the Project Worksheets were approved.

3. The auditor faults PEMA because, during testing of 11 subrecipients for large projects, payments were not supported by FEMA-required requests for reimbursement from the subrecipient.

The auditor faults PEMA for not requiring subrecipients to submit claims for reimbursement as costs are incurred.

(a) § 206.205 (b) of 44 CFR does not mention a requirement that the grantee require applicants to submit claims for reimbursement as costs are incurred. It does say that the Grantee shall make an accounting to the RD of eligible costs for each approved large project. PEMA has been collecting cost information required by this section of 44 CFR and submitting them to FEMA for review and approval. As of May 25, 2006, PEMA had supplied information on approximately 150 large projects to FEMA for review. Because settlement on large projects is based on actual costs some projects come in at the approved PW amount, some have a cost overrun and some have a cost under run. It appears that FEMA’s concern with this particular issue is that an applicant will not quickly return funds to the Grantee if there is a cost under run. That has not been the case. Applicants have been very responsive in returning funds for cost under runs.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 19: (continued)

(b) § 13.21 of 44 CFR Payment

*(a) prescribes the basic standard and the methods under which a Federal Agency will make payments to grantees, and grantees will make payments to subgrantees and contractors. § 13.21 says:*

*(b) Basic Standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and the disbursement by the grantee or subgrantee in accordance with Treasury regulations at 31 CFR part 205.*

*(c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.*

*(d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and sub grantees may also be paid by reimbursement for any construction grant.*

Again 44 CFR implies a sense of urgency in making payments to the grantee in disbursing funds. It also says that Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement. There is a clause for reimbursement when the requirements of paragraph (c) cannot be met. PEMA is not aware of any subgrantees that cannot meet the perimeters of paragraph (c).

(c) Public Assistance Policy Digest Page 87 says:

*Large projects: the State makes payments to the Applicant on the basis of actual incurred costs as the project proceeds.*

The details of this paragraph conflict with prominent paragraphs contained in the Stafford Act and 44 CFR that relay Congress and FEMA's intent to expeditiously pay grantees and subgrantees. It is understandable why the CCO directed what he did regarding advancing the 75% for large projects. FEMA 1557-DR-PA was a very large disaster, probably the largest that FEMA had that year outside of the disasters in Florida. PEMA had a total of 1,870 subgrantees and 5,301 projects. This amount of applicants and projects far exceeds most other states and is only a phenomenon know to Commonwealths. Being a large, heavily populated Commonwealth dating to the Quaker Province of 1681 represents a challenge because of the large number of applicants and extensive infrastructure. Most states do not have this problem. They may have a large number of projects, but they don't have the number of applicants. PEMA believes that the authors of the Stafford Act and 44 CFR realized the possibility of these types of problems and wrote their regulations both broad and flexible enough to allow deviation in execution of administration of the Public Assistance Grant Program.

#### 4. Summary:

(a) PEMA has always complied and will comply in the future with the mandates of federal laws and regulations in the administration of disaster grant programs. PEMA respectfully contends that a close examination of 44 CFR does allow for states to forward the full Federal share with or without consultation from their FEMA counterpart.

(b) Additionally, PEMA believes that 44 CFR when read with other applicable rules and guidelines sends conflicting signals to grantees regarding advance payments. In several places it says that advance payments are the preferred method. The placement of these phrases seems to be in prominent portions of 44 CFR and they clearly say advanced payments are authorized. The portions that talk about making drawdown types of payments are not equally clear.

(c) It is impossible for PEMA to go back for FEMA 1557 and 1587 and 3235-DR-PA and make payments based on requests for funding from subgrantees. These payments were already made and to request the funds back at this point will create a burden on applicants that do not have the time or staff to execute this activity.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 19: (continued)

(d) Tropical Storm Ivan was a major disaster with a heavy load of applicants and projects. 31 CFR says “A State must minimize the time between the drawdown of Federal funds from the federal government and their disbursement for Federal program purposes.” The definition of “minimize” is not clear. Of the 373 large projects, many were completed by the time that the PWs were written or shortly thereafter. Many others went to bid shortly after the approval of the PW or bids were being prepared. FEMA was still involved in doing kick off meetings months after the declaration of the disaster. Many of the applicants are municipalities with small populations without the means to pay contractors for large projects up front with their own funds. These cash-strapped applicants are hesitant to bid projects unless they have money up front to provide assurances that contractors will be paid. Communities surrounding the Commonwealth suffered similar damages and Pennsylvania communities were competing for a select few contractors. Vital infrastructure was damaged, such as sewage and water plants, bridges, schools etc. It was necessary to move money quickly to these communities so they could return some sense of normalcy to their citizens.

(e) PEMA believes that 44 CFR does allow advancement of the full federal share to subgrantees for disasters such as Tropical Storm Ivan.

**Auditors’ Conclusion:** We understand PEMA’s decision to pay the full federal share to applicants for large projects under the Ivan disaster and commend them for their efforts to expedite payment to the applicants affected by this disaster. We also understand the administrative burden placed on PEMA by the Ivan disaster. Further, we agree that the Stafford Act does provide for a waiver of administrative conditions, which would include cash management considerations, for a major disaster. However, the Stafford Act also states that this waiver must be granted by the federal agency upon request by the state agency. Through discussions with PEMA, we were informed that a formal request for a waiver to allow these payments of the full federal share to applicants was not made to FEMA until after we brought this matter to PEMA’s attention. Further, we understand that PEMA’s request for this waiver was subsequently denied by FEMA. As a result, we do not agree with PEMA’s statement that the violation is deemed waived since FEMA was aware of this practice.

We also agree that 44 CFR Part 13.21 does allow for the advancement of federal funds to grantees and subgrantees. However, these regulations also specifically state that procedures must be in place to minimize the time elapsing between the transfer of the funds to the grantee or subgrantee and their disbursement by the grantee or subgrantee. As stated in the finding, PEMA had no procedures in place to monitor their subrecipients for excess cash during the project or to coordinate and minimize the time between the drawdown of federal funds by PEMA and the disbursement for project costs by PADOT. Therefore, while the regulations may authorize advance payments, such payments are conditional on the establishment of certain procedures by the grantee to ensure compliance with federal cash management standards.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 20:

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

##### The Pennsylvania Department of Education Does Not Properly Monitor LEAs for Compliance With Title I Comparability Requirements

**Condition:** In accordance with the Title I Grant program under the No Child Left Behind (NCLB) federal legislation, a condition of participating in Title I is that an LEA must provide services in Title I schools that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I funds. LEAs comply with the comparability requirement, in part, by annually filing a Comparability Assurance Form with PDE by November 15 of each year. PDE relies on this assurance form, along with on-site monitoring of LEAs and Single Audits of LEAs to ensure that Title I comparability calculations are accurate and LEAs are in compliance.

We selected a sample of 25 LEAs from the population of about 550 LEAs participating in Title I during SFYE 6/30/05. Our testing disclosed four instances out of the 25 where PDE did not have the Comparability Assurance Form on file. In each case, it was necessary that PDE contact the LEA and the LEA faxed a copy of the form to PDE. PDE's failure to have this assurance on file indicates a weakness in PDE procedures to monitor and ensure the comparability requirement is being met by LEAs.

As part of our testwork, we also reviewed reports issued by other auditors during our audit period in order to determine any impact on our Single Audit of Title I. USDE conducted on-site visits at PDE and several LEAs during the current year, and as part of its report, USDE noted that PDE's current three-year on-site LEA program monitoring cycle did not ensure that LEAs properly determined comparability each year since PDE did not review LEA comparability reports at least every two years, as required. Prior to the USDE visit, PDE believed that the annual submission of the Comparability Assurance Form, reliance on Single Audits of LEAs, and on-site program monitoring of LEAs was sufficient to ensure compliance. However, USDE concluded that, although noncompliance with comparability requirements was not actually noted at any LEAs, PDE's methods were insufficient to properly ensure that its LEAs have met the comparability requirements as a condition for receiving Title I funds and for PDE to meet the requirement to review the LEA comparability reports at least every two years.

**Criteria:** Title I, Section 1120(A)(c) of ESEA states:

*(c) Comparability of Service*

*(1) In General.*

*(A) Comparable Services - An LEA may receive funds under Title I, Part A...only if the State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A funds.*

*(2) Written Assurance.*

*(A) An LEA shall be considered to have met the requirements of paragraph (1) if such agency has filed with the State Educational agency a written assurance that such agency has established and implemented-*

*(i) a local educational agency-wide salary schedule;*

*(ii) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and*

*(iii) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.*

*(3) Procedures and Records – Each LEA assisted under this part shall-*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 20: (continued)**

(A) *develop procedures for compliance; and*

(B) *maintain records that are updated biennially documenting such agency's compliance.*

**Cause:** PDE management stated that it is their policy for Federal Program Regional Coordinators to ensure that the Comparability Assurance Form is filed each year and maintained by PDE in the LEA file. One of their Regional Coordinators did not follow that policy and the forms were not obtained from LEAs. Also, PDE considered the submission of the assurance form along with its current program monitoring procedures, to be sufficient to ensure that each LEA has met the comparability requirement.

**Effect:** Without verification of comparability, PDE lacks assurance that LEAs are providing comparable services for each of the Title I schools under the LEAs jurisdiction. Services in Title I schools should be properly verified as comparable to services in non-Title I schools at each LEA. Comparability assures equivalence among schools in salaries, in teachers, administrators and staff, and curriculum materials and instructional supplies. Without comparable services, the LEA may not participate in the Title I program.

**Recommendation:** We recommend that PDE take the necessary steps to ensure that all Comparability Assurance Forms are properly and timely filed each year by LEAs and that the forms are maintained in the PDE file. Further, PDE should work with USDE officials to revise their LEA monitoring procedures and ensure that LEAs properly calculate their comparability every year, and PDE should review and verify these calculations at least once every two years.

**Agency Response:** The Division of Federal Programs now requires each school district to annually submit comparability assurances AND comparability calculations verifying compliance. One Division of Federal Programs' staff member is responsible for monitoring the receipt of comparability documents and each team is responsible for contacting districts and ensuring submission.

The Division of Federal Programs will more diligently pursue those school districts that do not submit comparability documentation by the established deadline of November 15<sup>th</sup>. Districts failing to comply will be notified of their noncompliance and Title I funds will be withheld if necessary documentation is not submitted.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 21:**

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

##### **Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #04-18)**

**Condition:** Title I federal education grant moneys are enacted under the Elementary and Secondary Education Act (ESEA) as amended and by the No Child Left Behind (NCLB) federal legislation of 2002 as amended. Under ESEA and NCLB, Title I services are to be linked to state-determined performance standards that are expected of all children. To that end, assessment exams are given to students in an effort to identify and assist schools that do not make adequate yearly progress towards meeting the standards.

PDE insures that Local Education Agencies (LEAs) annually review the progress of each Title I school to determine whether the schools are making adequate yearly progress (AYP). Under NCLB, the general rule is that LEAs and schools that do not make AYP for two consecutive years are identified for improvement, are classified under a status called Needs Improvement I. A school that has not made AYP for three consecutive years is classified as Needs Improvement II. A school that has failed to meet AYP for four consecutive years is classified as Corrective Action I and a school that has not made AYP for five consecutive years is classified as Corrective Action II. Schools under the above classifications are all considered under an improvement status. For schools in the above classifications, the LEAs must create school plans and work with PDE to implement the plans to ensure that students can make AYP.

According to NCLB, PDE must annually review the progress of each LEA that receives Title I funds to determine whether the LEA made AYP. PDE must identify for improvement any LEA that fails to make AYP for two consecutive years or was in an improvement status. PDE must identify the LEA for corrective action if it continues to fail to make AYP.

PDE must report annually to USDE and make certain information widely available within the state including the number and names of each school identified for improvement, the reason why the school was identified, and measures taken to address the achievement problems in the school. Based on data received from an outside vendor, PDE generates reports to USDE on the Consolidated State Performance Report (CSPR). Further, PDE must prepare and disseminate an annual State Report Card (SRC) including the number and name of each school and LEA identified for improvement.

As part of the reporting and AYP process, PDE contracted with an outside vendor to provide numerous services which include:

- Design state assessment materials at PDE specifications
- Provide assessment testing materials to students in grades 5, 8 and 11 in the subjects of reading and mathematics
- Train the exam administrators
- Score and evaluate each assessment booklet
- Compile assessment results by school and LEA
- Provide assessment results via data files to LEAs and PDE

In short, PDE is required to collect, compile, and determine the accuracy of information about the number and names of schools in need of improvement and report this information on the CSPR and SRC.

In January 2005, PDE filed the CSPR, Part 1 with USDE. In July of 2004, PDE posted on the PDE web site, the 2003-2004 SRC and related listings which included the number and names of each school and school district identified for improvement. PDE provided the auditors with copies of each report.

Although our testwork detected no errors in the actual data compiled and reported during our current year, our audit found that PDE has inadequate documentation procedures regarding the collection, compiling and verifying the accuracy of the data reported in the CSPR and SRC. PDE indicated that it performs various automated data validation checks (i.e., record counts and control totals) and comparisons of year to year on test score data received from its outside

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

### **Finding 05 – 21 : (continued)**

contractor, but has no formal documented procedures supporting these steps. Further, for any supervisory review of the data that PDE performs, there is no documented evidence on what type of review procedure was done and no evidence of PDE's supervisory review and approval.

In April 2006, PDE developed an accountability checklist and a quality control approval document to provide an audit trail. This document will be used during the FYE 6/30/07 audit year. Therefore, this documentation evidencing any review of the data was lacking for FYE 6/30/05.

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

*(h) Reports.*

*(1) Annual State Report Card.*

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

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

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

*(v) aggregate information on any other indicators used by the State to determine the adequate yearly progress of students in achieving State academic achievement standards;*

*(vii) information on the performance of local educational agencies in the State regarding making adequate yearly progress, including the number and names of each school identified for school improvement under section 1116; and*

*(4) Annual State Report to the Secretary. Each State educational agency receiving assistance under this part shall report annually to the Secretary, and make widely available within the State—*

*(A) beginning with school year 2002-2003, information on the State's progress in developing and implementing the academic assessments described in subsection (b)(3);*

*(E) the number and names of each school identified for school improvement under section 1116(c), the reason why each school was so identified, and the measures taken to address the achievement problems of such schools;*

**Cause:** PDE depends heavily upon an outside vendor for the determination of making AYP and identifying schools in the improvement classification. Further, it appears that PDE has an inadequate number of staff devoted to the State Report Card and CSPR efforts. Since timeliness of the reports is viewed as most critical, accuracy of the information is left to the vendor to ensure.

**Effect:** USDE and the public cannot be reasonably assured that CSPR and SRC information as reported is complete and accurate. A situation exists whereby the vendor controls the assessment process, from creating the tests to scoring and reporting the results without adequate oversight by PDE. With the vendor's control over the assessment process and lack of documented PDE verification, inaccurate data could be reported to USDE and the public. LEAs and schools in need of improvement may not be properly identified, tracked, and reported resulting in noncompliance with NCLB. Furthermore, the parties involved with complying with NCLB (e.g., PDE, LEAs, and schools) have a vested interest in making AYP. These interests may pose an increased risk for the inaccurate reporting of data measuring AYP. Therefore, adequate oversight of all parties is most critical to ensure proper reporting to USDE and the public.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 21: (continued)**

**Recommendation:** PDE management should institute reasonable documented measures to insure that AYP data is complete and accurate as reported on the CSPR and SRC. Assessment data should be documented in detail, tested, and reviewed by PDE to ensure it's accuracy before it is compiled for the reports.

PDE should strengthen and better document internal controls over the collecting, compiling, verifying accuracy, and reporting of AYP data. PDE should develop comprehensive written procedures to document the process. Procedures should include supervisory review and documented sign-offs. Audit trails should be documented that show individual and school data rolling-up into the summary data presented on the CSPR and SRC. Procedures, audit trails, data summaries, and reviews and approvals should be retained in a file by PDE.

**Agency Response:** The Pennsylvania Department of Education understands the importance of complete and accurate data for determination of Adequate Yearly Progress (AYP). PDE also understands that reasonable documented measures must be taken to insure that the data is correct and accurate. This finding was the same last year, fiscal year June 30, 2004, and the PDE developed written procedures to document:

- Measures taken to insure accuracy of data
- Internal controls over collecting, compiling, verifying accuracy and reporting of AYP data.

The procedures were developed too late to apply to the 2005 data, and the Corrective Action Plan developed by the PDE at the time indicated that the procedures would be applied to the 2006 data beginning July 1, 2006.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 22:**

#### **CFDA #84.048 – Vocational Education – Basic Grants to States**

##### **Errors and Internal Control Weaknesses in PDE’s VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (A Similar Condition was Noted in Prior Year Finding #04-19)**

**Condition:** PDE is required to submit a Consolidated Annual Performance, Accountability, and Financial Status Report, otherwise known as the Comprehensive Annual Report (CAR), to provide VOC-ED performance data to USDE. There are 24 total subindicators reported on Form IV of the CAR. Fourteen are reported under the four Core indicators of performance and the remaining ten are reported as additional measures. Three different bureaus within PDE are responsible for gathering data for preparation of the CAR. Supporting data is received on hard-copy reports, on diskette, or via the internet from LEAs and outside contractors who administer standardized testing.

In our prior-year audit of the 2002-2003 CAR, we found inadequate controls at PDE over the compilation and review of CAR data to ensure the data is accurate and complete prior to submission to USDE. In our current audit follow up, we sampled and tested 5 subindicators (1S2, 2S2, 1S1, 1P2 and 3P2) out of the 24 subindicators in the 2003-2004 CAR, and we found material data errors and noted that prior-year weaknesses had not been corrected as follows:

- For two of the five sampled subindicators (1S2 – Skill Attainment, Secondary Level; and 2S2 – Diploma, Secondary Level), a standardized testing contractor submits test completion data to both PDE and another third party contractor for review. PDE places major reliance on the third party contractor review for these two subindicators. Our prior audit noted that although PDE prepared a timeline document to assess the data, many control activities were not documented or did not occur. For the current audit, PDE again prepared a timeline document to summarize and record various control activities to ensure data accuracy in the CAR, but as in the prior audit many of these control activities were not documented, showed no evidence of supervisory review and approval, or did not occur at all. For example, PDE claimed to have held internal review committee meetings to ensure propriety of CAR data, but little was documented to support these meetings or their impact. In addition, like last year, PDE intended to randomly select 60 percent of test sites for verification of needed data elements, but this activity was never performed. Our detail testwork of 1S2 and 2S2 further noted the following:
  - (1) The test contractor’s 2003-04 Annual Summary Report included data for the four performance levels established by PDE for Below Basic, Basic, Competent, and Advanced, with definitions for each level. The Advanced level showed the number of students who earned the Pennsylvania Skills Certificate (PSC), a CAR numerator. We noted that the test contractor definition for this numerator did not agree to the CAR and the USDE/PDE agreed upon definitions. The CAR definition stated that the PSC numerator was the number of career and technical education (CTE) students who successfully achieved competency levels at or above the national norm on the test contractor Job Ready Assessments, or achieved competency on other PDE approved tests, but the test contractor definition stated that students scoring 1.64 standard deviations above the mean received the PSC. According to PDE’s Bureau of Career and Technical Education (BCTE), “mean” should have read “competent level” since the PSC was actually awarded to students who scored at or above the advanced competency level. BCTE agreed that PDE did not use the national norm as the cut-off for reported PSC data, as required by the CAR and USDE/PDE agreed upon definitions.
  - (2) As in the prior audit, PDE did not include the results of all PDE approved tests in the data for CAR reporting of 1S2 and 2S2, as required by the USDE/PDE agreed upon definition, so the data was incomplete. Like last year, BCTE indicated that schools did not submit needed documentation in a timely manner for a proper review of the certain PDE-approved alternate test data prior to its inclusion in the CAR. We also noted that the third party contractor, who collects and summarizes this alternate test data for BCTE, had originally sent BCTE the prior year’s test results instead of the current year, which BCTE was not aware of until our auditor inquiry. At auditor request, BCTE notified the contractor of the discrepancy and the need for current-year data. The contractor responded that the original data was correct, but simply had the wrong school year in the heading, and forwarded new reports to BCTE with the heading corrected. We compared the corrected reports to similar reports reviewed in our prior audit testing and found that for the most part, the line item data was an exact

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 22: (continued)

match, so current-year data was again not reported. BCTE agreed the data could not be correct and would inform the contractor of the error and the need for corrective action. Without reliable alternate test data, the understatement in the 1S2 and 2S2 data could not be determined. Finally, in addition to the third party contractor's verification of data, PDE planned to compare the number of students to be tested (program completers) to the number of students actually tested. However, this activity was not performed for the 2003-04 CAR.

- For another subindicator (1S1 – Academic Achievement, Secondary Level), PDE summarizes test score data from another testing contractor for reporting on the CAR. In addition to providing the data to LEAs for their review and correction, PDE indicated they developed internal procedures to analyze the reasonableness of the data at the state level. However, these procedures were not properly implemented by PDE. Our auditor analytical review procedures noted an unusual decrease in the 1S1 denominator from 17,149 on the 2002-03 CAR to 13,453 on the 2003-04 CAR, or 3,696 (22 percent), and no significant change in the numerator, with no PDE analysis or follow up. This decrease was found to be directly related to an overall decrease in the CTE student population from 17,891 in 2002-03 to 13,787 in 2003-04. In researching this difference for us, PDE noted several causes for the decrease which clearly indicated that the 1S1 data reported on the CAR is actually incorrect, but since there has been no follow up to obtain or compile the correct data, the actual reporting error is unknown. Also, as in the prior audit, PDE did not perform or document procedures to confirm that the data control totals used for this subindicator agreed to the record count control totals submitted by the test contractor to ensure data on the CAR was complete.
- For subindicator 1P2 (Postsecondary Occupational Attainment) and 1P1 (Postsecondary Academic Attainment), we noted in our prior audit that 1P1 and 1P2 data on the 2002-03 CAR had been double-counted. We also noted that PDE inappropriately skipped school year 2000-2001 student data on a prior-year CAR for these two subindicators. In October 2005, PDE provided the revised and missing data to USDE. Our audit of this revised submission showed that the wrong years were reported by PDE, so the prior-year reporting errors were never properly corrected. Our testing also noted that the USDE/PDE final agreed upon measurement definition for the 2003-04 CAR was not consistent with 1P1 and 1P2 data actually reported. The USDE/PDE definition referenced students completing education programs, but the actual data reported was based on enrollments, not program completion. Also, the USDE/PDE definition for 1P2 referenced the number of programs, but actual data reported was based on the number of students.
- For subindicator 3P2 (Postsecondary Retention), PDE again completed the CAR using incorrect employment data. The USDE/PDE agreed-upon measurement definition for this subindicator includes only students who were employed in a related field, but PDE incorrectly mixed and reported students employed in both related and unrelated fields. The total number of students reported who had originally been employed in an unrelated field was 995, which represents a 24 percent overstatement of the CAR denominator amount of 4,143. We could not determine the impact of this overstatement on the numerator, which represents updated data on students who retained their employment status. As in the prior audit, we also noted that the CAR submitted to USDE documented a data measurement definition for 3P2 that did not match the actual data submitted or the USDE/PDE agreed-upon version. The CAR definition included not only program completers who were employed, but also those who were pursuing additional education or advanced training and/or serving in the military. As a result, it appears the reported definition for 3P2 in the CAR was incorrect and needs to change to match the actual data reported and the USDE/PDE agreed-upon version for this subindicator. Finally, PDE again did not document verification of the accuracy of data received from the Pennsylvania Department of Labor and Industry as part of a data sharing agreement for the requirements of subindicator 3P2. PDE's Division of Data Services indicated they perform a visual reasonableness check of the data prior to forwarding it to BCTE. However, the substance of this review, the related conclusions, and approval of the data are not documented.

In addition to the discrepancies noted in our sampled subindicators above, we also noted continuing overall control weaknesses in preparation of the CAR as follows:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 22: (continued)**

- Once the three bureaus gather their CAR data, it is submitted to one individual in BCTE. This individual, along with other members of the internal review committee, are supposed to review all data for accuracy and proper support prior to forwarding the CAR to the Bureau Director for final approval and submission to USDE. Although there is Bureau Director approval (electronic) of the report, we found no other evidence of meetings by the internal review committee to indicate that supporting compilations were reviewed to ensure CAR data is accurately supported and complete, and the data has been properly analyzed for reasonableness. In addition, PDE again could not provide a “data changes document” noted in PDE’s prior year corrective action plan, which is to evidence review and changes made by the Bureau Director to CAR data prior to submission to USDE. Therefore, the overall weaknesses reported in the prior year were not corrected in the current year.
- Overall, the file provided by PDE to support the timeline document did not contain any supervisory signatures or other documentation clearly attesting to the completion of the activities listed. Evidence of meetings and problem discussions was primarily limited to some e-mails among PDE staff and one meeting concerning benchmarking workshops for student test scores, which like many other e-mails, failed to document results and conclusions. While the timeline document represents a good internal control to monitor and track the progress of data compilation, and internal review and approval for the CAR, there is little or no documented evidence for many of PDE’s control activities. For example, the meeting of the internal review committee for final assessment of CAR data was not documented at all.
- According to PDE, there is no established timetable for CAR data to be received from any sources outside of BCTE. Data may be received at a time when an independent review or sampling by BCTE is not possible due to federal CAR submission deadlines. According to BCTE, if data is late in arriving from outside sources, BCTE assumes the necessary checks on data validity and accuracy had been performed at the source and no further review by BCTE is done on any of the data. Also, a “CAR Data Checklist” was prepared by BCTE to document the various sources and receipt of data for 2003-04 CAR subindicators. While the form contains fields or areas to note the data source, dates the data was received, and the signature of the person that reviewed and approved the data, we noted that the reviewer sign-off for the test contractor was absent for both 1S2 and 2S2, and there was no sign-off for the Division of Data Services to note approval of data queries for BCTE to extract 1P1 and 1P2 data from PDE’s eGrant Matrix system. We also noted that the CAR Data Checklist provided no sign-off for the review of 3P2 data by the Division of Data Services even though this unit is to review the data prior to its transmission to BCTE. Like the timeline document, the CAR Data Checklist is a good internal control to monitor and track receipt and review of CAR data as applicable to the various sub-indicator measurement definitions. All key personnel involved in the compilation and review of CAR data are not represented on the checklist and proper sign-offs are not occurring to evidence that proper data checks were made.
- USDE VOC ED officials conducted an on-site visit to PDE in 2005, and noted additional problems with sub-indicators 1P1 and 1P2 in their November 2005 Report, stating that required disaggregated data for gender, ethnic background, and special populations was not reported by PDE. In our auditor follow-up, we also discovered that required disaggregated data in sub-indicators 4P1 and 4P2 for ethnic background and special populations was not collected or reported by PDE.

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

- (1) *Grantees shall submit annual performance reports . . .*
- (2) *Performance reports will contain, for each grant, brief information on the following:*
  - (i) *A comparison of actual accomplishments to the objectives established for the period . . .*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 22: (continued)**

Federal Law 20 USC 2323(c) states:

(c) *Report*

(1) *In general*

*Each eligible agency that receives an allotment under Section 2321 of this title shall annually prepare and submit to the Secretary a report regarding –*

(A) *The progress of the State in achieving the State adjusted levels of performance on the core indicators of performance; and*

(B) *Information on the levels of performance achieved by the State with respect to the additional indicators of performance, including the levels of performance for special populations.*

20 USC 2323(b)(2) related to VOC ED State Performance Measures, states:

(2) *Indicators of performance*

(A) *Core indicators of performance*

*Each eligible agency shall identify in the State plan core indicators of performance that include, at a minimum, measures of each of the following:*

(i) *Student attainment of challenging State established academic, and vocational and technical, skill proficiencies.*

(ii) *Student attainment of a secondary school diploma or its recognized equivalent, a proficiency credential in conjunction with a secondary school diploma, or a postsecondary degree or credential.*

(iii) *Placement in, retention in, and completion of, postsecondary education or advanced training, placement in military service, or placement or retention in employment.*

(iv) *Student participation in and completion of vocational and technical education programs that lead to nontraditional training and employment.*

(B) *Additional indicators of performance*

*An eligible agency, with input from eligible recipients, may identify in the State plan additional indicators of performance for vocational and technical education activities authorized under this subchapter.*

20 USC 2342 related to the VOC ED State Plan states:

(c) *Plan Contents. The State Plan shall include information that:*

(20) *describes how the eligible agency will ensure that the data reported to the eligible agency from local educational agencies and eligible institutions under this subchapter and the data the eligible agency reports to the Secretary are complete, accurate, and reliable.*

In order for PDE to ensure that the CAR is accurate and in accordance with program requirements, strong internal controls should be developed, functioning, and documented for each year's CAR submitted to USDE.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 22: (continued)**

**Cause:** PDE officials believed at the time of submission of the CAR that the data was reasonably accurate and complete and that their compilation and reporting procedures were appropriate. Also, PDE's corrective action plan for our prior year finding was not intended to be implemented for the 2003-2004 CAR, which was tested during the current audit. Implementation dates for corrective actions range from May 2005 to September 2005, well beyond the 12-23-04 submission date of the 2003-04 CAR.

**Effect:** As a result of continued internal control weaknesses and the lack of documentation noted above, we were unable to verify the reasonableness, accuracy, or completeness of CAR data reporting VOC ED program results to USDE. Also, the CAR contains erroneous data that is not being detected and corrected by PDE.

The Carl D. Perkins Vocational and Technical Education Act of 1998 (P.L. 105-332) established the core indicators of performance as referenced in Section 113(b)(2)(A) of the act. The act also authorized sanctions based on states' failing to meet these performance levels, and incentive grants to states for exceeding performance levels established under the act and under the Workforce Investment Act (WIA, P.L. 105-220). Incorrect CAR data can affect the Commonwealth's performance reporting, and in turn its eligibility for incentive grants or possible sanction for failure to meet agreed upon levels of performance.

**Recommendation:** We recommend that PDE review and improve its internal control procedures over the CAR and establish a system to ensure that all CAR data is accurate, complete, adequately supported, and is analyzed and properly reviewed prior to submission. PDE should also ensure that the performance of these control procedures is adequately documented. Furthermore, PDE should ensure that errors noted above are corrected as necessary for all subindicators in the CAR. Any changes to the CAR for incorrect or missing data should be communicated to USDE.

**Agency Response:** The Pennsylvania Department of Education had been notified in April 2005 of this finding for the prior year Commonwealth's Single Audit Report for the year ending June 30, 2004. Corrective actions were implemented during 2005-2006 (as of December 2005). Results of the corrective actions will be evident for the review of the Single Audit for the year ending June 30, 2007. The Bureau of Career and Technical Education has established internal control procedures to address previous year audit findings. The corrective action steps taken in response to previous year audits will become evident during the 2006-2007 year's CAR submission. Timelines have been established to insure accurate, reliable and verifiable data that is submitted, evaluated and analyzed prior to submitting the annual CAR report. Documentation control and sign-off measures are in place and additional documentation controls and sign-off measures will be added. Completion of this will be by December 2006. In addition, a new data collection system is currently being developed in conjunction with the Bureau of Information Systems to capture missing postsecondary and adult sub indicators. Completion of the system will be September 2006. Data collected and submitted for the 2006 CAR will include the missing postsecondary and adult sub indicators. Communications as applicable continues with USDE when missing or incorrect data is an issue. USDE will be notified prior to the submission of the 2006 CAR when there is an issue with data submission or collection.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 23:

#### CFDA #84.048 – Vocational Education – Basic Grants to States

##### PDE Allocated VOC-ED Funds to Subrecipients Based on Outdated Statistical Data (A Similar Condition Was Noted in Prior Year Finding #04-20)

**Condition:** During our current audit, we found that PDE allocated FFY 2004-05 Postsecondary and Adult VOC-ED funding based on outdated Pell Grant data in noncompliance with VOC ED federal regulations. The current year allocation was based on the number of 1999-2000 Pell grant recipients rather than on the preceding year Pell Grant recipients as required by 20 USC 2352.

In addition, we found that PDE allocated FFY 2004-05 secondary VOC-ED funding based on outdated census data in noncompliance with VOC ED federal regulations. The current year allocation was based on 1995 census data rather than current available census data as required by 20 USC 2351.

**Criteria:** 20 USC 2352 (a) (2) related to Postsecondary and Adult allocations, states:

*Each eligible institution or consortium of eligible institutions shall be allocated an amount that bears the same relationship to the portion of funds made available under section 2322(a)(1) of this title to carry out this section for any fiscal year as the sum of the number of individuals who are Federal Pell Grant recipients... enrolled in programs meeting the requirements of section 2355 of this title offered by such institution or consortium in the preceding fiscal year bears to the sum of the number of such recipients enrolled in such programs within the State for such year.*

20 USC 2351(b) related to Secondary allocations, states:

*(b) Special distribution rules for succeeding fiscal years*

*Except as provided in Section 2353 of this title and as otherwise provided in this section, each eligible agency shall distribute the portion of funds made available under Section 2322(a)(1) of this title to carry out this section for fiscal year 2000 and succeeding fiscal years to local educational agencies within the State as follows:*

*(1) 30 percent*

*30 percent shall be allocated to such local educational agencies in proportion to the number of individuals aged 15 through 19, inclusive, who reside in the school district served by such local educational agency for the preceding fiscal year compared to the total number of such individuals who reside in the school districts served by all local educational agencies in the State for such preceding fiscal year.*

*(2) 70 percent*

*70 percent shall be allocated to such local educational agencies in proportion to the number of individuals aged 15 through 19, inclusive, who reside in the school district served by such local educational agency from families with incomes below the poverty line (as defined by the Office of Management and Budget and revised annually in accordance with section 9902(2) of title 42) applicable to a family of the size involved for the fiscal year for which the determination is made compared to the number of such individuals who reside in the school districts served by all the local educational agencies in the State for such preceding fiscal year.*

**Cause:** According to PDE management, they were unaware of the requirement to use preceding year Pell Grant information in its postsecondary allocation formula. Also, management stated that due to staff turnover, they are unable to explain why updated census data was not used. Additionally, management stated that due to a high amount of turnover, PDE found it most efficient to use the same Pell Grant and census information for each year's allocations.

**Effect:** PDE allocated its 2004-05 postsecondary and secondary funding using incorrect data which may have caused each subrecipient to receive an incorrect share.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 23: (continued)**

**Recommendation:** We recommend that PDE use the correct Pell Grant and census data in allocating VOC ED funding. Also, we recommend in the future that PDE keep current with federal regulations and allocate Postsecondary and Adult and Secondary VOC ED funding appropriately.

**Agency Response:** The Pennsylvania Department of Education had been notified in April 2005 of this finding for the prior year Commonwealth's Single Audit Report for the year ending June 30, 2004. Corrective actions were implemented during 2006. Results of the corrective actions will be evident for the review of the Single Audit for the year ending June 30, 2007.

PDE is collecting updated Pell data on an annual basis as required under Section 20 USC 2352(a)(2). The current 2004-05 Pell data is being used in the funding distribution formula for postsecondary and adult education programs for the 2006-2007 fiscal year.

PDE is using updated 2003 Census data as required under Section USC 2351(b). The 2003 Census data has been loaded into the funding distribution formula for secondary programs for the 2006-07 fiscal year. The requirement for the use of updated Census data will be followed annually.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 24:**

#### **CFDA #84.048 – Vocational Education – Basic Grants to States**

##### **Unallowable Use of Subgrantee Equipment and Uncollected Questioned Costs of \$62,941**

**Condition:** Our examination of PDE's on-site monitoring of Vocational Educational subgrantees for compliance with federal regulations revealed that PDE did not adequately follow-up on questioned costs found during on-site monitoring in April and May 2005 for the Philadelphia School District. The on-site reviewer found that 36 computers purchased over two prior school years (2001-02 and 2002-03) with federal program funds could not be located by the SD during the on-site review. In June of 2005, since the computers were not being used for VOC ED activities, PDE disallowed the costs and requested reimbursement of \$62,941 from Philadelphia SD. However, reimbursement was not made by Philadelphia, and PDE made no additional attempts to obtain reimbursement as of our May 2006 audit fieldwork date.

**Criteria:** OMB Circular OMB A-87, Attachment A, paragraph C, states that to be allowable under federal awards, a cost must meet the following criteria:

- (a) *Be necessary and reasonable for the performance and administration of Federal awards.*
- (d) *Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.*
- (j) *Be adequately documented.*

**Cause:** PDE personnel indicated that Philadelphia SD assumed PDE would deduct the amount from a subsequent monthly payment. However, because this grant funding was from entitlement money, PDE indicated they do not reduce subsequent payments, so the subrecipient must send the funds back. This issue was forwarded to PDE's Bureau of Career and Technical Education Director to follow up on, but he subsequently retired without following up, and the funds were never returned to PDE.

**Effect:** \$62,941 of VOC-ED expenditures (\$10,981 under Federal Grant No. V048A010038 and \$51,960 under Federal Grant No. V048A020038) are questioned as unallowable.

**Recommendation:** PDE should re-coup the \$62,941 of questioned costs from Philadelphia School District, and pursue appropriate settlement of these questioned costs with USDE. Also, PDE should continue with follow-up on-site monitoring to ensure that Philadelphia SD is properly utilizing its equipment purchased with VOC ED funds, and that the SD's internal controls over the safeguarding and use of VOC ED equipment are adequate to ensure that it is used properly to benefit the VOC ED program.

**Agency Response:** The Pennsylvania Department of Education has followed up on the questioned costs found during an on-site monitoring visit to the Philadelphia School District. PDE has pursued appropriate settlement of the questioned costs with the USDE. The USDE has provided guidance to the PDE as to the appropriate process to obtain reimbursement from the Philadelphia School District on the questioned costs. The Philadelphia School District has been contacted and is following through on the direction provided by the PDE. The Bureau of Career and Technical Education will continue to monitor the Philadelphia School District to ensure the proper utilization of the equipment purchased with vocational education funds.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 25:

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

##### A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #04-21)

**Condition:** As a result of federal resolution of multiple prior audit findings on debarment and suspension requirements, OVR was required to manually check the List of Parties Excluded from Federal Procurement and Nonprocurement Programs for new vendors enrolled in RSBS after August 1, 2000. OVR was also required to document the date when new vendors were checked for debarment/suspension in a field named "Debar Review" on the "Supplier Master Display" screen in OVR's computerized vendor system. During a prior audit period on June 19, 2003, OVR enhanced its system by adding a new data field named "Date Record Added" to indicate the date each new vendor is initially added to the vendor file.

We tested a sample of 21 vendors receiving RSBS payments in SFYE June 30, 2005, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 7 of these 21 vendors, the respective vendor file indicated a "Date Record Added" between August 1, 2000 and June 19, 2003, indicating a review for debarment/suspension appeared necessary. However, for all seven vendors, there was no indication in the "Debar Review" field that the vendor was reviewed for debarment or suspension in accordance with federal resolution of the prior audit finding.

**Criteria:** USDE Regulation 34 CFR 85.300, regarding participants' responsibilities for debarment and suspension, states in part:

*Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?*

##### *Doing Business With Other Persons*

*When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:*

- a. Checking the Excluded Parties List System;*
- b. Collecting a certification from that person if allowed by this rule; or*
- c. Adding a clause or condition to the covered transaction with that person.*

34 CFR 80.36(a) states:

*When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.*

Commonwealth Management Directive 215.9, Section 7.a.(2)(B), dated 4-16-99, states:

*If the agency makes a written determination of responsibility, the determination shall contain a statement that the contractor was determined to be responsible pursuant to this directive. This statement shall be included in the agency's contract file.*

**Cause:** A letter written by USDE personnel in August 2000 regarding resolution of a similar prior year finding stated that USDE accepted OVR's corrective action, which was to manually verify that all new vendors added on or after August 1, 2000 were not on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs before these vendors were entered into OVR's computerized vendor file.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 25: (continued)**

With respect to the seven vendors in question, OVR represented that these were not new vendors (i.e. added on or after August 1, 2000) and, therefore, they were not checked for debarment/suspension. In response to the prior year finding, effective June 19, 2003 OVR added an unchanging field called “Date Record Added” to the “Supplier Master Display” screen to indicate the date each new vendor is initially added to the vendor file. The date used as the “Date Record Added” for vendors existing prior to June 19, 2003 was the date from the “Add/Change Date” field. However, as noted in the prior year audit finding, the “Add/Change Date” field is automatically updated any time a change is made to the vendor file (i.e., address, phone number, contact person, etc.), so this date does not necessarily represent the date the vendor was initially added to the system. Therefore, for vendors existing prior to June 19, 2003 with “Date Record Added” dates between August 1, 2000 and June 19, 2003, and no date in the “Debar Review” field, there is no way to determine if the vendor was an existing vendor as of August 1, 2000 and not required by USDE to be checked for debarment/suspension, or if the vendor was new between August 1, 2000 and June 19, 2003, and required to be checked for debarment/suspension.

Furthermore, OVR could not provide any additional documentation to support that these seven vendors existed prior to August 2000 since their system only maintains historical data for three years. Therefore, OVR could not support their representation that these were not new vendors and should not have been reviewed for debarment or suspension.

**Effect:** Since L&I personnel did not adequately document their verification that new service providers were not on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs, a control weakness exists and there is limited assurance that RSBS funds were not paid to service providers who have been debarred or suspended from participating in federal programs.

**Recommendation:** We recommend that OVR maintain adequate documentation to support when new service providers were added to OVR’s computerized vendor file and/or documentation to support that new service providers were checked for debarment or suspension prior to allowing these providers to participate in the RSBS program.

**Agency Response:** OVR is still in disagreement with this finding. As indicated in the prior years' corrective action plans to the findings cited, the Debarment Review field was added to the vendor file in March 2002 with the Date Record Added field being implemented in June 2003. Prior to the addition of the latter field, verification could not definitely be made as to when a vendor was originally added to the file. The vendors cited in this year's finding were more than likely added prior to these implemented dates.

It is our intent to present this information within the next month to the Rehabilitation Services Administration (RSA) of the United States Department of Education for further clarification and review. It is our hope that they will issue a resolution regarding this process.

**Auditors’ Conclusion:** Since the seven vendors in question all received RSBS funding during the current audit period, the seven vendors were part of our audit scope and should have been checked by OVR for debarment or suspension. However, OVR could not provide documentation to indicate that the seven vendors were ever checked for debarment or suspension. Further, since OVR utilizes some vendors for multiple years, checking vendors for debarment or suspension only when they are added to OVR’s vendor list may not be adequate to address RSBS vendors who could become debarred or suspended at a later date. Therefore, we recommend that OVR implement procedures to check all vendors for debarment or suspension periodically. This finding and recommendation remains as previously stated. We will review any federal resolution and/or corrective action, as applicable, in our subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 26:

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

##### Noncompliance and Internal Control Weaknesses Result in \$73,982 in Questioned Personnel Costs

**Condition:** During the state fiscal year ended June 30, 2005, DOH incurred personnel expenditures of \$3.5 million in salaries/wages and \$1.3 million in fringe benefits, or \$4.8 million in total for the CDC program. This represents 13 percent of total CDC program expenditures for the year. Based on our audit, we determined that DOH employee salaries and fringe benefits were charged 100 percent to CDC, and the employees did not maintain timesheets as supporting documentation for these personnel charges.

We selected a sample of nine employees with \$382,975 in salaries and \$142,083 in fringe benefits (at 37.1 percent of salaries) charged 100 percent to CDC during the year, or \$525,058 in total for our sample. We reviewed employee job descriptions on file, interviewed selected employees, and reviewed related budget documents to ascertain if their work activities were 100 percent related to the CDC program, as required by the allowability criteria in OMB Circular A-87. Our testwork disclosed that two of the nine employees charged 100 percent did not spend 100 percent of their time on CDC-related activities.

One employee had costs of \$50,006 in salary and \$18,502 in fringe benefits for the year, or \$68,508 in total, charged 100 percent to CDC but worked in DOH's general computer operations, with time spent on non-CDC activities. Without required timesheets for an employee working less than 100 percent on the program, there is inadequate documentation to support the allowability of these personnel charges in accordance with OMB A-87.

Another employee charged 100 percent was promoted to a new position outside of the CDC program in the second half of the fiscal year, but salary costs of \$3,996 and fringe benefits of \$1,478, or \$5,474 in total, continued to be charged to the CDC program after the promotion through the end of the fiscal year. The \$5,474 in personnel costs are unallowable charges to the CDC program, per OMB A-87.

Therefore, the results of our sampling and detail testwork disclosed a total of \$73,982 in unallowable personnel charges to the CDC program for SFYE 6/30/05, in violation of OMB Circular A-87.

In addition to these unallowable costs, we also noted that DOH did not support any of its personnel costs charged 100 percent to CDC with semi-annual certifications, which are required by OMB A-87, that the employees worked solely on the CDC program for the period covered by each certification. Although employee job descriptions, auditor interviews, and budget documents generally supported the allowability of current-year employee activities and related charges to CDC (except for the two employees disclosed above), the missing semi-annual certifications required by OMB A-87 represents an overall internal control weakness in DOH's documentation procedures supporting all of its personnel charges to the CDC program.

**Criteria:** OMB Circular A-87, Attachment A, Paragraph C, states that to be allowable under federal awards, a cost must meet the following criteria:

- *Be necessary and reasonable for the performance and administration of federal awards;*
- *Conform to any limitations or exclusions set forth in A-87...*
- *Be adequately documented*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 26: (continued)

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

- (3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*
- (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: (a) More than one Federal award, (b) A Federal and a non Federal award...*
- (5) *Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee.*

**Cause:** CDC personnel indicated that they were unaware of the OMB A-87 semi-annual certification requirement for employees who work 100 percent of their time on the CDC program. Regarding the employee who was promoted, DOH personnel stated there was an oversight in continuing to charge the personnel costs to the CDC program. Regarding the employee working in DOH's general computer operations area, management believed this employee worked 100 percent of their time on CDC and the charges were allowable without any timesheets needed.

**Effect:** Our testing disclosed \$73,982 in inadequately documented and unallowable personnel charges to CDC, and these costs are therefore questioned by the auditors. In addition, the lack of semi-annual certifications to clearly support 100 percent of salary and fringe benefit charges to CDC is a significant deficiency in the required documentation to demonstrate allowability of costs within OMB Circular A-87. Without strengthened internal controls over DOH's documentation and charging of personnel costs, more unallowable costs may be charged by DOH to the CDC program in the future.

**Recommendation:** DOH should pursue appropriate settlement with the federal awarding agency for the \$73,982 in questioned costs. In addition, DOH management should strengthen internal controls to ensure that salaries and fringe benefits charged 100 percent to the CDC program are for employees performing only CDC-related work, and are clearly supported by detailed job descriptions describing the activities and programs each employee is working on.

For employees not actually working 100 percent on CDC, all charges to CDC should be based on time actually worked on the program, and amounts charged should be supported by properly approved timesheets.

DOH should also establish procedures to develop the federally-required semi-annual certifications for its employees being charged 100 percent to CDC.

**Agency Response:** DOH will pursue resolution of this finding with CDC.

DOH concurs employees charging 100% of their time to the CDC Cooperative Agreement do not maintain timesheets. The State system for recording time and attendance does not utilize timesheets for 100% grant funded employees. DOH also concurs that CDC funded employees do not sign semi-annual certifications verifying that employees worked solely on the CDC program for the period covered by the certification. DOH's Office of Public Health Preparedness (OPHP), in coordination with DOH's Bureau of Human Resources (BHR) and DOH's Bureau of Administrative and Financial Services (BAFS), is reviewing OMB Circular A-87 to determine a mechanism to integrate semi-annual certifications into our business practices for the coming grant year.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 26: (continued)**

DOH does not concur with the finding that a CDC funded employee working in general computer operations is working on non-CDC activities. This employee is dedicated to supporting activities outlined in the CDC federal guidance under Focus Area E. The CDC Cooperative Agreement allows for funded FTEs to support the entirety of the Public Health Data Infrastructure in order to ensure systems responsible for preparedness and response activities are fully operational and to ensure business continuity and critical infrastructure protection. The CDC also provided additional clarification on what Information Technology infrastructure work may be included in the grant in a document previously provided to the auditors, titled Public Health Information Technology Functions and Specifications (for Emergency Preparedness and Bioterrorism) February 8, 2002.

DOH does not completely concur with the statement concerning the employee who was promoted. The staff member in question was promoted to a new position in June 2005, at which time her salary was no longer charged to a federal grant. During the previous month, the employee was working out-of-class doing the job she was ultimately promoted to, in addition to her originally assigned federally funded job. DOH agrees that the time spent conducting out-of-class assignments should not be charged to the federal grant.

**Auditors' Conclusion:** While we acknowledge DOH's statements regarding the two employees in question in the finding, the weak documentation provided to us in our audit does not resolve the OMB A-87 questioned cost issues reported above, and our recommendation to pursue appropriate settlement with the federal awarding agency stands. We will review any corrective action in our subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 27:

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

##### Weaknesses in DOH Program Monitoring of CDC Subgrantees

**Condition:** Our audit of DOH's procedures for during-the-award monitoring of CDC subgrantees for compliance with program regulations and contract provisions revealed that DOH does not adequately monitor the activities of subgrantees. We found that DOH reviews quarterly expenditure reports and other supporting documentation submitted by the subgrantees to DOH, but DOH does not perform any on-site monitoring. Without on-site visits, DOH cannot be certain that services supporting expenditures claimed by the subgrantees were actually performed. Also, without on-site monitoring, DOH cannot confirm that CDC equipment purchased is being used by the subgrantee for CDC purposes. Furthermore, in a separate report prepared by HHS as a result of their technical assistance site visit in January 2006, HHS identified the same monitoring weakness at DOH. Subgrantees were paid \$7.1 million out of total CDC expenditures of \$36.1 million for SFYE 6/30/05.

Our audit also found that each subgrantee contract contains a clause requiring subgrantees to submit periodic performance reports. However, out of the five subgrantees we tested, only one submitted the required performance reports and DOH was not tracking, nor was it taking corrective action to obtain outstanding reports. DOH management stated that a system for tracking reports will be established and maintained.

Our audit also found that DOH was advancing funds to subgrantees and not monitoring subgrantee cash on hand to ensure cash on hand is limited to the subgrantee's immediate needs (i.e., for estimated expenditures within the next 30 days). For example, one subgrantee received an advance payment of \$166,399 in March 2005. The subgrantee submitted an expenditure report through May 2005 showing only \$101,109 (or only 60 percent) was expended. In July 2005, DOH advanced an additional \$166,399 without further expenditure or cash-on-hand information from the subgrantee. In another example, a subgrantee received advances of \$1,567,299 in March 2005 and \$708,649 in July 2005. No expenditure reports, showing that the advanced funding was expended, were submitted by the subgrantee until October 2005.

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

*A pass-through entity is responsible for:*

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

45 CFR 92.37, Subgrants, states:

(a) *States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:*

(4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 27: (continued)**

**Cause:** DOH officials stated that the CDC program is relatively new and growing rapidly. They stated that HHS wanted DOH to expedite the disbursement of funding to subgrantees to enable the program to be operational as quickly as possible. DOH management stated that DOH concerned itself with getting the funding out to subgrantees more than monitoring the subgrantee use of the grant funds and subgrantee cash on hand.

**Effect:** DOH is not adequately performing during-the-award monitoring of the allowability of subgrantee activities, including monitoring of subgrantee cash on hand, to ensure subgrantee compliance with applicable federal regulations. As a result, DOH provides little assurance of subrecipient compliance with federal regulations.

**Recommendation:** DOH should implement on site during-the-award monitoring procedures for its CDC subgrantees. DOH should also ensure subgrantees submit the required periodic performance reports. The performance reports should be analyzed to enhance DOH's monitoring of subgrantee activities. Also, DOH should implement procedures to ensure subgrantee cash on hand is limited to immediate needs.

**Agency Response:** DOH will pursue resolution of this finding with CDC.

DOH concurs with the finding that it currently does not perform on-site monitoring of the CDC grant award to local health departments (subgrantees). DOH will formulate a plan for implementing on-site during-the-award monitoring to enhance the current monitoring being done through the review of submitted documentation. The on-site reviews will include a minimum of one visit, per site, per award year. Additional on-site visits will be made, as necessary.

DOH concurs with the finding that the periodic performance reports were not being adequately tracked. DOH will be sending quarterly reminders to the Directors of the subgrantees concerning the submission of the quarterly progress report, as described in the contract. A spreadsheet will be maintained to track each of the quarterly reports. Ongoing follow-up will be conducted, as needed.

DOH concurs with the finding that it was advancing funds to subgrantees and not monitoring their cash on hand to ensure cash on hand is limited to their immediate needs. With the inception of preparedness funding available to subgrantees, DOH wanted to ensure sufficient financial sources were available for the subgrantees' anticipated needs, as states were instructed by the federal awarding office to award the funds to the subgrantees as quickly as possible. An existing payment vs. invoice tracking system will be enhanced to assure that each subgrantee's cash on hand is limited to the quarterly advance.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 28:

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

##### **Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (A Similar Condition Was Noted in Prior Year Finding #04-23)**

**Condition:** During our current audit period, we reviewed 44 active TANF case files to ensure that DPW is making an assessment of the TANF participants skills, prior work experience, and employability. Our review disclosed that 10 of the 44 cases were exempt from this requirement due to the participant being disabled, the case being child only assistance, the participant was a caretaker, etc. For the remaining 34 cases, our review disclosed that only 12 case file records provided by DPW contained documentation supporting DPW's initial assessment of the skills, prior work experience, and employability of the TANF recipient. Therefore, DPW could not support compliance with federal welfare reform regulations.

**Criteria:** Federal regulation 45 CFR 261.11(a) states:

- (a) *The State must make an initial assessment of the skills, prior work experience, and employability of each recipient who is at least age 18 or who has not completed high school (or equivalent) and is not attending secondary school.*

In addition, 45 CFR 74.53(b) states:

- (b) *Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of submission of the quarterly or annual financial report.*

**Cause:** DPW personnel stated that the Department's assessments consist of the RESET Participant Guide to Success (Guide - PA 1680) and the job search process. RESET, which stands for Road to Economic Self-Sufficiency through Employment and Training, is the process by which the recipient and the caseworker together prepare a plan of action using the RESET Guide. During a prior audit period, the DPW, Office of Income Maintenance, issued Operations Memorandums to remind caseworkers of the requirement to file and retain the Participant Guide to Success, PA 1680, as part of the client's case record for a period of three years. While DPW officials could not explain why the CAOs failed to maintain a copy of the RESET Guide within the TANF recipients' case files, we noted that DPW was not requiring the completion of a RESET Participant Guide until after the initial job search activity was not successful. If participants obtained employment, Form PA 1680 was not completed. However, we believe that DPW must document an initial assessment of skills, prior work experience, and employability prior to any job search, as they are required by federal regulations, and are necessary to ensure that each participant is directed to the employment and/or training for each participant.

**Effect:** Since DPW could not provide a copy of the completed RESET Guide (PA 1680) for applicable case files we tested, it cannot support compliance with federal regulation 45 CFR 261.11. Further, since the documented assessments were not maintained, we could not determine whether TANF recipients received the appropriate training and/or employment placement guidance required by TANF regulations and the federal Welfare Reform Act of 1996.

**Recommendation:** DPW should strengthen its existing procedures to ensure that the assessment of skills, prior work experience, and employability of each recipient is properly documented within a RESET Guide (PA 1680) and retained in each case file as required.

**Agency Response:** The following addresses the remaining open finding "*Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations.*" The finding provided a recommendation for DPW to "strengthen its existing procedures to ensure that the assessment of skills, prior work experience, and employability of each recipient is properly documented within a RESET Guide (PA 1680) and retained in each case file as required."

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 28: (continued)**

The Office of Income Maintenance concurs with the audit finding and recommendation. DPW's assessment is to be documented in each file as the "RESET participant Guide to Success and the Job Search Process (Guide – PA 1680)." An Operations Memorandum dated February 13, 2002 giving direction to carry this out and use the guide was distributed to Area Managers, and this audit sample could only find 12 PA 1680s of the 34 cases reviewed. In response to this finding, three points of action are underway to ensure proper use and filing of the Guide.

First, the contracted assessment was implemented January 2005 and further modified in March 2006 to be integrated into the first activity for those individuals referred to a contracted program.

Second, monitoring staff have been checking case records for the presence of the PA 1680 to verify that it is being used and maintained in the case record for three years as directed. An internal review of 422 case records revealed that 295 contained the documentation. Therefore, 70 percent of the 422 case records reviewed contained the documentation. It is expected that those without documentation likely had their assessment conducted with the contractor to which they were referred.

To better track whether a PA 1680 is needed for an individual, we are working on having a field entered to a CIS screen (CAINDA) that will indicate whether or not a PA 1680 is needed to obtain the required assessment information for the individual. The plan will have the caseworker enter a Y for yes if a PA 1680 is needed to obtain the required information for assessment, or an N for no if the PA 1680 is not needed to obtain the required information because they are referred to a contractor. This will ensure that future monitoring will more accurately account for the required presence of the PA1680 in the case file.

Third, a section for the Cash Assistance Handbook providing revised policy and procedures for the use of the PA 1680 will be available as a reference for the caseworker by June 30, 2006.

DPW agrees that documentation to support compliance with federal welfare reform regulations is critical in confirming that recipients received the necessary information, in addition to appropriate training and employment placement guidance, as required by TANF regulations and the Federal Welfare Reform Act of 1996. It is a functional responsibility of the County Assistance Office to have the RESET participant Guide to Success (PA 1680) as part of the individual records.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 29:**

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

##### **Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #04-24)**

**Condition:** Within the TANF program, DPW is required to submit the TANF Data Report, or Form ACF-199, on a quarterly basis. The ACF-199 Report provides HHS with various types of data on Pennsylvania's TANF participants including family type, work participation status, subsidized and unsubsidized employment activity, job search and job readiness activities, etc. Each quarter, DPW electronically submits a file to HHS that contains the aforementioned data. During prior audit periods, this file consisted of three individual monthly files (one for each month of the quarter) of all TANF participants contained on DPW's Client Information System (CIS). Effective October 1, 2003, as allowed by program regulations, DPW began to select a stratified random monthly sample of 250-300 cases for submission to HHS, as opposed to the monthly files of all participants.

Over multiple fiscal years of Single Audits of the TANF program, we have issued findings reporting discrepancies in DPW's ACF-199 Data Report since reported work activity data (in hours) has not always been properly supported by documentation showing actual hours in DPW's TANF case files. It should be further noted that, in response to these prior-year findings, DPW's overall process for documenting, collecting, and reporting actual work activity data has clearly improved over the years since the number and frequency of exceptions in each year's audit sample have declined. In addition, our audit has shown that DPW has clearly implemented corrective action in its ACF-199 reporting procedures to better support actual work activity reported. However, as disclosed below, weaknesses in reporting actual hours still exist.

In order to test the data on the file submitted to HHS, we obtained the file for the sample month of September 2004. We selected a sample of 44 out of the 270 cases from the data file, and attempted to trace the key line items as required by the OMB A-133 Compliance Supplement to documentation in the participant's case file. Although we saw evidence of DPW's review of these cases, the files did not always have the necessary documentation to support actual hours reported by category. Our testing disclosed reporting errors and/or documentation discrepancies for 9 of the 44 cases, or 20.5 percent, as follows:

- For one of the 44 cases (Case #180047250), the case file showed 31 hours of Unsubsidized Employment (Item #49) that was improperly categorized on the Data Report as Vocational Education Training (Item #56).
- For two of 44 cases, Case #511063844 and #512389043, the case file clearly indicated 19 hours and 30 hours, respectively, of Job Search and Job Readiness (Item #54), but DPW categorized these hours as Vocational Education Training (Item #56). The Job Search and Job Readiness classification was supported by a third party confirmation letter from a local training contractor that reported work activity in both categories, but DPW reported all the confirmed hours under Vocational Education Training only. DPW management indicated that, due to a lack of clarity in federal guidance in this area, it is the responsibility of the state to establish its own definition for these reporting categories and that the multiple work activity for this case was reported under one category in accordance with DPW's definition for Vocational Education Training, regardless of how the training contractor categorized the activity. Since the Data Report category does not agree to the category in the case file, we consider these to be reporting discrepancies.
- One of the 44 case files, Case #350565751, indicated that the participant worked five hours of unsubsidized weekly employment (Item #49). This was supported by a third-party confirmation letter, indicating total hours worked at the employer along with paycheck amounts and dates, and an employment verification form, both documents sent by the local non-profit employment agency. However, there were no check stubs, timesheets, or other valid documentation from the employer supporting actual hours worked within the case file, so we noted inadequate support for this case.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 29: (continued)

- One of the 44 case files, Case #140064655, reported 33 hours of job skills training (Item #57). However, the case file only supports 31 hours, so two hours are not supported by the case file. Based on the minimum work participation requirement of 35 hours for this case, this unsupported two hours would not appear to impact Pennsylvania's TANF work participation rate calculated by HHS.
- One of the 44 case files, Case #511701149, reported 30 hours of Vocation Education Training (Item #56), but the case file only supports 16 hours of Unsubsidized Employment (Item #49) and 12 hours of Job Search and Job Readiness (Item #54), or 28 hours in total, so two hours were not supported by the case file. In addition, similar to the misclassifications reported above, all the hours for this case were mis-classed as Vocational Education Training in the Data Report since they did not agree with the case file.
- One of the 44 case files, Case #390152420, reported 21 hours of Vocational Education training (Item #56). However, the case file only supports 19 hours, so two hours were not supported by the case file. In addition, like the Job Search and Job Readiness cases above, the hours were misclassified since they should be reported as Job Skills Training (Item #57), per the case file. Also, the case file notes indicate that the recipient spent additional hours in a technical school, but a letter from the employment contractor indicates that no time or attendance sheets can be provided as support. An additional letter from the technical school confirms the client's enrollment, but actual hours attended were not provided. Therefore, there are two reported hours that are not supported by the case file.
- Two of the 44 case files, Cases #060242623 and #230342299, did not report the participants' social security numbers within the Person-Level Data on the Data Report. The case file indicated that they were child only cases, and the parents indicated on their application that they were illegal aliens and, therefore, did not have social security numbers. (We noted that, because of their status, these individuals were not receiving regular TANF benefits.) The Data Report indicates unsubsidized employment (Item #49) of 20 hours for each of the cases, or 40 hours for both. We found there were no check stubs, timesheets, or other valid documentation from an employer supporting any hours worked within the case files, so 40 hours for the two cases were reported in error. DPW officials acknowledged this as a reporting error, but based on the fact that these are child-only cases, the reporting errors would not appear to impact Pennsylvania's TANF work participation rate calculated by HHS.

It should be noted that the misclassifications noted above in the Data Report could possibly impact HHS's calculation of Pennsylvania's work participation rate since HHS places different limits, per the Criteria below, on Vocational Education Training and Job Search and Job Readiness Training hours that may be counted from the Data Report.

**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.*
    - (VI) *Job skills training or on-the-job training.*
  - (xii) *Information necessary to calculate participation rates under section 407.*

In addition, 45 CFR Part 265.3 states:

- (b) *TANF Data Report.* The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 29: (continued)

- (1) *Disaggregated Data on Families Receiving TANF Assistance – Section one. Each State must file disaggregated information... such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.*

Federal instructions regarding the completion of the TANF Data Report for Vocational Education training (Item #56) state:

#### 56. Vocational Educational Training

*Instruction: As noted above, the statute contains special rules limiting an adult's (or minor child head-of-household's) participation in vocational educational training to twelve months. Enter, in this data element, the average number of hours per week of participation in vocational educational training that are within the statutory limits.*

In addition, the instructions regarding job search and job readiness (Item #54) states:

#### 54. Job Search and Job Readiness Assistance

*Instruction: As noted above, the statute limits participation in job search and job readiness training in four ways as follows:*

*Limitations: The four limitations concerning job search and job readiness are: (1) Job search and job readiness assistance only count for 6 weeks in any fiscal year; (2) An individual's participation in job search and job readiness assistance counts for no more than 4 consecutive weeks; (3) If the State's (Tribe's) total unemployment rate for a fiscal year is at least 50 percent greater than the United States' total unemployment rate for that fiscal year or the State is a needy State (within the meaning of Section 403(b)(6)), then an individual's participation in job search or job readiness assistance counts for up to 12 weeks in that fiscal year; and (4) A State may count 3 or 4 days of job search and job readiness assistance during a week as a full week of participation, but only once for any individual.*

**Cause:** DPW officials indicated that, over the years, they have considerably increased their staffing resources and their time and effort dedicated to preparing and submitting an accurate TANF ACF-199 Data Report to HHS, and they believe these improved procedures are reasonably adequate to comply with federal reporting requirements. They acknowledge there are still discrepancies in supporting some of the actual hours reported, but they believe that these discrepancies are not necessarily errors in the data submitted, and they are not likely to have any significant impact on Pennsylvania's work participation rate calculated by HHS. DPW officials further pointed out that in 2005, a report was issued by the Federal GAO on HHS's Welfare Reform practices which disclosed that HHS does not have a sufficient mechanism to identify problems in TANF work participation data submitted by all states on their ACF-199 Data Reports. Since this GAO Report disclosed that there are major inconsistencies in how ACF-199 data is being reviewed and verified for accuracy and propriety in the different states (e.g., actual hours of work activity vs. scheduled hours), DPW admitted they have been uncertain over the years as to the significance of the discrepancies reported in the past for Pennsylvania, especially in relation to the other states. DPW also stated they have not always been certain about documentation requirements in the past, and whether such documentation should consist of actual hours of work activity or scheduled hours.

Regarding the current-year discrepancies reported above, DPW officials did not explain why Unsubsidized Employment hours were mis-classified as Vocational Education Training on the Data Report, but they agreed that this appeared to be incorrect reporting. DPW further stated that they encounter difficulties in attempting to secure documentation from outside parties to support all actual hours reported for each case. For the other misclassifications noted above, DPW explained that where a case involves multiple categories on the Data Report, DPW reports all the activity under only one category due to the excessive time and effort that would be involved in attempting to break the hours out for each individual TANF case. DPW believes that their reporting for these other categories is reasonable based on its own state definition for each category, along with unclear federal reporting guidance.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 29: (continued)**

**Effect:** Based on the error rates and the nature of the errors noted in the condition, DPW did not comply with federal reporting requirements. In addition, overall information submitted to HHS on the ACF-199 Report may not be fully accurate or properly supported as required by federal regulations. As a result, HHS may not be accurately calculating and evaluating Pennsylvania's work participation rates within the TANF program.

**Recommendation:** DPW should strengthen its existing procedures over their review of the monthly sample of cases to ensure that all reported work activities are properly documented, supported, and classified. In addition, DPW should evaluate the feasibility of submitting revised ACF-199 reports for the FFY 2004. Also, DPW should review and evaluate its procedures and controls to accumulate, review, and report its TANF information on the ACF-199 Report and make the necessary revisions to ensure that future information reported is complete, accurate, and properly supported by the participants' case files.

**Agency Response:** DPW sincerely appreciates the auditors' recognition of our improvement in the overall process for documenting, collecting and reporting work activity data. This improvement has been the result of implementing all items from the corrective action plan DPW agreed to in 2003. In fact, many of the errors that were identified in prior audits have been completely eliminated including incorrect reporting of subsidized child care payments, spousal relationships and individuals under age 18. We would also like to note that, as intended through this process, several of the improvements that DPW has made over the past several years in the accuracy of this report are the result of findings in previous years by the auditors.

That notwithstanding, DPW respectfully disagrees with the audit's conclusion that it did not comply with federal reporting requirements in the current audit year. While DPW agrees in part with some audit findings and disagrees in part with other audit findings and recommendations, we believe that all of the cases cited in the audit report had sufficient documentation to accurately determine whether the individual met federal participation requirements and that none of the cases cited would impact the Commonwealth's calculation of the federal work participation rate under HHS rules. In each case, the documentation available was adequate to justify the categorization of the case as either "required to participate and meeting" or "required to participate and participating, but not meeting" the minimum requirements under HHS rules. Our specific response to the individual findings in the audit is as follows:

- Case Record 18/0047250 had activity hours reported according to State policy and procedures. Per State procedures, all the activities for participants of the Single Point of Contact (SPOC) program are reported as Vocational Educational training. Activities in SPOC may include any or all of the various types of activities during the course of the period of the contracted program.

DPW believes that ambiguities in federal TANF requirements concerning the definition of work activities may have contributed to the auditor's findings and our disagreement with those findings. States were allowed to define their own activities in their state plans. Since SPOC includes a blend of various activities and has always been viewed as a comprehensive vocational education program, Pennsylvania decided to report all hours in SPOC activities as Vocational Education training and has been reporting that way since the beginning of the TANF program. The lack of standard definitions for activities nationally was in fact identified as a weakness in the TANF program by the GAO. DPW anticipates that the federal regulations that must be published by June 30, 2006 as required by the Deficit Reduction Act will include definitions of activities and resolve these ambiguities. DPW will make appropriate changes to the TANF participation policy and reporting requirements to accommodate the new federal regulations.

- Case Records 51/2389043 and 51/1063844 were also SPOC participants and reported as above.
- DPW believes that Case Record 35/0565751 contained sufficient documentation. While we understand the auditor's finding was based on the lack of pay stubs or timesheets for hours worked, we believe that the third party documentation provided in the case file is a sufficient substitute. The third party documentation is an attestation by the SPOC Program Director that the hours were verified on October 12, 2004 with the name of the contact and a copy of the signed Employment Verification form.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 29: (continued)**

We believe that it is important to remember that, in the reporting year of the audit, there were no specific requirements that only check stubs and timesheets qualified as valid documentation. The audit itself uses the phrase “other valid documentation” to describe the kind of supporting documentation that was necessary. No definition is given of “other valid documentation” and, more importantly, no reason is given why an attestation that included “total hours worked at the employer along with paycheck amounts and dates” was not adequate support.

- Case Record 14/0064655 was correctly reported as a two-parent family, not fully participating, Code 18. We agree that a total difference of two hours cannot be confirmed. As the auditor notes, however, we also agree that these two hours will not impact Pennsylvania’s TANF work participation rate calculated by HHS.
- Case Record 51/1701149 was reported as Vocational Education training similar to cases above since the client was participating in SPOC. The two hours that were not supported in the case file have no effect on the way this client should be reported in the data. As a result, the client was correctly reported as fully participating, Code 19 under the HHS definition.
- Case Record 39/0152420 was reported as fully participating in Vocational Education training activities as in the above cases since she was participating in SPOC. Although the auditor is correct that the case file did not include signed attendance sheets, the letter from the technical school included with the documentation clearly states the client was enrolled in their pharmacy program and includes the start date of the enrollment and the withdrawal date from the program. We believe this documentation is sufficient to confirm the client’s participation in the program.
- Case Records 06/0242623 and 23/0342299 were correctly reported as child only cases in the ACF-199 data. Although the case files incorrectly included a number of work activity hours for the children’s parents, their inclusion is irrelevant to the calculation of the federal work participation rate. There is no reporting required for the adults in these cases since they are not TANF recipients. In addition, the individuals in question do not have Social Security numbers in our files because they are undocumented and cannot legally obtain Social Security numbers. As a result, DPW believes these cases were properly reported in the ACF-199 data as child-only cases, Family Affiliation Code 2.

DPW would also like to note the various procedures currently in place to ensure that future information reported is even more complete, accurate and properly supported by the participant’s case files:

- New instructions were issued to the County Assistances Offices in January 2006 that outline the requirements for determining and documenting hours of participation that are recorded for the sample cases on the ACF-199.
- Beginning in February 2006, our Quality Control unit replaced their randomly selected sample with the ACF-199 sample cases and stratified the cases to conduct either full eligibility reviews or partial targeted reviews. Both reviews will include all data related to work participation and ACF-199 reporting elements. This change means that all the data submitted on the ACF-199 file has been reviewed either prior to the original submission to ACF, or prior to any re-submission at the end of the year.
- Procedures are in place to make corrections to the ACF-199 file as determined through these quality control reviews.
- Results of the quality control reviews will be used to re-train staff and reinforce the policy and procedures for accurate, complete reporting on the ACF-199 forms.
- Monitoring procedures are in place to ensure that all contracted training providers collect documentation that is adequate to support all hours of activity for TANF participants.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 29: (continued)**

- Documentation for all sampled clients who are involved in contracted activities is collected each month centrally by the Bureau of Employment and Training. BETP staff review the documentation and calculate the hours of participation for the ACF-199 report. This centralized function will provide consistent review, calculation and recording of data on the report and allow for monitoring and feedback to the contractors on documentation procedures.
- Policy and procedures were changed beginning in May 2006 so that activities for SPOC participants are split out and reported separately.
- Adjustments to the above procedures will be made, if necessary, to comply with federal regulations expected in June.

As noted above, DPW believes that the process currently in place for documenting, collecting and reporting work activity data and for conducting reviews prior to submission of the data in the ACF-199 is adequate to ensure that the Pennsylvania data are reported accurately for calculation of the federal work participation rate.

**Auditors' Conclusion:** DPW's agency response does not provide any new information or documentation to resolve the discrepancies disclosed in our finding since most of this information and detail is already reported in the finding. To clarify for Case #350565751, no documentation was provided from the employer to verify actual work time. Our finding and recommendation, therefore, remain as previously stated and we will review DPW's corrective action mentioned above in our subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 30:

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

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

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

### Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758

**Condition:** Within the TANF program, DPW pays TANF participants special allowances for child care and other purposes such as emergency shelter, transportation, automobile related expenses, etc. to assist the participant in their employment and training activities. DPW also pays special allowances for child care to TANF participants under the CCDF Cluster. We noted a total of \$178 million in total federal and state-funded special allowances posted to the Statewide SAP System for SFYE 6/30/05, which consisted of the following amounts (in millions):

<u>Special Allowance</u>	<u>TANF</u>	<u>CCDF</u>	<u>Total</u>
Child Care – Federal	\$25.4	\$25.3	\$ 50.7
Child Care – State	33.0	57.9	90.9
Other – Federal	18.8	--	18.8
Other – State	17.6	--	17.6
Total	<u>\$94.8</u>	<u>\$83.2</u>	<u>\$178.0</u>

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

Authorization and approval of special allowance payments is maintained on DPW standard Form PW-764, Authorization/Instruction Sheet, which is approved and signed by CAO personnel. Documentation such as sales receipts, verification of child care (as documented on Form PA-1583 or PA-1591), verification of housing assistance, etc. should be maintained with the PW-764 to support the allowability of each special allowance payment. Each special allowance payment, consisting of both the federal and state MOE amount, is posted to DPW's CIS System as one combined total.

In order to test TANF and CCDF special allowances paid to TANF participants during our audit period, we obtained a CIS printout of special allowances paid to 44 TANF participants sampled by us from the TANF ACF-199 Data Report submitted to HHS for our test month of September 2004. Based on our review of each CIS printout, we judgmentally selected a sample of 52 special allowance payments made throughout the current year to 27 of the 44 TANF participants totaling to \$22,183. This sample was selected from the overall population of \$178 million in special allowance payments charged as federal CCDF dollars, federal TANF dollars, and state MOE dollars combined (see table above). Our testing of these 52 payments disclosed that DPW could not provide adequate documentation to support the allowability of 40 of the 52 special allowance payments tested, totaling to \$19,253, or 87 percent of the dollars in our sample.

For 21 of the 40 sampled items, DPW was able to provide a PW-764 Form, but adequate documentation supporting the allowability of the special allowance payments was not available. For the remaining 19 items, no PW-764 Form was provided to support payment and for 4 of these 19 payments, CAO personnel indicated that the PW-764 and some of the supporting documentation was purged/shredded. Based on our testwork, we determined that these inadequately documented costs were unallowable for TANF and CCDF.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 30: (continued)

It should be further noted that known fraud affecting TANF special allowances was documented in a separate Commonwealth OIG report covering a period prior to July 1, 2004, and the above results of our detailed testwork, especially the 87 percent error rate, demonstrate a higher risk of potential fraud with special allowance expenditures.

In addition, as the above table shows, out of the \$178 million in total TANF and CCDF special allowance payments posted to SAP for the year, \$141.6 million represents child care, broken out into \$50.7 million charged as federal dollars to TANF and CCDF, and \$90.9 million charged as state-funded to meet TANF and CCDF MOE requirements. We found in our testing of child care transactions that DPW could not provide audit trails to support the recording of individual CIS child care payments onto SAP, the Commonwealth's general ledger from which the SEFA is prepared. In particular, we sampled five CCDF postings to SAP for \$258,013 out of the population of \$25.3 million in federal CCDF payments to TANF participants for the year. Our sampling showed that three out of the five postings, totaling to \$252,505, could not be supported by a documented audit trail showing which individual special allowances were included in the SAP postings. The three postings in question are as follows:

<u>VT Number</u>	<u>VT Date</u>	<u>Amount</u>
VT41845342	12/8/04	\$159,481
VT41845021	1/22/05	36,557
VT41844176	10/30/04	56,467
		<u>\$252,505</u>

In discussing these three audit exceptions with DPW officials, we learned there is an overall system weakness in that DPW's documentation procedures for EBT payments for child care (i.e., the \$159,481 and \$36,557 in the table above) are deficient since EBT payments, which represent the majority of child care expenditures, are not supported by documents showing the individual payments footing to the total transaction amount. As a result, we cannot verify and trace whether individual child care payments on CIS transferred properly into SAP and were rolled up accurately into the SEFA. Because of the lack of audit trails, the \$252,505, which represents 98 percent of our sample, is inadequately documented and, therefore, unallowable. In addition, this same overall documentation deficiency applies to TANF child care as well as CCDF child care, along with state-funded MOE amounts for TANF and CCDF.

**Criteria:** 45 CFR Part 92.20(b)(2) states:

*Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.*

In addition, 45 CFR Part 92.42(b)(1) states:

*(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years. . .*

**Cause:** DPW officials did not explain why the CAOs did not retain documentation to support TANF and CCDF special allowance payments, or why the CAOs shredded or purged the documents, as indicated within the condition above. In addition, DPW and PHHS officials could not explain how individual child care expenditures on CIS are charged to CCDF and TANF on SAP, especially for EBT transactions, to support audit trails.

In prior years, DPW's Division of Quality Control (QC) in the Office of Income Maintenance included sampling and review of special allowances as part of its oversight and monitoring procedures to ensure TANF and CCDF payments were appropriate and allowable. As part of our prior Single Audits of TANF and CCDF, we noted that QC's internal audit work performed throughout the fiscal year had a positive impact on overall internal control. However, in the current year, QC personnel no longer included special allowances in its review and testing of TANF and CCDF, so internal controls were not as effective in our current year.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 30: (continued)**

**Effect:** DPW could not provide documentation to support \$19,253 of special allowance payments charged to TANF and CCDF. Since, as explained above, we could not track individual special allowance charges on CIS to SAP, we could not ascertain whether these CIS charges were made to TANF or CCDF, or whether the costs ended up as federal or state funded. As a result, the \$19,253 is considered all federal and questioned as unallowable. For the 40 items questioned in our sample, CIS recorded \$10,579 in “other” special allowance items for TANF and \$8,674 for TANF and CCDF child care. Since federal TANF and CCDF child care totals posted to SAP for the year were the same amount (\$25 Million), we estimate that the \$8,674 in questioned child care payments should be allocated as \$4,337 to TANF and \$4,337 to CCDF. Therefore, the total amount questioned in TANF is \$14,916 and the questioned portion for CCDF is \$4,337. In addition, DPW internal controls over its record keeping to support special allowance payments are not adequate. Based on the error rate of 87 percent noted within our testing, we consider this weakness to be pervasive throughout the TANF and CCDF programs, and inappropriately puts the entire population of \$178 million in TANF and CCDF special allowances at high risk for lack of documentation.

Furthermore, DPW cannot support whether TANF and CCDF child care expenditures were accurately transferred and posted to SAP and rolled up properly into the SEFA. Without the necessary audit trails to support amounts reported on SAP and the SEFA, an additional \$252,505 in unallowable charges to CCDF is also questioned. Furthermore, like the total population of special allowance payments discussed above, we consider this audit trail deficiency to be a pervasive internal control weakness over the entire population of \$141.6 million in DPW child care payments to TANF participants for the year.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$19,253 of questioned costs for TANF and CCDF, and the additional \$252,505 of questioned costs for CCDF.

In addition, DPW should establish a system of strengthened internal controls over their case file documentation to support allowability and establish effective record retention procedures to ensure that adequate documentation is obtained and maintained on file to support TANF and CCDF special allowance payments. DPW should also establish procedures to ensure an adequate audit trail is available as support that all individual child care payments posted to CIS accurately trace to SAP and support each SAP posting and the proper roll-up into the SEFA.

**Agency Response:** The Public Health and Human Services Comptroller Office (PHHS) concurs with the audit finding regarding the lack of an available audit trail that showed how individual child care payments were charged to CCDF and TANF on SAP during the fiscal year ended June 30, 2005. An audit trail is now available for all child care voucher transmittals processed beginning October 2005.

The auditors noted in the section marked “Cause” that “DPW officials did not explain why the CAOs did not retain documentation to support TANF and CCDF special allowance payments, or why the CAOs shredded or purged the documents, as indicated within the condition above. In addition, DPW and PHHS officials could not explain how individual child care expenditures on CIS are charged to CCDF and TANF on SAP, especially for EBT transactions, to support audit trails.” The DPW officials who have the responsibility for the operation of TANF and Child Care Programs were not included in the audit process. As a result, the appropriate officials did not have an opportunity until the issuance of the preliminary finding to explain the apparent weaknesses and inadequacies found by the auditors. We understand that this was caused by internal miscommunication within DPW and was something that could not have been known by the auditors. We apologize for this misunderstanding.

The Office of Income Maintenance (OIM) asserts that these findings are incomplete, because they are based on the incorrect conclusion that necessary documentation did not exist. Upon review of additional documents provided with this response, we believe the auditors will agree that costs in question can be allowed because in every instance of the 52 sample payments, OIM staff have now produced the required documentation to support the transaction.

These records are summarized on a chart submitted with this response, followed by the actual copies that support the costs allowable under TANF and CCDF programs. Information is provided for the cases which previously had no documentation and for the cases where the supporting documentation was shredded.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 30: (continued)**

It is regrettable that these documents did not reach the audit team in a timely manner. Had OIM Headquarters been made aware of a problem, we would have intervened with the CAOs in question and facilitated a timely response to the auditors' request for documentation and explanation. We share with the auditors the common goal to have audit reports based on actual records and to present an accurate and complete picture of the operations in both the TANF and Child Care Programs.

While it is true that some documents were shredded prematurely, this was done with the knowledge that the proper documentation was available in individual case files. That documentation is provided with response. As recommended by your report, OIM will follow up and strengthen record retention and internal controls over case documentation.

This response provides an explanation and documentation for all of the questioned costs.

Please be assured that OIM has always, and will continue, to cooperate fully with the Bureau of Financial Operations and all auditors to ensure a successful process.

**Auditors' Conclusion:** We reviewed the agency response and the additional documentation submitted by DPW to resolve the questioned costs in our original draft finding. Based on DPW's additional supporting documents, several questioned items in the original draft finding have been resolved, and were removed by the auditors from the condition section of the final finding above. However, most of the questioned costs in our original draft finding have not been resolved, so these items remain as questioned costs in the condition section above, amounting to \$19,253. The additional documents provided by DPW with its agency response did not include actual receipts or other valid proof from the clients that the allowance payments were allowable, did not have valid documented DPW approvals or client acknowledgement sign-offs, did not include the required PW-764 form, and/or did not agree to the allowance amounts actually paid. We further noted instances where some of the special allowances in our sample could have been erroneous duplicate payments based on the lack of supporting documentation from DPW.

Because of these unresolved exceptions, our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 31:**

#### **CFDA #93.563 – Child Support Enforcement**

##### **Internal Control Weaknesses in the Administration of Child Support Enforcement Program Collections**

**Condition:** Several weaknesses in internal controls were noted in our audit of the system that processes collections for DPW's CSE program. These weaknesses were reported by another auditor during an independent SAS #70 review of the outside contractor operating DPW's Centralized Collections and Disbursement Unit (PASCDU). These SAS #70 report weaknesses include the following:

- Access to customer support, Employer Outreach, DIRON, OPEX scanner, open scan, payment processing, scan, and TMS systems and the tracking of user ID's and passwords were shared among those groups.
- Windows domain password configuration settings allowed blank passwords for users. Weak passwords were noted for many accounts in the domain.

**Criteria:** The ITIL (IT Infrastructure Library) provides a framework of 'best practice' guidance for IT Service Management and is the most widely used and accepted approach to IT Service Management in the world. According to this framework, there are several best practice processes which should be in place to manage Service Delivery, Application Management, Security Management and Infrastructure Management.

The CobIT (Control Objective for Information Technology) published by the IT Governance Institute serves as a framework for IT governance, control and assurance. CobIT provides a set of 34 high-level control objectives, one for each of the IT processes, grouped into these four domains: planning and organization; acquisition and implementation; deliver and support; and monitoring.

Both of these framework documents provide specific criteria which, if followed, would resolve the above-mentioned conditions.

**Cause:** This condition was caused by ineffective logical access controls at the third party contractor site and the failure of DPW to monitor the third party contractor, to determine if the contractor implemented proper security controls as related to the contractor's system for PASCDU.

**Effect:** While the above-mentioned conditions, taken individually, may not pose serious risks, together they demonstrate a weakness in the documentation and monitoring processes in the Child Support Enforcement environment. These weaknesses may allow a security breach to go unchecked. In addition, ineffective controls on the Commonwealth's deliverables to the contractor may allow for the processing of inaccurate data, and allows for the potential risk of improper transactions to occur without being noticed.

**Recommendations:** We recommend that DPW ensure the contractor performs the following corrective actions related to PASCDU:

- Implement a process by which user access is reviewed to determine if access is appropriate, based on user responsibilities.
- Assign user ID's and passwords to individual users as related to the Customer support, Employer Outreach, DIRON, OPEX scanner, open scan, payment processing, scan, and TMS systems. User ID's and passwords should not be shared between users.
- Implement windows domain password settings to require passwords for all users. Strengthen weak password parameters in the windows domain, where password parameters have been set, but are not currently set in a manner which would ensure system security.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 31: (continued)**

**Agency Response:** The review of the SAS #70 report for the PA Statewide Collections and Disbursement Unit (PASCDU) for the period July 1, 2004 through April 30, 2005, recommended enhanced logical security controls around network and application users under "Logical Security, Control Objective 11." Immediately thereafter in May of 2005, Windows XP/2003 replaced the NT operating system. The new Windows configuration eliminates the sharing of user IDs and passwords among employees and departments. Additionally, the new configuration possesses password controls, including password length, complexity, history and lockout requirements. These system changes were monitored by Commonwealth staff and accomplished in conjunction with the contractor, Affiliated Computer Services, ensuring full compliance with the SAS #70 review.

A recent SAS #70 review for the period May 1, 2005 through April 30, 2006 provided no findings or recommendations under the "Logical Security, Control Objective 11" section. Hence, the recommendations contained in this Single Audit finding have already been implemented and the internal control weaknesses have been corrected.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 32:

#### CFDA #93.569 – Community Services Block Grant

##### LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program (A Similar Condition Was Noted in Prior Year Finding #04-26)

**Condition:** Our review of controls over federal financial reporting in CSBG during our prior audit disclosed that the LECS Comptroller Office did not submit any SF-269A expenditure reports to HHS during the audit period in accordance with federal regulations. As a result of our finding in the prior audit, on May 19, 2005, the LECS Comptroller personnel prepared and submitted the required SF-269A expenditure reports for the five FFY grants in which expenditures were incurred as of September 30, 2004. Therefore, the prior-year noncompliance and internal control weakness existed through most of our current year ended June 30, 2005.

**Criteria:** 45 CFR 96.30(b) (4) which provides the fiscal and administrative requirements states:

*Grantees shall submit . . . OMB Standard Form 269A Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.*

Further, the Terms and Conditions of the Community Services Block Grant Award for FY 2004 states:

*Grantees are required to submit annual financial status reports, SF-269A's (short form), for this program. The first report is due 90 days after the end of first year, i.e., December 30, 2004. Final reports are due December 30, 2005.*

Further, the Terms and Conditions of the Community Services Block Grant Award for FY 2003 states:

*Grantees are required to submit annual financial status reports, SF-269A's (short form), for this program. The first report is due 90 days after the end of first year, i.e., December 30, 2003. Final reports are due December 30, 2004.*

**Cause:** As indicated within the prior year response, LECS Comptroller Office personnel indicated that they were not aware that these reports were outstanding and not submitted.

**Effect:** LECS Comptroller Office control environment was not adequate to ensure compliance with CSBG regulations and grant requirements regarding federal reporting. The LECS Comptroller Office did not comply with federal regulations since they did not timely submit SF-269A expenditure reports for CSBG during our current audit period; therefore, HHS could not monitor grant financial activity. In addition, it cannot be assured that nonmajor federal program grants the LECS Comptroller Office is responsible for are properly reported upon.

**Recommendation:** LECS Comptroller personnel should ensure it timely complies with all federal financial reporting requirements in all federal grants for which the LECS Comptroller Office has responsibility.

**Agency Response:** LECS was aware of the Form SF-269A reporting requirements for the CSBG program. In the course of staffing changes, however, we were not aware that there were outstanding SF-269As to be submitted. The presentation of the **Condition** suggests that we were not familiar with our job requirements; this was not the case. We have reviewed our grant listing to ensure that the grants for which reports were missed are included and have filed the applicable SF-269As. The lack of submission did not result in HUD notifying DCED or LECS or in the suspension of available federal funding.

**Auditors' Conclusion:** Beginning with federal fiscal years (FFY) ending on or after September 30, 2002, HHS required all recipients of HHS Block Grants to file SF-269A Financial Status Reports (FSR). The first reports for CSBG were due on December 30, 2002; however, LECS Comptroller Office did not file any FSRs since the initiation of the requirement. As a result, FFYs September 30, 2002, 2003 and 2004 FSRs were not submitted as required. It was not until after we made several different requests for FSRs for the CSBG program that LECS Comptroller Office personnel provided us with copies of FSRs filed on May 19, 2005 for FFY September 30, 2004 and an explanation that they were

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 32: (continued)**

not aware of the requirement to file FSRs for CSBG. Whether the cause of the non-submission of the FSRs was lack of awareness of the requirements or the lack of awareness of which FSRs were not filed, it is still an indication of a weak control environment.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 33:

#### CFDA #93.569 – Community Services Block Grant

#### Weaknesses in Internal Controls Over Subgrantees Result in \$420,182 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #04-27)

**Condition:** Federal regulations require DCED to perform on-site monitoring of each CSBG subgrantee once every three years. To ensure compliance with this requirement, DCED prepares a monitoring schedule to identify the 45 subgrantees they plan to monitor during the three years. Our review of DCED’s monitoring schedule for SFYE June 30, 2005, the third year within the current three-year cycle, disclosed that 26 subrecipients were scheduled for current-year on-site monitoring visits. However, based on our audit inquiry, DCED personnel in the Office of Community Services (OCS) indicated that only 22 of 26 subrecipient monitoring visits were actually performed. Therefore, DCED failed to monitor 4 of its 45 subgrantees listed on the monitoring schedule within the federally-required three-year timeframe as follows:

Subgrantee	CSBG Funds Awarded During SFYE 6/30/05
Community Action Association of PA	\$ 260,262
Community Action Southwest	541,418
Fayette County AAA	468,623
The Trehab Center	530,639
	\$1,800,942

In addition to testing on-site monitoring, we reviewed payments to subrecipients for compliance with CSBG period of availability requirements. We noted that a total of three subrecipient payments for \$420,182 were charged to the FFY 2003 CSBG grant (Grant No. G-03B1PACOSR for grant period 10/1/02 to 9/30/04) after the September 30, 2004 period of availability deadline, and we reviewed all three as follows:

Document Number	Document Date	Subgrantee Invoice Date	Amount Charged To Grant	Subgrantee
KR1900979355	12/8/04	11/23/04	\$140,001	Community Action Association of PA
KR1901016033	1/12/05	1/6/05	120,182	Philadelphia City Treasurer
KR1901076474	3/9/05	2/24/05	159,999	Community Action Association of PA
			\$420,182	

DCED could not provide expenditure reports or any other documents from the subgrantees showing the payments were expended by the subgrantee (on behalf of the grantee) by September 30, 2004. Since DCED could not provide documentation to support that the \$420,182 of payments were expended within the period of availability, the entire amount is questioned.

**Criteria:** Regarding subgrantee monitoring, 42 USC 9914(a)(1) states:

(a) *In general*

*In order to determine whether eligible entities meet the performance goals, administrative standards, financial management requirements, and other requirements of a State, the State shall conduct the following reviews of eligible entities:*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 33: (continued)

(1) *A full on-site review of each such entity at least once during each three-year period.*

Regarding the expenditure of funds, in addition, 45 CFR, Part 96.14(b) states:

(b) *Expenditure. No limitations exist on the time for expenditure of block grant funds, except those imposed by statute with respect to the community services, maternal and child health services, and social services block grants.*

The Terms and Conditions of the Community Services Block Grant Awards state:

*Payments to grantees from their allotment for any fiscal year shall be expended by the grantee in such fiscal year or in the succeeding fiscal year, Section 678(b) (42 U.S.C. 9907).*

*Grantees shall adhere to the provisions of 678D which addresses the grantees responsibilities for fiscal control, fund accounting and audit procedures.*

(Note: Auditors conclude that this same period of availability criteria applies to all subgrantees conducting programs on behalf of the grantee.)

**Cause:** DCED personnel indicated that staffing shortages prevented them from completing all of the on-site monitoring visits scheduled for the 2004-2005 monitoring year and within the three year cycle. DCED personnel indicated that future on-site monitoring visits were scheduled in SFYE 6/30/06 for the four subgrantees that were not monitored during the three-year cycle.

With regard to DCED not being able to provide documentation to support that the \$420,182 was expended within the period of availability, DCED personnel stated that they normally require subgrantees to submit monthly expenditure reports which document when the expenditures were incurred. However, they could not explain why expenditure reports were not available for these subgrantees.

**Effect:** DCED did not adequately perform on-site monitoring of the CSBG subrecipients to comply with federal regulations. In addition, since DCED could not provide documentation to support that the \$420,182 of subgrantee expenditures were incurred within the period of availability, the \$420,182 is questioned.

**Recommendation:** We recommend that DCED establish a system to ensure that all on-site visits are completed within the scheduled three-year monitoring cycle to provide reasonable assurance that subrecipients are complying with federal regulations. In addition, we recommend that DCED pursue appropriate settlement with HHS regarding the \$420,182 of questioned costs, and improve its documentation to support that all CSBG costs are expended within the period of availability.

**Agency Response:** A shortage of personnel again prevented the regional staff and the CSBG Unit from achieving our monitoring goals. However, as of mid-April of 2006, the monitoring function is fully staffed, and we expect – for SFYE June 30, 2006 – that each entitlement agency will have been monitored. The Management Plan for SFYE June 30, 2006 (instituted after the previous year's finding) called for quarterly monitoring goals and oversight of the performance of that monitoring. This is the first full year of implementation of the Plan, which we have monitored from this office. Central Office staff and the Northwest Regional Office staff have shared the responsibility for monitoring the Southwest Region, which had been without a monitor for about two years. We are confident that all agencies will be adequately monitored during the next fiscal year (FY 2005-06).

The finding also noted that some payments to subgrantees were paid after the period of availability. Although we are confident the appropriate activities and services were conducted during the funding period of availability, our reporting documents cannot verify that. We will therefore modify our fiscal report format and/or our payment request form to add a line where agencies can include the period of activity. Hopefully, this will meet program requirements. We will also reinforce to subgrantees of their responsibility to get payment requests in within a reasonable period of time.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 33: (continued)**

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 34:

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

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

**CFDA #93.667 – Social Services Block Grant**

#### **Weaknesses in DPW Program Monitoring of Subgrantees (A Similar Condition Was Noted in Prior Year Finding #04 -29)**

**Condition:** Our examination of DPW's procedures for monitoring SSBG and CCDBG/CCDF (Child Care Cluster) Mandatory and Matching subgrantees for compliance with federal regulations revealed that DPW does not adequately monitor these subgrantees for compliance with applicable federal regulations during the award since no on-site visits are conducted by state officials.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advances funds to CCDBG and CCDF subgrantees and to SSBG subgrantees in 6 of 11 SSBG program areas, representing approximately 83 percent and 71 percent of total CCDBG/CCDF Cluster and SSBG program expenditures, respectively. However, no monitoring of subgrantee cash management occurs during the year to ensure subgrantee cash is reasonable.

In particular, for the Emergency Shelter, Legal Services, and Child Care components of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Mental Retardation, and Child Welfare, DPW advanced funds to subgrantees on a quarterly basis. Our inquiries with applicable DPW program administrators disclosed that DPW did not adequately monitor any of its SSBG subrecipients for compliance either at the time of payment or at any other time during the current state fiscal year.

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

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

*A pass-through entity is responsible for:*

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

Cash advances by a state to secondary recipients shall conform substantially to the same standards of timing and amount which apply to the state.

45 CFR 92.37, Subgrants, states:

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 34: (continued)

In addition:

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

**Cause:** DPW places reliance primarily on A-133 subgrantee audits to ensure its CCDF and SSBG subgrantees administer their programs in compliance with federal regulations. Therefore, program monitoring does not occur on-site.

For child care cash payments under CCDBG/CCDF and SSBG, DPW had implemented the Child Care Management Information System (CCMIS) in 19 CCIS agencies statewide as of July 1, 2004. In CCMIS, DPW no longer provides advance 1/12 payments each month to CCIS agencies for service delivery. Instead, CCMIS will project a payment for the upcoming month that is based on current service levels along with reconciliation of the prior month's payments to balance over- or under-payments to the CCIS agencies. DPW implemented CCMIS statewide in the remaining CCIS agencies as of June 30, 2005. However, DPW is not performing on-site monitoring to test the accuracy of entries into CCMIS by the 59 CCISs.

Regarding the Emergency Shelter, Legal Services, Mental Health, Mental Retardation and Child Welfare components of SSBG, DPW personnel indicated that they provide subgrantees with advances in part to comply with Commonwealth law and also to ensure that adequate funds are available to provide services to participants on a timely basis. DPW officials believe that their in-house payment review procedures for the SSBG program are as efficient as is administratively feasible and that controls exist in each of the program areas for SSBG. With no on-site program monitoring visits by funding agency officials, however, we consider DPW's limited in-house reviews of subgrantee status reports or other documents to be insufficient to detect potential subrecipient noncompliance, including excess cash violations. We also noted that DPW does not adjust payments to the subgrantees based on in-house reviews.

As stated in the prior year findings, DPW is waiting for HHS resolution of these issues. DPW contacted HHS in writing in March 2000, but still has not received a response from HHS. Also, as stated in the prior year finding, our last contact with HHS officials in the Division of Payment Management was during SFYE June 30, 1998. At that time, HHS officials stated that, in order to resolve some of the issues in this finding, DPW must either change their payments from advances to reimbursements or set up a system to at least quarterly monitor cash balances throughout the fiscal year.

**Effect:** DPW is not adequately performing during the award monitoring of subgrantees, including the monitoring of subgrantee cash on hand, to ensure subgrantee compliance with applicable federal regulations. As a result, DPW provides little assurance of subrecipient compliance with federal requirements, including cash management standards.

**Recommendation:** DPW should establish and implement on-site during the award monitoring procedures for all CCDF/CCDBG and SSBG subgrantees to ensure timely compliance with all applicable federal regulations.

As recommended in previous Single Audits and supported by HHS, DPW should either consider changing their current subrecipient payment procedures from advancement basis to reimbursement basis or establish procedures to adequately monitor subrecipient cash on hand to ensure it is limited to immediate needs, but no longer than one month. The implementation and strengthening of these controls should provide DPW with reasonable assurance as to compliance with cash management requirements at the subgrantee level.

**Agency Response:** Regarding the Child Care Cluster, the Department has taken measures, prior to issuance of this finding, to develop performance standards and an on-site evaluation tool to determine sub-grantees' compliance with the standards. The performance standards include measures to assure accurate data entry, proper eligibility determinations, and appropriate management of funds. The performance standards were issued in state fiscal year 2005-06. The DPW completed several on-site monitoring visits with the goal of monitoring all agencies next fiscal year.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 34: (continued)**

As you know, the DPW implemented a statewide comprehensive information system for child care, Child Care Management System (CCMIS). CCMIS has already aided the DPW in addressing a prior audit finding related to cash management. We are extremely encouraged by that fact. During the implementation of CCMIS, staff resources were fully committed to CCMIS implementation efforts. Regional staff was on-site at each sub-grantee during the audit period to provide technical assistance. It is accurate that the DPW relied on the Circular A-133 audits during this time for compliance monitoring. Since three of the four major releases of CCMIS are completed, the DPW will redeploy staff resources to monitoring activities to address this finding.

Regarding SSBG, the DPW Office of Mental Retardation (OMR) conducts on-site monitoring of county programs, although not specifically related to SSBG funding. The SSBG funds are treated and protected just like any other funds that are allocated to the counties. Counties as part of their normal contracting requirements with providers require the auditing of units of expenditures as they relate to the overall contract. SSBG monies are used in the Mental Retardation program to fund expenditures for clients who would be otherwise funded by base dollars. They are not specifically audited, but are reviewed in the overall sampling process utilized by the auditing entity. In accordance with the Single Audit guidelines, the county is responsible for ensuring that the provider of service adheres to the regulations and requirements of the program. If needed, the OMR may request that the Bureau of Financial Operations or Comptroller's Office audit a county program to ensure that all MR funding (including SSBG) is being used appropriately.

The auditors' recommendation to either consider changing current subgrantee payment procedures from advancement to reimbursement or establish procedures to adequately monitor their cash on hand to ensure it is limited to immediate needs (but no more than one month) are not viable options (cost/benefit) as the amount of SSBG funding received by the Commonwealth continues to decrease. If the information provided above does not sufficiently address the compliance issue, the OMR would support changing the payment of SSBG funds from a quarterly to monthly basis if the Department also thought it appropriate to do so.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 35:**

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

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

#### **Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,221,990 (A Similar Condition Was Noted in Prior Year Finding #04-28)**

**Condition:** Federal regulations applicable to the discretionary fund portion of the CCDF program established an earmark within each federal award requiring a minimum funding level to increase the supply of quality child care for infants and toddlers. The FFY 2003 (Federal Grant No. G-0301PACCDF) infant and toddler earmark applicable to Pennsylvania in our current audit period was \$3,221,990. In our prior-year audits, our test of expenditures charged and obligated to CCDF disclosed that DPW did not adequately track and could not provide adequate documentation to properly support the expenditures claimed for the infant and toddler earmark. Our current-year follow-up to these prior year findings disclosed that DPW did not implement corrective action and again did not adequately support this earmark for the current FFY 2003 CCDF grant.

As of June 30, 2005, DPW reported infant and toddler earmark expenditures of \$3,797,648 on the ACF-696 Report for the 2003 grant, which exceeded the required earmark disclosed above. These expenditures consisted of \$1,730,633 of expenditure adjustments posted to SAP via document SU104064508 on August 3, 2004, and several payments to one subrecipient totaling \$2,067,015 that were posted to SAP from August 22, 2003 through November 2, 2004.

Regarding the \$1,730,633 of expenditure adjustments posted on SU104064508, these amounts represented costs transferred into the infant and toddler earmark account on SAP from non-earmarking SAP accounts in which the costs were originally recorded. The support for these adjustment postings consisted of a one-page memo which listed individual subrecipient contracts and expenditure amounts that totaled to the adjustments posted to SAP. These memos were prepared by one individual in DPW and there was no supervisory review, monitoring, or verification of the propriety of the costs claimed by this individual for the earmark on these memos.

With regard to the \$2,067,015 of subgrantee payments, DPW only used a portion of the total paid to the subrecipient to count towards the infant and toddler earmark, but provided no support for the appropriateness of its calculation of this infant and toddler portion. We noted that the subrecipient contract included a mix of qualifying infant and toddler earmark activities and other child care activities that would not qualify for the earmark, so more support is needed for these subrecipient amounts claimed.

Also, our review of DPW's Subrecipient Single Audit Supplement that provides overall guidance to OMB Circular A-133 subrecipient auditors does not require submission or auditor testing of detailed subrecipient reports to support infant and toddler earmark expenditures.

Finally, during a prior audit period, ACF reviewed supporting documentation on-site for the FFY 1999 and FFY 2000 CCDF grants at the four (4) Child Care Resource Developers (CCRD) in PA which have the responsibility for administering the infant & toddler funds at the local level. These reviews were performed in response to our auditors' prior year findings and recommendations. ACF Regional Office's reviews disclosed that DPW exceeded the infant and toddler earmark expenditure requirement in both fiscal years. However, ACF also disclosed that DPW's CCDF program monitoring policies and procedures were inadequate to assure that providers accurately report actual infant & toddler expenditures, which is the same monitoring weakness we noted above. As a result, ACF indicated that DPW implemented corrective action and revised the procedures by which the CCRDs administer the infant & toddler funds. Per ACF, DPW required that infant and toddler funds be monitored, tracked and separately reported to DPW. These proposed new procedures were reviewed and accepted by the ACF Regional Office, but were not implemented by DPW until SFYE 6/30/06, or after the end of our current audit period, and have not been subject to audit. Therefore, the same lack of documentation at DPW continued to exist for the FFY 2003 CCDF Grant in our current-year, along with the

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

### **Finding 05 – 35: (continued)**

same control weaknesses. ACF stated they will continue to monitor these expenditures to ensure that the State obtains adequate documentation to support the infant & toddler earmark and to assess the effectiveness of DPW's corrective actions. ACF will also use the results of future Single Audits to determine if corrective actions to monitor and track expenditures effectively were successful.

**Criteria:** The terms and conditions issued with the FFY 2003 Child Care and Development Fund grant award state:

#### ***Discretionary Fund***

*Discretionary Funds must be obligated by September 30, 2004. States must liquidate obligations by September 30, 2005.*

#### ***Earmarks associated with the Discretionary Fund***

*The Department of Labor, HHS, and Education Appropriations Act, 2002 earmarked specific amounts for these activities:*

- *Child Care Quality Improvement Activities*
- *Infant and Toddler Quality Improvement*
- *Child Care Resource and Referral and School Aged Child Care Activities*

*The amount of these earmarks **is included** as part of the Discretionary Fund in calculating the “not less than 4% quality expenditure requirement” of Section 658G of the CCDBG Act. However, the expenditures of these earmarked amounts are **not** counted toward meeting the 4% quality expenditure requirement.*

In addition, HHS's Final Allocation for the FFY 2003 Final Allotments and Earmarked Funds established Pennsylvania's infant and toddler earmark as \$3,221,990.

Also, 45 CFR Part 98.60(d)(1) states:

- (1) *Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year.*

Furthermore, 45 CFR Part 98.60(d)(7) states:

- (7) *Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government.*

**Cause:** Since corrective action was not implemented by DPW to resolve our prior year finding, compliance with the infant and toddler earmark for our current year under audit was not properly documented, tracked, and monitored at the state or subrecipient levels by DPW. As indicated in the DPW prior year response, they have pursued and implemented a new documentation system to identify the obligations and expenditures of this earmark. However, this new documentation and control system was not implemented during our current audit period.

**Effect:** DPW did not retain adequate documentation to support its compliance with federal earmarking regulations. Since the necessary documentation to support compliance with the earmark was not available, DPW cannot reasonably demonstrate that the required amount of FFY 2003 CCDF funds were spent on federally-mandated infant and toddler activities versus other CCDF activities. Because costs spent or obligated on other CCDF activities in lieu of the minimum required earmark would not be allowable, the entire amount of the \$3,221,990 minimum earmark is questioned.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 35: (continued)**

In addition, although other CCDF earmarks were not deemed material to our CCDF audit as a whole and were, therefore, not detail tested in our current year audit, due to the lack of DPW program monitoring and documentation noted above, subgrantee expenditures supporting the two other CCDF earmarks listed above (Child Care Quality and Child Care Resource and Referral) may be in question as well.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$3,221,990 of questioned costs. In addition, DPW should review and ensure its new system has been properly functioning to adequately document, track, and verify with subrecipients that infant and toddler earmarks are properly obligated, accurately recorded, and met within future CCDF grants. Also, DPW should ensure that subgrantee expenditures in support of all CCDF earmarks are properly monitored and supported by adequate documentation.

**Agency Response:** As stated in the audit finding and previously stated in DPW's 2004 audit response, DPW's efforts to address this issue will not be realized until SFYE 2006. The documenting system to identify the obligations and expenditures of the earmark was implemented July 1, 2005.

Since the 2004-05 state fiscal year was already established when the previous audit finding was issued, the DPW contacted ACF during the week of August 29, 2005 to discuss the SFYE 2005 Infant and Toddler Earmark. The DPW implemented a rate increase for the infants and toddler care level which is in accordance with ACF's technical assistance document on suggested activities for increasing the supply of quality care for infants and toddlers. ACF agreed to accept a minimum number of expenditure adjustments so the DPW would not have to undertake an administrative effort to update over 100 lines of coding in the Commonwealth's accounting system.

While DPW guarantees that it spent at least the minimum earmark amount on Infant and Toddler activities, it looks forward to fully addressing the audit finding in the next fiscal year.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 36:

#### CFDA #93.658 – Foster Care – Title IV-E

##### Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (A Similar Condition Was Noted in Prior Year Finding #04-30)

**Condition:** During our prior year audit, we identified an internal control weakness in that when a county submits a supplemental invoice to DPW, nobody within OCYF or the PHHS Comptroller Office compared the supplemental invoice to the original quarterly invoice to ensure that services were not billed twice. Our current year audit procedures disclosed that this weakness has not been corrected and still exists. In addition, although routine during-the-award (i.e., on-site and other) monitoring of the Foster Care subrecipients was performed by DPW during our current audit period, no specific monitoring or review of subrecipient records is performed by state officials to ascertain the propriety (allowability, eligibility, etc.) of supplemental payments. Based on Foster Care claims submitted by subrecipients in prior year audits, especially Philadelphia County, we noted that these supplemental claims can be material to the program.

As a result of the aforementioned weakness, DPW cannot demonstrate adequate monitoring of these higher-risk supplemental charges to the program. While this weakness would apply to all supplemental invoices submitted to DPW for reimbursement, the potential for significant double billings or unsupported/unallowable billings on supplemental invoices is especially high in large counties where the supporting summary documents are often in excess of 1,000 pages.

**Criteria:** 45 CFR 92.40 (a) states:

*Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with application Federal requirements. . .*

In addition, good internal controls should include timely procedures to ensure that supplemental subgrantee invoices are properly reviewed and costs monitored to ensure that expenditures are not being claimed inappropriately for reimbursement.

**Cause:** As noted within the prior year finding, OCYF and PHHS Comptroller Office personnel indicated that they do not compare supplemental invoices with the original invoices due to the large number of children being served. This comparison would require the use of a computer program, especially for large counties in which the supporting Summary of Maintenance Forms are over 1,000 pages. In addition, the Office of Children, Youth and Families (OCYF) relies on three approaches to ensure that subrecipient's expenditures in the Foster Care Program are allowable, reasonable, and necessary in accordance with federal regulations. First, through the Department's normal audit resolution protocol, OCYF will review and follow up on Foster Care expenditures reported on supplemental invoices when the OMB A-133 Single Audit of the applicable county's child welfare program is completed. OCYF reviews the results to ensure proper follow up is performed on any audit findings or questioned costs identified and considers whether additional monitoring coverage of these costs is necessary.

Second, OCYF receives and reviews annual programmatic audits conducted by the Department of Auditor General (AG) of all county child welfare programs for prior fiscal years. These audits review allowability, reasonableness and necessity of costs claimed in prior years, and are acted on by OCYF in order to recover funds provided to subrecipient counties in violation of federal regulations, including duplicate billings.

Third, OCYF implements an extensive Quality Assurance Management program whereby on-site Title IV-E quality assurance reviews are conducted during the awards in all counties each year. These reviews verify that eligibility files contain appropriate documentation to substantiate that the child meets eligibility for age, income, etc. These reviews include checking the child's age, income, resources, ongoing agency custody/responsibility, permanency planning, court order language, and whether the child was placed in a fully approved/licensed home. In addition, the review includes

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 36: (continued)**

ensuring that the client remained eligible and reimbursable during the period invoiced by the county. Additionally, the Quality Assurance process requires that staff pull Title IV-E ineligible cases to ensure that ineligibility was correctly determined, and that these cases were not invoiced. Staff also pulls actual invoices to determine if claiming is correct, i.e., claims were eligible, allowable, and necessary.

However, none of these three approaches includes specifically testing supplemental invoices or comparing the expenditures claimed on supplemental invoices to the original invoices for potential duplicate billings.

**Effect:** OCYF and PHHS Comptroller Office officials do not timely or adequately review Foster Care claims submitted on supplemental invoices by the County Children and Youth Agencies. As a result of this internal control deficiency, additional DPW review and/or follow-up on the propriety of supplemental costs is necessary.

DPW's sole reliance on OMB A-133 or program audits of subrecipients in these situations is an internal control weakness since DPW's only on-site monitoring and assurance on these costs is not achieved in a timely manner. In addition, without adequate program monitoring of these costs during the year, potentially material subrecipient noncompliance would not be detected and corrected by DPW, including the prevention and/or collection of any potential questioned costs, in a reasonably timely manner.

**Recommendation:** OCYF and the PHHS Comptroller Office should implement procedures to specifically review Foster Care claims reported on subrecipient supplemental invoices, and strengthen monitoring procedures for these supplemental costs to ensure that these costs are not duplicates, and are allowable, reasonable, necessary, and for eligible participants in accordance with federal regulations. These enhanced review and monitoring procedures should be implemented for future supplemental Foster Care claims by subrecipients, as deemed appropriate by program management.

**Agency Response:** Through the DPW's normal audit resolution protocol, the DPW will review and follow up on Foster Care expenditures reported on supplemental invoices when the OMB A-133 Single Audit of the applicable county children and youth agencies (CCYAs) child welfare program is completed. The DPW reviews the results to ensure proper follow up is performed on any audit findings or questioned costs identified, and considers whether additional monitoring coverage of these costs is necessary.

The OCYF receives and reviews annual programmatic audits conducted by the Department of the Auditor General of all county child welfare programs for prior fiscal years. These audits review allowability, reasonableness, and necessity of costs claimed in prior periods and are acted on by the OCYF in order to recover funds provided to subrecipients CCYAs in violation of federal regulations, including duplicate billings.

The OCYF implements a Quality Assurance Management program whereby on-site Title IV-E quality assurance reviews are conducted each year. These reviews verify that eligibility files contain appropriate documentation to substantiate that the child meets eligibility for age, income, etc. These reviews include checking the child's age, income, resources, ongoing agency custody/responsibility, permanency planning, court order language, and whether the child was placed in a fully approved/licensed home.

In addition, the review includes ensuring that the client remained eligible and reimbursable during the period invoiced by the county. Additionally, the Quality Assurance process requires that staff randomly pull Title IV-E ineligible cases to ensure that ineligibility was correctly determined, and that these cases were not invoiced. Staff also pulls some invoices to determine if claiming is correct (i.e., claims were eligible, allowable, and necessary).

This response is the same as last year, as the prior-year DPW Single Audit found the same internal control weakness. As a result, the OCYF is seeking a new staff person to begin to look at supplemental payment requests from the CCYAs in a pre-audit function, and has also requested that the Bureau of Financial Operations conduct an audit of supplemental requests/payments during the Fiscal Year 2006-07 Annual Agency Audit Plan period.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 36: (continued)**

In addition, the PHHS Comptroller Office recognizes the significance of the internal control issues noted within this finding and will work with the DPW's Office of Children, Youth and Families as necessary to develop a plan to resolve these issues.

**Auditors' Conclusion:** As we indicate above, DPW does not perform any additional monitoring, on-site or otherwise, of higher-risk supplemental invoices. In addition, as further mentioned above, solely relying on after-the-fact audits is not a sufficient or timely control to prevent inappropriate supplemental payments. Therefore, the finding and recommendation remain as previously stated, and we will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 37:

#### CFDA #93.658 – Foster Care – Title IV-E

#### CFDA #93.659 – Adoption Assistance

#### DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies Is Incomplete

**Condition:** Prior to the expiration of each license term, DPW performs an on-site inspection to support its reissuance of licenses for all 67 County Children and Youth Agencies to whom DPW subgrants funds to perform Foster Care and Adoption Assistance services. The on-site inspection is documented on a Licensing Approval/Registration Inspection Summary. To test the licensing of these agencies, we judgmentally selected a sample of 10 of the 67 County Agencies from DPW's inspection lists. Our review of the DPW OCYF on-site inspections of these County Children and Youth agencies during the year under audit disclosed that for 3 of the 10 (33 percent) agencies, the on-site inspections were incomplete, as compliance with certain regulations was not completed as follows:

<u>Children and Youth Agency</u>	<u>Regulations Not Tested</u>
Allegheny County	55 PA Code, Chapters 3140 & 3170
Elk County	55 PA Code, Chapters 3140 & 3170
Lawrence County	55 PA Code, Chapter 3170

Chapter 3140, Subchapter B relates to Foster Care eligibility requirements and allowable costs. Subchapter C relates to Adoption Assistance eligibility requirements and allowable costs.

Chapter 3170 relates to the overall fiscal management of County Children and Youth Agencies, such as personnel and operating expenditure guidelines.

As a result, license renewals for these 3 county agencies were incomplete and an internal control weakness exists over DPW monitoring of Foster Care and Adoption Assistance subrecipients. In addition, even though these agencies were not monitored for the regulations listed above, DPW issued licenses to the agencies.

**Criteria:** 42 U.S.C., Section 671(a)(7) pertaining to the state agency responsibilities states in part:

*... the State agency will monitor and conduct periodic evaluations of activities carried out under this part. . . .*

In addition, PA Code, Title 55 Chapter 20, Section 20.51 states:

*A certificate of compliance (License) will be issued to the legal entity by the Department if, after an inspection by an authorized agent of the Department, it is determined that requirements for a certificate of compliance are met.*

**Cause:** The Licensing/Approval/Registration Inspection Summaries for the three agencies listed above indicated that compliance with the applicable regulations cited would be reviewed and/or evaluated at a later date. However, DPW could not provide documentation that these agencies were subsequently reviewed as indicated. DPW personnel could not explain why this documentation was not available.

**Effect:** Internal controls at DPW are weak and county agencies could be operating out of compliance with federal regulations.

**Recommendation:** DPW OCYF should follow their established procedures to ensure adequate monitoring of Foster Care and Adoption Assistance agencies to ensure that they are in compliance with all regulations prior to issuing of licenses.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 37: (continued)**

**Agency Response:** Regional Offices of Children, Youth and Families conduct annual surveys and evaluations of county children and youth social service agencies and validate compliance with Chapter 3130, Administration of Public Children and Youth Social Service Agencies and all other supplemental regulations pertaining to the provision of services by the county agency. Those supplemental regulations reviewed by a Regional Program Representative include Chapter 3350 (Adoption), Chapter 3700 (Foster Care), and Chapter 3490 (Child and General Protective Services). County children and youth agencies are also required to comply with the fiscal regulations of Chapter 3140 and 3170. The regulatory compliance of these chapters is not reviewed by a Regional Program Representative.

In the Western Region, the Licensing/Approval/Registration/Inspection Summary (LIS) issued at the completion of the programmatic inspection would reference that the fiscal regulations would be reviewed by the Bureau of Program Support and Bureau of Financial Operations. This wording had been a long-standing procedure to reference the inclusion of the required fiscal regulations during the inspection process. In the mid to late 1990s, Budget Analysts through the Bureau of Program Support were assigned to the Western Region. These staff would accompany the program staff on annual inspections and review the agency files and fiscal records for compliance. If there were areas of non-compliance noted, this would be placed on the LIS along with any other regulatory cites. However, with the onset of MAXIMUS involvement with Title IV-E activities, this process was modified. County agency compliance with placement maintenance efforts under Chapter 3140 were reviewed by MAXIMUS in separate compliance reviews than the annual inspection. As such, the language placed on the LIS, and noted Bureau of Financial Operations' review of several single county audits, is no longer applicable and will no longer be included on the annual inspection summaries.

**Auditors' Conclusion:** DPW did not provide any additional information to resolve the exceptions noted in the finding or any additional documentation with its agency response. Therefore, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 38:**

#### **CFDA #93.767 – State Children’s Insurance Program**

##### **PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers**

**Condition:** PA Insurance Department (PID) personnel indicated they perform monitoring of the CHIP program subrecipient insurance providers primarily through on-site visits, conducted on an on-going basis. However, there were no on-site visits started or completed during the SFYE 6/30/05. The last on-site monitoring occurred in 2003. During the fiscal year ended June 30, 2005, PID reported payments to seven insurance providers totaling \$135,020,000 representing approximately 96.3% of total program expenditures of \$140,137,037.

Since there were no on-site monitoring reports or procedures to test for the SFYE 6/30/05, we reviewed the federal OMB Circular A-133 audits of the insurance providers for calendar year 2004 in order to determine the extent of any outstanding noncompliance or internal control weaknesses reported. This review revealed that 4 of the 7 insurance providers had audit findings in their reports, and 3 of these 4 audits had findings related to eligibility determinations. For one of the providers, the error rate noted by the auditors for eligibility determination was 10% (2 of 20 items tested) resulting in a qualified auditors’ report on compliance and a material weakness in eligibility determination at the subrecipient provider. The auditors’ report indicated that this insurance provider expended \$18.4 million in CHIP funds during calendar year 2004.

**Criteria:** Regarding subgrantee monitoring, 42 CFR 92.40 (a) states:

*Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.*

**Cause:** Discussions with PID officials revealed that the only field auditor designated to perform the on-site visits discontinued employment at the PID during the SFYE 6/30/05. As a result, there were no field auditors to complete the prior year on-site visits or start new ones.

**Effect:** Since PID did not perform on-site monitoring of insurance providers during the SFYE 6/30/05, PID did not adequately ensure subgrantees were complying with federal regulations. Calendar year 2004 A-133 audits of the insurance providers disclosed one provider had material noncompliance with eligibility requirements while three other providers had audits with findings.

**Recommendation:** We recommend that PID strengthen its procedures and perform timely on-site monitoring of the seven insurance providers of the CHIP program. This would better ensure that the providers are complying with program requirements and that the PID is in compliance with federal monitoring regulations.

**Agency Response:** The CHIP and adultBasic Office acknowledges that due to staffing issues the CHIP program did not perform routine audits of contractor compliance with eligibility and enrollment requirements during the period in question, thereby placing more reliance on the A-133 Audits performed of those contractors.

During this audit period, the office has been developing and implementing an automated program monitoring application to enable it to more readily sample and review application and eligibility processing. This application is expected to be completed by the end of the summer. In addition, two new program monitors were hired to replace the one employee who transferred to another agency in November 2005. Given delays inherent in the Commonwealth hiring system, the new employees have only recently become available to perform their monitoring duties.

Staff is currently performing program monitoring activities for 2005, and expects to begin monitoring for 2006 by January 2007. Due to the fact that two monitoring reviews will be conducted almost back to back, it is anticipated that each contractor will be subject to full on-site review for 2006, unless issues arise that warrant more frequent visits.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 38: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review the implementation of PID's proposed corrective actions in the subsequent audits.

**The 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, 2005

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### Finding 05 – 39:

#### CFDA #93.767 – State Children’s Health Insurance Programs

##### Internal Control Weakness in PID procedures to Ensure Actuarial Soundness of Monthly Premium Rates

**Condition:** The Pennsylvania Department of Insurance (PID) contracts with seven insurance providers to operate children’s health insurance programs and to provide CHIP health care services throughout the Commonwealth. The standard contracts between PID and these seven insurance providers in effect from September 1, 2002 through August 31, 2005 indicate that the monthly premium rates paid to the insurance providers may change at the end of the first and second years of the contract. Insurance providers submit rate adjustment proposals which are reviewed by PID. Since the monthly premium rates are based on actuarial projections, any adjustments to the premium rates must be reviewed and approved by PID’s actuary. However, our review of the premium rate changes that were effective for the period September 1, 2004 to August 31, 2005, disclosed that PID’s actuary did not document her approval of the rates, and PID could not provide reasonable documentation to evidence that the proposed rate adjustments were reviewed and approved for actuarial soundness prior to the rates taking effect on September 1, 2004.

**Criteria:** Federal CHIP Procurement standards are specified in 42 CFR 457.940 (b):

(b) A state must –

(2) Use payment rates based on public or private payment rates for comparable services for comparable populations, consistent with principles of actuarial soundness as defined at §457.902.

42 CFR 457.902 states that:

*actuarially sound principles means generally accepted actuarial principles and practices that are applied to determine aggregate utilization patterns, are appropriate for the population and services to be covered, and have been certified by actuaries who meet the qualification standards established by the Actuarial Standards Board.*

In addition, good internal controls dictate that in order for controls to be effective, the review and approval of premium rate changes should be timely and properly documented.

**Cause:** PID management claim that the changes to the monthly premium rates were reviewed by their actuary prior to the rates going into effect on September 1, 2004; however, approval by their actuary was not documented. In lieu of this documentation, PID provided the auditors with an affidavit from the actuary stating the rate changes were reviewed and approved by her prior to going into effect on September 1, 2004.

**Effect:** Without proper internal controls in place to show review and approval by the PID actuary of any rate changes prior to implementation of a rate change, it cannot be ensured that rate changes were proper and actuarial sound in compliance with federal CHIP regulations at the time of the rates went into effect.

**Recommendation:** PID should ensure that monthly premium rates are properly reviewed and approved for actuarial soundness prior to the rates going into effect and this review and approval should be properly documented.

**Agency Response:** The Pennsylvania Insurance Department (PID) strenuously disagrees with the finding concerning its actuarial procedures for monthly premium rates. PID presented evidence, in a manner suitable for a court of law, to confirm that the rates effective for the period September 1, 2004 through August 31, 2005 were actuarially analyzed and approved prior to them taking effect. This was done by a May 31, 2006 Affidavit from the actuary who performed the analysis, which was timely provided to the auditors. The Affidavit followed a prior email from the actuary to the same substantive effect, which was also timely provided to the auditors. The Finding completely and improperly disregards both the email and the Affidavit.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 39: (continued)**

By way of further response, rate proposals submitted for the CHIP program are submitted in an RFP process and/or the contract that flows therefrom. The rate proposals and PID analysis are subject or potentially subject to numerous confidentiality provisions. Providing access to those materials could expose PID to liability for violation of those confidentiality provisions. See, e.g., RFP No. 2002-01-CHIP, Section II-3, Exhibit C hereto; 12 Pa. C.S. §§5301 et seq. (Uniform Trade Secrets Law); 65 P.S. §66.1 et seq. (Right-to-Know Law).

Further, because the rate proposals are analyzed under a process other than the statutory approval process applied to filings under Act 159 of 1996, the completion of the analysis is not marked by an Act 159 “approval,” ordinarily designated by an “approval” stamp on the public portion of a filing. Rather, the generation of the final rate pages, and the sending of those pages to the contractors for implementation, is a clear indication that the rates are approved for use. That alone should be considered satisfactory evidence of the completion of any rate review.

In sum, PID vigorously objects to the above-referenced finding for the reasons set forth above, and strongly disagrees with the finding.

**Auditors’ Conclusion:** While we agree with PID’s response that representations have been made by PID officials to us that the premium rates were actuarially analyzed and properly approved prior to implementation, no documentation has been provided as valid audit evidence to support PID’s performance of this key internal control procedure. In addition, regarding PID’s reference to the potential existence of confidentiality provisions and potential liability exposure, while we respect and acknowledge management’s concerns in this regard, we note that the audit standards we follow (Yellow Book, or GAGAS, in Chapter 5, paragraphs 5.29 to 5.31) include provisions on privileged and confidential information that auditors must follow in lieu of releasing such information to outside parties, either in an audit report or otherwise.

Since GAGAS specifically provides for the protection of confidential information, we believe that PID’s argument about potential confidentiality violations does not resolve the finding. Further, we offered PID the opportunity to redact or black out confidential information on certain documents if PID believed the documents could reasonably demonstrate that the control in question was properly and timely performed. PID did not provide any documents in response to this offer.

As a result, our finding and recommendation remain as previously stated. In addition, we recommend that PID officials pursue appropriate settlement with the federal awarding agency on this issue.

**The 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, 2005***

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### **Finding 05 – 40:**

#### **CFDA #93.778 – Medical Assistance**

##### **Internal Control Weaknesses in the Administration of the MA Program (A Similar Condition Was Noted in Prior Year Finding #04-32)**

**Condition:** Several weaknesses in internal controls were noted in our audit of the PROMISE system, which is used by the Department of Public Welfare (DPW) to process Medicaid claims within the MA program. These weaknesses were reported by another auditor during an independent SAS 70 review of DPW's outside contractor who operates the PROMISE system. These SAS 70 report weaknesses include the following:

- Documentation of application changes was not consistently maintained. In addition, DPW approval to implement the changes to the PROMISE system was not documented and/or not obtained.
- Eight (8) of 127 users have the ability to amend code and to implement the code into the Production environment, thereby constituting a segregation of duties conflict.

Further, DPW approval of system changes was not documented by DPW.

Additionally, through walkthroughs of DPW's procedures related to the User Control Considerations, or UCC's, noted in the PROMISE SAS 70 report, we noted that DPW has outsourced the collection of the Third Party Liability (TPL) amounts to an outside contractor. It was noted that DPW does not require the TPL contractor to provide a SAS 70 report, as a report of their controls over TPL collections, nor did DPW perform any audits of the TPL contractor to determine if the controls over TPL collections at the outside processor were adequate and operating effectively.

Finally, DPW could not provide any documentation or required reports to demonstrate they perform the biennial review of ADP system security required by the Medicaid OMB Circular A-133 Compliance Supplement and HHS regulations. The two key ADP systems for MA that are impacted by this noncompliance are DPW's in-house CIS system which tracks the eligibility of MA clients, and the PROMISE System mentioned above. It should be further noted that there are numerous UCCs included in the PROMISE SAS 70 Report involving ADP System Security that DPW should be following up on to ensure its in-house security is adequate for PROMISE, but DPW did not perform proper follow up on these UCCs.

**Criteria:** The ITIL (IT Infrastructure Library) provides a framework of 'best practice' guidance for IT Service Management and is the most widely used and accepted approach to IT Service Management in the world. According to this framework, there are several best practice processes which should be in place to manage Service Delivery, Application Management, Security Management and Infrastructure Management.

The CobIT (Control Objective for Information Technology) published by the IT Governance Institute serves as a framework for IT governance, control and assurance. CobIT provides a set of 34 high-level control objectives, one for each of the IT processes, grouped into these four domains: planning and organization; acquisition and implementation; delivery and support; and monitoring.

Both of these framework documents provide specific criteria which, if followed, would resolve the above-mentioned conditions.

The OMB Circular A-133 Compliance Supplement, Part 4 for CFDA #93.778, Requirement N. states:

### *3. ADP Risk Analysis and System Security Review*

*The Medicaid program is highly dependent on extensive and complex computer systems that include controls for ensuring the proper payment of Medicaid benefits. States are required to establish a security plan for ADP systems that include policies and procedures to address: (1) physical security of ADP resources; (2) equipment security to protect*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 40: (continued)

*equipment from theft and unauthorized use; (3) software and data security; (4) telecommunications security; (5) personnel security; (6) contingency plans to meet critical processing needs in the event of short- or long-term interruption of service; (7) emergency preparedness; and (8) designation of an agency ADP security manager.*

*State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis State agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.*

45 CFR 93.621 on HHS ADP System Security Requirements, states in part:

(f) *ADP System Security Requirements and Review Process—*

- (3) *ADP System Security Reviews. State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.*
- (6) *The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review.*

**Cause:** In the prior year, DPW's outside contractor implemented the PROMISe system which replaced DPW's in-house MAMIS system. During the current year, the contractor was focused on correcting the prior year's SAS 70 findings and implementing the proper controls to correct the deficiencies noted from the 6/30/04 SAS 70 audit. While the contractor is striving to ensure they meet all necessary control objectives in a SAS 70 review, the challenge of correcting the prior year's findings and implementing additional controls within the process, was of primary concern.

With respect to the outsourcing of the Third Party Liability collections to an outside vendor, DPW did not take the steps necessary to ensure that adequate internal controls were in effect at the outside vendor.

Regarding ADP System Security reviews, DPW believed that their current ADP system review procedures were adequate.

**Effect:** While the above-mentioned conditions, taken individually, may not pose serious risks, together they demonstrate a weakness in the documentation and monitoring processes in the MA environment. These weaknesses may allow a security breach to go unchecked, application updates to be performed without approval, or claims activity to not be reported in a timely manner. In addition, ineffective controls on the Commonwealth's deliverables to the contractor may allow for the processing of inaccurate data, and allows for the potential risk of improper transactions to occur without being noticed. Finally, DPW did not comply with federal regulations requiring ADP security reviews on a biennial basis.

### **Recommendations:**

We recommend that DPW take the following corrective actions:

- Coordinate with the contractor, the implementation of a quality review process by which change requests, testing documentation, and DPW approvals are reviewed for changes made, to ensure that documentation supporting the each change is complete.
- Coordinate with the contractor, the implementation of a process by which segregation of duties within the change control process is accomplished.
- DPW should ensure that changes to the PROMISe application are tested by DPW, and approvals of the changes are documented and maintained by DPW.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 40: (continued)**

- Implement a process by which the TPL collections made by the outside contractor are monitored and related controls are identified and tested.
- Establish procedures to properly follow up on UCCs in the PROMISE SAS 70 reports, and perform and adequately document, and report on, the federally-required ADP system-security review which should include the PROMISE and CIS systems at a minimum to comply with the ADP requirements for HHS programs.

#### **Agency Response:**

Auditors' Recommendation: Coordinate with the contractor, the implementation of a quality review process by which change requests, testing documentation, and DPW approvals are reviewed for changes made, to ensure that documentation supporting each change is complete.

DPW Response: There is a process in place currently to ensure supporting documentation exists for each change order.

Auditors' Recommendation: Coordinate with the contractor, the implementation of a process by which segregation of duties within the change control process is accomplished.

DPW Response: Because operation of PROMISE is a 24/7 responsibility, some EDS technical staff serve multiple roles. This is necessary to ensure that adequate system monitoring coverage exists and any production problems identified are fixed, tested, and implemented in a timely fashion to ensure continued and uninterrupted claims processing.

Auditors' Recommendation: DPW should ensure that changes to the PROMISE application are tested by DPW, and approvals of the changes are documented and maintained by DPW.

DPW Response: There is a process in place currently to ensure approval documentation related to change orders is maintained.

Auditors' Recommendation: Implement a process by which the TPL collections made by the outside contractor are monitored and related controls are identified and tested.

DPW Response: The audit requirement includes a standard for the vendor to have adequate internal controls in place and it's planned to have an audit performed to confirm that adequate internal controls exist.

Auditors' Recommendation: Establish procedures to properly follow up on UCCs in the PROMISE SAS 70 reports, and perform and adequately document, and report on, the federally-required ADP system-security review which should include the PROMISE and CIS systems at a minimum to comply with the ADP requirements for HHS Programs.

DPW Response: Agree.

**Auditors' Conclusion:** We recognize, as indicated in DPW's agency response, that there are numerous processes and administrative controls in place to operate the PROMISE System, but as our finding states, improvement is needed in these controls in the future. No new information was provided by DPW in the agency response, so our finding and recommendation, with the above clarification, remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 41:**

#### **CFDA #93.917 – HIV Formula Care Grants**

#### **Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$24,574,951 (A Similar Condition Was Noted in Prior Year Finding #04-33)**

**Condition:** Within the HIV Care Formula Grants program, federal regulations established an AIDS Drug Assistance Program (ADAP) earmark, in which funds are to be used to provide therapeutics to treat HIV disease or prevent the deterioration of health arising from HIV disease in eligible individuals. The amount of the ADAP earmark is provided within the annual grant award. Each year the DOH, as lead agency for the program, enters into an interagency agreement with DPW to administer the ADAP portion of the grant. This administration is the responsibility of DPW's Special Pharmaceutical Benefits Program (SPBP).

Whenever a person applies for ADAP assistance, they are required to submit to the SPBP a completed application and supporting documentation which includes proof of PA residence, a copy of their social security card, verification of income and copies of their HIV-related and other prescriptions for SPBP reimbursable drugs. The SPBP reviews all of the documents to determine if the applicant is eligible to receive benefits. It should be noted that, although not required by SPBP, certain applicants also submit a doctor's certification showing documented proof of diagnosis with HIV. Our inquiries of SPBP personnel and testing of a sample of 45 payments totaling \$39,434 out of \$24,574,951 charged to HIV ADAP in our current year disclosed the following results:

As reported in our prior year finding, and updated for the sample of 45 payments selected for testing in the current year, documents needed to verify proof of income, health insurance coverage noting prescription co-pays or percentage of coverage, and a signed statement from a medical doctor indicating a medical diagnosis of HIV disease were not always included in the case files. In addition, for three of the 45 payments selected for testing in the current year, a case file could not be provided to support the payment.

The SPBP does not have an annual re-certification process to support continued participant eligibility. Specifically, during our review of case files, we found that most of the participants had originally applied for, and began to receive benefits many years ago, going back as far as 1990 without ever being re-certified as still eligible. We found that five of the 45 case files provided did not contain documents supporting initial proof of income. We also noted that several participants' income was close to the \$30,000 maximum allowable level for original eligibility, and that their application was several years old. In fact, the gross income for one case was actually over the \$30,000 income limit, with AGI at \$28,000 as of the 4/10/04 application date. Also, where a participant became 65 years old, the individual may have become eligible for the state-funded PACE program, but DPW did not properly check on this due to the lack of re-certification. Also, for several old applications in our sample, the form did not contain a statement by the participant that they were being treated for HIV/AIDS, nor did the old application on file always contain the required signature of the applicant. As a result, DPW provided very little assurance that these program participants remained eligible to receive benefits in the current year.

We also noted a lack of documentation to clearly support the HIV diagnosis for program participants. DPW stated that it relies on a self-certification within the SPBP application that the individual applicant is currently being treated for HIV/AIDS and on the types of prescription drugs being claimed to verify at least one of the prescriptions specifically relates to HIV treatment. However, we noted there was not always adequate documentation in the participant case files of specific HIV-related prescription drugs. Poor documentation supporting diagnosis is significant considering the recent expansion in the number of HIV and non-HIV related drugs in this program. With all the different types of drugs allowed for this program, both HIV and non-HIV-related, DPW provided little documented assurance that program participants were properly diagnosed with HIV, and the diagnosis was properly reviewed and verified by DPW.

We also noted a weakness in documenting other insurance coverage in participant case files. We found that when other insurance coverage was documented on the application, documentation was not always placed in the case file to support what coverage existed, amounts of co-pays, or the amount that should be paid for through other insurance coverage and not the HIV program. As a result, we could not audit whether DPW was properly reducing HIV program costs for drugs where other insurance coverage was available.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 41: (continued)

Further, DPW uses a third party contractor to administer all pharmacy benefit claims for the HIV Formula Care grant. The primary oversight of the third party contractor is performed by the PA Department of Aging (PDA) since the same contractor administers the Pharmaceutical Assistance Contract for the Elderly (PACE) program, a state funded program at PDA. As part of our inquiry of the controls in place at DPW and PDA over this third party contractor, we found the following additional weaknesses.

- While PDA obtained a GAGAS audit of the third party contractor, the audit was not an OMB Circular A-133 audit and the opinion is rendered on the receipts and disbursements taken as a whole. Since the HIV Formula Care grant funds less than 10 percent of the receipts and disbursements processed by the third party contractor, DPW cannot rely on the audit for proper coverage of HIV program pharmacy benefit claims administration. PDA personnel indicated that their Office of Healthcare Reform performs audits of pharmacies that receive SPBP funds; however, no listing of audits performed was provided. (See further update on pharmacy audits in the auditors' conclusion below.)
- While the PHHS Comptroller Office performs audits of pharmacies' claims reimbursed with PACE funds, no audits are performed on pharmacy claims reimbursed with HIV Formula Care grant funds.

As a result of the above noted lack of audit coverage of HIV Formula Care grant pharmacy benefit claims, the propriety of reimbursements to the third party contractor, and in turn to the pharmacies, cannot be assured.

Because of the lack of documentation in the HIV participant case files supporting eligibility, and the lack of audit coverage of the third party contractor and the participating pharmacies in the HIV program, DPW is not adequately documenting the eligibility and allowability of the drug portion of the HIV program as a whole in accordance with OMB Circular A-87, and there is an undetermined amount of questioned costs up to the \$24,574,951 charged to HIV for the current year (\$22,288,108 for Federal Grant No. 6-X07-HA-00021-13, and \$2,286,843 for Federal Grant No. 2-X07-HA-00021-14).

**Criteria:** Section 2616(a) and (b) of the Ryan White Comprehensive AIDS Resource Emergency Act of 1990 states:

*SEC. 2616. Provision of Treatments.*

(a) *In General.* – A State may use amounts provided under a grant awarded under this part to establish a program under section 2612(a)(4) to provide treatments that have been determined to prolong life or prevent the serious deterioration of health arising from HIV disease in eligible individuals.

(b) *Eligible Individual.* – To be eligible to receive assistance from a State under this section an individual shall—

- (1) *Have a medical diagnosis of HIV disease; and*
- (2) *Be a low-income individual, as defined by the State.*

The Special Pharmaceutical Benefits application establishes the income limits for low-income limits for low-income individuals as follows:

*The financial component for Eligibility is determined by the following criteria:*

*Income Limits: Individuals - \$30,000 gross income per year  
Families - \$30,000 gross income per year, plus an allowance of \$2,480 for each additional family member. (Example: family of two \$32,480 combined gross; family of three \$34,960 combined gross; etc.)*

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as a physicians certification and insurance information, be maintained within the participant's case file.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 41: (continued)

In addition, Section 6.2 of DDS Program Policy Guidance No. 6, issued by HHS, regarding eligibility for the ADAP portion of the HIV Care Formula Grants program states:

#### 6.2 Eligibility

- (a) *The CARE Act indicates that ADAPs are to serve “low-income individuals,” as defined by the States. The State’s poverty criterion for ADAP eligibility should be based on Federal poverty guidelines.*
- (b) *All States should devise, implement, and rigorously monitor the use of consistent eligibility standards across all entities involved in certifying and re-certifying ADAP eligibility. Such certification is expected to include review and documentation of an applicant’s income from all sources and any pharmaceutical benefits derived from private health insurance or other sources.*
- (c) *Every State should establish and implement procedures for ADAP client re-certification on a periodic basis, and for de-certifying individuals who qualify but have not utilized the program for a specific period of time (e.g., one year or longer). Re-certification procedures should include mechanisms to assure that individuals who have become eligible for Medicaid are transferred to the Medicaid program at the earliest possible date.*

**Cause:** SPBP personnel indicated that they do a monthly comparison of Medical Assistance participants with DPW’s CIS system to identify program participants who may have become eligible for drug coverage through MA. If any matches are found, the participants are removed from the SPBP roles so that they don’t duplicate services. Further, SPBP personnel indicated due to HHS resolution of our prior year Single Audit finding they have a new SPBP application effective February 2006 that requires an annual re-certification for benefits.

With regard to not having documentation verifying that the participant was diagnosed with an HIV disease, and not having documentation identifying the participants’ insurance coverage within the case file, SPBP personnel indicated that their procedures don’t require the participants to submit this information with their applications. SPBP personnel indicated they determine if a person has HIV based on the participant prescriptions for drugs which are only used to treat HIV. SPBP personnel indicated they use the *Guidelines for the Use of Antiretroviral Agents in HIV-1 Infected Adults and Adolescents* as updated on the HHS website to determine what they will accept as an HIV drug to support a diagnosis of HIV. However, as required by HHS resolution of our prior year Single Audit finding, SPBP personnel included a physician attestation statement of a diagnosis of HIV in the new SPBP application effective February 2006.

SPBP personnel indicated that insurance and co-pays are part of the third party pharmacy benefits manager’s responsibility; therefore, copies of the insurance information was not maintained within the participant’s case files or routinely monitored by DPW.

Regarding the audit of the pharmacy benefits manager and the lack of pharmacy audits, SPBP personnel indicated that they believed that either PDA or the PHHS Comptroller Office was addressing the audits and any questionable charges by pharmacies would be forwarded to them by PDA or the PHHS Comptroller Office.

**Effect:** Since SPBP did not perform annual re-certifications of the program participants, they are not in compliance with DSS Program Policy Guidance No 6. In addition, without performing a re-certification, DPW has little assurance that program participants receiving ADAP benefits remain eligible. Based on the number of participants receiving ADAP benefits (over 5,000) and the fact that there has never been a re-certification, we consider this to be a material weakness. In addition, since SPBP could not provide the case file for 3 of 45 sampled participants, could not provide documentation supporting the participants income at the time of application for four additional participants, and did not require and/or maintain documentation evidencing a medical diagnosis of HIV for 43 of the 45 participants in our sample, SPBP has limited assurance that the participants are eligible to receive ADAP benefits. Also, since SPBP did not require and maintain documentation regarding the participants insurance coverage and/or co-pay for 18 of 45 sampled participants that indicated health insurance coverage, SPBP provides limited assurance that insurance information is correct on the applications and HIV costs are being properly reduced for other insurance coverage available.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 41: (continued)**

Also, based on the lack of audit or monitoring coverage of HIV Formula Care grant pharmacy benefit claims of the third party contractor, and the lack of audits or monitoring of pharmacies, DPW cannot provide assurance on the propriety of pharmacy claims being paid.

As a result of not adequately documenting the allowability and eligibility of the drug portion of the HIV program as a whole, there is an undetermined amount of questioned costs for the current year under audit, up to \$24,574,951.

**Recommendation:** SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs, up to \$24,574,951. Also, we recommend that DPW's SPBP closely monitor the implementation of its new re-certification process to ensure that all program participants remain eligible to receive ADAP benefits. In addition, SPBP should strengthen procedures to verify and ensure that adequate documentation supporting the participants' eligibility (i.e., proof of income, HIV diagnosis, etc.) and insurance coverage is maintained within all participant case files. DPW should also ensure that proper auditing or monitoring is performed on the pharmacy benefits manager, and that an appropriate sample of HIV program claims are audited or tested at the benefits manager and at the pharmacies.

**Agency Response:** In comparing last year's audit finding to this year's, it is apparent the auditors do not meet the Government Auditing Standards (June 2003 Revision) as set forth by the GAO. The section regarding Competence, 3.39 through 3.41, states that the auditors must possess knowledge, skills and experience necessary for the assignment. The SPBP audit was not conducted by auditors with experience, medical knowledge or skills to appropriately audit files containing HIV/AIDS clinical information.

SPBP staff anticipated this year's audit would not be conducted by auditors with knowledge of HIV/AIDS treatments, and provided them with a page of the currently FDA approved medications prescribed exclusively for individuals with HIV/AIDS. The findings indicate the auditors did not use this tool even though they had been advised it would enable them to identify HIV specific medications and the subsequent appropriate eligibility determination for SPBP.

The auditors were also informed that the chart included both Brand and generic names of the HIV/AIDS specific drugs and supporting documentation in the files that matched the chart would be a clear indication of a diagnosis of HIV/AIDS.

Auditor representatives stated during a recent phone conference related to this audit finding that they are not knowledgeable about HIV specific medications and treatments, that they were not pharmacists or doctors.

Therefore, we refute the finding that the Special Pharmaceutical Benefits Program (SPBP) HIV component is assigning eligibility for benefits to individuals who do not have a diagnosis of HIV/AIDS.

**NOTE:** To resolve any misleading finding in future audits regarding a diagnosis of HIV/AIDS and comply with recommendations in the Single Audit findings for the year ending June 30, 2004, effective February 2006, the revised SPBP HIV application includes a physician's attestation field to verify a diagnosis of HIV/AIDS.

**Implementation of the revised MA 366 will resolve any issues as noted in the fifth paragraph of the finding as long as the auditors are looking at new applications received after February 2006.**

### **Response to Paragraph 4:**

The 45 files pulled for the audit were not subject to an annual recertification process during the time period in which the applications were received and adjudicated. Therefore, we disagree with the finding. The Ryan White Emergency Care Act II (Health & Human Services (HHS)) recommends but does not mandate that Title II AIDS Drug Assistance Program (ADAP) implement an annual recertification process. However, to protect the fund from paying for duplicate services, a monthly match of SPBP clients against the Office of Income Maintenance's, Client Information System (CIS) identifies any SPBP client who might have transitioned to the regular Medical Assistance Program with a benefit package that includes drug coverage. The HIV/AIDS Bureau within Health Services and Resource Administration accepts this monthly match as a valid recertification process, per their guidance.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 41: (continued)**

In accordance with the auditor's findings and recommendations issued for the current and prior audit period, the SPBP will initiate annual recertification during FY 06-07. Recertification will be required on the client's beginning eligibility date with the SPBP. Eligible clients will be asked to verify their place of residence, income, and information regarding third party insurance coverage, if applicable. Medical recertification is not necessary. There is no cure for HIV/AIDS and the diagnosis from initial application does not change. Clients whose income was close to the \$30,000 income ceiling will not be terminated, should their income increase slightly.

Clients who fail to respond to the request for recertification information within a specified time, will be terminated from the program.

### **Response to Paragraph 6:**

The program office disagrees with the auditor's perception that third party insurance is required eligibility criteria. Third party insurance coverage is **not** criteria for participation in the SPBP. If an SPBP client has third party coverage they are asked to indicate the name of the carrier on the application and indicate if the policy includes drug coverage and the percentage that is covered. Applicants are not required to submit a copy of their insurance policy or insurance ID card as supporting documentation.

Some clients do have third party insurance that does **not** cover medications. Some clients have third party coverage that **does** cover medications. This information is entered on the client's **online** file. There is no eligibility requirement to provide hard copies of third party insurance information to be maintained within a client's file. Providers sign legal contracts to acknowledge that the SPBP is the payer of last resort and where third party insurance exists, it must be billed first. Providers are alerted online, at Point of Sale, if an SPBP client has third party pharmaceutical coverage.

Additionally, clients are forewarned that if they do have third party insurance and do not disclose the information to the program and provider, they are in potential jeopardy of losing benefits.

### **Response to the weaknesses pertaining to Paragraph 7:**

The third party contractor is a for-profit entity.

There is no change in our response to this year's finding or last year's response to the same finding.

Under OMB Circular A-133, Subpart B--Audits §\_\_\_210, Sub recipient and vendor determinations. (e) For-profit sub recipient. Since this part does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit sub recipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipients compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

### **Response to the first bullet point in Paragraph 7:**

There is no change in our response to this year's finding from last year's response to the same finding.

In addition to the GAGAS audit of the third party contractor; the DPW relies on the proper coverage for claims administration through weekly reports submitted to DPW Office of the Budget from First Health Services.

### **Response to the second bullet point in Paragraph 7:**

We disagree with this statement that no audits are performed on pharmacy claims reimbursed with HIV Formula Care grant funds. It is our understanding that pharmacy audits are conducted on all state administered pharmacy programs, through the Office of Health Care Reform.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 41: (continued)**

#### **Response to the Criteria under Paragraph 9:**

The finding that states: “good internal controls dictate that all documentation supporting the participant’s eligibility...be maintained within the participant’s case file” is correct and SPBP does maintain documentation with the original case file. However, if a second file happens to be created after the original file is sent to archives, we do not access the original file to retrieve original supporting documentation. The SPBP client does retain their original ID number though and if necessary, original files could be pulled from archives. The auditors did not ask if files they were reviewing could possibly be duplicate or triplicates and did not ask for files that might be stored on microfiche or archived materials.

**\*NOTE:** As shown on the application and provided to auditors last year. Eligibility criteria for SPBP HIV are based on documentation that indicates:

- 1) Resident of PA, not institutionalized
- 2) Copy of Social Security Card
- 3) Proof of Income
- 4) Copies of Prescriptions of HIV specific medications and as of February 2006, a physician’s attestation.

#### **In the Section beginning with Cause:**

The second paragraph regarding a diagnosis of HIV is false and misleading but as stated earlier, SPBP has revised the MA 366 application to include a physician’s attestation field.

The third paragraph is incorrect. There are no third party insurance documents to maintain. Information regarding third party insurance is a component of the application but applicants are not required to submit copies of their insurance policies etc. so there is nothing that has to be maintained in the files the auditors reviewed. **Third party insurance that includes drug coverage is recorded electronically so the information can be passed on to the pharmacy at point of sale.**

#### **In the section beginning with Effect:**

SPBP did not perform annual recertification as perceived by the auditors because annual recertification according to the auditors expectations and recommendations did not exist during SFY 2005.

The 3 of 45 missing files were misfiled and microfiche is available if the auditors choose to review them.

SPBP did not require and maintain third party insurance documents, because it is not a requirement !

Lastly, based upon our disagreement with this finding, we urge at least the elimination of the \$24,574,951 of questioned cost, in its entirety. We request that SPBP staff who are knowledgeable, skilled and experienced with HIV/AIDS treatments, sit with the auditors as they review files.

**Auditors’ Conclusion:** By letter dated September 6, 2005, HHS, Health Resources and Services Administration, HIV/AIDS Bureau advised SPBP in response to our prior year Finding #04-33 that: “The SPBP should document a patient’s medical diagnosis of HIV disease via a clinician’s attestation that is supported by a HIV-positive lab test.” Therefore, the federal awarding agency clearly supports our position that SPBP’s current documentation in case files is not adequate to support a clear diagnosis of HIV disease. Further, SPBP personnel separately acknowledged to us that they did not have its list of HIV specific medications reviewed by a pharmacist or medical professional to ensure that all drugs listed could only be used for treatment of HIV-positive individuals. As a result, none of management’s comments in the above response related to HIV/AIDS diagnosis resolve the documentation weaknesses reported in the finding for the current year under audit.

Also, in the same HHS letter referred to above, the federal awarding agency also clearly supports our recommendation to implement and closely monitor a re-certification process, so there is no change to our conclusion in this regard.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 41: (continued)**

Regarding the third party insurance coverage, we do not contend that third party insurance is required eligibility criteria, so SPBP's understanding of our finding for this issue is not correct, and its response does not resolve the documentation weaknesses noted in the finding. SPBP did not maintain or provide updated copies of outside insurance coverage (hard copy or electronic print-outs) for us to test, so we could not test compliance by verifying that the third party contractor applied the proper co-pays and deductibles based upon the third party insurance coverage in place at the time of service. Further, reliance cannot be fully placed on the audit of the third party contractor since SPBP funds are less than 10 percent of the costs audited.

In response to our draft finding, the Office of Health Care Reform provided a listing of audits and copies of "Audit Error Reports" for 46 different pharmacies which showed the pharmacy name, the date of each audit, the period audited, and the prescriptions the pharmacies were paid for in error. According to the listing, the audits began in August of 2004. While it appears that pharmacy audits are now being conducted, no written audit policies or procedures, audit programs, audit workpapers, audit reports, or any other supporting documentation could be provided to support the audit procedures, scope, audit coverage, total number of items tested, error rates, conclusions, etc. noted for each pharmacy. Therefore, without improved documentation in this area, it is not possible for us to evaluate the adequacy of these pharmacy audits as an effective control in the HIV program.

Regarding the three missing case files, we did make an additional request for these files prior to issuance of the finding and the files were not provided as a result of that additional request or in response to our finding.

Because of the audit requirements in OMB Circular A-133 and the Single Audit, the eligibility requirements in HHS's program-specific regulations, and the cost allowability requirements in OMB Circular A-87, we determined that the questioned costs in the finding are required as part of our Single Audit of HIV. While we acknowledge and understand DPW's concerns and its request to eliminate questioned costs, we defer to the federal agency responsible for audit resolution to resolve the questioned costs.

Based on the agency response, the finding and recommendation, with the above clarifications, remain as previously stated. We will review the corrective actions noted in subsequent audits.

**The 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, 2005

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### Finding 05 – 42:

#### CFDA #96.001 – Social Security – Disability Insurance

##### Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #04-35)

**Condition:** During the state fiscal year ended June 30, 2005, the Bureau of Disability Determination (BDD) incurred personnel expenditures of \$30,574,000 in salaries and wages and \$11,243,000 in fringe benefits, or \$41,817,000 in total for the SS-DI program. BDD employees charging personnel costs to SS-DI work solely on SS-DI-related activities, and their salaries and benefits are charged 100 percent to SS-DI and, therefore, do not maintain timesheets as supporting documentation. Certain central service employees (i.e. Information Technology, Bureau of Financial Management, etc.) also charge time to the SS-DI program, but these employees maintain certified timesheets to support their time since they do not work solely on this program.

Based on our audit inquiries, sampling of transactions, and review of job descriptions supporting the BDD employees charged 100 percent, we found the documented grant activities of BDD personnel to be allowable under SS-DI. However, although we determined BDD's activities to be allowable, we noted that BDD was not maintaining updated documentation required by a provision in OMB Circular A-87 for personnel costs. Specifically, BDD was not obtaining signed semi-annual updates to its job descriptions (or any other semi-annual certification documents) on file to re-certify, that the respective employees worked solely on the SS-DI program during the audit period.

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

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

**Cause:** BDD personnel have indicated that they disagree with this finding and maintain that current procedures, including quarterly time reporting as part of the SSA-4514 Report, are sufficient to satisfy the requirements under OMB Circular A-87. However, the auditors contend that semi-annual certifications signed by the employee or a supervisor with first-hand knowledge of the employee's work would still be required, and the SSA-4514 Report signature process does not clearly demonstrate the applicable supervisory officials' first-hand knowledge of all employee work performed, as required by A-87. Therefore, BDD personnel are awaiting a decision from the federal awarding agency with regard to this issue before they make any changes to their current procedures.

**Effect:** Although our audit determined SS-DI personnel costs to be allowable for the program, BDD's signed job descriptions or other certification documents are not timely updated on a semi-annual basis for 100 percent-charged employees. Therefore, BDD is not in compliance with a significant documentation requirement in OMB Circular A-87.

**Recommendation:** BDD management should strengthen internal controls to ensure that all personnel costs charged to the SS-DI program for employees doing SS-DI-related work are more timely documented in accordance with the semi-annual certification provision in OMB Circular A-87.

**Agency Response:** BDD is still in disagreement with this finding maintaining that there are no major changes in its employees' responsibilities from year to year thus annual recertification represents a reasonable timeframe. Additionally, the SSA-4514 Report, Time Report of Personnel Services, is submitted to SSA on a quarterly basis accounting for and reporting employees' time. However, this matter has been referred by the Regional Office to the SSA Central Office for a response which is anticipated to be forthcoming September 1, 2006.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 42: (continued)**

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 43:

#### CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children CFDA #93.283 – Centers for Disease Control & Prevention - Investigations

##### An Internal Control Weakness Exists in DOH's Subrecipient Audit Resolution Process

**Condition:** Under the Commonwealth's implementation of the Single Audit Act, review and resolution of OMB Circular A-133 subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through OB-BOA which ensures the reports meet technical standards through a desk review process. Once they are deemed acceptable by 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 after the report is transmitted to them to ensure corrective action is taken by the subrecipient. The agency is also responsible for reviewing financial information in each audit report (e.g., SEFA) to determine whether the audit included all pass-through funding provided by the agency and to adjust Commonwealth records, if necessary.

Our testing disclosed that DOH is not issuing management decisions on findings within six months of receipt of audits from BOA. We obtained DOH's subrecipient audit report tracking list for audits received by DOH during SFYE June 30, 2005, which indicated that four audit reports contained findings. Of these four audits with findings, two audit reports were not resolved within six months. The two audit reports were received from BOA in May of 2005 but still remained open a year later at the time of our testwork in May 2006.

**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:*

- (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.*

**Cause:** DOH personnel stated that the untimely audit resolution was due to the resignation of the employee responsible for audit resolution effective October 2004, and DOH's inability to fill that position until 13 months later in November 2005.

**Effect:** Since DOH did not make the required management decisions within six months of receipt to ensure appropriate corrective action was taken on audits received from BOA, DOH subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner; and subrecipient noncompliance may recur in future periods. Although we do not consider the errors noted above to be material violations of federal regulations in the Commonwealth's overall subrecipient audit monitoring process, we believe the errors represent significant deficiencies within DOH and, therefore, a reportable condition.

**Recommendation:** We recommend that the weaknesses that cause untimely OMB A-133 audit resolution for DOH be corrected to ensure compliance with federal audit resolution requirements and to better ensure subrecipient compliance with program requirements.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 43: (continued)**

**Agency Response:** DOH filled the subrecipient audit coordinator position on November 14, 2005, and anticipates having all unresolved subrecipient audit reports reviewed and resolved by December 31, 2006.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 44:

**CFDA #17.258 – WIA Adult Program**

**CFDA #17.259 – WIA Youth Activities**

**CFDA #17.260 – WIA Dislocated Workers**

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

#### **An Internal Control Weakness Exists in L&I's Subrecipient Audit Resolution Process**

**Condition:** Under the Commonwealth's implementation of the Single Audit Act, review and resolution of OMB Circular A-133 subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through OB-BOA which ensures the reports meet technical standards through a desk review process. Once they are deemed acceptable by 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 after the report is transmitted to them to ensure corrective action is taken by the subrecipient. The agency is also responsible for reviewing financial information in each audit report (e.g., SEFA) to determine whether the audit included all pass-through funding provided by the agency and to adjust Commonwealth records, if necessary.

Our testing disclosed that L&I is not issuing management decisions on findings within six months of receipt of audits from BOA. We obtained L&I's subrecipient audit report tracking list for audits received by L&I during SFYE June 30, 2005, which indicated that six audit reports contained findings. Of these six audits with findings, four audit reports were not resolved within six months. Three of the four audit reports were resolved within 10 months. The remaining audit report was received from BOA in April 2005 but still remained open over a year later at the time of our testwork in May 2006.

**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:*

- (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.*

**Cause:** L&I personnel stated that the untimely audit resolution was due to the postponement in distribution of the audits to the program areas because of other ongoing audit priorities, related work requirements, and time constraints.

**Effect:** Since L&I did not make the required management decisions within six months of receipt to ensure appropriate corrective action was taken on audits received from BOA, L&I subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner; and subrecipient noncompliance may recur in future periods. Although we do not consider the errors noted above to be material violations of federal regulations in the Commonwealth's overall subrecipient audit monitoring process, we believe the errors represent significant deficiencies within L&I and, therefore, a reportable condition.

**Recommendation:** We recommend that the weaknesses that cause untimely OMB A-133 audit resolution for L&I be corrected to ensure compliance with federal audit resolution requirements and to better ensure subrecipient compliance with program requirements.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 44: (continued)**

**Agency Response:** The resolution of three of the four audits cited within the finding was due to delays in remittance to the program areas. A tickler system has been implemented to ensure more timely dispersal and responses.

The remaining report was delayed due to the necessity of a comprehensive review of both prior and current issues involving the audit. Ongoing litigation involving the entity had prompted additional correspondence and procedural review resulting in further culminated delays. Resolution of this audit addressing all prior and current issues is expected to be forthcoming. Monitoring provisions have been instituted to ensure timely, complete submission of future audits from this entity.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 45:**

**CFDA #10.561 – State Admin Matching Grants for Food Stamp Program**

**CFDA #93.778 – Medical Assistance**

**CFDA #93.658 – Foster Care – Title IV-E**

**CFDA #93.659 – Adoption Assistance**

**CFDA #93.667 – Social Services Block Grant**

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

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

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

**CFDA #93.563 – Child Support Enforcement**

### **Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports**

**Condition:** As part of our current-year testing, we examined DPW's procedures for reviewing and reconciling SEFA amounts in its OMB Circular A-133 subrecipient Single Audit reports to state payment records, and following up on and correcting noted discrepancies. We found that these procedures are not adequate since they are not being performed consistently or in a timely manner. We noted that DPW does not centrally perform its subrecipient SEFA verification procedures, but requires each of the various funding offices within the agency to perform this task for its individual federal programs. Further, there are no centralized controls in place to ensure the SEFA reconciliations are properly and timely completed by all the funding offices, and discrepancies properly followed up on and corrected. As a result, based on our auditor inquiries concerning several sampled large-dollar subrecipient audits which contained uncorrected SEFA errors, we learned that DPW's overall SEFA reconciliation, follow-up, and resolution procedures are untimely and inadequate to ensure its subrecipient funds are being properly subject to Single Audit under OMB A-133 every year as required.

**Criteria:** OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Subpart D, Section \_\_\_\_400, states:

- (d) *Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*
- (2) *Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*
  - (3) *Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*
  - (4) *Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
  - (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFA's are properly and timely reconciled to state payment records each year, and reconciling items properly resolved.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 45: (continued)**

**Cause:** DPW’s Audit Resolution Section distributes subrecipient A-133 audit reports to the various offices within the department since the individual offices possess the needed state payment information to reconcile their program amounts on the SEFAs. The offices do not appear to be adequately monitored for timelines or consistency in performing the SEFA reconciliations, and staffing and workload issues make it difficult to complete the reconciling of all SEFA amounts. Multiple year contracts also make these SEFA reconciliations difficult, and DPW believes it can be more efficient to wait until the end of the contract to reconcile multiple years of SEFA amounts. Subrecipients with different fiscal years also slows down the reconciliation process.

**Effect:** There are inadequate controls over DPW’s A-133 subrecipient SEFA reconciliations to state payment records, and an increased risk that DPW’s payments to subrecipients in its major federal awards are not being properly audited each year in accordance with the Single Audit Act. In addition, there is an increased risk that subrecipients could be mis-spending and/or inappropriately tracking and reporting federal funds over multiple-year periods, and these discrepancies may not be properly monitored, detected, and corrected by DPW as required.

**Recommendation:** We recommend that DPW strengthen its controls over its A-133 subrecipient SEFA reconciliation process in the agency to ensure all subrecipient SEFA amounts are timely reconciled to state payment records each year, and discrepancies are properly followed up on and corrected as soon as possible. This process should be more effectively monitored within the agency to enforce better timeliness and consistency each year in ensuring subrecipients properly spend and account for federal funds. DPW should also complete, as soon as possible, the reconciliations that have not yet been done.

**Agency Response:** In order to reconcile SEFA amounts contained in subrecipient Single Audit Reports to state payment records, the DPW believes it is necessary to work with the Office of the Budget, Bureau of Audits in an endeavor to identify or develop an automated process utilizing SAP data to timely and efficiently perform the task.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 46:**

#### **CFDA #Various – All Major Programs Covered by CMIA**

##### **Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a \$560,548 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #04-37)**

**Condition:** The Commonwealth of Pennsylvania has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement, the Commonwealth has developed policies and procedures contained in Comptroller Operations Directive #540.1 and has developed the CMIA Drawdown System (CDS) which calculates and provides recommended drawdown amounts using the Average Daily Clearance (ADC) method.

As provided by the Treasury-State Agreement, all checks associated with all voucher transmittals (VTs) for CMIA-covered programs were utilized for the period of February 1, 1999 through May 31, 1999 to determine the ADC check clearance pattern implemented on April 13, 2000. The clearance time of each check in the study was dollar-weighted to produce the dollar-weighted average day of clearance from the time the VT was posted to ICS (the Commonwealth's general ledger at the time) until the checks associated with the VT cleared the state bank account. We tested the propriety of the Commonwealth's check clearance patterns during the prior Single Audit for SFYE June 30, 2000, and disclosed the following deficiencies with the Commonwealth's check clearance studies which remain unresolved for the SFYE June 30, 2005:

- The Commonwealth did not reconcile expenditure totals from the check clearance study (BFM Report 833) to the ICS general ledger in 1999 to ensure the accuracy and completeness of data used in the ADC study.

Further, as noted in previous Single Audits, each VT can only be captured in the study under one appropriation, regardless of how many appropriations are present on the VT. Since some appropriations are used for more than one program, but are assigned to only one program for the ADC study, some programs could have significantly less or significantly more expenditures in the study than were actually incurred.

- The ICS posting dates per the February 1, 1999 through May 31, 1999 clearance study did not always agree to the actual ICS general ledger posting dates.

As a result, the prior-year material weakness regarding incorrect posting dates for the study caused material noncompliance with CMIA during SFYE June 30, 2005 since the Commonwealth is still using ADC patterns established from the February 1, 1999 through May 31, 1999 clearance study.

- A disproportionate amount of payroll cost was included in the clearance study for CFDA #20.205, Highway Planning and Construction (HPC). We believe this occurred due to the fact that appropriations other than HPC related appropriations were included on the payroll VTs included in the HPC study.

Further, starting on July 1, 2002, the Commonwealth began decommissioning ICS with a phased implementation of an Enterprise Resource Planning (ERP) software known as SAP that impacted all Commonwealth business functions, including the payment process. However, the Commonwealth has yet to perform a check clearance study to ensure the accuracy of the delay of draw for federal programs now using SAP. As of July 1, 2003, Federal grants comprising most of the dollar value of programs covered under the Commonwealth's Treasury Agreement were processing payments on the SAP system including all grants funded by HHS. However, Commonwealth personnel indicated a check clearance study would not be performed for any program until all of the Commonwealth's payment process is converted to SAP, which did not occur until after January 2004.

We also noted that the draw delay utilized on the CDS system in the SFYE June 30, 2005 was incorrect for CFDA #84.367 – Improving Teacher Quality State Grants. The CMIA State-Treasury Agreement for this program called for a draw delay of 16 days after each SAP expenditure posting date, consisting of 15 days automatically calculated by CDS, plus one extra day delay to draw down the cash. However, the draw delay actually input into CDS was 14 days (13 days

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 46: (continued)

calculated by CDS, plus one day to draw) for this program, or two days too early. Although the actual interest impact does not appear significant and could not be accurately determined in our audit, the incorrect draw delay in CDS is a violation of CMIA for this major program.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2004 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2005, was misstated by a minimum of \$560,548 as follows:

- Within the Food Stamps Admin program, we noted that L&I returned \$1,789,548 of funds to DPW that were related to a Memorandum of Understanding between the agencies for the period July 1, 2002 to June 30, 2003. DPW subsequently posted the return of the funds to SAP via document #SU103561786 on June 15, 2004. The funds were subsequently returned to the federal government on September 24, 2004. Since these funds related to the MOU that ended on June 30, 2003, the Commonwealth would owe interest on these funds from at least July 1, 2003 to September 24, 2004, or 452 days. However, we noted that the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand. Therefore, the Commonwealth's interest liability was understated by \$17,538 for the period 7/1/03 to 6/30/04 and \$9,614 for the period 7/1/04 to 9/24/04, or \$27,152 in total.
- Our testing of interest generating transactions supporting the annual interest report disclosed that the Commonwealth erroneously paid a net of \$4,790 of interest to the federal government as follows:

<u>CFDA #</u>	<u>Program Name</u>	<u>Overpayment (Underpayment)</u>
93.558	TANF	\$ 514
93.563	CSE	(27)
93.596	CCDF	(156)
93.658	Foster Care	354
93.778	MA	4,105
		<u>\$4,790</u>

The above interest was related to draw number 98874519, for which funds were properly drawn on January 2, 2004 and received on January 5, 2004 in accordance with the ADC pattern. However, the funds were erroneously recorded on CDS as being received on January 2, 2004, which subsequently resulted in the Commonwealth inadvertently paying three days worth of interest for this draw. Therefore, the Commonwealth's controls over calculating the proper interest liability appear to be defective.

- Within the Medical Assistance program, DPW's MAMIS and PROMISe systems processed a file of medical claims on a weekly basis. Included within these claims are expenditures made by school districts for school based medical services. For all school based medical expenditures DPW submits a check to PDE, who administers the school based medical program. PDE then in turn reimburses the school districts for the medical services provided. Once DPW pays the money to PDE, the funds are subsequently drawn from the federal government. However, our review of the account used by PDE to reimburse the school districts disclosed that PDE is not reimbursing the school districts in a timely manner as this account had a balance of \$55,902,318 at June 30, 2004, with a carry-forward balance from the prior fiscal year of \$53,931,461. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any interest on the balance maintained within this account, even though it represents federal funds drawn down in excess of amounts paid to school districts. As a result, assuming the average balance in the account was \$54,916,890 during the June 30, 2004 fiscal year, the state's interest liability was understated by an estimated \$538,186. We also found that the excess cash in this account had grown to \$79.6 million as of June 30, 2005, so additional CMIA interest is owed for SFYE June 30, 2005 to be remitted during SFYE June 30, 2006.

In addition, the following weaknesses, the interest effect of which we could not determine, were noted in prior years and remain unresolved pertaining to the CMIA interest calculation:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

### Finding 05 – 46: (continued)

- Excess cash on hand can result due to the rejection of payment invoices by the PA Department of Treasury if timely adjustments are not made and interest due to the federal government for such transactions is not recorded by CDS. While the Commonwealth has improved its system by modifying CDS to record adjustments immediately and not subject them to a draw delay, not posting adjustments to the Commonwealth accounting system on a timely basis will result in unrecognized interest liabilities.
- Funds posted to Federal Revenue Collected in Advance (RCIA) accounts are not included in the CMIA interest calculation because CDS does not recognize these federal revenues in excess of federal expenditures on SAP as interest generating transactions. Therefore, an interest liability is not assessed by CDS, and the Commonwealth interest liability appears to be understated as a result. Although our review of revenues drawn and posted to major program accounts on SAP did not disclose any current year revenue collected in advance, our review of federal revenue collected in advance accounts at year-end in the Departments of Corrections and Public Welfare disclosed undocumented excess federal funds collected in advance for both covered and non-covered programs. While interest is not due for federal cash on hand in non-covered programs, this appears to be a violation of federal cash management regulations. In addition, with regard to revenue collected in advance at DPW, the year-end balance of this account (which is net of Medicare Services not considered federal financial assistance) has rapidly grown over the past four years as follows:

<u>As of</u>	<u>Balance</u>
June 30, 2002	\$ 48,377,192
June 30, 2003	\$153,274,939
June 30, 2004	\$183,644,890
June 30, 2005	\$606,423,402

A further breakout of total balances by DPW federal program at June 30, 2004 and at June 30, 2003 is as follows:

<u>Program</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Change</u>
SSBG	\$ 1,699,706	\$ 1,838,764	\$ (139,058)
MA	319,130,003	107,026,071	212,103,932
TANF	187,096,746	0	187,096,746
Food Stamps	56,975,784	57,305,861	(330,077)
LIHEAP	164,510	2,842,994	(2,678,484)
CSE	11,185,298	4,577,968	6,607,330
CCDF	11,737,611	0	11,737,611
Cash Grants (MA, TANF, Food Stamps)	14,766,653	9,953,463	4,813,190
Other	3,667,091	99,769	3,567,322
Total	<u>\$606,423,402</u>	<u>\$183,644,890</u>	<u>\$422,778,512</u>

All the above programs, except the “other” category, are covered programs under the Treasury-State Agreement and, thereby, appear to owe interest to the U.S. Treasury. Based on the average year-end balances listed above at the current CMIA interest rate, the estimated amount of interest owed to the U.S. Treasury could potentially range from over \$2.4 million for SFYE June 30, 2004 to nearly \$6 million for SFYE June 30, 2005. However, since DPW does not perform any analysis of the transactions posted into and out of its collected-in-advance account for CMIA interest impact, DPW cannot adequately support the source of this excess revenue on the SAP system and the interest owed on this excess revenue at year-end cannot be determined in our audit.

We also noted that, with the creation of a new revenue code in the RCIA classification (1841 Code) on RAS, the WIC program showed \$2 million in excess cash in this RCIA account at June 30, 2005. In our follow up discussions, WIC officials in DOH indicated that this \$2 million actually represented a working capital cash advance provided by USDA for the WIC program back at the start of CMIA in the 1990s to cover cash shortfalls in WIC’s

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 46: (continued)

payment process and ensure that the program's cash position remained interest-neutral in accordance with CMIA. However, DOH officials could not provide any documentation to support their explanation for this excess cash in the RCIA account at June 30, 2005 since they stated the documentation was no longer on file at DOH.

**Criteria:** 31 CFR 205.20 provides the following regarding clearance patterns:

*States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:*

- a. *A clearance pattern must be auditable.*
- b. *A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. *A clearance pattern must include seasonal or other periodic variations in clearance activity.*

Also, 31 CFR 205.22 (a) on the accuracy of clearance patterns states:

*If a State has knowledge, at any time, that a clearance pattern no longer reflects a Federal assistance program's actual clearance activity, or if a Federal assistance program undergoes operational changes that may affect clearance activity, the State must notify us, develop a new clearance pattern, and certify that the new pattern corresponds to the Federal assistance program's clearance activity.*

31 CFR 205.14(a)(2), pertaining to federal interest liabilities, states:

- (2) *If a State pays out its own funds for Federal assistance program purposes without obligational authority, the Federal Program Agency will incur an interest liability if obligational authority subsequently is established. However, if the lack of obligational authority subsequently is established. However, if the lack of obligational authority is the result of the failure of the State to comply with a Federal Program Agency requirement established by statute, regulation, or agreement, interest liability may be denied. A Federal interest liability will accrue from the day a State pays out its own funds for Federal assistance program purposes to the day Federal funds are credited to a State bank account.*

31 CFR 205.15 states the following pertaining to state interest liabilities:

- (a) *General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*
- (b) *Refunds. (1) A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.*

31 CFR 205.29(d) states the following regarding compliance and oversight:

- (d) *If a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in §205.11, §205.12, or a Treasury-State agreement, we may deny the State payment or credit for the resulting Federal interest liability, notwithstanding any other provision of this part.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2005

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### Finding 05 – 46: (continued)

Further, 31 CFR 205.26(a) related to the Annual Report states:

- (a) *A State must submit to us an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends. We will provide copies of Annual Reports to Federal agencies. We will prescribe the format of the Annual Report, and may prescribe the format of the Annual Report, and may prescribe that the Annual Report be submitted by electronic means.*

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.1.6 states:

*With several programs subject to the Act, the primary Commonwealth agency administering a program will subgrant portions of the program to secondary state agencies. As costs in support of the program are incurred, the secondary agency charges the primary agency, which in turn draws down Federal funds.*

*In all such cases, the secondary agency shall charge the primary agency no earlier than the day transactions post to the accounts of the secondary agency. The procedures governing the request for funds from the primary agency, and the payment of such requests, shall be in accordance with the agreement between the primary and secondary agencies.*

**Cause:** Regarding the accuracy and completeness of the data used in the ADC study, BFM personnel stated that the current system in place to calculate the ADC can only sort expenditures by appropriation. Therefore, each voucher transmittal can only be included in the study under one appropriation, regardless of how many appropriations are included on the voucher. Since some appropriations are used for more than one program, in these instances, the appropriation must be assigned to one program for ADC purposes.

For the differences noted between the actual ICS post date and the post date per the ADC study in 1999, we found that the date used for the ADC study was the date on which magnetic tapes were forwarded to Treasury for payment, not the date the expenditures were actually posted to ICS. As in prior years, the Commonwealth had no controls in place to make sure the correct ICS post date is included on these magnetic tapes and incorporated into the check clearance study.

With respect to the payroll costs for the HPC program included in the clearance study, BFM stated no changes were made from prior years to change the study to ensure the appropriate amount of payroll was included in the study.

For CFDA #84.367, BFM and LECS Comptroller personnel have not explained why this program had a 16-day delay in the Treasury-State Agreement, but the CDS draw delay was not in accordance with the agreement.

Regarding the posting of adjustments causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, the issue of Treasury rejecting payments is outside the control of BFM and is an inherent limitation within the CDS system because the draw delay is based on general ledger postings and not check issuance. Therefore, when Treasury rejects paying an invoice, excess cash can result under the current system.

For the revenue collected in advance at DPW, PHHS Comptroller officials indicated that the large increase was due to posting errors since they used the wrong SAP accounting reports during closeout. PHHS Comptroller officials subsequently reversed these entries out of the revenue collected in advance after June 30, 2005, and indicated that they will be using the correct accounting reports for closeout during subsequent periods. However, since PHHS officials could not provide the SAP reports to support the postings to the revenue collected in advance account, we cannot determine the extent of the error. For RCIA in the WIC program, during prior years the \$2 million was not recorded in a separate account on the RAS system, so the extra cash was not separately tracked, nor was documentation maintained by DOH to explain or support it.

For other items addressed in the condition relating to weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they either did not agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2005*

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### **Finding 05 – 46: (continued)**

**Effect:** As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2004 are not accurate. Our testing disclosed a minimum of \$560,548 in understatements in the state interest liability to the federal government. Further testing of DPW's federal revenue collected in advance accounts at year-end disclosed additional potential interest owed the federal government that could not be determined in our audit, but could range from over \$2.4 million for SFYE June 30, 2004 to over \$13.8 million for SFYE June 30, 2005.

In addition, the Commonwealth is receiving federal funds earlier than they should for the HPC program at PADOT. Because of the overall pervasiveness of the check clearance discrepancies involving incorrect posting dates, we cannot determine the overall impact of these weaknesses on major program check clearance patterns.

Also, various transactions that create interest liabilities, such as adjustment transactions, cancelled payments, and revenue collected in advance are not recognized by CDS as interest-generating transactions. Since manual adjustments are not made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

**Recommendation:** For future audit periods, we recommend BFM personnel implement a system to ensure that the clearance patterns developed and utilized on CDS accurately represent the flow of federal funds as required by 31 CFR 205.20.

In addition, BFM personnel should determine the additional amount of June 30, 2005 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, including RCIA, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that BFM modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS (e.g., RCIA) so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that BFM calculate any additional June 30, 2004 CMIA interest due to the U. S. Treasury as a result of the system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

### **Agency Response:**

Check Clearance Study:

\* At the time the check clearance study was performed, the CFDA numbers were not on VTs or checks, therefore we identified the VTs paid from appropriations that were linked to a CFDA number. The Treasury Department could link only one appropriation to one VT because the checks cleared were not identified to an appropriation.

Treasury must assign the entire VT to the first appropriation that matched to our appropriation/CFDA list. This process of assigning a VT to only one appropriation when other appropriations on the same VT are posted to the general ledger removes the link between BFM Report 833 and the general ledger, thus making the reconciliation between the two reports unrealistic.

CMIA regulations require that we perform a check clearance study for only three consecutive months. Our February 1, 1999 to May 31, 1999 study involved four consecutive months, which exceeds CMIA requirements. Based on these facts and the system restrictions noted above, a detailed reconciliation to the general ledger does not appear to be justified.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 46: (continued)**

A new check clearance study is underway and will identify all VTs and SAP payments for a specific CFDA. This should alleviate the concerns identified in this portion of the finding.

- \* We have noted the differences between the clearance study posting dates and the actual ICS posting dates. This will not occur under the new check clearance study.
- \* For payroll in CFDA #20.205, the Commonwealth historically selected appropriations that contained payments to CFDA #20.205. The new check clearance study is underway and will identify all VTs and payments for CFDA #20.205. A separate check clearance pattern is not required for payroll; the check clearance study is based on all expenditures for a program. For this reason, it is appropriate that we continue to include payroll costs in our study.

#### Delay of Draw

The draw delay of 16 days for CFDA #84.367 was correct as stated in the CMIA Treasury-State Agreement. The change from 14 days was inadvertently excluded when CDS was updated for the 2004-05 fiscal year. Procedures have been put into place to ensure that an error of this type does not recur.

#### Food Stamp Program

We acknowledge that an interest liability exists, but we disagree with the period noted in the finding. The transaction that generated the return of funds was the result of the MOU reconciliation process, and the transaction was posted to the accounting records as a refund of expenditure on June 15, 2004. CMIA regulations Section 205.15 (b), Refunds, states "A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government." Therefore, the interest liability period began on June 15, 2004. The Commonwealth will adjust the next CMIA Annual Report to pay \$10,383 in interest liability for the period June 15, 2004 through September 24, 2004.

#### CMIA Overpayment

Subsequent to the issuance of the 2003-04 CMIA interest report, this reporting issue was discovered. An incorrect date had been placed in the header record of a revenue file posting. The erroneously recorded information was corrected through prior year state interest adjustments on the 2004-05 CMIA interest report. This error was an isolated incident and is not expected to recur in the future.

#### Medical Access Program:

In 1988, Congress enacted the Medicare Catastrophic Coverage Act (PL 100-360). This law provides that federal Medicaid funds must be available to reimburse expenditures for health-related services included in each child's individualized education program (IEP), individualized service plan (ISP), or individualized family service plan (IFSP) for all children who are also Medicaid eligible.

The Pennsylvania Department of Education (PDE) developed the ACCESS Program in response to this legislation. ACCESS is a means for gaining medical assistance (MA) reimbursements for the cost of the health-related services currently being provided to MA eligible students. Billable services include speech therapy, occupational therapy, physical therapy, psychological services, etc. Local education agencies (LEAs) must enroll as medical assistance providers in order to submit their invoices to MA for the billable services they are providing to the eligible students.

Based on the claims submitted for valid MA eligible expenditures incurred by the LEAs, DPW pays PDE on behalf of the LEAs and draws down the funds in accordance with the Treasury State Agreement and MA program guidelines. The funds received from MA are reported as expenditures on the Single Audit and are maintained in LEA specific accounts managed by PDE and may accumulate over several state fiscal years. Each LEA controls its own draw down of reimbursements through the filing of ACCESS Requests with PDE. ACCESS funds must be used by LEAs to enhance or expand special education services and programs for students with disabilities.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 46: (continued)**

The Commonwealth maintains that the medical access funds were drawn for program purposes in accordance with the Treasury State Agreement. Therefore, the Commonwealth disagrees that CMIA interest is due.

#### Various Weaknesses:

- \* The number of VTs rejected by the State Treasury is minimal and the effect is further reduced by the State Treasury only rejecting incorrect line item entries. In addition, CDS processes Correction Vouchers (CVs) and Expenditure Adjustments (EAs) immediately, thus alleviating this problem.
- \* In response to the "Federal Revenue Collected in Advance" (RCIA) related to DPW's major programs, the Commonwealth does not transfer any "Federal drawdown" to RCIA. Any revenue that happens to reside in the revenue code entitled "Federal Revenue Collected in Advance" at any point in time, including on June 30, is the result of DPW budgetary considerations and/or fiscal year closing instructions and requirements. If for any reason we have "excess cash," it would be the result of a minus expenditure adjustment or refund of expenditure posting to the Grant Accounting records. Excess funds in these situations would be returned as part of the regular daily drawdown process by offsetting the amount against a drawable amount. Any resulting Commonwealth interest liability is already appropriately included in the interest reports.

For example, DPW is mandated to make payments but does not have sufficient spending authorization in the federal appropriation. The department processes payments against the grant and funds are drawn based on the CDS files. Since there is not sufficient appropriation balance in the federal appropriation, an expenditure adjustment is done outside of the grant accounting system to move the expenditure from the federal appropriation to a ledger 5 appropriation, with approval from the budget office. This corrects the negative available balance in the federal appropriation, however the revenue remains in the appropriation that was drawn based on the original expenditure posted to the grant's federal fund. Fiscal year end closing policy does not allow for more cash in the appropriation than the total commitments and expenditures, therefore cash must be transferred out and placed in RCIA until a supplemental appropriation is granted by the state legislature in the next fiscal year. At that time, the expenditure is moved back to the federal fund and the RCIA balance is reclassified to the grant appropriation as operating revenue. The Comptroller and BFM are available to meet to further discuss the budgetary accounting process.

- \* We disagree with this presumption that a violation of federal cash management regulations occurred in the Department of Corrections. The RCIA funds for Corrections result from annual payments from the U.S. Department of Justice for housing alien inmates. The money is requested electronically on a per diem basis. These funds are available for any activities related to the correctional institutions. Since not all of the funds have been utilized in recent years, they have been deposited in RCIA.

The finding indicates that adjustment transactions and revenue collected in advance are not recognized by CDS as interest-generating transactions. This statement is not accurate. All adjustment transactions are passed to CDS and may result in interest generating transactions. In addition, if refund transactions and adjustments cause a balance in federal revenue collected in advance, those same transactions are passed to CDS and result in interest calculations.

- \* The WIC program showed excess cash in RCIA at June 30, 2005 in accordance with fiscal year end closing procedures. The funds were moved into RCIA in June and moved back out in August. This \$2 million was a working capital advance from 1992 made in agreement with CMIA officials. This issue has been explained to the auditors several times over prior years, and at no time was the treatment of these funds questioned. It appears unreasonable that documentation from 14 years ago is now being requested. It should also be noted that to our knowledge there has never been any requirement to separately track these funds. We feel that these funds are handled in accordance with established precedent and procedures.

Overall, we believe that our current check clearance study has accurately represented the flow of federal funds and exceeded the standards set forth by 31 CFR 205.20. However, with the Commonwealth-wide implementation of the Enterprise Resource Planning software, a new check clearance study is now underway. This new study will again exceed the three-month requirement of CMIA regulations, as it will involve four consecutive months. The results of the new study will be amended to our Treasury-State Agreement upon completion.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2005***

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### **Finding 05 – 46: (continued)**

**Auditors' Conclusion:** Based on our review of the Office of the Budget's response, we believe OB should place a priority on performing a new check clearance study since the last one was performed in 1999.

Regarding the Food Stamp Program excess cash issue, the funds noted in the condition were on hand at L&I as June 30, 2003 as a result of interagency transfer of federal funds from DPW during SFYE June 30, 2003. Since LECS Comptroller Office did not perform a reconciliation of federal funds transferred from DPW until near the end of SFYE June 30, 2004 a refund of expenditure document was not posted to the state accounting system until June 15, 2004. The fact that L&I or DPW was not aware of the excess cash until June 2004 does not relieve the Commonwealth of the responsibility to pay interest for the full period that L&I maintained the excess cash.

Regarding the excess Medicaid cash on hand at PDE, no new relevant information was provided in the agency response and we do not agree that no CMIA interest is due. The federal funds were drawn in advance of the payments made to LEAs; therefore, we believe CMIA interest should be paid until the federal funds are disbursed to the LEA. The Commonwealth should resolve this issue with U.S. Treasury.

Regarding rejected VTs, since BFM did not track and provided no support on the number and dollar amount of the VTs rejected by the State Treasury Department relating to CMIA covered programs, the unreported interest liability related to this issue cannot be determined, but on a statewide basis may be significant.

We disagree with the response on the Federal Revenue Collected in Advance (RCIA) balances recorded on the state's accounting system. Although the agency response may be correct in that federal drawdowns are not directly posted to RCIA, the amounts in these accounts represent federal revenues in excess of federal expenditures on the accounting system, which, according to the Treasury-State Agreement, should be the source of all CMIA interest calculations. Although the agency response provides detailed reasons for the adjustments and/or excess federal funds recorded on the SAP accounting system (i.e., inadequate spending authority, budgetary or FY closing considerations, quarterly federal payments), they do not adequately explain why noncompliance with CMIA does not exist or why CMIA interest is not due the fed for these RCIA balances.

Further, the Commonwealth's Manual of Accounting M310.3, Part Twelve, Accounting for Revenues and Receipts, Section III, 6. d. states: "Federal Revenue Collected in Advance is credited with the amount of federal revenue received in the current fiscal year that is applicable to the succeeding fiscal year (deferred revenue)." Since this is the only written guidance related to federal RCIA, there is little assurance that postings in this account are not federal revenue collected in advance of payments, and management has not taken any corrective action on its use of the RCIA account to resolve our prior year findings or to provide that assurance. If budgetary or other postings are occurring each year on the accounting system, but are not being properly reversed out, management should either correct its accounting system or follow our recommendations to comply with CMIA.

BFM has not developed any written procedures regarding RCIA, nor has BFM updated the Commonwealth's Manual of Accounting since 1996 even as the Commonwealth implemented its new enterprise-wide accounting system, SAP. As recommended in our prior Single Audits we recommend that BFM develop and implement policies and procedures to properly address the CMIA interest impact of federal RCIA on the state's accounting system.

Also, with regard to the RCIA balances noted at the Department of Corrections while revenue transmittal documents were provided stating the \$2.85 million posted to RCIA code 841 were payments for housing alien inmates no contract was provided to support the payments. Further, no documents were provided to support \$2.77 million posted to RCIA code 840 by Department of Corrections.

Regarding the \$2 million posted to RCIA by the Department of Health the prior year response indicated the RICA was for The Adult Blood Lead Epidemiology and Surveillance program, The Drug and Alcohol Services Information System, and Vital Statistics funds for fixed price contracts with the federal government. Prior to SFYE June 30, 2004 the RCIA balance at the Department of Health was always less than \$2 million and was not reviewed by us. Therefore, the \$2 million working capital advance was never explained to us in prior years. Regardless, the Commonwealth should maintain documentation to support any capital advances from as long as the advance is held.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2005***

### **Finding 05 – 46: (continued)**

Based on the agency response, our finding and recommendation, with the above clarifications, remains as previously stated.

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

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# Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 1996:</u></b>		
<b>DEPARTMENT OF TRANSPORTATION (PADOT)</b>		
Finding 16	Inadequate Property Management Procedures (A Similar Condition Was Noted in Prior Year Finding #32)	DOT
		Resolved – Federal regulations were revised to reduce federal regulatory requirements regarding property management procedures. A letter was sent to the FHWA on January 11, 2006 requesting their concurrence that the finding can be closed out. Finding closed per FHWA letter dated January 26, 2006.
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2000:</u></b>		
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
Finding 00-1	Inaccurate Performance and Evaluation Report Submitted to HUD	HUD
		Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
Finding 00-2	DCED Did Not Perform On-Site Monitoring of Community Housing Development Organization Operating Grants	HUD
		Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
Finding 00-11	Inaccurate Reporting on the TANF ACF-198 Data Report (A Similar Condition Was Noted in Prior Year Finding #9)	HHS
		Resolved – Closed per ACF audit finding determination correspondence dated April 6, 2005. This issue will be addressed beginning with the similar finding noted in the audit report for the year ended June 30, 2001 (Finding 01-14).
Finding 00-12	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations	HHS
		Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued. HHS is not currently following up on this finding and a management decision has not been issued.
Finding 00-13	Weakness in DPW Monitoring Procedures Results in Over \$19 Million in Excess Subgrantee Federal Cash at June 30, 2000 (A Similar Condition Was Noted in Prior Year Finding #10)	HHS
		Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued. HHS is not currently following up on this finding and a management decision has not been issued.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2001:</u></b>		
<b>OFFICE OF BUDGET (OB)</b>		
Finding 01-9 PEMA Did Not Properly Report Federal Expenditures on the SEFA	FEMA	Unresolved – The necessary adjustments to correct the SEFA have been made. OB/PPR has implemented procedures to review all grant CFDA numbers for accuracy. OB/PPR is awaiting final resolution from FEMA.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
Finding 01-2 Performance/Evaluation Report Submitted to HUD Was Not Supported by Adequate Documentation (A Similar Condition Was Noted in Prior Year Finding #00-1)	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
Finding 01-3 Internal Control Weakness Over Information Reported from the Integrated Disbursement and Information System	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
Finding 01-4 DCED Did Not Perform On-Site Monitoring of Community Housing Development Organization Operating Grants (A Similar Condition Was Noted in Prior Year Finding #00-2)	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)</b>		
Finding 01-5 Unallowable Personnel Charges Result in Questioned Costs of \$1,220	DOI	Closed – Questioned costs settled by refileing a Financial Status Report (FSR) for the grant and deducting the questioned amount. Closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued, DOI is not currently following up on this finding and a final management decision was never issued.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>		
Finding 01-6 Overpayment of TRA Benefits Resulted in Questioned Costs of \$264 (A Similar Condition Was Noted in Prior Year Finding #00-4)	DOL	Unresolved – Corrective action has been taken through establishment of a non-fraud overpayment. To date, additional funds have not been repaid or recovered. DOL has not yet contacted L&I concerning this finding.
Finding 01-7 Weakness in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report	DOL	Unresolved – Corrective action has been implemented. DOL has not yet contacted L&I concerning this finding.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
Finding 01-10 Weakness in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #00-8)	USDE	Unresolved – Corrective action has been implemented. USDE has not yet contacted L&I concerning this finding.
Finding 01-12 Weaknesses in L&I's Monitoring of RSBS Subgrantees (A Similar Condition Was Noted in Prior Year Finding #00-9)	USDE	Unresolved – OVR discussed this finding with USDE during resolution of a similar prior year finding. L&I developed additional measures to improve its grant monitoring procedures. L&I is awaiting final resolution from USDE.
Finding 01-19 Weaknesses in L&I's Internal Controls Over Subrecipients	DOL	Unresolved – DOL has not yet contacted L&I concerning this finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
Finding 01-13 Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (A Similar Condition Was Noted in Prior Year Finding #00-12)	HHS	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued, HHS is not currently following up on this finding and a management decision has not been issued.
Finding 01-14 Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #00-11)	HHS	Unresolved – Corrective Compliance Plan submitted to HHS/ACF October 28, 2003 in response to ACF letter of August 28, 2003 regarding potential sanction action. ACF approved the plan on December 18, 2003 with DPW having until March 31, 2004 to achieve compliance. By correspondence dated March 30, 2006, ACF will use the results of the 2005 audit to determine if DPW achieved full compliance. Then ACF will determine the next steps, which may include validation of the data, acceptance of the results of corrective compliance, or enforcement of the \$26.7 million sanction.
Finding 01-15 Noncompliance and Internal Control Weakness Over the Process of Responding to Interstate Registry Cases	HHS	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued, HHS is not currently following up on this finding and a management decision has not been issued.
Finding 01-16 Weakness in DPW Monitoring Procedures Results in Over \$32 Million in Excess Subgrantee Federal Cash at June 30, 2001 (A Similar Condition Was Noted in Prior Year Finding #00-13)	HHS	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued, HHS is not currently following up on this finding and a management decision has not been issued.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 01-17 Internal Control Weaknesses and Noncompliance With Federal Earmarking Requirements Result in Questioned Costs of \$1,381,114	HHS	Resolved – Closed per HHS/ACF’s final report issued January 30, 2004. Questioned costs were reduced to \$58,121, which DPW returned to ACF by check dated April 7, 2004.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2002:**

#### **OFFICE OF BUDGET (OB)**

Finding 02-6 (Issued to OB & DCED) Internal Control Weakness Over Information Reported from the Integrated Disbursement and Information System (A Similar Condition Was Noted in Prior Year Finding #01-3)	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
Finding 02-12 L&I Did Not Properly Report Federal Expenditures on the SEFA	DOL & HHS	Resolved – Closed per USDOL determination letter dated June 20, 2005.
Finding 02-19 \$3,890,912 in Excess Funds Were Drawn Down from USDE in Violation of Federal Cash Management Regulations	USDE	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. USDE is not currently following up on this finding and a management decision was never issued.
Finding 02-29 (Issued to OB & PID) Noncompliance and Internal Control Weaknesses in Federal Reporting and State Matching Procedures Result in \$31,576 in Questioned Costs	HHS	Resolved – The questioned costs of \$31,576 require no settlement. All costs were properly matched at the end of the grant period. Finding closed per HHS e-mail of January 23, 2006.
Finding 02-36 The Commonwealth’s Statewide Cash Management System Needs Improvement (A Similar Condition Was Noted in Prior Year Finding #01-20)	HHS	Closed – Corrective action has been taken. Additional information provided to HHS and HHS/DPM on December 26, 2003. OB considers this finding closed per OMB Circular A-133, section 315(b)(4). Two years have passed since the report was submitted to the federal clearinghouse, HHS/DPM is not currently following up on the finding, and no management decision was issued.
Finding 02-37 The CMIA Interest Liability Was Understated by a Minimum of \$86,290 (A Similar Condition Was Noted in Prior Year Finding #01-21)	HHS	Closed – Corrective action has been taken. Additional information provided to HHS and HHS/DPM on December 26, 2003. OB considers this finding closed per OMB Circular A-133, section 315(b)(4). Two years have passed since the report was submitted to the federal clearinghouse, HHS/DPM is not currently following up on the finding, and no management decision was issued.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
Finding 02-5 Performance/Evaluation Report Submitted to HUD Was Inaccurate (A Similar Condition Was Noted in Prior Year Finding #01-2)	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued, HUD is not currently following up on this finding and a management decision was never issued.
Finding 02-6 Internal Control Weakness Over Information Reported from the Integrated Disbursement and Information System (A Similar Condition Was Noted in Prior Year Finding #01-3) (Issued to OB & DCED)	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued, HUD is not currently following up on this finding and a management decision was never issued.
Finding 02-7 DCED Did Not Perform Adequate Monitoring of Community Housing Development Organization Operating Grants (A Similar Condition Was Noted in Prior Year Finding #01-4)	HUD	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued. HUD is not currently following up on this finding and a management decision was never issued.
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)</b>		
Finding 02-8 Unallowable Personnel Charges Result in Questioned Costs of \$112 (A Similar Condition Was Noted in Prior Year Finding #01-5)	DOI	Closed – Questioned costs settled by refileing a Financial Status Report (FSR) for the grant and deducting the questioned amount. Closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the finding was issued, DOI is not currently following up on this finding and a final management decision was never issued.
<b>DEPARTMENT OF HEALTH (DOH)</b>		
Finding 02-16 Noncompliance and Internal Control Weaknesses at DOH Result in \$551,764 in Questioned Costs	HHS & USDE	Resolved – Closed per HHS letter of March 29, 2004 and USDE final resolution letter of March 27, 2006. All questioned costs have been waived by the respective federal funding agencies.
<b>PENNSYLVANIA INSURANCE DEPARTMENT (PID)</b>		
Finding 02-29 Noncompliance and Internal Control Weaknesses in Federal Reporting and State Matching Procedures Result in \$31,576 in Questioned Costs (Issued to OB and PID)	HHS	Resolved – The questioned costs of \$31,576 require no settlement. All costs were properly matched at the end of the grant period. Finding closed per HHS e-mail of January 23, 2006.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>		
Finding 02-9 Incomplete Reporting on the ETA 563 Report	DOL	Unresolved – Updates and improvements have been made on the data elements drawing information from the Career Link System and by matching files from Career Links to the UC mainframe. L&I submitted reports for the second and third quarters of 2004 and resubmitted reports for the third and fourth quarters of 2003 reflecting the updated data. Follow-up with DOL is pending.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 02-10 Weakness in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (A Similar Condition Was Noted in Prior Year Finding #01-7)	DOL	Unresolved – Corrective action is in process with the first quarter 2003 report submitted timely to USDOL. Follow-up with DOL is pending.
Finding 02-11 Overpayment of TRA Benefits Resulted in Questioned Costs of \$3,989 (A Similar Condition Was Noted in Prior Year Finding #01-6)	DOL	Resolved – Closed per DOL final determination letter of September 20, 2005. Questioned costs have been repaid.
Finding 02-13 Incomplete Reporting on and Inadequate Controls Over the WIA Annual Performance Report	DOL	Resolved – Closed per DOL final determination letter of September 20, 2005. The letter states that the finding is considered moot and no further action is required. Resolution will occur with similar finding in June 30, 2003 single audit report.
Finding 02-18 Weakness in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #01-10)	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE's program determination letter of December 18, 2003. It is expected that upon receipt, USDE will make a final determination on resolution.
Finding 02-20 Noncompliance and Weaknesses in Internal Controls Over Charging of Personnel Costs Result in Questioned Costs of \$11,969 (A Similar Condition Was Noted in Prior Year Finding #01-11)	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE's program determination letter of December 18, 2003. It is expected that upon receipt, USDE will make a final determination on resolution. USDE's letter indicated that the questioned costs had been resolved by receiving full reimbursement from L&I.
Finding 02-21 Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE's program determination letter of December 18, 2003. It is expected that upon receipt, USDE will make a final determination on resolution.
Finding 02-22 Weaknesses in L&I's Monitoring of RSBS Subgrantees (A Similar Condition Was Noted in Prior Year Finding #01-12)	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE's program determination letter of December 18, 2003. It is expected that upon receipt, USDE will make a final determination on resolution.
Finding 02-34 Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (A Similar Condition Was Noted in Prior Year Finding #01-19)	DOL	Resolved – Closed per DOL final determination letter of September 20, 2005.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
Finding 02-23 Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (A Similar Condition Was Noted in Prior Year Finding #01-13)	HHS	Unresolved – DPW provided Operations Memo OPS 02-02-02, issued to implement corrective action, to HHS/ACF on May 31, 2002. By correspondence dated March 30, 2006, ACF is requesting a report within 90 days of letter date, advising of the success of implementing corrective action. ACF action will be taken based upon the results of the report.
Finding 02-24 Inaccurate Reporting on the TANF ACF-199 Report (A Similar Condition Was Noted in Prior Year Finding #01-14)	HHS	Unresolved – Corrective Compliance Plan submitted to HHS/ACF October 28, 2003 in response to ACF letter of August 28, 2003 regarding potential sanction action. ACF approved the plan on December 18, 2003 with DPW having until March 31, 2004 to achieve compliance. By correspondence dated March 30, 2006, ACF will use the results of the 2005 audit to determine if DPW achieved full compliance. Then ACF will determine the next steps, which may include validation of the data, acceptance of the results of corrective compliance, or enforcement of the \$26.7 million sanction.
Finding 02-25 Noncompliance and Internal Control Weakness Over the Process of Responding to Interstate Registry Cases (A Similar Condition Was Noted in Prior Year Finding #01-15)	HHS	Resolved - Per ACF correspondence dated April 6, 2005. ACF acknowledges that DPW's Self-Assessment Report for the year ended September 30, 2003, disclosed that BCSE achieved compliance with performance standards specified in 45 CFR 303.7.
Finding 02-26 Weakness in DPW Monitoring Procedures Results in Over \$15 Million in Excess Subgrantee Federal Cash at June 30, 2002 (A Similar Condition Was Noted in Prior Year Finding #01-16)	HHS	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued, HHS is not currently following up on this finding and a management decision has not been issued.
Finding 02-27 Internal Control Weaknesses and Noncompliance With Federal Earmarking Requirements Result in Questioned Costs of \$1,624,404 (A Similar Condition Was Noted in Prior Year Finding #01-17)	HHS	Resolved - Per HHS/ACF final report issued January 13, 2005. Questioned costs were reduced to \$30,313, which DPW returned to ACF by check dated March 2, 2005. An additional \$5,234 could not be supported by documentation resulting in an additional refund to ACF.
Finding 02-28 DPW Office of Children, Youth and Families Should Renew Licensing of Foster Care Agencies in a More Timely Manner (A Similar Condition Was Noted in Prior Year Finding #01-18)	HHS	Resolved – Per ACF Foster Care Eligibility Review correspondence dated October 19, 2004, which concluded that licensing and approval information was generally up-to-date and complete. Also, the auditor's assessment of the implementation of corrective action in the 2003 Single Audit resulted in no similar audit finding, confirming compliance.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
Finding 02-30 Ineligible Payments to MA Beneficiaries Result in Questioned Costs of \$27,552	HHS	Closed – Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued, HHS is not currently following up on this finding and a management decision has not been issued.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2003:**

#### **OFFICE OF BUDGET (OB)**

Finding 03-6 Noncompliance and Internal Control Weaknesses in the LECS Comptroller Office System of Cash Management	DOL	Resolved – Closed per USDOL final determination letter of September 22, 2005.
Finding 03-16 \$886,728 in Excess Funds Were Drawn Down from USDE in Violation of Federal Cash Management Regulations (A Similar Condition Was Noted in Prior Year Finding #02-19)	USDE	Unresolved – An additional interest calculation was completed and submitted to BFM on October 4, 2004.
Finding 03-25 Internal Control Weaknesses in Federal Reporting and State Matching Procedures (A Similar Condition Was Noted in Prior Year Finding # 02-29)	HHS	Resolved – Finding closed per HHS e-mail of January 23, 2006.
Finding 03-29 The Commonwealth's Statewide Cash Management System Needs Improvement (A Similar Condition Was Noted in Prior Year Finding # 02-36)	HHS	Unresolved – Additional information provided to HHS in a letter dated March 1, 2005. OB/BFM is awaiting action from HHS/DPM.
Finding 03-30 The CMIA Interest Liability Was Understated by at least \$1,218,014 (A Similar Condition Was Noted in Prior Year Finding #02-37)	HHS	Unresolved – Additional information provided to HHS in a letter dated March 1, 2005. OB/BFM is awaiting action from HHS/DPM.

#### **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)**

Finding 03-5 DCED Did Not Perform Adequate Monitoring of Community Housing Development Organization Operating Grants (A Similar Condition Was Noted in Prior Year Finding #02-7)	HUD	Unresolved – DCED implemented new procedures to monitor subrecipients in January 2002. The new procedures were reviewed and approved by HUD in May 2003. DCED is awaiting final resolution from HUD.
Finding 03-26 An Internal Control Weakness Exists in DCED's Subrecipient Audit Resolution Process	HUD	Unresolved – DCED implemented new procedures to ensure that all single audit reports with audit findings are reviewed within six months after receipt of the audit report. DCED is awaiting final resolution from HUD.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>DEPARTMENT OF HEALTH (DOH)</b>		
Finding 03-4 Noncompliance in DOH Preparation of the WIC Financial Management and Participation FNS-798 Report Results in \$4,490,772 in Questioned Costs	USDA	Unresolved – DOH is working with USDA to resolve the questioned costs associated with this finding. FFY 2002 through 2004 were reviewed and final adjustments were posted in SAP in April 2006. The revised FNS-798 reports will be completed by May 31, 2006. PHHS Comptroller Office will do a new stop payment on old grants, which is expected to greatly reduce SAP activity after closeout. That, combined with continued reviews of old grants, will keep the FNS-798 reports and SAP in agreement.
Finding 03-14 Noncompliance and Internal Control Weaknesses at DOH Result in \$100,606 in Questioned Costs (A Similar Condition Was Noted in Prior Finding 02-16)	USDE	Resolved – Closed per USDE final resolution letter of March 27, 2006. All questioned costs associated with this finding have been waived by USDE.
<b>DEPARTMENT OF LABOR &amp; INDUSTRY (L&amp;I)</b>		
Finding 03-7 Inaccurate Data and Weaknesses in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (A Similar Condition Was Noted in Prior Year Finding #02-10)	DOL	Unresolved – Corrective action is in process with the first quarter 2003 report submitted timely to USDOL. Follow-up with USDOL is pending.
Finding 03-8 Overpayment of TRA Benefits Resulted in Questioned Costs of \$8,392 (A Similar Condition Was Noted in Prior Year Finding #02-11)	DOL	Resolved – Closed per USDOL final determination letter of September 22, 2005. Questioned costs have been repaid.
Finding 03-9 Incomplete Reporting on the ETA 563 Report (A Similar Condition Was Noted in Prior Year Finding #02-9)	DOL	Unresolved – Updates and improvements have been made on the data elements drawing information from the Career Link System and by matching files from Career Links to the UC mainframe. L&I submitted reports for the second and third quarters of 2004 and resubmitted reports for the third and fourth quarters of 2003 reflecting the updated data. Follow-up with USDOL is pending.
Finding 03-10 Errors and Inadequate Controls in the WIA Annual Performance Report (A Similar Condition Was Noted in Prior Year Finding #02-13)	DOL	Unresolved – Follow-up with USDOL is pending.
Finding 03-17 A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #02-18)	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE program determination letter of December 18, 2003. Awaiting USDE's final determination on resolution.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
Finding 03-18 Noncompliance and Weaknesses in Internal Controls Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #02-20)	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE’s program determination letter of December 18, 2003. It is expected upon receipt, USDE will make a final determination on resolution.
Finding 03-19 Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (A Similar Condition Was Noted in Prior Year Finding #02-21)	USDE	Unresolved – L&I provided additional information to USDE on February 19, 2004 in response to USDE’s program determination letter of December 18, 2003. It is expected upon receipt, USDE will make a final determination on resolution.
Finding 03-28 Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (A Similar Condition Was Noted in Prior Year Finding #02-34)	HHS/ACF	Unresolved – HHS/ACF letter of April 6, 2005 indicated that the regional office will monitor the situation to determine if future developments require action by ACF.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
Finding 03-20 Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (A Similar Condition Was Noted in Prior Year Finding #02-23)	HHS/ACF	Unresolved – DPW provided Operations Memo OPS 02-02-02, issued to implement corrective action, to HHS/ACF on May 31, 2002. By correspondence dated March 30, 2006, ACF is requesting a report within 90 days of letter date, advising of the success of implementing corrective action. ACF action will be taken based upon the results of the report.
Finding 03-21 Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #02-24)	HHS/ACF	Unresolved – Corrective Compliance Plan submitted to HHS/ACF October 28, 2003 in response to ACF letter of August 28, 2003 regarding potential sanction action. ACF approved the plan on December 18, 2003 with DPW having until March 31, 2004 to achieve compliance. By correspondence dated March 30, 2006, ACF will use the results of the 2005 audit to determine if DPW achieved full compliance. Then ACF will determine next steps, which may include validation of the data, acceptance of the results of corrective compliance, or enforcement of the \$26.7 million sanction.
Finding 03-22 Noncompliance and Internal Control Weakness Over the Processing of Interstate Registry Cases (A Similar Condition Was Noted in Prior Year Finding #02-25)	HHS/ACF	Resolved – Closed per ACF correspondence dated April 6, 2005. ACF acknowledges that DPW’s Self-Assessment Report for the year ended September 30, 2003, disclosed that BCSE achieved compliance with performance standards specified in 45 CFR 303.7.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 03-23 Internal Control Weaknesses and Noncompliance With Federal Earmarking Requirements Result in Questioned Costs of \$3,224,570 (A Similar Condition Was Noted in Prior Year Finding #02-27)	HHS/ACF	Unresolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. DPW implemented corrective action and revised procedures by which the childcare resource developers administer the Infant & Toddler funds. These revised procedures were reviewed and accepted by the ACF Regional Office. ACF's determination letter of March 30, 2006 confirmed the acceptance of DPW's revised procedures, and indicated that ACF will perform its next on-site monitoring of 2005 CCDF expenditures in calendar year 2007. In addition, ACF will use the results of the June 30, 2005 single audit to confirm the success of corrective actions taken by DPW.
Finding 03-24 Weakness in DPW Monitoring Procedures Results in Over \$7 Million in Excess Subgrantee Federal Cash at June 30, 2003 (A Similar Condition Was Noted in Prior Year Finding #02-26)	HHS/DPM	Unresolved – DPW provided additional information to HHS on March 28, 2000 and again on June 14, 2002. HHS/DPM correspondence of November 17, 2003 requested information on the finding and copies of supporting documentation. DPW sent a letter dated November 18, 2003 to HHS encouraging resolution of this long-standing issue. Awaiting federal resolution action.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2004:**

#### **OFFICE OF THE BUDGET (OB)**

Finding 04-7 Noncompliance and Internal Control Weaknesses in the LECS Comptroller Office System of Cash Management (A Similar Condition Was Noted in Prior Year Finding #03-6)	DOL	Unresolved – This finding has been addressed in a USDOL Initial Determination letter of May 11, 2006. USDOL requested evidence that the UI finding has been corrected and documentation that procedures are in place to safeguard against misspending of administrative funds.
Finding 04-8 Weaknesses Exist in the FARS and SAP FARS Replacement Systems Resulting in an Undetermined Amount of Questioned Costs up to \$4,484,751	DOL	Unresolved – This finding has been addressed in a USDOL Initial Determination letter of May 11, 2006. USDOL requested that L&I provide documentation showing that it has implemented effective internal control policies and procedures that allow for construction of an audit trail and provide verification of all allocated costs.
Finding 04-12 Internal Control Weakness Over Expenditure Information Reported on the SEFA	DOT	Resolved – Closed per FHWA letter dated January 27, 2006.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 04-14 Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting	FEMA	Unresolved – Corrective action has been taken to ensure amounts on the financial status reports agree to the accounting records. FEMA has not yet contacted PPR to resolve the finding.
Finding 04-15 Internal Control Weakness Over the Reconciliation of USDE's Grant Administration and Payment System (EDGAPS) to Revenue on SAP System	USDE	Unresolved – USDE has not yet contacted LECS concerning this finding.
Finding 04-26 LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program	HHS	Unresolved – HHS has not yet contacted LECS concerning this finding.
Finding 04-36 OB Did Not Have Adequate Procedures in Place to Ensure the Accuracy of the Subrecipient Audit Universe	HHS	Resolved – Additional information provided to HHS in a letter dated March 21, 2006. Closed per HHS/OARCP letter of April 20, 2006.
Finding 04-37 Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least \$624,042 Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Findings #03-29 and #03-30)	HHS	Unresolved – Additional information provided to HHS in a letter dated March 21, 2006. OB/BFM is awaiting action from HHS.
<b>DEPARTMENT OF AGRICULTURE (AGRI)</b>		
Finding 04-1 Internal Control Weakness and Noncompliance in BFD's Subrecipient Monitoring	USDA	Unresolved – Over the next year, BFD will review recipient agency files to ensure that copies of signed agreements are in each file. As staff enter agency files for any reason, each will include in his or her activity the task of locating the agreement, and noting on the outside of the file folder the date that the agreement was viewed and the initials of the staff person viewing the document.
Finding 04-2 Internal Control Weaknesses and Noncompliance with Processor Record-keeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$52,917 (A Similar Condition Was Noted in Prior Year Finding #03-1)	USDA	Unresolved – June 30, 2005 inventories held by processors were reconciled by the Bureau prior to the rollover into the new program year. In addition, processor lists have been updated and are currently complete.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
Finding 04-6	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #03-5)	HUD Unresolved – DCED implemented new procedures to monitor subrecipients in January 2002. The new procedures were reviewed and approved by HUD in May 2003. DCED is awaiting final resolution from HUD.
Finding 04-27	Weaknesses in Internal Controls Over Subgrantees Result in \$47,722 in Questioned Costs	HHS Unresolved – DCED formally replied to HHS on November 30, 2005, indicating that the report in dispute has been located and the \$47,722 was an appropriate expenditure.
<b>DEPARTMENT OF EDUCATION (PDE)</b>		
Finding 04-16	Internal Control Weakness in Monitoring Subrecipient Compliance With Maintenance of Effort Requirements	USDE Unresolved – Corrective action has been taken. PDE has been in contact with USDE and is awaiting a program determination letter.
Finding 04-17	Inadequate Controls in PDE's On-Site Monitoring of Subrecipients	USDE Unresolved – Corrective action has been taken. PDE has been in contact with USDE and is awaiting a program determination letter.
Finding 04-18	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card	USDE Unresolved – Corrective action has been taken. PDE has been in contact with USDE and is awaiting a program determination letter.
Finding 04-19	Errors and Internal Control Weaknesses in PDE's VOC-ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (A Similar Condition Was Noted in Prior Year Finding #03-15)	USDE Unresolved – Corrective action has been taken. PDE has been in contact with USDE and is awaiting a program determination letter.
Finding 04-20	PDE Allocated VOC-ED Funds to Subrecipients Based on Outdated Statistical Data	USDE Unresolved – Corrective action has been taken. PDE has been in contact with USDE and is awaiting a program determination letter.
<b>DEPARTMENT OF HEALTH (DOH)</b>		
Finding 04-4	Noncompliance and Internal Control Weaknesses in DOH Systems Result in \$26,719 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #03-3)	USDA Unresolved – DOH will work with USDA to resolve the questioned costs associated with this finding. A new sample error report was developed. The reports are currently being generated and local agencies are reviewing the report items.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>	<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 04-5	USDA	Unresolved – DOH is working with USDA to resolve the questioned costs associated with this finding. FFY 2002 through 2004 were reviewed and final adjustments were posted in SAP in April 2006. The revised FNS-798 reports will be completed by May 31, 2006. PHHS Comptroller Office will do a new stop payment on old grants, which is expected to greatly reduce SAP activity after closeout. That, combined with continued reviews of old grants, will keep the FNS-798 reports and SAP in agreement.
Finding 04-34	HHS	Unresolved – DOH sent a letter to HHS-SAMHSA on December 14, 2005 requesting removal of non-recurring legislative initiative funds totaling \$350,000 from the calculation applicable to SFY 2001, as well as a request to forgive the shortfall of \$55,000 associated with the SFY 2003 MOE. SAMHSA responded by requiring a letter be sent from DOH's Bureau of Drug and Alcohol Programs (BDAP) to SAMHSA addressing the exclusion of the \$350,000 and a waiver concerning the \$55,000 to resolve the MOE issue. A letter was forwarded to the SAMHSA Administrator on March 30, 2006.
<b>DEPARTMENT OF LABOR &amp; INDUSTRY (L&amp;I)</b>		
Finding 04-9	DOL	Resolved – An updated corrective action plan and additional supporting documentation were provided to USDOL on March 28, 2006. Per USDOL initial determination letter of May 11, 2006, this finding is corrected.
Finding 04-10	DOL	Resolved – An updated corrective action plan and additional supporting documentation were provided to USDOL on March 28, 2006. Per USDOL initial determination letter of May 11, 2006, this finding is corrected.
Finding 04-11	DOL	Unresolved – L&I will be providing additional information to USDOL for review towards resolution.
Finding 04-21	USDE	Unresolved – L&I is still in disagreement with this finding since the vendors tested within this audit were entered into the OVR Vendor File prior to the addition of two vital fields in March 2002 and June 2003. This information will be presented to the USDE for further review.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>		<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 04-22	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #03-18)	USDE	Unresolved – OVR had initiated the necessary procedures in accordance with OMB Circular A-87 but not within the time period of this audit. It should be noted that this finding has not been reissued in the 2005 Single Audit. L&I will also present this information to USDE for further review.
Finding 04-35	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs	SSA	Unresolved – L&I is in disagreement with this finding maintaining that the current procedures, including quarterly time reporting, are sufficient to satisfy all requirements under OMB Circular A-87. This information has been referred to the SSA Central Office for further review with a response anticipated by September 2006.
<b>PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PNVEST)</b>			
Finding 04-13	Internal Control Improvements Needed in Subrecipient Loan Monitoring System	EPA	Unresolved – EPA will monitor corrective actions taken as part of the FY 2005 Annual Review in March 2006.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
Finding 04-3	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #03-2)	HHS	Resolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. Closed per HHS/OARCP letter of April 20, 2006.
Finding 04-23	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (A Similar Condition Was Noted in Prior Year Finding #03-20)	HHS	Unresolved – DPW provided Operations Memo OPS 02-02-02, issued to implement corrective action, to HHS/ACF on May 31, 2002. By correspondence dated March 30, 2006, ACF is requesting a report within 90 days of letter date, advising of the success of implementing corrective action. ACF action will be taken based upon the results of the report.
Finding 04-24	Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #03-21)	HHS	Unresolved – Corrective Compliance Plan submitted to HHS/ACF October 28, 2003 in response to ACF letter of August 28, 2003 regarding potential sanction action. ACF approved the plan on December 18, 2003 with DPW having until March 31, 2004 to achieve compliance. By correspondence dated March 30, 2006, ACF will use the results of the 2005 audit to determine if DPW achieved full compliance. Then ACF will determine the next steps, which may include validation of the data, acceptance of the results of corrective compliance, or enforcement of the \$26.7 million sanction.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2005

<i>STATE AGENCY / FINDING</i>		<i>FEDERAL AGENCY</i>	<i>COMMENTS</i>
Finding 04-25	Noncompliance and Internal Control Weakness Over the Processing and Reporting of Interstate Cases (A Similar Condition Was Noted in Prior Year Finding #03-22)	HHS	Unresolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. By ACF correspondence dated March 30, 2006, the results of the June 30, 2005 single audit will be used to confirm the success of corrective actions taken by DPW.
Finding 04-28	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,220,142 (A Similar Condition Was Noted in Prior Year Finding #03-23)	HHS	Unresolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. DPW implemented corrective action and revised procedures by which the child care resource developers administer the Infant & Toddler funds. These revised procedures were reviewed and accepted by the ACF Regional Office. ACF's determination letter of March 30, 2006 confirmed the acceptance of DPW's revised procedures, and indicated that ACF will perform its next on-site monitoring of 2005 CCDF expenditures in calendar year 2007. In addition, ACF will use the results of the June 30, 2005 single audit to confirm the success of corrective actions taken by DPW.
Finding 04-29	Weaknesses in DPW Monitoring of Subgrantees Results in \$4.8 Million in Excess Subgrantee Federal Cash at June 30, 2004 (A Similar Condition Was Noted in Prior Year Finding #03-24)	HHS	Unresolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. Awaiting federal audit resolution action.
Finding 04-30	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients	HHS	Unresolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. By ACF correspondence dated March 30, 2006, the results of the June 30, 2005 single audit will be used to confirm the success of corrective actions taken by DPW.
Finding 04-31	Internal Control Weakness and Known Fraud Affecting Federal Awards at DPW	HHS	Resolved – Additional comments and information provided to HHS Resolution Official on December 14, 2005. Resolved per HHS/OARCP letter of April 20, 2006.
Finding 04-32	Internal Control Weaknesses in the Administration of the MA Program	HHS	Unresolved – Additional comments/information provided to HHS Resolution Official on December 14, 2005. Awaiting federal audit resolution action.
Finding 04-33	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$20,792,266	HHS	Resolved – Per HHS/HRSA letter of March 15, 2006. Questioned costs have been waived and findings and recommendations are considered resolved.

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# Corrective Action Plans



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Financial Statement Comments - June 30, 2005

Comment	State Agency	Comment Title/Corrective Action
05-1	OB/BFM	<p><b>Encumbrance Balance in MLF Was Overstated by \$53 Million Due to a Computer Program Error</b></p> <p>The encumbrance report is working as designed. BFM is working with IES to develop new data fields and reports for better Encumbrance reporting. BFM is also working with Comptroller accountants so they are more informed of the data available and can use the existing reports to meet GAAP reporting requirements. IES may not be able to meet all of BFM's enhancement requests for the FY2006 CAFR due to the development of an EBPro upgrade to Supplier Resource Management (SRM).</p>
05-2	OB/LECS	<p><b>Internal Control Weaknesses Over Financial Reporting in the Department of Education General Fund GAAP Template (Prior Year Comment #04-7)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-3	OB/CS	<p><b>Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Comment #04-1)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-4	OB/BFM	<p><b>Internal Control Weaknesses Over Preparation of GAAP Reporting Templates</b></p> <p>As provided in 'Agency Response,' our plan is to eliminate June 30, 2006 reporting errors associated with specific subject matters which caused numerous June 30, 2005 Period 15 BFM and auditor adjustments. However, BFM emphasizes that not all Period 15 adjustments are the result of an error or omission. For certain subject matters, Period 15 adjustments will continue to be needed because required information is not available earlier.</p>
05-5	OB/BFM	<p><b>Internal Control Weaknesses Over Liability Estimation Methodologies</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-6	OB/BFM	<p><b>Internal Control Weaknesses Reconciling SAP to Revenue and Treasury Accounting Systems</b></p> <p>BFM has taken the following steps to ensure that the revenue reconciliation process continues to improve in both its timeliness and accuracy:</p> <ul style="list-style-type: none"> <li>• BFM has committed itself to a more timely reconciliation effort. Reconciliations were completed quarterly during the first half of FY 2005, with monthly reconciliations initiated as of Period 07/2005. The revenue reconciliation through Period 07/2005 was completed with the reconciling items sent to Revenue Accounting on February 20, 2006. As each remaining period is closed, the reconciliation will be updated.</li> <li>• BFM has met with staff from Central Services to finalize the responsibilities for corrections to errors detected. BFM has also added within its process a follow-up review of the errors detected to ensure that the corrections are posted timely and accurately. Since the reconciliations are completed more timely, these items are more manageable.</li> </ul>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Financial Statement Comments - June 30, 2005

Comment	State Agency	Comment Title/Corrective Action
05-6	(Continued)	<ul style="list-style-type: none"><li>• BFM is already anticipating the implications of Period 12 revenue postings. Since revenue reconciliations cannot occur until a period is closed; BFM will work closely with Revenue Accounting during Period 12 to identify any items posted in Period 12 that would be subject to reversal/correction in order to minimize the items that would need to be corrected in the subsequent FY, thereby minimizing the potential for required GAAP adjustments.</li><li>• BFM will ensure that the final FY RAS Oracle query occurs after the final update to the table. BFM will confirm that the final update is complete and will also re-run the query after the first run following the confirmation.</li><li>• BFM has continued to update and document its internal procedures on the reconciliation process. These procedures are now documented in Word documents as well as through the ACL flowchart worksheet maintained for each reconciliation effort completed.</li><li>• BFM worked with ACL to determine the cause of the fatal structure error encountered during the FY 2004 reconciliation. ACL determined that the 8.3 version of ACL contained a programming error that allowed the problem to occur. They recommended that the Commonwealth upgrade to version 8.3.3; the upgraded package has been installed for all ACL users. In addition, BFM is now taking the added step to download the ACL reconciliation tables in text version to ensure that the project results are always accessible into another project if needed.</li><li>• BFM will again be utilizing a complex Excel worksheet to identify the results of the reconciliation effort. There will be several adjustments made to the worksheet to more closely follow the ACL tables resulting from the ACL 'cuts'. This change will actually cause the worksheet to appear a bit more convoluted, but it will actually be easier to follow and subsequently audit.</li><li>• BFM continues to make improvements to the reconciliation process to ensure that all errors are detected, that the nature of the error is properly recognized, and that corrections are completed timely.</li><li>• BFM will undertake additional independent review of the reconciliation results to further ensure the accuracy, timeliness, and completeness of the reconciliation effort.</li><li>• BFM's COPA Fund reconciliation process is actually not impacted by this finding. Revisions incorporated within the revenue reconciliation process will properly detect any correlated issues within the cash in transit account. However, BFM does recognize the need for a separate reconciliation of the cash in transit account. BFM has initiated the review and reconciliation of this account, starting with the first SAP posting to the account, rather than limited to just the current FY postings. BFM has also taken the initial steps to change the cash in transit account (GL 1003000) to an open-item managed account.</li></ul>
05-7	DCED	<p><b>Disbursements From the Health Venture Investment Account Were Not Being Reconciled to Bank Statements by DCED</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Financial Statement Comments - June 30, 2005

Comment	State Agency	Comment Title/Corrective Action
05-8	OB/BFM CS, PHHS LECS	<b>Internal Control Weaknesses Over Financial Reporting in the Tobacco Settlement Fund (Prior Year Comment #04-5)</b>  During the fiscal year ending June 30, 2006, the LECS Comptroller Office is taking the steps identified in the last paragraph of 'Agency Response' included in the body of the finding. The monthly analysis, which is part of issuing monthly financial statements, is providing more accurate reporting information. Also, the ongoing discussions among PHHS, LECS, CS, DCED, BFM and the Governor's Budget Office are providing a uniform understanding of the content and meaning of the monthly financial statements.
05-9	DPW	<b>Internal Control Weaknesses Result in Improper Payments in the Tobacco Settlement Fund (Prior Year Comment #04-6)</b>  No further information provided. See Agency Response in the body of the finding.
05-10	DOH	<b>DOH Did Not Comply with Annual Contractor and Service Provider Audit and Annual Reporting Requirements for the Tobacco Settlement Fund (Prior Year Comment #04-2)</b>  No further information provided. See Agency Response in the body of the finding.
05-11	DOH	<b>Internal Control Weaknesses Over Tobacco Settlement Fund Commonwealth Universal Research Enhancement Grants (Prior Year Comment #04-4)</b>  No additional information provided. See Agency Response in the body of the finding.
05-12	OB/BFM TRANS	<b>Weaknesses in Internal Controls Over Financial Reporting in the Motor License Fund (Prior Year Comment #04-9)</b>  No additional information provided. See Agency Response in the body of the finding.
05-13	OB/OA	<b>Lack of Documentation and Internal Control Weaknesses Over Contracting and Procurement (Prior Year Comment #04-10)</b>  No additional information provided. See Agency Response in the body of the finding.
05-14	OB/LECS	<b>Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund</b>  No additional information provided. See Agency Response in the body of the finding.
05-15	OB/BFM TRANS	<b>Material Errors and Internal Control Weaknesses in SAP Accounting and Reporting for Transportation Infrastructure</b>  No additional information provided. See Agency Response in the body of the finding.
05-16	PID OB/CS	<b>Asset Balances in the Statutory Liquidator Fund Were Misstated in the Preparation of the GAAP Template (Prior Year Comment #04-15)</b>  No further information provided. See Agency Response in the body of the finding.

**COMMONWEALTH OF PENNSYLVANIA**

**Corrective Action Plans - Financial Statement Comments - June 30, 2005**

Comment	State Agency	Comment Title/Corrective Action
05-17	OB/BFM	<p><b>Internal Control Weakness in the Financial Accounting Records (Prior Year Comment #4-19)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-18	TREAS OB/BFM	<p><b>Errors and Internal Control Weakness in Reporting Securities Lending and Investment Pools</b></p> <p>The Treasury Department, Comptroller’s Office will work with the Bureau of Financial Management (BFM) to ensure the information is appropriate to the purpose of the request.</p> <p>The Treasury Department, Comptroller’s Office will document procedures for reporting Temporary Investments and create models to be used as reference tools.</p> <p>The Treasury Department, Comptroller’s Office will train accounting staff to prepare complete and accurate information to be submitted to BFM.</p> <p>Prepared information will be subject to management reviews for completeness and accuracy prior to submission to BFM.</p> <p>Upon request, the Treasury Department, Comptroller’s Office staff will review adjustments proposed by BFM to investments results.</p>
05-19	OB/BFM DCNR PADOT CORR	<p><b>Internal Control Weaknesses Over Agency Accounting for Capital Assets (Prior Year Comment #4-16)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-20	OB/BFM DGS DCNR	<p><b>Internal Control Weaknesses Over Accounting for Assets Under Construction</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-21	OB/BFM LECS, CS TREAS	<p><b>Internal Control Weakness Over Investment Risk Note Disclosures in Basic Financial Statements</b></p> <p>The auditors noted numerous errors and control weaknesses in their audit of the Basic Financial Statements (BFS) note disclosures required by Governmental Accounting Standards Board Statement No. 40, entitled “Deposit and Investment Risk Disclosures,” as follows:</p> <p><b>Condition:</b> In the auditor’s review of the first draft of note disclosure, they noted that the various Comptroller Offices were not using uniform definitions of investment types in aggregating investments for the interest rate risk disclosure. As a result, investments reported by some funds as “mortgage-backed,” were titled “mortgage loans” by another fund and as “U.S. Government Agencies” by another.</p> <p><b>Corrective Action:</b> BFM will prepare a comprehensive list of investment types to be used in the BFS and distribute it to the Treasury Department and Comptroller Offices. The investment types will be clearly defined; the definitions will include examples to assist the offices in accurately and consistently classifying investments to the correct type. They will also be instructed to contact BFM for further direction if they are unsure in any classification of investments. BFM is also reviewing the classifications provided by Mellon</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Financial Statement Comments - June 30, 2005

Comment	State Agency	Comment Title/Corrective Action
05-21	(Continued)	<p>Investments to determine if the classifications provided on the report will be sufficient to use in the BFS. If they can be used this will eliminate the need for Treasury Department and Comptroller Offices to classify investments manually.</p> <p><b>Condition:</b> In one case, based on the auditor’s review of the support provided by the fund, they determined that the amounts submitted to BFM and reported as effective duration were actually modified duration. In their review of the duration disclosures for two funds, they determined that the method used to calculate interest rate risk was weighted average duration instead of effective duration as reported on the note disclosure.</p> <p><b>Corrective Action:</b> BFM will ensure that all disclosed duration of investments is accurately measured, so that if effective duration is unavailable it will define what type of duration, or alternative method, is used to disclose interest rate risk. Due to limitations in Statutory Liquidators, they will be the only program to use an alternative duration method; all other programs should use only effective duration. This will mainly be achieved by BFM directing the Comptroller Offices to disclose what method they used, as well as provide any reports that were used in the preparation. By having the underlying reports used, BFM could ensure that effective duration was disclosed.</p> <p><b>Condition:</b> In the auditor’s review of the support for the duration disclosures for two funds, they determined that calculation errors were made in determining the aggregate effective duration for a category of investments. They also determined that investments in money market mutual funds characterized as cash equivalents on the fund’s investment summary reports were incorrectly disclosed as maturing in 21-30 years in the segmented time disclosure.</p> <p><b>Corrective Action:</b> BFM will set in place guidelines that all information provided by the Comptroller Offices is reviewed by at least one other individual besides the person preparing the schedules. This will ensure that all information sent to BFM has been reviewed for accuracy and will ensure that formulas are correct, investments are classified properly, and duration type used is disclosed.</p> <p><b>Condition:</b> In the auditor’s review and testing of the support for the credit quality disclosure, they noted that the Comptroller Offices were not reporting investment quality on a consistent basis. BFM requested that investment quality be disclosed using ratings by a specific national rating organization to the extent possible. If that specified organization’s ratings were not used, BFM requested that the source of the quality rating be provided. In their testing of the quality disclosures, the auditors noted that several funds were providing ratings for one or more types of investments using a different organization’s ratings. However they did not indicate to BFM that an alternative rating organization was the source. In the case of one fund, it appeared that an “average” rating was improperly used for some investments.</p> <p><b>Corrective Action:</b> BFM will set in place guidelines that all schedules sent to BFM include the detailed information used to prepare such schedules. By having the backup information, BFM can randomly review the ratings to ensure that the correct national rating organization is being used. Also BFM has become more familiar with the style of ratings from each national rating organization and can better determine by the rating which national rating organization it pertains to. This will allow BFM to quickly review schedules and ensure they are being provided with the correct information.</p>

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Financial Statement Comments - June 30, 2005***

<b>Comment</b>	<b>State Agency</b>	<b>Comment Title/Corrective Action</b>
<b>05-22</b>	<b>OB/BFM</b>	<b>Statewide Weaknesses Within the SAP Accounting System Controls (Prior Year Comment #04-18)</b>  No additional information provided. See Agency Response in the body of the finding.
<b>05-23</b>	<b>L&amp;I</b>	<b>Noncompliance With Statutory Limits for Equity Investments (Prior Year Comment #04-11)</b>  No additional information provided. See Agency Response in the body of the finding.
<b>05-24</b>	<b>OB/BFM EO</b>	<b>Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System</b>  Management Directive 310.28, 'Use of One Time Vendor Records in SAP,' was issued on June 16, 2006. The anticipated effective date for completing system changes is June 26, 2006.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
05-1	AGRI	<b>Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$3,651 (Prior Year Finding #04-2)</b>  No additional information provided. See Agency Response in the body of the finding.
05-2	DPW	<b>Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #04-3)</b>  No additional information provided. See Agency Response in the body of the finding.
05-3	OB/LECS	<b>Internal Control Weakness Over Submission of SF-269 Financial Status Report to USDA</b>  No additional information provided. See Agency Response in the body of the finding.
05-4	DOH	<b>Noncompliance in DOH Submission of the WIC Financial Management and Participation FNS-798 Report Results in \$325,137 in Questioned Costs (Prior Year Finding #04-5)</b>  DOH will pursue resolution of this finding with USDA. No further information provided. See Agency Response in the body of the finding.
05-5	DOH	<b>Noncompliance and Internal Control Weaknesses in DOH Systems Result in \$27,598 in Questioned Costs (Prior Year Finding #04-4)</b>  DOH will pursue resolution of this finding with USDA. No further information provided. See Agency Response in the body of the finding.
05-6	DPW PHHS	<b>Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA and Statewide Subrecipient Payment Records</b>  No additional information provided. See Agency Response in the body of the finding.
05-7	DCED	<b>Performance/Evaluation Report Submitted to HUD Was Inaccurate</b>  No additional information provided. See Agency Response in the body of the finding.
05-8	DCED	<b>DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #04-6)</b>  No additional information provided. See Agency Response in the body of the finding.
05-9	DEP	<b>Noncompliance with OMB Circular A-133 Pass-Through Entity Requirements</b>  No additional information provided. See Agency Response in the body of the finding.
05-10	OB/PPR	<b>Internal Control Weakness in Reporting Expenditure Information on the SEFA</b>  No additional information provided. See Agency Response in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-11	PEMA	<p><b>Unallowable Equipment Purchases Result in Questioned Costs of \$2,625 and Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-12	L&I LECS	<p><b>Weaknesses Exist in the SAP FARS Replacement System Resulting in an Undetermined Amount of Questioned Costs up to \$17,731,902 (Prior Year Finding #04-8)</b></p> <p>Due to time constraints and the need to coordinate activities with other agencies, a detailed comprehensive plan is not available at this time. Meetings are presently being planned to address the audit issues. With regard to the development of month end processing procedures and reconciliations, most of the activities are in draft form. It is our intention to also address traceable allocation reports and files, the retention of data processing files for audit, and the reduction of transactions under \$1.00. A more detailed plan will be developed with the coordination of the respective agencies.</p>
05-13	L&I	<p><b>Incorrect Quarterly Financial Report Submitted to USDOL</b></p> <p>The implementation of emails between the LECS Comptroller's Office and the IES Office to ensure that all allocations have been completed prior to the preparation and submission of the quarterly ETA UI3 Report has already been initiated. This checks and balance system should eliminate the deficiency that resulted in the omission of the leave allocation that occurred in March 2005. As noted in our Agency response, all other quarters have been reconciled and verified to be correct.</p> <p>The recommendation by the auditors to pursue corrective action with USDOL had been attempted, as stated in the body of the Agency response, but the system would not accept it. The software system would not allow for the resubmission of the original omitted leave allocation, reporting the message that the "report date is too old to be able to update or add". Additionally as indicated in our response, the section that includes the leave allocation, Section A, does not impact the net dollar entitlement that is in Section B.</p>
05-14	L&I	<p><b>Inaccurate Data and Weaknesses in L&amp;I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (Prior Year Finding #04-9)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-15	L&I	<p><b>Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #04-10)</b></p> <p>As part of the continuing corrective action plan for this finding, the Agency forwards to the USDOL Regional Administrator's Office quarterly progress reports encompassing verifications, data reported and collected, conclusions and anticipated changes to review. It is believed as a result of these submissions, USDOL had made a determination referenced in a May 11, 2006 letter that the 2004 finding was resolved.</p>
05-16	L&I	<p><b>Unallowable Benefit Payments Result in Questioned Costs of \$17,041 (Prior Year Finding #04-11)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
05-17	PENN-VEST	<p><b>Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding #04-13)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-18	OB/PPR	<p><b>Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting (Prior Year Finding #04-14)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-19	PEMA	<p><b>Internal Control Weaknesses in PEMA's System of Cash Management</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-20	PDE	<p><b>The Pennsylvania Department of Education Does Not Properly Monitor LEAs for Compliance With Title I Comparability Requirements</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> By November 15<sup>th</sup> of each year, all LEAs receiving Title I, Part A funds are required to submit, via the eGrant system, an assurance that Comparability requirements are met within the LEA. Along with this assurance, each LEA is required to document compliance with Comparability requirements by submitting a staff/pupil ratio worksheet. Administrative Technicians will review all documents submitted by LEAs by December 15<sup>th</sup> of each year. The respective Regional Coordinator will review problem areas and contact LEAs to discuss issues and resolve problems (i.e. the movement of staff). LEAs that have not submitted Comparability forms by the November 15<sup>th</sup> deadline will be contacted via telephone and in writing until the necessary forms are submitted.</p> <p><b>Description of Monitoring:</b> Regional Coordinators will be given weekly updates by the point person in the Division of Federal Programs responsible for logging all incoming forms. From these updated, Administrative Technicians can review submitted forms and Regional Coordinators can contact those LEAs that are delinquent in submitting forms.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Program Manager, Title II A</p> <p><b>Anticipated Completion Date for Corrective Action:</b> The CAP will be in place for the November 15, 2006 deadline for Comparability.</p>
05-21	PDE	<p><b>Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #04-18)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The PDE developed written procedures to document the measures taken by both the contractor and PDE to insure the accuracy of the assessment data as of November 1, 2005. These procedures will be applied to the data from the 2006 assessments.</p> <p>The PDE developed written procedures to document the internal controls over collecting, compiling, verifying accuracy and reporting of the AYP data as of November 1, 2005. These procedures will be applied to the data from the 2006 assessments.</p> <p><b>Description of Monitoring:</b> Before the data is released, PDE will monitor to see that all steps in the written procedures have been completed with approvals in writing for each step. Copies of these approvals will be filed for reference.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-21	(Continued)	<p><b>Title of Official Responsible for Corrective Action:</b> Director, Bureau of Assessment and Accountability</p> <p><b>Anticipated Completion Date for Corrective Action:</b> The written procedures were completed November 1, 2005. These procedures will be applied to the data from the 2006 assessments. The completion date for corrective action for the assessment data is August 15, 2006. The completion date for corrective action for the AYP data is September 15, 2006.</p>
05-22	PDE	<p><b>Errors and Internal Control Weaknesses in PDE's VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #04-19)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The internal review committee is being updated to consist of individuals from the Division of Assessment, Bureau of Accountability, Division of Data Services, a Bureau of Curriculum and Technical Education (BCTE) Research Associate, a BCTE Program Approval Representative, and the Data Analysis Supervisor. Meetings will be scheduled on a regular basis to address all items cited. Minutes will be maintained to document activities and to evidence data is reviewed. The data quality manual developed for this process will be followed. The audit of the 2006 Comprehensive Annual Report (CAR) will evidence all of the proposed changes and will address the audit findings.</p> <p><b>Description of Monitoring:</b> Data review will follow an already prepared checklist to be signed by the reviewers, with written descriptions of the process. The manager will review the implementation of the process on a quarterly basis.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Data Analysis, Assessment and Contracts Educational Research Associate</p> <p><b>Anticipated Completion Date for Corrective Action:</b> December 31, 2007</p> <p><b>Additional steps pertinent to the Corrective Action Plan:</b></p> <ol style="list-style-type: none"><li>1. Many control activities were not documented or did not occur. <b>Response:</b> All internal review activities will include multiple signatures and evidence supervisory review and approval.</li><li>2. Internal Review committee meetings not documented. <b>Response:</b> Appropriate documentation will be retained in files for audit review and will include items such as agendas, individuals attending, items discussed, actions taken, comparison of data with last year.</li><li>3. National Occupation Competency Testing Institute report not properly checked. <b>Response:</b> Procedures are developed to ensure data reviewed for accuracy and supervisory approval are in place.</li><li>4. Other approved test results not included. <b>Response:</b> Appropriate documentation will be retained in files for audit review. Documentation will evidence that test results are reviewed and included in CAR analysis and reporting. Documentation will include items such as minutes of meetings to review other approved tests. The procedures ensure all data must come from the test developer directly to PDE, and supervisory oversight will be documented.</li></ol>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-22	(Continued)	<p>5. Check on inclusion of all completers. <b>Response:</b> A file will be created that allows comparison of number of students tested to the number of completers from Career and Technical Education Information System (CATS). 2005 CAR data will evidence achievement of this finding.</p> <p>6. 1S1 data not checked. <b>Response:</b> The procedure has changed to ensure a comparison of current to last year's data for significant jumps. This will allow consistency on the students included. PDE will use all Career and Technical Education (CTE) students from public institutions and will receive a total record count from testing contractor.</p> <p>7. Double count and skipped year. <b>Response:</b></p> <ol style="list-style-type: none"><li>There are no more double counts for the two sub-indicators. Printouts of matrix data and Access queries for the 2005 CAR verify this.</li><li>The suggested "skipped year" turned out to be incorrect. Queries that were run for 2000 through 2005 indicated that all the years were reported.</li><li>A new system of data collection is in development and will be ready for use to report on these sub-indicators. Indeed the system will be used to collect most of postsecondary and adult data.</li><li>Multiple versions of the measures do not include notations for changes in language as it evolved from 1998 State Plan. One official version will be maintained, reflecting the most recent changes agreed upon by PDE and USDOE. CAR reports on students and not programs. Participation in CTE is for students enrolled in the program, not just those who completed the program and left the institution.</li></ol> <p>8. Reported graduated employed in related fields and unrelated fields for 3P2. <b>Response:</b> The current version of the measures required all types of employment. Data review will include sign-offs from Data Services supervisor.</p> <p>9. Continued control weaknesses in preparation of the CAR. <b>Response:</b></p> <ol style="list-style-type: none"><li>The timeline document contains sign-offs for the reviewers. Data received from Data Services contains sign-offs from two individuals, one of whom is a supervisor.</li><li>Data will be received from all sources on or before December 1st. This will allow ample time to conduct committee reviews.</li><li>1S2 and 2S2 sign-off signatures are received separately from the contractor. These include a supervisory signature.</li><li>1P1 and 1P2 data was extracted from administrative records already submitted by schools to the state for e-grant application. Individuals who approve grants do check for the data accuracy, precluding the necessity for additional checks. These checks were performed for the 2005 CAR.</li><li>BCTE and the Bureau of Information Systems have contracted with consultants to collect all data for 4P1, 4A1, 4P2 and 4A2 with all disaggregations. This will appear on the 2006 CAR.</li><li>BCTE Director will compare prior year data with current year data prior to submission of CAR report.</li></ol>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-23	PDE	<p><b>PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #04-20)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> Division of Data Services collected 2004-05 Pell data on form PDE-4053. This form is used annually and continues to include Pell data collection elements. The end result is the Pennsylvania Department of Education/Bureau of Career and Technical Education will be collecting up-dated Pell data annually on this form. The current 2004-05 Pell data, which is the most recent, was used in the Perkins funding distribution formula for postsecondary and adult education programs for 2006-2007 fiscal year.</p> <p>PDE is using updated 2003 Census data as required. The 2003 Census data was used in the Perkins funding distribution formula for secondary programs for the 2006-2007 fiscal year. The requirement for the use of updated Census data will be followed annually.</p> <p><b>Description of Monitoring:</b> The Perkins allocation formula distributions completed by PDE's Bureau of Information Systems (BIS) will be reviewed on a annual basis to insure the inclusion of updated Pell Data for postsecondary allocations and current federal Census Data for secondary allocations. The Perkins Coordinator and Division manager will oversee the process.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Manager, Data Analysis, Assessment &amp; Contracts Division - PDE/BCTE.</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Completed March 30, 2006</p>
05-24	PDE	<p><b>Unallowable Use of Subgrantee Equipment and Uncollected Questioned Costs of \$62,941</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> Philadelphia School District was contacted on June 15, 2006 and instructed to send \$62,941 payment in full to the Commonwealth of PA to resolve the audit finding.</p> <p><b>Description of Monitoring:</b> Perkins coordinator assigned exclusively to the Philadelphia School District will continue to communicate with the district to ensure payment is received and will monitor federal program compliance of equipment per federal Education Department's General Administrative Regulations (EDGAR). The manager will review the reimbursement process and the monitoring reports.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Division Manager, BCTE-Data Analysis, Assessment &amp; Contracts</p> <p><b>Anticipated Completion Date for Corrective Action:</b> September 30, 2006</p>
05-25	L&I	<p><b>A Weakness Exists in L&amp;I's Procurement System Related to Debarment and Suspension (Prior Year Finding #04-21)</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>
05-26	DOH	<p><b>Noncompliance and Internal Control Weaknesses Result in \$73,982 in Questioned Personnel Costs</b></p> <p>No additional information provided. See Agency Response in the body of the finding.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-27	DOH	<b>Weaknesses in DOH Program Monitoring of CDC Subgrantees</b>  No additional information provided. See Agency Response in the body of the finding.
05-28	DPW	<b>Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #04-23)</b>  No additional information provided. See Agency Response in the body of the finding.
05-29	DPW	<b>Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #04-24)</b>  DPW's OIM notes that the auditors recognize improvement in the overall process for documenting, collecting, and reporting work activity data. This improvement has been the result of implementing all items from the CAP plan that DPW agreed to in 2003. The OIM believes that all of the cases cited in the audit finding had sufficient documentation to accurately determine whether the individual met federal participation requirements and that none of the cases cited would impact the Commonwealth's calculation of the federal work participation rate under HHS rules.
05-30	DPW PHHS	<b>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758</b>  With regard to establishing effective record retention procedures, the Office of Income Maintenance (OIM) will follow up and strengthen record retention and internal controls over case management.
05-31	DPW	<b>Internal Control Weaknesses in the Administration of Child Support Enforcement Program Collections</b>  A recent SAS #70 review for the period May 1, 2005, through April 30, 2006, provided no findings or recommendations under the "Logical Security, Control Objective 11" section. Hence, the recommendations contained in the Finding have already been implemented and the internal control weaknesses have been corrected.
05-32	OB/LECS	<b>LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program (Prior Year Finding #04-26)</b>  No additional information provided. See Agency Response in the body of the finding.
05-33	DCED	<b>Weaknesses in Internal Controls Over Subgrantees Result in \$420,182 in Questioned Costs (Prior Year Finding #04-27)</b>  No additional information provided. See Agency Response in the body of the finding.
05-34	DPW	<b>Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #04-29)</b>  No additional information provided. See Agency Response in the body of the finding.
05-35	DPW	<b>Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,221,990 (Prior Year Finding #04-28)</b>  No additional information provided. See Agency Response in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-36	DPW PHHS	<b>Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #04-30)</b>  No additional information provided. See Agency Response in the body of the finding.
05-37	DPW	<b>DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete</b>  No additional information provided. See Agency Response in the body of the finding.
05-38	PID	<b>PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers</b>  No additional information provided. See Agency Response in the body of the finding.
05-39	PID	<b>Internal Control Weaknesses in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates</b>  No additional information provided. See Agency Response in the body of the finding.
05-40	DPW	<b>Internal Control Weaknesses in the Administration of the MA Program (Prior Year Finding #04-32)</b>  The DPW agrees to establish procedures to properly follow up on UCCs in the PROMISE SAS 70 reports and perform and adequately document, and report on, the federally-required ADP system-security review which should include the PROMISE and CIS systems at a minimum to comply with the ADP requirements for HHS programs.
05-41	DPW	<b>Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$24,574,951 (Prior Year Finding #04-33)</b>  In order to verify the diagnosis of HIV/AIDS, effective February 2006, the revised Special Pharmaceutical Benefit Program (SPBP) HIV application includes a physician's attestation field.  With regard to an annual recertification process, the SPBP will initiate annual recertification during FY 06-07. Recertification will be required on the client's beginning eligibility date with the SPBP. Eligible clients will be asked to verify their place of residence, income, and information regarding third party insurance coverage, if applicable. Medical recertification is not necessary. There is no cure for HIV/AIDS and the diagnosis from initial application does not change. Clients whose income was close to the \$30,000 income ceiling will not be terminated, should their income increase slightly.  Clients who fail to respond to the request for recertification information within a specified time will be terminated from the program.
05-42	L&I	<b>Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #04-35)</b>  No additional information provided. See Agency Response in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2005

Finding	State Agency	Finding Title/Corrective Action
05-43	DOH	<b>An Internal Control Weakness Exists in DOH's Subrecipient Audit Resolution Process</b>  No additional information provided. See Agency Response in the body of the finding.
05-44	L&I	<b>An Internal Control Weakness Exists in L&amp;I's Subrecipient Audit Resolution Process</b>  No additional information provided. See Agency Response in the body of the finding.
05-45	DPW	<b>Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports</b>  The DPW believes it is necessary to work with the Office of the Budget, Bureau of Audits in an endeavor to identify or develop an automated process utilizing SAP data in order to timely and efficiently reconcile SEFA amounts contained in subrecipient Single Audit Reports to state payment records.
05-46	OB	<b>Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a Known \$560,548 Understatement of the CMIA Interest Liability (Prior Year Finding #04-37)</b>  No additional information provided. See Agency Response in the body of the finding.

# Appendix



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## APPENDIX - Legend of Abbreviations - June 30, 2005

The following legend presents descriptions of abbreviations that appear throughout the report:

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
ACF	Administration for Children and Families
ADC	Average Daily Clearance
AMLR	Abandoned Mine Land Reclamation
BFD	Bureau of Food Donation
BFM	Bureau of Financial Management
BFS	Basic Financial Statements
BOA	Bureau of Audits
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CAO	County Assistance Office
CAP	Corrective Action Plan
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grant
CDC	Center for Disease Control
CDS	Central Drawdown System
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHDO	Community Housing Development Organization
CHIP	State Children's Insurance Program
CMIA	Cash Management Improvement Act of 1990
CobIT	Control Objective for Information Technology
CRP	Contractor Responsibility Program
CS	Central Services
CSBG	Community Services Block Grant
CSE	Child Support Enforcement
CSR	Comprehensive Supervisory Review
CWSRF	Clean Water State Revolving Fund
DCED	Department of Community and Economic Development
DEP	Department of Environmental Protection
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
DPW	Department of Public Welfare
DWSRF	Drinking Water State Revolving Fund
EBT	Electronic Benefits Transfer
EO	Executive Order
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning
ES	Employment Services
FD	Food Donation Program
FEMA	Federal Emergency Management Agency
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration
FNS	Food and Nutrition Service
FYE	Fiscal Year Ended
GAAP	Generally Accepted Accounting Principles
HHS	United States Department of Health and Human Services
HOME	Home Investment Partnerships
HS	Homeland Security
HUD	United States Department of Housing and Urban Development

# COMMONWEALTH OF PENNSYLVANIA

## Legend of Abbreviations - June 30, 2005

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
ICS	Integrated Central System
IDIS	Integrated Disbursement and Information System
IES	Integrated Enterprise System
IT	Information Technology
ITIL	IT Infrastructure Library
L&I	Pennsylvania Department of Labor and Industry
LEA	Local Educational Agency
LECS	Labor, Education and Community Services
MA	Medical Assistance Program
MD	Management Directive
MLF	Motor License Fund
MOE	Maintenance of Effort
NSLP	National School Lunch Program
OA	Office of Administration
OB	Office of the Budget
OCYF	Office of Children, Youth and Families
ODP	Office of Domestic Preparedness
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PACSES	Pennsylvania Child Support Enforcement System
PADOT	Pennsylvania Department of Transportation
PAG	Public Assistance Grants
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PHHS	Public Health and Human Services
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
PPR	Public Protection and Recreation
PTRR	Property Tax/Rent Rebate
RCIA	Revenue Collected in Advance
RESET	Road to Economic Self-Sufficiency through Employment and Training
RSBS	Rehabilitation Services - Vocational Rehabilitation Grants to States
SEFA	Schedule of Expenditures of Federal Awards
SFYE	State Fiscal Year Ended
SSA	Social Security Administration
SSBG	Social Services Block Grant
SWIF	State Workers' Insurance Fund
TAA	Trade Adjustment Assistance - Workers
TANF	Temporary Assistance for Needy Families
TAPR	Trade Act Participation Report
TRA	Trade Readjustment Assistance
TSF	Tobacco Settlement Fund
TSR	Targeted Supervisory Review
UC	Unemployment Compensation
UI	Unemployment Insurance
USDA	United States Department of Agriculture
USDE	United States Department of Education
VOC ED	Vocational Education
WIA	Workforce Investment Act
WIC	Women, Infants, and Children