



Commonwealth of Pennsylvania

Single Audit Report

For the Fiscal Year Ended June 30, 2015

Tom Wolf
Governor



Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2015



Tom Wolf, Governor

Prepared By:

Randy C. Albright, Secretary
Office of the Budget

Brenda Warburton
Chief Financial Officer

Anna Maria Kiehl, CPA
Chief Accounting Officer

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**Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2015**

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COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR

RANDY ALBRIGHT
SECRETARY
GOVERNOR'S OFFICE OF THE BUDGET

March 28, 2016

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, 2015. This audit has been performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and satisfies the requirements of the Single Audit Act Amendments of 1996 and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2015 has been issued under separate cover. The auditors' report on the supplementary schedule of expenditures of federal awards, and the reports on compliance and internal control over financial reporting and compliance with requirements related to major federal programs are contained in this document.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards reflects \$25.5 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2015. Most of the \$25.5 billion in federal expenditures occurred in ten state agencies, as follows:

AGENCY NAME	FEDERAL EXPENDITURES <u>(in thousands)</u>
Human Services	\$17,317,772
Labor & Industry	2,834,521
Education	2,005,689
Transportation	1,776,411
Health	421,673
Insurance	228,582
Community & Economic Development	130,502
Military & Veterans Affairs	117,038
Aging	112,582
Environmental Protection	100,404
Subtotal	<u>\$25,045,174</u>
Other Agencies (24)	490,693
Grand Total	<u><u>\$25,535,867</u></u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$38.3 million. Of the \$25.5 billion expended, 96 percent, or \$24.5 billion, represents

expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 31 major federal programs for the fiscal year ended June 30, 2015.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2015 contains various findings, as disclosed in the Schedule of Findings and Questioned Costs. Findings pertaining to the audit of the Commonwealth's basic financial statements are detailed in the Basic Financial Statement Findings. Findings pertaining to the audit of the Commonwealth's federal programs are detailed in the Federal Award Findings and Questioned Costs. The findings contain detailed explanations of the compliance issues, questioned costs, the auditors' recommendations, and the agency responses. This report also includes the Commonwealth's corrective action plan for each finding.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The Summary Schedule of Prior Audit Findings reflects the current status of prior year unresolved findings. The status of 56 findings are described from single audits between the years ended June 30, 2013 through June 30, 2014.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2015 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of CliftonLarsonAllen LLP. The audits were performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

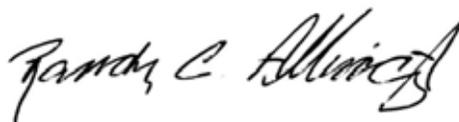
REPORTS OF OTHER INDEPENDENT AUDITORS

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

ACKNOWLEDGMENTS

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

Sincerely,



Randy C. Albright
Secretary of the Budget

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Independent Auditors' Reports



Commonwealth of Pennsylvania



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



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INDEPENDENT AUDITORS' REPORT

The Honorable Tom Wolf, 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 (the Commonwealth), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents of the separately issued Comprehensive Annual Financial Report.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to jointly express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain funds and component units of the Commonwealth, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including CliftonLarsonAllen LLP and the Commonwealth of Pennsylvania's Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and component units, are based solely on the reports of the other auditors.

	Percentage Audited Separately by				Percent Audited by	
	Department of the Auditor General		CliftonLarsonAllen LLP		Other Auditors	
	Total Assets & Deferred Outflows of Resources	Total Revenue	Total Assets & Deferred Outflows of Resources	Total Revenue	Total Assets & Deferred Outflows of Resources	Total Revenue
Government-Wide						
Business-type Activities	6%	19%	25%	3%	17%	0%
Component Units	0%	0%	17%	43%	82%	57%
Fund statements						
Enterprise Funds	6%	20%	25%	3%	17%	0%
Fiduciary Funds	1%	0%	0%	0%	90%	91%
Discretely Presented Component Units	0%	0%	17%	43%	82%	57%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the State System of Higher Education, State Employees' Retirement System, the Deferred Compensation Fund, the Public School Employees' Retirement System, the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Higher Educational Facilities Authority, the State Public School Building Authority, the Port of Pittsburgh Commission, the Pennsylvania Turnpike Commission, the Philadelphia Regional Port Authority and the Pennsylvania e-Health Partnership Authority were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Pennsylvania Turnpike Commission

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

Change in Accounting Principle Resulting From Adoption of New Accounting Pronouncement

During the fiscal year ended June 30, 2015, the Commonwealth adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the Commonwealth reported a restatement for the change in accounting principle (see Note B). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18-40, the schedules of funding progress and employer contributions, schedules of pension amounts – Commonwealth's proportionate share of the net pension liability, and Commonwealth's schedule of contributions and the budgetary comparison schedules on pages 164-171, included in the separately issued Comprehensive Annual Financial Report, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major special revenue funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund and component unit financial statements, and the budgetary comparison schedules for budgeted non-major special revenue funds, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion based on our audit and the reports of the other auditors, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of the Commonwealth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control over financial reporting and compliance.



Harrisburg, Pennsylvania
January 29, 2016



Baltimore, Maryland
January 29, 2016



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



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

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

We have jointly audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated January 29, 2016. Our report includes a reference to other auditors, including CliftonLarsonAllen LLP and the Commonwealth of Pennsylvania's Department of the Auditor General acting separately, who audited the financial statements of certain funds and component units of the Commonwealth, as described in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the State System of Higher Education, State Employees' Retirement System, the Deferred Compensation Fund, the Public School Employees' Retirement System, the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Higher Educational Facilities Authority, the State Public School Building Authority, the Port of Pittsburgh Commission, the Pennsylvania Turnpike Commission, the Philadelphia Regional Port Authority and the Pennsylvania e-Health Partnership Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2015-001 through 2015-005 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Commonwealth's Response to Findings

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

Purpose of this Report

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



Harrisburg, Pennsylvania
January 29, 2016



Baltimore, Maryland
January 29, 2016



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



CliftonLarsonAllen

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

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

Report on Compliance for Each Major Federal Program

We have jointly audited the Commonwealth of Pennsylvania's (Commonwealth) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2015. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Commonwealth's basic financial statements include the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, the Philadelphia Regional Port Authority, the Pennsylvania Convention Center Authority, and the Judicial Department of Pennsylvania, which received approximately \$8.6 billion in federal awards and \$32 billion of federal loan guarantees that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2015. Our audit, described below, did not include the operations of these seven entities because other auditors were engaged to perform audits (when required) in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditors' Responsibility

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

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commonwealth's compliance.

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

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

State Administering Agency	Finding Number	CFDA No.	Federal Program	Compliance Requirement
Department of Community and Economic Development	2015-007	14.228	Community Development Block Grants – State's Program	Subrecipient Monitoring
Various	2015-037	14.228	Community Development Block Grants – State's Program	Subrecipient Monitoring

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

Adverse Opinion on the Major Federal Program Identified Above

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, the Commonwealth did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants – State's Program for the year ended June 30, 2015.

Basis for Qualified Opinion on the 24 Major Federal Programs Identified in the Following Table

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

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Drug and Alcohol Programs	2015-009	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Matching, Level of Effort, Earmarking
Department of Human Services	2015-017	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions related to EBT Card Security
		93.558 93.714 – A	TANF Cluster	
Department of Human Services	2015-020	93.558 93.714 – A	TANF Cluster	Subrecipient Monitoring
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
Department of Human Services	2015-022	93.575 93.596	CCDF Cluster	Special Tests and Provisions related to Health and Safety Requirements
Department of Human Services	2015-023	93.667	Social Services Block Grant	Cash Management, Subrecipient Monitoring
Department of Labor and Industry	2015-027	17.258 17.259 17.278	WIA Cluster	Subrecipient Monitoring
Pennsylvania Infrastructure Investment Authority	2015-034	66.458	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Various	2015-037	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Subrecipient Monitoring
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.558	Child and Adult Care Food Program	
		17.258 17.259 17.278	WIA Cluster	
		20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	
		66.458	Capitalization Grants for Clean Water State Revolving Funds	
		84.010	Title I Grants to Local Educational Agencies	
		84.027 84.173	Special Education Cluster	
		84.048	Career and Technical Education – Basic Grants to States	
		84.367	Improving Teacher Quality State Grants	
		93.044 93.045 93.053	Aging Cluster	
		93.558 93.714 – A	TANF Cluster	

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

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

Qualified Opinion on the 24 Major Federal Programs Identified Above

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the identified major federal programs for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

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

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Education	2015-011	84.010	Title I Grants to Local Educational Agencies	Reporting
Department of Education	2015-012	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions related to Identifying Schools and LEAs Needing Improvement, Special Tests and Provisions related to the Annual Report Card, High School Graduation Rate
Department of Education	2015-013	84.027 84.173	Special Education Cluster	Subrecipient Monitoring
Department of Health	2015-015	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Special Tests and Provisions related to Compliance Investigations of High-Risk Vendors
Department of Health	2015-016	93.917	HIV Care Formula Grants	Allowable Costs, Cash Management
Department of Human Services	2015-018	93.558	Temporary Assistance for Needy Families	Reporting
Department of Human Services	2015-019	93.558 93.714 – A	TANF Cluster	Subrecipient Monitoring
Department of Human Services	2015-021	93.558 93.714 – A	TANF Cluster	Eligibility

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Human Services	2015-023	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management, Subrecipient Monitoring
Department of Human Services	2015-024	93.775 93.777 93.778 – A	Medicaid Cluster	Activities Allowed or Unallowed, Allowable Costs, Eligibility
Department of Labor and Industry	2015-025	17.225 – A	Unemployment Insurance	Special Tests and Provisions related to UC Program Integrity - Overpayments
Department of Labor and Industry	2015-028	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Eligibility, Special Tests and Provisions related to Completion of Individualized Plans for Employment
Department of Labor and Industry	2015-029	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Reporting
Department of Labor and Industry	2015-030	96.001	Social Security – Disability Insurance	Special Tests and Provisions related to the Consultative Examination Process
Department of Military and Veterans Affairs	2015-031	64.015	Veterans State Nursing Home Care	Allowable Costs, Eligibility
Pennsylvania Emergency Management Agency	2015-032	97.067	Homeland Security Grant Program	Subrecipient Monitoring
Various	2015-035	20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	Subrecipient Monitoring
		93.558 93.714 – A	TANF Cluster	
		93.563	Child Support Enforcement	
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
		93.667	Social Services Block Grant	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		93.775 93.777 93.778 – A	Medicaid Cluster	
		93.917	HIV Care Formula Grants	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
Various	2015-036	20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	Subrecipient Monitoring
		93.044 93.045 93.053	Aging Cluster	
		93.558 93.714 – A	TANF Cluster	
		93.563	Child Support Enforcement	
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
		93.917	HIV Care Formula Grants	
Office of the Budget	2015-038	10.551 10.561	SNAP Cluster	Cash Management
		10.553	School Breakfast Program	
		10.555	National School Lunch Program	
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.558	Child and Adult Care Food Program	
		66.458	Capitalization Grants for Clean Water State Revolving Funds	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		84.010	Title I Grants to Local Educational Agencies	
		84.027	Special Education – Grants to States	
		84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	
		84.367	Improving Teacher Quality State Grants	
		93.268	Immunization Cooperative Agreements	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.767	Children’s Health Insurance Program	
		93.778 – A	Medical Assistance Program	
		96.001	Social Security – Disability Insurance	

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-007, 2015-012, 2015-017, 2015-020, 2015-022, 2015-023, 2015-027, 2015-034, 2015-036, and 2015-037 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-006, 2015-008, 2015-010, 2015-011, 2015-013, 2015-014, 2015-015, 2015-016, 2015-018, 2015-019, 2015-021, 2015-023, 2015-024, 2015-025, 2015-026, 2015-028, 2015-029, 2015-030, 2015-031, 2015-032, 2015-033, 2015-035, and 2015-038 to be significant deficiencies.

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

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania

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

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

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements. We issued our report thereon dated January 29, 2016, which includes a reference to other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Harrisburg, Pennsylvania
March 28, 2016



Baltimore, Maryland
March 28, 2016

Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>SNAP Cluster:</i>			
10.551	Supplemental Nutrition Assistance Program		2,663,606	
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm		166,664	14,991
	<i>Total SNAP Cluster</i>			2,830,270
	<i>Child Nutrition Cluster:</i>			
10.553	School Breakfast Program		99,301	99,064
10.555	National School Lunch Program (Cash Assistance)	358,255		357,681
10.555	National School Lunch Program (Food Commodities)	43,358		43,358
	<i>Total National School Lunch Program</i>		401,613	
10.556	Special Milk Program for Children		378	378
10.559	Summer Food Service Program for Children (Cash Assistance)	14,914		14,377
10.559	Summer Food Service Program for Children (Food Commodities)	121		121
	<i>Total Summer Food Service Program for Children</i>		15,035	
	<i>Total Child Nutrition Cluster</i>			516,327
	<i>Food Distribution Cluster:</i>			
10.565	Commodity Supplemental Food Program (Cash Assistance)	2,558		2,554
10.565	Commodity Supplemental Food Program (Food Commodities)	7,815		7,815
	<i>Total Commodity Supplemental Food Program</i>		10,373	
10.568	Emergency Food Assistance Program (Administrative Costs)		2,449	1,071
10.569	Emergency Food Assistance Program (Food Commodities)		19,422	19,422
	<i>Total Food Distribution Cluster</i>			32,244
10.025	Plant and Animal Disease, Pest Control, and Animal Care		1,232	345
10.162	Inspection Grading and Standardization		42	
10.163	Market Protection and Promotion		115	
10.170	Specialty Crop Block Grant Program - Farm Bill		1,027	671
10.171	Organic Certification Cost Share Programs		277	
10.304	Homeland Security - Agricultural		43	
10.435	State Medication Grants		18	
10.458	Crop Insurance Education in Targeted States		742	327
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children		186,096	48,074
10.558	Child and Adult Care Food Program (Cash Assistance)		110,975	109,648
10.558	Child and Adult Care Food Program (Food Commodities)		62	62
	<i>Total Child and Adult Care Food Program</i>			111,037

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
10.560	State Administrative Expenses for Child Nutrition	7,455	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	1,680	239
10.574	Team Nutrition Grants	182	
10.576	Senior Farmers Market Nutrition Program	1,793	
10.579	Child Nutrition Discretionary Grants Limited Availability	1,831	1,596
10.582	Fresh Fruit and Vegetable Program	4,826	4,804
10.664	Cooperative Forestry Assistance	2,578	576
10.665	Schools and Roads - Grants to States	2,449	2,449
10.675	Urban and Community Forestry Program	1	
10.676	Forest Legacy Program	1,542	42
10.678	Forest Stewardship Program	100	
10.680	Forest Health Protection	335	
10.681	Wood Education and Resource Center (WERC)	1	
10.912	Environmental Quality Incentives Program	259	259
10.913	Farm and Ranch Lands Protection Program	2,461	
10.926	Chesapeake Bay Watershed Program	49	49
Total - U.S. Department of Agriculture		\$3,707,012	\$729,973
11.303	Economic Development - Technical Assistance	20	18
11.307	Economic Adjustment Assistance	237	
11.407	Interjurisdictional Fisheries Act of 1986	23	
11.419	Coastal Zone Management Administration Awards	1,796	688
11.474	Atlantic Coastal Fisheries Cooperative Management Act	68	
11.549	State and Local Implementation Grant Program	1,081	
11.558	ARRA - State Broadband Data and Development Grant Program	2,272	1,700
11.609	Measurement and Engineering Research and Standards	936	
Total - U.S. Department of Commerce		\$6,433	\$2,406
12.112	Payments to States in Lieu of Real Estate Taxes	913	913
12.400	Military Construction, National Guard	114	
12.401	National Guard Military Operations and Maintenance Projects	51,435	
12.614	Community Econ Adj Assist For Adv Planning & Econ Divers.	345	127
Total - U.S. Department of Defense		\$52,807	\$1,040

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
14.228	Community Development Block Grants/State's Program	36,178	34,273
14.231	Emergency Solutions Grant Program	5,550	5,049
14.235	Supportive Housing Program	(1)	
14.239	Home Investment Partnerships Program	10,341	9,594
14.241	Housing Opportunities for Persons with AIDS	1,764	1,762
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program	(198)	(198)
14.267	Continuum of Care Program	307	
14.401	Fair Housing Assistance Program - State and Local	496	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	938	777
Total - U.S. Department of Housing and Urban Development		\$55,375	\$51,257
<i>Fish and Wildlife Cluster:</i>			
15.605	Sport Fish Restoration Program	7,226	
15.611	Wildlife Restoration and Basic Hunter Education	24,225	
	<i>Total Fish and Wildlife Cluster</i>		31,451
15.226	Payments in Lieu of Taxes	73	73
15.250	Regulation of Surface Coal Mining	11,674	7
15.252	Abandoned Mine Land Reclamation (AMLR) Program	42,975	144
15.608	Fish and Wildlife Management Assistance	141	
15.615	Cooperative Endangered Species Conservation Fund	357	
15.616	Clean Vessel Act	23	
15.622	Sportfishing and Boating Safety Act	2	
15.634	State Wildlife Grants	1,363	
15.657	Endangered Species Conservation - Recovery Implement Funds	27	
15.662	Great Lakes Restoration	281	
15.667	Highlands Conservation Program	688	
15.808	U.S. Geological Survey - Research and Data Collection	21	
15.810	National Cooperative Geologic Mapping Program	120	
15.814	National Geological & Geophysical Data Preservation Program	10	
15.904	Historic Preservation Fund Grants-In-Aid	1,253	118
15.916	Outdoor Recreation - Acquisition, Development and Planning	605	544
15.928	Civil War Battlefield Land Acquisition Grants	1,500	1,500
15.957	HPF Grants to Provide Disaster Relief for Hurricane Sandy	55	
Total - U.S. Department of the Interior		\$92,619	\$2,386

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training	1,027	
16.017	Sexual Assault Services Formula Program	408	408
16.523	Juvenile Accountability Block Grants	740	705
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	633	486
16.550	State Justice Statistics Prgm for Statistical Analysis Centers	36	
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants	41	
16.575	Crime Victim Assistance	17,088	16,233
16.576	Crime Victim Compensation	4,402	
16.588	Violence Against Women Formula Grants	4,731	4,211
16.593	Residential Substance Abuse Treatment for State Prisoners	1	
16.606	State Criminal Alien Assistance Program	2,448	
16.607	Bulletproof Vest Partnership Program	253	
16.609	Project Safe Neighborhoods	24	24
16.610	Regional Information Sharing Systems	5,023	
16.727	Enforcing Underage Drinking Laws Program	62	
16.735	PREA: Demonstration Projects to Establish "Zero Tolerance"	17	
16.738	Edward Byrne Memorial Justice Assistance Grant Program	10,108	8,737
16.741	DNA Backlog Reduction Program	1,111	
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	598	442
16.750	Support for Adam Walsh Act Implementation Grant Program	86	
16.751	Edward Byrne Memorial Competitive Grant Program	71	62
Passed Through:	The Council of State Governments (Agreement Number 15-SA-161-2210)		
16.751	Edward Byrne Memorial Competitive Grant Program	122	
	Total Edward Byrne Memorial Competitive Grant Program	193	
16.812	Second Chance Act Reentry Initiative	238	
16.922	Equitable Sharing Program	3,737	
Total - U.S. Department of Justice		\$53,005	\$31,308
<i>Employment Service Cluster:</i>			
17.207	Employment Service/Wagner-Peyser Funded Activities	28,913	
17.801	Disabled Veterans' Outreach Program (DVOP)	2,905	
17.804	Local Veterans' Employment Representative Program	2,056	
	Total Employment Service Cluster	33,874	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>WIA Cluster:</i>			
17.258	WIA Adult Program		27,472	25,852
17.259	WIA Youth Activities		29,395	26,486
17.278	WIA Dislocated Worker Formula Grants		33,551	31,011
	Total <i>WIA Cluster</i>		<u>90,418</u>	
17.002	Labor Force Statistics		2,259	
17.005	Compensation and Working Conditions		226	
17.225	Unemployment Insurance		2,411,983	317
17.225	ARRA - Unemployment Insurance		350	
	Total Unemployment Insurance		<u>2,412,333</u>	
17.235	Senior Community Service Employment Program		4,287	4,287
17.245	Trade Adjustment Assistance		22,559	7,299
17.261	WIA Pilots, Demonstrations, and Research Projects		710	
17.266	Work Incentive Grants		5	
17.267	Incentive Grants - WIA Section 503		1,002	267
17.271	Work Opportunity Tax Credit Program (WOTC)		602	
17.273	Temporary Labor Certification for Foreign Workers		350	
17.277	WIA National Emergency Grants		2,915	2,294
17.282	Trade Adj Assistance Community College & Career Training		1,303	
17.600	Mine Health and Safety Grants		471	
	Total - U.S. Department of Labor		<u>\$2,573,314</u>	<u>\$97,813</u>
	<i>Highway Planning and Construction Cluster:</i>			
20.205	Highway Planning and Construction	1,627,910		182,825
20.205	ARRA - Highway Planning and Construction	<u>57</u>		
	Total Highway Planning and Construction		1,627,967	
20.219	Recreational Trails Program		1,720	1,402
23.003	Appalachian Development Highway System		<u>72,368</u>	
	Total <i>Highway Planning and Construction Cluster</i>		<u>1,702,055</u>	
	<i>Federal Transit Cluster:</i>			
20.500	Federal Transit - Capital Investment Grants		2,698	1,613
20.507	Federal Transit - Formula Grants		<u>2,166</u>	460
	Total <i>Federal Transit Cluster</i>		<u>4,864</u>	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>Transit Services Programs Cluster:</i>		
20.513	Enhanced Mobility of Seniors & Individuals with Disabilities	4,006	4,006
20.516	Job Access and Reverse Commute Program	757	757
20.521	New Freedom Program	2,369	2,369
	<i>Total Transit Services Programs Cluster</i>		7,132
	<i>Highway Safety Cluster:</i>		
20.600	State and Community Highway Safety	10,707	2,995
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	4,946	4,603
20.616	National Priority Safety Programs	1,664	958
	<i>Total Highway Safety Cluster</i>		17,317
20.106	Airport Improvement Program		11,572
20.200	Highway Research and Development Program		219
20.218	National Motor Carrier Safety		7,704
20.231	Performance and Registration Information Systems Management		88
20.232	Commercial Driver's License Program Improvement Grant		470
20.234	Safety Data Improvement Program		24
20.317	Capital Assistance to States - Intercity Passenger Rail Service		(31)
20.319	ARRA - High-Speed Rail and Intercity Passenger Rail Service		6,496
20.505	Metro Trans Planning & State & Non-Metro Planning & Research		8,130
20.509	Formula Grants for Rural Areas		12,920
20.520	Paul S. Sarbanes Transit in the Parks		3
20.604	Safety Incentive Grants for Use of Seatbelts		21
20.605	Incentives to Prevent Operation by Intoxicated Persons		44
20.614	Nat Highway Traffic Safety Admin Discretionary Safety Grants		502
20.700	Pipeline Safety Program State Base Grant		1,148
20.703	Interagency Hazardous Materials Training and Planning Grants		405
20.933	National Infrastructure Investments		19,620
	Total - U.S. Department of Transportation		\$1,800,807
			\$245,121
21.000	Treasury Equitable Sharing Program		245
	Total - U.S. Department of the Treasury		\$245
			\$0

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
23.001	Appalachian Regional Development	35	
23.002	Appalachian Area Development	2,516	2,317
23.011	Appalachian Research, Technical Assistance and Demo Projects	39	
Total - Appalachian Regional Commission		\$2,590	\$2,317
30.001	Employment Discrimination Title VII of the Civil Rights Act	800	
Total - Equal Employment Opportunity Commission		\$800	\$0
39.003	Donation of Federal Surplus Personal Property	4,695	4,695
Total - General Services Administration		\$4,695	\$4,695
45.025	Promotion of the Arts - Partnership Agreements	856	299
45.301	Museums for America	50	
45.310	Grants to States	5,306	3,019
Total - National Foundation on the Arts and Humanities		\$6,212	\$3,318
59.061	State Trade and Export Promotion Pilot Grant Program	334	
Total - Small Business Administration		\$334	\$0
64.005	Grants to States for Construction of State Home Facilities	3,276	
64.010	Veterans Nursing Home Care	164	
64.014	Veterans State Domiciliary Care	3,836	
64.015	Veterans State Nursing Home Care	41,683	
Total - U.S. Department of Veterans Affairs		\$48,959	\$0
66.001	Air Pollution Control Program Support	4,591	
66.032	State Indoor Radon Grants	526	59
66.034	Surveys, Studies & Activities Relating to the Clean Air Act	853	18
66.202	Congressionally Mandated Projects	114	
66.419	Water Pollution Control State and Interstate Program Support	5,299	7
66.432	State Public Water System Supervision	2,902	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
66.454	Water Quality Management Planning	547	
66.458	Capitalization Grants for Clean Water State Revolving Funds	55,539	55,653
66.460	Nonpoint Source Implementation Grants	6,931	5,755
66.461	Regional Wetland Program Development Grants	252	
66.466	Chesapeake Bay Program	4,401	2,992
66.468	Capitalization Grants for Drinking Water State Revolving Funds	31,962	23,254
66.469	Great Lakes Program	89	
66.605	Performance Partnership Grants	603	
66.608	Environmental Information Exchange Network Grant Program	57	
66.707	TSCA Title IV State Lead Grants Certification	83	
66.708	Pollution Prevention Grants Program	51	51
66.714	Regional Agricultural IPM Grants	37	33
66.801	Hazardous Waste Management State Program Support	4,204	
66.802	Superfund State Site-Specific Cooperative Agreements	32	
66.804	Underground Storage Tank Prevention and Compliance Program	757	
66.805	Leaking Underground Storage Tank Trust Fund Program	1,579	
66.817	State and Tribal Response Program Grants	495	3
Total - Environmental Protection Agency		\$121,904	\$87,825
81.041	State Energy Program	2,796	1,736
81.042	Weatherization Assistance for Low-Income Persons	8,983	8,253
81.138	State Heating Oil & Propane Program	4	
Total - U.S. Department of Energy		\$11,783	\$9,989
<i>Special Education Cluster (IDEA):</i>			
84.027	Special Education - Grants to States	417,674	405,058
84.173	Special Education - Preschool Grants	12,201	11,539
<i>Total Special Education Cluster (IDEA)</i>		<u>429,875</u>	
<i>Student Financial Assistance Programs Cluster:</i>			
84.007	Federal Supplemental Educational Opportunity Grants	11	
84.033	Federal Work-Study Program	19	
84.063	Federal Pell Grant Program	2,727	
<i>Total Student Financial Assistance Programs Cluster</i>		<u>2,757</u>	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>School Improvement Grants Cluster:</i>		
84.377	School Improvement Grants	8,191	7,542
84.388	ARRA - School Improvement Grants	9,115	8,975
	<i>Total School Improvement Grants Cluster</i>	<u>17,306</u>	
84.002	Adult Education - Basic Grants to States	18,928	18,275
84.010	Title I Grants to Local Educational Agencies	553,075	548,570
84.011	Migrant Education - State Grant Program	7,346	6,726
84.013	Title I Program for Neglected and Delinquent Children	462	345
84.032	Federal Family Education Loans	2,364	
84.042	TRIO - Student Support Services	199	
84.048	Career and Technical Education - Basic Grants to States	38,807	36,134
84.126	Rehabilitation Services - Vocational Rehab Grants to States	123,890	
84.144	Migrant Education - Coordination Program	73	73
84.169	Independent Living - State Grants	728	269
84.177	Rehab Serv - Indep Living Services for Older Blind Indiv	1,384	
84.181	Special Education - Grants for Infants and Families	15,503	13,835
84.184	Safe and Drug-Free Schools & Communities - National Programs	47	
84.187	Supp Employment Serv for Indiv with Significant Disabilities	985	
84.196	Education for Homeless Children and Youth	2,565	2,320
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	322	
84.287	Twenty-First Century Community Learning Centers	34,608	32,127
84.323	Special Education - State Personnel Development	1,090	
84.330	Advanced Placement Program	982	982
84.348	Title I Accountability Grants	(378)	(378)
84.358	Rural Education	1,534	1,534
84.365	English Language Acquisition State Grants	14,505	13,630
84.366	Mathematics and Science Partnerships	3,606	3,606
84.367	Improving Teacher Quality State Grants	95,436	92,184
84.369	Grants for State Assessments and Related Activities	8,609	
84.371	Striving Readers	31,019	26,481
84.384	ARRA - Statewide Data Systems	2,460	
84.386	ARRA - Education Technology State Grants	(58)	(58)
84.412	Race to the Top - Early Learning Challenge	6,452	3,112
84.413	Race to the Top	15,250	8,017
	Total - U.S. Department of Education	<u>\$1,431,731</u>	<u>\$1,240,898</u>

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
90.401	Help America Vote Act Requirements Payments		1,366	366
	Total - Elections Assistance Commission		\$1,366	\$366
	<i>Aging Cluster:</i>			
93.044	Special Programs for the Aging - Title III, Part B	30,515		28,867
93.045	Special Programs for the Aging - Title III, Part C	19,116		18,897
93.053	Nutrition Services Incentive Program	6,208		6,208
	Total Aging Cluster		55,839	
	<i>TANF Cluster:</i>			
93.558	Temporary Assistance for Needy Families State Programs	480,567		177,603
93.714	ARRA - Emergency Contingency Fund for TANF State Programs	57		57
	Total TANF Cluster		480,624	
	<i>CCDF Cluster:</i>			
93.575	Child Care and Development Block Grant	210,347		199,506
93.596	Child Care Mandatory and Matching Funds of the CCDF	117,443		116,976
	Total CCDF Cluster		327,790	
	<i>Medicaid Cluster:</i>			
93.775	State Medicaid Fraud Control Units	4,609		
93.777	State Survey and Cert of Health Care Providers and Suppliers	19,196		
93.778	Medical Assistance Program	12,903,989		949,020
93.778	ARRA - Medical Assistance Program	46,866		528
	Total Medical Assistance Program		12,950,855	
	Total Medicaid Cluster		12,974,660	
93.041	Special Programs for the Aging - Title VII, Chapter 3		200	200
93.042	Special Programs for the Aging - Title VII, Chapter 2		654	646
93.043	Special Programs for the Aging - Title III, Part D		907	900
93.048	Special Programs for the Aging - Title IV and Title II		34	
93.052	National Family Caregiver Support, Title III, Part E		4,584	4,584
93.069	Public Health Emergency Preparedness		19,725	4,117
93.070	Environmental Public Health and Emergency Response		829	53
93.071	Medicare Enrollment Assistance Program		538	484
93.074	Hospital & Public Health Preparedness Aligned Coop Agreement		21	7

COMMONWEALTH OF PENNSYLVANIA

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CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.079	Cooperative Agreements to Promote Adolescent Health	248	109
93.090	Guardianship Assistance	13,066	12,425
93.092	Affordable Care Act Personal Responsibility Education Prgm	1,727	1,351
93.094	Well-Integrated Screening & Eval for Women Across the Nation	124	42
93.103	Food and Drug Administration - Research	828	
93.104	Community Mental Health Services for Children with SED	996	996
93.110	Maternal and Child Health Federal Consolidated Programs	111	19
93.116	Project Grants and Coop Agreements for Tuberculosis Control	1,125	291
93.127	Emergency Medical Services for Children	131	
93.130	Primary Care Offices Coordination and Dev Coop Agreements	215	
93.136	Injury Prevention & Control Research & State & Comm Prgms	1,222	792
93.150	Projects for Asst in Transition from Homelessness (PATH)	2,352	2,274
93.165	Grants to States for Loan Repayment Program	8	
93.234	Traumatic Brain Injury State Demonstration Grant Program	140	105
93.235	Affordable Care Act Abstinence Education Program	775	
93.236	Grants to States to Support Oral Health Workforce Activities	137	134
93.240	State Capacity Building	441	
93.243	Substance Abuse and Mental Health Services - Projects	6,877	6,567
93.251	Universal Newborn Hearing Screening	234	155
93.268	Immunization Cooperative Agreements (Cash Assistance)	8,851	3,342
93.268	Immunization Cooperative Agreements (Vaccines)	77,535	
	Total Immunization Cooperative Agreements	86,386	
93.270	Adult Viral Hepatitis Prevention and Control	96	
93.275	Substance Abuse & Mental Health Serv. - Access to Recovery	1,624	1,529
93.283	Centers for Disease Control & Prevention - Investigations	4,896	1,187
93.292	National Public Health Improvement Initiative	188	
93.305	National State Based Tobacco Control Programs	186	19
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases	429	
93.324	State Health Insurance Assistance Program	1,880	1,880
93.336	Behavioral Risk Factor Surveillance System	19	
93.369	ACL Independent Living State Grants	131	60
93.448	Food Safety and Security Monitoring Project	235	
93.505	Affordable Care Act Maternal, Infant, Childhood Home Visit	11,204	11,128
93.511	Affordable Care Act Grants for Health Insur Premium Review	27	
93.519	Affordable Care Act - Consumer Assistance Program Grants	30	
93.521	Affordable Care Act - Building Epi, Lab, & Health Info Sys.	1,324	
93.525	State Planning & Establishment Grants for Affordable Care Act	52	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.538	Affordable Care Act - Environmental Public Health Tracking	121	
93.544	Coordinated Chronic Disease Prevention and Health Promotion	35	
93.556	Promoting Safe and Stable Families	11,506	11,473
93.563	Child Support Enforcement	158,948	131,468
93.566	Refugee and Entrant Assistance - State Administered Programs	13,591	4,280
93.568	Low-Income Home Energy Assistance	208,450	28,564
93.569	Community Services Block Grant	36,311	35,231
93.576	Refugee and Entrant Assistance - Discretionary Grants	888	727
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants	1,415	1,415
93.590	Community-Based Child Abuse Prevention Grants	893	893
93.597	Grants to States for Access and Visitation Programs	330	330
93.599	Chafee Education and Training Vouchers Program (ETV)	1,555	1,555
93.600	Head Start	2,922	2,922
93.602	Assets for Independence Demonstration Program	386	(14)
93.603	Adoption Incentive Payments	846	
93.609	Affordable Care Act - Medicaid Adult Quality Grants	648	501
93.617	Voting Access for Individuals with Disabilities - Gov Grants	175	135
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,421	2,394
93.643	Children's Justice Grants to States	729	729
93.645	Stephanie Tubbs Jones Child Welfare Services Program	9,320	8,353
93.658	Foster Care - Title IV-E	215,826	211,916
93.659	Adoption Assistance	108,874	103,176
93.667	Social Services Block Grant	96,635	80,048
93.669	Child Abuse and Neglect State Grants	714	170
93.671	Family Violence Prevention and Services	2,761	2,761
93.674	Chafee Foster Care Independence Program	5,391	5,391
93.719	ARRA - State Grants to Promote Health Information Technology	198	
93.733	Strengthen Public Health Immunization Infrastructure	348	212
93.735	State Health Approaches for Ensuring Quitline Capacity	418	
93.752	Cancer Prev & Control Programs Financed in Part by PPHF	1,831	1,288
93.757	State Public Health Actions Financed in Part by PPHF	366	153
93.758	PHHS Block Grant Funded Solely with PPHF	3,064	1,809
93.767	Children's Health Insurance Program	272,278	215,873
93.779	CMS Research, Demonstrations and Evaluations	(29)	(29)
93.791	Money Follows the Person Rebalancing Demonstration	11,837	(8)
93.815	Domestic Ebola Supplement to the ELC for Infectious Diseases	1	
93.889	National Bioterrorism Hospital Preparedness Program	10,084	8,001

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.917	HIV Care Formula Grants	39,245	8,767
93.940	HIV Prevention Activities - Health Department Based	5,166	1,219
93.944	HIV/AIDS Surveillance	950	
93.945	Assistance Programs for Chronic Disease Prevention and Control	1,731	879
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	118	
93.958	Block Grants for Community Mental Health Services	15,522	15,240
93.959	Block Grants for Prevention and Treatment of Substance Abuse	52,225	43,767
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant	2,107	569
93.991	Preventive Health and Health Services Block Grant	1,404	1,149
93.994	Maternal and Child Health Services Block Grant to the States	23,219	13,566
Total - U.S. Department of Health and Human Services		\$15,330,643	\$2,499,931
94.003	State Commissions	336	15
94.006	AmeriCorps	8,573	8,573
94.007	Program Development and Innovation Grants	28	18
94.009	Training and Technical Assistance	12	4
Total - Corporation for National and Community Service		\$8,949	\$8,610
95.001	High Intensity Drug Trafficking Areas Program	3,036	
Total - Executive Office of the President		\$3,036	\$0
96.001	Social Security - Disability Insurance	111,929	
Total - Social Security Administration		\$111,929	\$0
97.008	Non-Profit Security Program	496	496
97.012	Boating Safety Financial Assistance	2,189	
97.023	Community Assistance Program State Support Services Element	142	
97.029	Flood Mitigation Assistance	245	242
97.032	Crisis Counseling	(2)	(2)
97.036	Disaster Grants - Public Assist (Presidentially Declared)	19,953	12,324
97.039	Hazard Mitigation Grant	9,066	8,496
97.041	National Dam Safety Program	133	
97.042	Emergency Management Performance Grants	13,306	5,356

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2015

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
97.043	State Fire Training Systems Grants	27	
97.044	Assistance to Firefighters Grant	27	
97.045	Cooperating Technical Partners	85	
97.047	Pre-Disaster Mitigation	713	668
97.052	Emergency Operations Centers	146	146
97.056	Port Security Grant Program	285	22
97.067	Homeland Security Grant Program	61,693	48,845
97.089	Driver's License Security Grant Program	811	
97.091	Homeland Security Biowatch Program	353	
97.092	Repetitive Flood Claims	41	
97.107	National Incident Management System (NIMS)	(50)	
97.110	Severe Repetitive Loss Program	(340)	(374)
Total - U.S. Department of Homeland Security		\$109,319	\$76,219
GRAND TOTAL		\$25,535,867	\$5,095,472

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2015

Note A: Single Audit Reporting Entity

The Commonwealth of Pennsylvania (the Commonwealth) includes expenditures in its schedule of expenditures of federal awards (SEFA) for all federal programs administered by the same funds, agencies, boards, commissions, and component units included in the Commonwealth's financial reporting entity used for its basic financial statements. However, the State System of Higher Education (SSHE), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Convention Center Authority (PCCA), the Philadelphia Shipyard Development Corporation (PSDC), which are discretely presented component units, and the Philadelphia Regional Port Authority (PRPA), which is a blended component unit, elect to have their own single audits (when required) and their expenditures of federal awards are therefore excluded from the Commonwealth's SEFA. These six component units are required to submit their own single audit reports to the Federal Audit Clearinghouse. The PCCA, the PRPA and the PSDC are not required to submit a single audit for the year ended June 30, 2015 because their federal expenditures were below the requirement threshold. In addition, the Judicial Department of Pennsylvania, which is included in the Primary Government, elected to have its own single audit performed. Their federal expenditures are also excluded from the Commonwealth's SEFA.

Note B: Basis of Accounting

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

Expenditures reported under CFDA #10.551, Supplemental Nutrition Assistance Program (SNAP), represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' purchases under the program during the fiscal year ended June 30, 2015.

Expenditures reported under CFDA #10.555, National School Lunch Program, CFDA #10.558, Child and Adult Care Food Program, CFDA #10.559, Summer Food Service Program, CFDA #10.565, Commodity Supplemental Food Program, and CFDA #10.569, Emergency Food Assistance Program, include the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service commodity price list in effect as of November 1, 2013.

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

Subrecipient expenditures reported under CFDA #14.228, Community Development Block Grants, CFDA #14.231, Emergency Solutions Grants Program prior to August 23, 2012 with the exception of FY 2011 subrecipient expenditures reported after December 31, 2014, and CFDA #14.239, Home Investment Partnerships Program, represent funds drawn directly from the Housing and Urban Development (HUD) Integrated Disbursement and Information System (IDIS) by subrecipients of the Commonwealth.

Expenditures for CFDA #20.200, Highway Research and Development Program, CFDA #20.205, Highway Planning and Construction, CFDA #20.219, Recreational Trails Program, CFDA #20.505, Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research, CFDA #20.604, Safety Incentive Grants for Use of Seatbelts, CFDA #20.605, Incentives to Prevent Operation by Intoxicated Persons, CFDA #20.933, National Infrastructure Investments, CFDA #23.002, Appalachian Area Development and CFDA #23.003, Appalachian Development Highway System are presented on the basis that expenditures are reported to the U.S. Department of Transportation. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

Amounts reported as expenditures for CFDA #39.003, Donation of Federal Surplus Personal Property, represent the General Services Administration's average fair market value percentage of 23.68 percent of the federal government's original acquisition cost (OAC) of the federal property transferred to recipients by the Commonwealth.

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

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2015

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

As directed by HHS, Pennsylvania agreed to make payments for the total disallowed costs (\$93,600,227) in ten quarterly installments pursuant to 45 CFR 201.66. Based on the agreement terms, installment payments shall be made through the adjustment of quarterly grants, as provided by 45 CFR 201.66(b)(4). Repayments must be made through the submission of a Title V-E Programs Quarterly Financial Report (Form CB-496) beginning with the report for the quarter ending September 30, 2013. The amounts were disallowed due to claims that included services not provided, ineligible children and ineligible or unlicensed providers. Although these decreasing adjustments reduced the current year grant expenditures and award by \$37,440,092, the reported expenditures for this CFDA program are shown at the gross amount for the June 30, 2015 SEFA.

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

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

Note C: Categorization of Expenditures

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants that were active during the fiscal year ended June 30, 2015. The categorization of expenditures by program included in the SEFA is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued on a real-time basis on the CFDA website.

Note D: Unemployment Insurance

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

State Regular UC Benefits	\$2,226,696
Federal UC Benefits	66,397
Federal Admin.	119,240
Total Expenditures	<u>\$2,412,333</u>

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Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2015

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___yes X no

Significant deficiencies identified not
considered to be material weaknesses? X yes ___none reported

Noncompliance material to financial
statements noted? ___yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes ___no

Significant deficiencies identified not
considered to be material weaknesses? X yes ___none reported

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

Adverse opinion for the following major program:

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

Qualified for noncompliance in the following major programs:

Supplemental Nutrition Assistance Program (SNAP) Cluster (CFDA #10.551 and #10.561)
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556 and #10.559)
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)
Child and Adult Care Food Program (CFDA #10.558)
Workforce Investment Act (WIA) Cluster (CFDA #17.258, #17.259 and #17.278)
Highway Planning and Construction Cluster (CFDA #20.205, #20.219 and #23.003)
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)
Title I Grants to Local Educational Agencies (CFDA #84.010)
Special Education Cluster (IDEA) (CFDA #84.027 and #84.173)
Career and Technical Education – Basic Grants to States (CFDA #84.048)
Improving Teacher Quality State Grants (CFDA #84.367)
Aging Cluster (CFDA #93.044, #93.045 and #93.053)
Temporary Assistance for Needy Families (TANF) Cluster (CFDA #93.558 and #93.714)
Child Support Enforcement (CFDA #93.563)
Low-Income Home Energy Assistance (CFDA #93.568)
Child Care and Development Fund (CCDF) Cluster (CFDA #93.575 and #93.596)
Foster Care – Title IV-E (CFDA #93.658)

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2015

Adoption Assistance (CFDA #93.659)
 Social Services Block Grant (CFDA #93.667)
 Children's Health Insurance Program (CFDA #93.767)
 Medicaid Cluster (CFDA #93.775, #93.777 and #93.778)
 HIV Care Formula Grants (CFDA #93.917)
 Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
 Homeland Security Grant Program (CFDA #97.067)

Unmodified for the following major programs:

National Guard Military Operations and Maintenance Projects (CFDA #12.401)
 Unemployment Insurance (CFDA #17.225)
 Veterans State Nursing Home Care (CFDA #64.015)
 Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
 Immunization Cooperative Agreements (CFDA #93.268)
 Social Security – Disability Insurance (CFDA #96.001)

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

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.551 and 10.561	Supplemental Nutrition Assistance Program (SNAP) Cluster	\$ 2,830,270
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	516,327
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	186,096
10.558	Child and Adult Care Food Program	111,037
12.401	National Guard Military Operations and Maintenance Projects	51,435
14.228	Community Development Block Grants – State's Program	36,178
17.225	Unemployment Insurance (A)	2,412,333
17.258, 17.259 and 17.278	Workforce Investment Act (WIA) Cluster	90,418
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster (A)	1,702,055
64.015	Veterans State Nursing Home Care	41,683
66.458	Capitalization Grants for Clean Water State Revolving Funds	55,539
84.010	Title I Grants to Local Educational Agencies	553,075
84.027 and 84.173	Special Education Cluster (IDEA)	429,875
84.048	Career and Technical Education – Basic Grants to States	38,807
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	123,890
84.367	Improving Teacher Quality State Grants	95,436
93.044, 93.045 and 93.053	Aging Cluster	55,839
93.268	Immunization Cooperative Agreements	86,386

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2015

93.558 and 93.714	Temporary Assistance for Needy Families (TANF) Cluster (A)	480,624
93.563	Child Support Enforcement	158,948
93.568	Low-Income Home Energy Assistance	208,450
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster	327,790
93.658	Foster Care – Title IV-E	215,826
93.659	Adoption Assistance	108,874
93.667	Social Services Block Grant	96,635
93.767	Children's Health Insurance Program	272,278
93.775, 93.777 and 93.778	Medicaid Cluster (A)	12,974,660
93.917	HIV Care Formula Grants	39,245
93.959	Block Grants for Prevention and Treatment of Substance Abuse	52,225
96.001	Social Security – Disability Insurance	111,929
97.067	Homeland Security Grant Program	<u>61,693</u>
	Total Federal Expenditures – Major Programs	<u><u>\$24,525,856</u></u>

(A) = ARRA Funds included

Dollar threshold used to distinguish between
Type A and Type B programs (000s): \$38,304

Auditee qualified as low-risk auditee? yes X no

COMMONWEALTH OF PENNSYLVANIA

Index to Basic Financial Statement Findings - June 30, 2015

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
2015-001*	General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 2014-002)	Treasury	48	188
2015-002*	Control Weaknesses Over Financial Reporting of Tax Receivables and Tax Refunds Payable (A Similar Condition Was Noted in Prior Year Finding 2014-003)	OB/OCO DOR	50	189
2015-003*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 2014-005)	OB/OCO	52	189
2015-004*	Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 2014-004)	OB/OCO	55	190
2015-005*	General Computer Controls In Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 2014-006)	Various	57	191

* - Significant Deficiency
CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 001:

Department of Treasury

General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 2014-002)

Condition: Our review of general computer controls at the Department of Treasury (Treasury) during the fiscal year ended June 30, 2015 disclosed four internal control deficiencies related to the OnBase application and one deficiency related to end-user computing. The OnBase application is used for unemployment compensation card benefit payments. The OnBase application sends enrollment files for eligible recipients to a contract vendor for card production and also sends Automated Clearing House (ACH) files to the bank to make funds available to card users. The application is used and maintained by Treasury. The general computer controls deficiencies include:

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

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

Cause: Management is aware of the control deficiencies related to the OnBase application. An upgrade to OnBase is planned for early 2016 that may correct some of the deficiencies. Due to limited resources to implement controls and the application's limits on functionality and configurable options, some deficiencies are difficult to mitigate without significant manual compensating efforts.

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

Recommendation: We recommend that Treasury management:

- Restrict administrative access to individually owned user IDs and revoke the shared database administration accounts as part of the OnBase upgrade.
- Implement changes to the password settings for the OnBase application and BUCD domain to comply with Treasury password policy as part of the OnBase upgrade.
- Determine during the OnBase upgrade whether the application can produce a comprehensive system-generated listing of program changes. If that capability is not available, management should consider establishing a logging function to produce an audit trail of all changes.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 001: (continued)

- Restrict badge access to the data center to those individuals with daily work requirements in the area and implement temporary access procedures for those individuals that require only periodic access.
- Finalize and implement a policy regarding access, change control, development, and backup of user-developed programs (spreadsheets and databases) that are used to support financial processes.

Agency Response: Treasury agrees strong controls are important to the integrity of payment processing. Several identified weaknesses are conditions beyond the direct control of the Treasury Department; however, Treasury is addressing these conditions through compensating controls outside of the system. The Bureau and the Department are actively working to create compensating controls to ensure security and accurate processing for all conditions.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 002:

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

Control Weaknesses Over Financial Reporting of Tax Receivables and Tax Refunds Payable (A Similar Condition Was Noted in Prior Year Finding 2014-003)

Condition: The Commonwealth’s Basic Financial Statements (BFS) contained tax receivable and tax refunds payable misstatements in the Government-Wide Statement of Net Position and the General Fund Balance Sheet that required audit adjustment. The Department of Revenue (DOR) contracted with a consulting firm to review the Integrated Tax System (ITS) and provide guidance in determining the ITS tax receivable and refunds payable balances. Based on the firm’s recommendation and the Office of Comptroller Operations’ (OCO) interpretation of the firm’s report, OCO revised the methodology for recording corporation tax accruals. The revised methodology also included sales and employer taxes which were migrated to ITS in November 2014.

Our review of the revised methodology disclosed various discrepancies including a gross up of the receivables and payables resulting from each taxpayer balance being segregated by tax year in the accrual calculations. This methodology erroneously analyzed the taxpayer balances on a year by year basis instead of a consolidated multi-year basis. As a result, OCO methodology did not consider offsetting taxpayer balances over time to determine the net taxpayer balance as of June 30, 2015. Our review of the methodology also disclosed, when recording the estimated portion to be refunded for the in-process tax year 2014, that the refunds payable amount was incorrectly netted against the remaining taxes due amount instead of recording the amount as a payable, and items consistent with DOR payable criteria were eliminated from the accrual. These items included refunds in process and estimates of carry forward credits subject to refund.

Our testing of the tax accruals recorded in the General Fund, DOR GAAP template for the fiscal year ended June 30, 2015 disclosed a \$12.9 million overstatement of corporation tax receivable and a \$377.6 million understatement of the corporation tax refunds payable recorded by management. Based on additional analysis conducted by OCO in combination with our test results and analysis of the ITS tax data, adjustments to increase corporation tax receivables by \$17.6 million, sales tax receivables by \$64 million, employer tax receivables by \$1.7 million, and an increase in tax refunds payable by \$287.3 million were recorded. The adjustments to these receivables and payables included amounts related to the gross ups, the allowance for uncollectible receivables, the netted refunds payable for tax year 2014, and the elimination of items not consistent with DOR payable criteria.

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

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings – June 30, 2015

Finding 2015 – 002: (continued)

Cause: Although OCO’s revised methodology improved from the prior year, the limited time and resources available to evaluate the ITS data and test results and OCO’s limited experience with ITS continued to result in deficiencies in the methodology and the need for adjustment to the tax accrual accounts.

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

Recommendation: We recommend that OCO refine its methodology to determine tax receivables and payables. OCO and DOR should further develop procedures for evaluating, validating, and reviewing the ITS data to ensure receivables and payables are valid and the amounts reported in the GAAP template are accurate as of fiscal year end.

OCO Response: OCO is in agreement with audit finding 2015-002 that there were missteps in the methodology used to determine the amount of taxes receivable and taxes payable, which resulted in a gross up of receivables and payables and the netting of estimated refunds against estimated taxes due. OCO agrees its approach to refunds in process resulted in an understatement of the payable accrual. OCO does not agree that refunds in process or carry forward credits subject to refund were eliminated entirely from consideration within the approach. Adjusting entries were required as a result. OCO is in agreement with the overstatement amount of the corporation tax receivable and understatement amount of the corporation tax payable and in the adjustment amounts for sales and employer tax receivables.

DOR Response: DOR concurs with OCO’s response.

Auditors’ Conclusion: OCO and DOR are in general agreement with this finding and acknowledge the need for improving the methodology used to record taxes receivable and tax refunds payable.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings – June 30, 2015

Finding 2015 – 003:

Office of the Budget

Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 2014-005)

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

1. Office of Comptroller Operations (OCO) and Bureau of Accounting and Financial Management (BAFM) staff has not performed a periodic analysis of one-time vendor payments (as required by Management Directive 310.28) since 2010.
2. SAP functionality is not configured to match manually-entered one-time vendor payments and payments received through automated interfaces to an established vendor in the SAP Vendor Master Database. As a result, numerous payments are made via the one-time vendor process to payees that may already be established vendors. This process provides limited ability to validate the total payments made to each vendor and to validate that the payment was remitted to the vendor according to their instructions (account, address, contact person, etc.).
3. SAP configuration does not require the entry of an original document reference for one-time vendor refund payments. Although SAP functionality allows attachments which provide justification for the payment, and OCO policy requires such documentation, SAP is not configured to require justification.
4. SAP is not configured to query employee records to determine whether a one-time vendor payment (interfaced or non-interfaced) is being made to a Commonwealth employee. During the audit period, management did not have a monitoring process in place to analyze whether payments made to employees were appropriate.
5. OCO supervisors have the ability to both enter and approve a one-time vendor invoice. Although OCO policy prohibits employees from approving payments for invoices they have entered, SAP is not configured to require additional approval.

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

Further, Management Directive 310.28 states that the Office of Comptroller Operations (OCO) and Bureau of Accounting and Financial Management (BAFM) are responsible for “monitoring the use of one-time vendor records to determine if a permanent master record should be established and contacting identified vendors to register with the Central Vendor Management Unit (CVMU).” The Directive also requires the performance of “a periodic analysis of the payments posted to one-time vendor records to determine if a permanent vendor master record should be established”.

Cause: BAFM acknowledges that they did not recently perform a periodic analysis of one-time vendor payments because they contend that most of the one-time vendor account payments are from legacy agency systems that send large volumes of payment data to SAP for processing. Since the last analysis was performed more than five years ago, we believe it is important to analyze the one-time vendor payment activity more frequently to confirm the assertion that approximately 96 percent of one-time vendor postings occur through interface postings from agency legacy systems into SAP.

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Finding 2015 – 003: (continued)

BAFM indicates the interfaces from the legacy systems are being updated to match payments with established vendors where they exist, but the process is time-consuming and each interface needs to be updated individually. Until all the legacy interfaces are updated, BAFM does not see a benefit in performing a periodic analysis of the one-time vendor payments. However, we believe the analysis will provide a more up-to-date summary of the nature of one-time vendor transactions and a tool for monitoring progress and prioritizing conversion of applicable payments.

SAP functionality for controls over the one-time vendor payment process is not fully utilized. Although ancillary detective controls are in place to mitigate some of the risks, system-based preventive controls would eliminate the need for creating and maintaining the manual compensating controls.

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

Effect: Overuse and inappropriate use of the one-time vendor functionality of SAP (and lack of or untimely monitoring of its use) can result in duplicate payments to valid vendors, intentional or unintentional overpayment to vendors, improper and undocumented payments to Commonwealth employees, inaccurate tax reporting, payments to individuals misrepresenting themselves as a vendor providing alternate payment instructions (account, address, payee), and other fraudulent activity.

Recommendation: We recommend that management:

- Develop and implement a procedure that more frequently monitors and documents compliance with the Management Directive.
- Consider updating SAP's configuration to:
 - Systematically associate manually-entered or interfaced transactions with an established vendor;
 - Require supporting documentation as justification for each one-time vendor refund transaction;
 - Query employee records to flag any one-time vendor payment (interfaced or non-interfaced) that may be sent to a Commonwealth employee; and
 - Require a secondary review of all one-time vendor invoices that are entered by OCO supervisors to eliminate the segregation of duties conflict.

Office of the Budget Response:

Bureau of Payable Services (BPS) Response:

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

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Finding 2015 – 003: (continued)

BAFM Response:

1. BAFM disagrees with the assertion in condition 1 of this finding, that the use of the one-time vendor in SAP is not actively monitored. Although the last “periodic analysis” prepared in accordance to Management Directive 310.28 was completed several years ago, OCO staff continue to actively monitor one-time vendor activity and work on implementing efficiencies identified through its results. In the last periodic analysis, OCO staff reviewed one-time vendor postings for the time period of July 1, 2009 through April 30, 2010. The analysis identified that approximately 96 percent of one-time vendor postings occur through interface postings from agency legacy systems into SAP. The analysis also identified that approximately 61 percent of the interface postings to the one-time vendor record had SAP vendor records established. BAFM performed a limited analysis of the one-time vendor activity from July 1, 2014 to June 30, 2015 to confirm that 96 percent of one-time vendor postings occur through interfaced postings. The limited analysis confirmed that 96 percent of the postings occurred from interfaces.

Pursuant to the 2009-2010 analysis, BAFM staff initiated efforts with several agencies to change interfaces that use the one-time vendor record, to instead use SAP vendor records as the means of making payments. This effort is time consuming, difficult and requires the expenditure of considerable resources.

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

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

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

3. As previously stated in response to prior year findings 12-02, 13-03 and 14-05, BAFM continues to disagree with this item, as compensating controls have been built into the business process to combat the SAP limitations. Compensating controls are prudent when preventive controls are unfeasible or impractical. These controls were outlined within the corrective action plan (CAP) relevant to Finding 12-02.

Auditors’ Conclusion: Regarding Condition #1, we will review documentation that supports the limited analysis performed by BAFM for the period of July 1, 2014 – June 30, 2015 during the subsequent audit. This analysis was not provided to the auditors during the current audit. We acknowledge the hurdles identified and the efforts required to convert one-time vendor records to SAP vendor records. We also think that periodically confirming BAFM’s understanding of the nature of one-time vendor payments is prudent.

Regarding Condition #3, we will further review the condition of this finding and actions taken in light of management’s response in the 2016 audit.

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

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Finding 2015 – 004:

Office of the Budget

Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 2014-004)

Condition: Management Directive 205.37, "Role Assignment Security, and Internal Control Maintenance" amended March 25, 2013, requires SAP user roles to be assigned to ensure segregation of duties (i.e., assignment of roles to different individuals in an effort to eliminate the possibility that a single individual may perpetuate or conceal errors or irregularities). To comply with this policy, which requires documentation and approval of mitigating controls in situations where role conflicts are operationally necessary, the Commonwealth has implemented SAP Governance, Risk and Compliance (GRC) and has undertaken a project to identify, report, remediate, and mitigate segregation of duty risks within the SAP environment. While significant progress has been made to remediate segregation of duty risks, the Office of the Budget, Bureau of Quality Assurance (BQA), has identified approximately 1,100 total risks that had not been addressed as of June 30, 2015.

Further, multiple SAP users have accounts that allow them to perform specific sensitive user functions that are inconsistent with their daily job responsibilities. Due to the current efforts underway to implement SAP GRC for access management, the auditors did not perform a full analysis of user roles in SAP to identify users with inappropriate roles or segregation of duties conflicts. However, as noted in previous audits, specific examples include the following:

Vendor Master Data Access:

- a. Call center employees have access to create and change SAP bank account information and to view vendor master records. SAP is not utilized to require a secondary review or approval for changes to vendor records. According to Management Directive 310.26, "Vendor Data Management Unit (VDMU) for Agencies Using SAP," the ability to add/change/delete vendor records should be restricted to only the VDMU manager and six (6) staff members who are responsible for performing these functions on a regular and substantial basis.

Comptroller Role Access:

- b. For operational efficiencies, the Office of Comptroller Operations staff process expenses incurred for which there is no purchase order or goods receipt, (e.g., redevelopment assistance, insurance claims, housing finance payments, certain federal accounting payments, and certain others). When an employee enters the invoice into SAP, it is automatically approved for payment. SAP functionality does not prevent improper entries and does not require secondary review to ensure that the invoices were approved prior to processing.

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

Cause: The procedures established by Management Directive 205.37 to monitor role conflicts were not completed by the end of the audit period. An effort is underway to finalize the role conflicts review and implement procedures to validate ongoing compliance. Once segregation of duties risks identified by the GRC tool have been mitigated, BQA plans to focus its efforts on resolving the risks associated with sensitive transactions.

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Finding 2015 – 004: (continued)

As for the payments entered into SAP that are automatically approved for payment, these transactions are entered into SAP via transaction code FB-60. Individuals with access to the FB-60 transaction enter an invoice for payment into SAP that does not require secondary approval prior to being forwarded to Treasury for payment. The Office of the Budget, Bureau of Payable Services (BPS), acknowledges that they are taking steps to convert FB-60 transactions to other transaction codes that require secondary approval through SAP workflow.

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

Recommendation: We recommend that:

- BQA continue its efforts to finalize the GRC risk remediation and mitigation. This should include periodically reassessing the state of segregation of duties, monitoring of waiver effectiveness, and evaluating changes to user role profiles to validate that new segregation of duties conflicts are not introduced.
- BQA implement procedures to monitor access to sensitive transactions.
- Vendor Master Data access be restricted to the VDMU group.
- BPS continue its efforts to eliminate the use of FB-60 transactions where the same person enters and approves transactions for payment.

Office of the Budget Response:

Bureau of Quality Assurance (BQA) Response:

Response to the first paragraph:

BQA agrees with this item, but would like to point out that the “1,100 total risks” cited in the finding represents 0.7% of all Commonwealth positions.

Bureau of Payable Services (BPS) Response:

Responses to items a & b:

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

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

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Finding 2015 – 005:

Office of the Budget Office of Administration

General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 2014-006)

Condition: We reviewed the general information technology (IT) controls over SAP, and the significant financial systems that provide source data to SAP, as part of our general computer controls reviews at various Commonwealth agencies for the fiscal year ended June 30, 2015. Our reviews disclosed internal control deficiencies in individual Commonwealth agencies. The deficiencies that need to be addressed by Commonwealth management are included below:

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

1. Due to the size and complexity of Commonwealth agencies and operations, numerous information systems pass significant financial data to SAP. While an interface listing was created to identify the inputs from outside agencies into SAP, the interface listing provided to the auditors by Office of the Budget, Bureau of Audits (OB-BOA), was not complete, and the controls over maintenance of the listing have not been formalized.

OB-BOA has requested that the Office of Administration, Bureau of Integrated Enterprise Systems (OA-IES), develop formal SAP interface procedures that include, in part: the process of creating an interface, the minimum required information for adding new interfaces to SAP, the related change management process, and the role of Office of the Budget in validating the interface listing.

2. Information technology infrastructure supporting the SAP environment and multiple critical applications for various agencies resided at the Commonwealth's Consolidated Data Center (Data Powerhouse or DPH) operated by Unisys Corporation for all or most of the year under audit. The Service Organization Controls (SOC 1) examination of the DPH under Statements on Standards for Attestation Engagements (SSAE) No. 16 for the period July 1, 2014 to June 30, 2015 included exceptions that resulted in a qualified opinion because of weaknesses in physical and logical access and in the non-achievement of the related control objectives. Further, IT management at the following user agencies were not notified of the exceptions or the potential impact on critical applications: Department of Human Services, Department of Transportation, Department of Revenue, Department of Labor and Industry, and the PA Liquor Control Board.
3. As part of the Pennsylvania Compute Services (PACS) contract with Unisys, the Commonwealth agreed to move its information technology infrastructure to an out-of-state location owned and operated by a third party. Certain critical applications at the Department of Transportation, Department of Revenue, and the Department of Labor and Industry were moved from the DPH to the PACS data center during the last quarter of FYE 6/30/15. The Office of Administration, Office for Information Technology (OA-OIT) provided PACS migration checklists to the agencies after these three agencies migrated their mainframe applications to the new facility. The documentation we reviewed supporting the successful migration of systems and data varied from agency to agency. Further, only the Department of Revenue provided financial snapshots evidencing complete migration of financial data to the new mainframe.
4. OA-IES administers the Commonwealth's primary SAP system that is considered the official books and records for all Commonwealth agencies. During our review of this system, we found five control deficiencies that could impact the security of the SAP system. These control deficiencies have been reported separately to OA-IES for corrective action because of their sensitive nature.

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Finding 2015 – 005: (continued)

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

Office of Administration

1. Reimbursements to Local Educational Agencies (LEAs) for Public School Employees' Retirement System (PSERS) contributions are calculated by Office of the Budget, Office of Comptroller Operations (OB-OCO), using the Local Educational Agency Payment System (LEAPS) maintained by OA-OIT, Bureau of Applications Management and Support (BAMS) and Bureau of Infrastructure and Operations (BIO). Additionally, the Pennsylvania Department of Education (PDE) provides data to OB-OCO to calculate the reimbursements. OB-OCO, OA-OIT, and PDE have not established an agreed upon ownership of the LEAPS application. Therefore, there is no clear IT governance to effectively manage general IT controls over the LEAPS application to reduce the risks that could result in errors in processing accuracy and subsidy calculations.
2. Password requirements for LEAPS were not configured to enforce adequate complexity settings to comply with Information Technology Policy (ITP) – SEC007, "Minimum Standards for User IDs and Passwords", specifically regarding minimum length, complexity, and maximum lifetime requirements.

Office of the Budget

1. OB-OCO upload Excel spreadsheets, generated by PDE and PSERS, into LEAPS to calculate quarterly subsidies to LEAs. The LEAPS application returns text files, which are then manually formatted by OB-OCO and uploaded into the Financial Accounting Information (FAI) system, to process the payments and interface with SAP. The spreadsheets and text files used in this process do not include controls required by Management Directive 205.43 "Quality Assurance for Business Productivity Tools".

Pennsylvania Lottery (Lottery)

1. A segregation of duties weakness existed during the audit period because three developers employed by the ICS vendor had access to the Internal Control System (ICS) production servers at Lottery. This access provided them the ability to create and promote a software release to production. Although the vendor is unable to provide a system-generated listing of developers and promoters, Lottery management is monitoring all releases deployed to production.
2. Password requirements for ICS were not configured to enforce adequate complexity settings to comply with ITP – SEC007, "Minimum Standards for User IDs and Passwords", specifically regarding user lockout after multiple failed login attempts. Settings were corrected after the audit period.
3. Management remediated a prior year weakness whereby two administrators in the Backoffice and ICS applications did not have their user IDs deleted timely after employment was terminated. Corrective action occurred by removing these two administrators' access in November 2014.

Department of Labor and Industry (L&I)

1. There was no formally documented system development life cycle policy as required by ITP – APP012, "Systems Development Life Cycle Policy", to outline requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software. Relative to this weakness:

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- L&I does not have an adequate formally documented policy requiring documentation of testing in ClearQuest (software used to track and document program changes) prior to implementation of program changes in the Unemployment Compensation Modernization System (UCMS) production environment.
 - L&I does not have an adequate formally documented policy requiring documentation to evidence successful and accurate data migration during implementation of new systems development projects.
2. There are no policies or procedures for granting powerful user attributes (SPECIAL, OPERATIONS or AUDITOR) in the mainframe environment. Specifically, three users have been granted all powerful user attributes (SPECIAL, OPERATIONS, and AUDITOR), 24 users have AUDITOR access, and 32 users have OPERATIONS access without written justification.
 3. Periodic access reviews to determine the appropriateness of all users with privileged access have not been implemented in the UCMS client/server environment.

State Workers' Insurance Fund (SWIF)

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

Department of Transportation (PennDOT)

1. Management remediated a prior year weakness in administrative access to the Engineering and Construction Management System (ECMS) application. In November 2014, policies were implemented requiring management approval of all administrator access requests and requiring periodic access review of administrator accounts.
2. Management remediated a prior year weakness whereby multiple users had access to a group account that used a shared password to promote changes to production for the dotGrants application. Corrective action was implemented in March 2015.
3. Vendor technicians share a CWOPA user ID and password as well as an administrator user ID and password to access the OPEX hardware used to scan check images. The administrator account access allows technicians to delete scanned images that are sent to the Transaction Management System (TMS) application for processing and deposit.

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Finding 2015 – 005: (continued)

4. Periodic access reviews to determine the appropriateness of all users with privileged or administrative access were not performed during the audit period for the TMS client/server environment and for the Driver License and Control (DL&C) and Commonwealth Automated Registration and Titling System (CARATS) mainframe applications.
5. Developer access for six individuals was inappropriate based upon current job responsibilities for the CARATS application in the mainframe environment.

Department of Human Services (DHS)

1. Management remediated a prior year finding whereby a generic database ID was used for direct database administration and a regular review of user access was not documented to ensure that only members of IT were using this powerful generic account. In December 2014, DHS implemented CyberArk Privileged Identity Manager to control administrator access to systems.
2. Processing for Title XIX, Medicaid claims has been outsourced to Hewlett Packard Enterprise Services (HP ES). The SOC 1 examination of HP ES under SSAE No. 16 for the period July 1, 2014 to June 30, 2015 included exceptions that resulted in a qualified opinion because of weaknesses in logical access, program changes and computer operations, and in the non-achievement of the related control objectives.
3. Processing for Medicaid pharmacy rebates has been outsourced to Unisys Global Outsourcing and Infrastructure Services (Unisys) as a subservice organization of Hewlett Packard. The SOC 1 examination of Unisys under SSAE No. 16 for the period July 1, 2014 to June 30, 2015 included exceptions that resulted in a qualified opinion because of weaknesses in computer operations and in the non-achievement of the related control objectives.

Department of Health (DOH)

1. Management remediated a prior year weakness whereby generic user IDs had access to domain administration, WIC database administration, and server administration functions, with no monitoring of the activities performed by these IDs. Management remediated the issue by formally adopting a process to monitor the usage of generic IDs in May 2015.
2. Management remediated a prior year weakness whereby formal access requests that specified the level of access requested were not utilized to support all requests for and changes to users' access. New policies and procedures were implemented in December 2014.

Department of Education (PDE)

1. A segregation of duties weakness existed in the Pennsylvania Information Management System (PIMS) application, which collects student data from LEAs as the basis for state and federal subsidies. Two outside vendor employees had access into PIMS to both develop and promote program changes into production. Management partially remediated the weakness after the audit period (in September 2015) by restricting the vendor's administrator access to PIMS to an as-needed basis and by confirming the appropriateness of the individual's access. However, the policy and procedure restricting the vendor's access has not yet been formally documented.
2. In the prior audit, PDE's formal program change methodology for the PIMS application failed to identify a segregation of duties weakness at the vendor. After the audit period, this weakness was partially remediated by the new restriction on vendor access to the servers described in item number one (1) above.

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3. During the audit period, the vendor maintained 24/7 access to the PIMS database production servers in order to perform weekly Extract Transform Loads. Further, PDE's review of server logs was not designed to identify vendor actions in the system, which could have allowed the vendor to make unauthorized changes to PIMS data. After the audit period, this weakness was partially remediated by the new restriction on vendor access to the servers described in item number one (1) above.
4. In the prior audit, we noted administrator access to PIMS for two vendor users was authorized improperly by PDE management and that one administrator's access should have been removed because her job duties had changed. After the audit period, this weakness was partially remediated by the new restriction on vendor access to the servers described in item number one (1) above.
5. A potential lack of segregation of duties existed during the audit period because a PDE developer had administrator access in PIMS. Her access enabled her to create accounts and roles, which gave her the ability to potentially promote programs into production. Management remediated the weakness after the audit period by revoking the employee's administrator access in September 2015.

Department of Revenue (DOR)

1. A lack of segregation of duties exists because developers (including contractors) can promote program changes to production in the client server environment, certain applications in the mainframe environment, and the servers at the imaging facility. Certain developers have administrative/privileged access in the client server environment (ability to add/delete users or change data directly) in the Electronic Tax Information and Data Exchange System (E-Tides tax filing system). Developers at the imaging facility have privileged access in the production environment (ability to change data in production) in four of the applications residing there.
2. The servers are not in locked rooms in the computing environment used to scan and transmit invoices and check images; therefore, all employees with access to the imaging facility also have access to the imaging equipment and the servers on which the Captiva (used to review and process the scanned images), TMS (used to transmit check images to the bank), and Virtual Capture (data entry software) applications reside.
3. A lack of segregation of duties exists because developers can change the operations schedule and promote programs to production in certain client server applications.
4. DOR does not have a contract with the Official Payments Corporation, a vendor that provides services to taxpayers allowing them to pay taxes online. Instead, there is a Letter of Understanding (LOU) between the two parties, which has been extended annually for approximately thirteen years. The LOU does not include certain key provisions of a sensitive nature which have been communicated separately to management.
5. DOR operates its own instance of SAP, known as the Integrated Tax System (ITS), to support corporation taxes and business trust fund taxes. During our review of this system, we found three control deficiencies that could impact the security of ITS. Due to the sensitive nature of these control deficiencies, they have been reported separately to management for corrective action.

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

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

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Finding 2015 – 005: (continued)

When significant systems and data conversions occur, such as those related to the PACS initiative, management needs to ensure appropriate controls are in place. Those controls should ensure that critical data have migrated to the new infrastructure completely and accurately. Appropriate management sign-offs should be required.

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

Cause: A listing of the Commonwealth’s key interfaces has been prepared by the OA-IES staff and subsequently updated by OB-BOA staff; however, certain refinements are still needed for the listing to be complete and accurate. Individual agencies’ IT departments are responsible for their own systems, which can result in a limited view of the entire technology landscape by any one department or agency. Additionally, as interfaces share transaction types and document types, it is difficult to trace the origin of all transactions that are received through interfaces.

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

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

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

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

Management’s contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date; however, reliance on manual compensating internal controls becomes increasingly problematic as the Commonwealth experiences personnel changes and/or procedural changes that reduce the effectiveness or eliminate the manual controls. Also, the Commonwealth has demonstrated its intention to rely more on computer controls and less on manual controls. Further, Commonwealth management has communicated its intentions to rely more on the capabilities and stability of the SAP Enterprise Resource Planning implementation.

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Finding 2015 – 005: (continued)

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

Recommendation: We recommend that Commonwealth management continue the current effort to update and maintain a current diagram of SAP and its interfaces. The diagram should identify the source applications that originate data interfacing with SAP and provide a clear view of the SAP data that are populated through each interface. Also, we recommend that an owner for the interface listing is established who can update and maintain the listing. The required information should include, at a minimum, source ID, source agency, application name, document type, and transaction code. Ideally, the owner would be involved in the change request process to ensure awareness of requests for new interfaces.

We recommend that Commonwealth management continue to resolve the various general computer control deficiencies noted above. Commonwealth management should ensure that controls are in place as identified in the MDs and ITPs to maintain a well-controlled IT environment. Management has made progress in resolving general IT control deficiencies; however, significant issues continue to exist in multiple agencies including: administrative access not commensurate with job responsibilities, segregation of duties weaknesses between development and production responsibilities, password configuration and periodic access reviews. We recommend that management focus their efforts in these areas to address the pervasive issues as a priority.

Commonwealth management also needs to monitor service organizations to ensure the appropriate controls are in place over the outsourced IT environments. Further, any control exceptions noted in service organization reports should be communicated to the affected agencies.

Finally, OA-OIT management should continue to communicate effective data migration requirements to affected agencies (and monitor agency compliance with those requirements) as the PACS initiative proceeds to ensure appropriate controls are in place over critical financial data.

Office of the Budget (OB) / Office of Administration (OA) Response to issue 1 listed under General Computer Control Deficiencies:

1. OB and OA agree with the finding and will continue the current effort to update and maintain a current diagram of SAP and its interfaces.

Office of Administration (OA) Response to issues 2 – 4 listed under General Computer Control Deficiencies:

2. Provided that services under the Data Powerhouse contract will terminate by January 31, 2016, the Commonwealth will focus its efforts on remediating the potential for this finding under the new replacement contract - PA Compute Services (PACS). Under the PACS agreement, the Commonwealth will document a policy to address completion and distribution of SSAE No 16 audit reports to appropriate consumers of services provided under PACS.
3. The Office for Information Technology will incorporate the checklist into a migration policy that will be leveraged for future migrations of critical applications.
4. *Due to the sensitive and confidential nature of the management response to this condition, the information is not included in the published report.*

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 005: (continued)

OA Response:

1. The Office of Administration and the Office of Comptroller Operations will work collaboratively with the Department of Education to formally document the ownership over the LEAPS application including establishment of a governance committee to review the approach to the re-platforming effort.
2. The current LEAPS application resides on unsupported technology, namely an end-of-life version of Progress. The Office of Administration will work with the governance committee to define an approach to migrate off of this unsupported platform. In the meantime, the Office of Administration will submit a waiver to ITP SEC007 regarding the length, complexity and maximum lifetime requirements.

Office of the Budget – Bureau of Payable Services (OB-BPS) Response:

1. OB-BPS agrees with the finding.

Pennsylvania Lottery (Lottery) Response:

1. Lottery agrees with the finding.
2. Lottery agrees with the finding.
3. Lottery agrees with the finding.

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

1. The finding is acknowledged. Within L&I, the creation of a detailed, documented enterprise SDLC is a shared responsibility across multiple OIT groups, including enterprise architecture and project management. Unfortunately, due to staffing limitations caused by the current hiring freeze imposed by the Governor's office during the budget impasse and because of past hiring restrictions, OIT has not been able to hire the resources needed to create an enterprise SDLC. When the current hiring freeze is lifted, OIT plans to hire multiple project managers and recommendations for candidates have already been submitted for approval. L&I OIT is currently re-organizing, and as part of the re-organization, resources will be realigned to help fill gaps that we have today. Based on these factors it is the goal of OIT to create an enterprise SDLC by October 1, 2016.
 - Finding is acknowledged. Testing prior to implementation of program changes will be part of the pending enterprise SDLC.
 - Finding is acknowledged. Data migration accuracy will be part of the pending enterprise SDLC
2. The finding is acknowledged. Due to current staffing levels, the documented access has been determined to be necessary. L&I will work to document the reason for these access levels by June 1, 2016.
3. The finding is acknowledged. Due to current staffing levels, resources do not currently exist to conduct the access reviews on a regular basis.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 005: (continued)

State Workers' Insurance Fund (SWIF) Response:

1. The finding is acknowledged. Within L&I, the creation of a detailed, documented enterprise SDLC is a shared responsibility across multiple OIT groups, including enterprise architecture and project management. Unfortunately, due to staffing limitations caused by the current hiring freeze imposed by the Governor's office during the budget impasse and because of past hiring restrictions, OIT has not been able to hire the resources needed to create an enterprise SDLC. When the current hiring freeze is lifted, OIT plans to hire multiple project managers and recommendations for candidates have already been submitted for approval. L&I OIT is currently re-organizing, and as part of the re-organization, resources will be realigned to help fill gaps that we have today. Based on these factors it is the goal of OIT to create an enterprise SDLC by October 1, 2016. Additionally, it is the expectation of OIT that once the pending SWIF RFP is awarded, and before the vendor starts development/design efforts, a document SDLC will be created for the SWIF modernization project based on the L&I SDLC and/or L&I requirements.
2. The finding is acknowledged. A RFP is currently being drafted to modernize the SWIF systems. The modernization of the SWIF systems will include a data migration, which will include formal reconciliation processes as requirements of the RFP and associated project.
3. The finding is acknowledged. Research is underway to determine if it's possible to implement changes for staff to use their CWOPA credentials to access the server without losing the access needed to perform their daily job duties. Replacement or adaptation of the OnBase product with a product or configuration that meets all requirements is part of the pending SWIF modernization RFP.
4. The finding is acknowledged. COPPAR 2015ITBW0648 was approved with the following condition; Report the non-compliant systems, devices, or applications to the Commonwealth CISO as part of the agency's annual Nationwide Cyber Security Review (NCSR). Submit new waiver request if the application or systems undergoes a substantial revision or replacement.
5. The finding is acknowledged. COPPAR 2015ITBW0648 was approved with the following condition; Report the non-compliant systems, devices, or applications to the Commonwealth CISO as part of the agency's annual Nationwide Cyber Security Review (NCSR). Submit new waiver request if the application or systems undergoes a substantial revision or replacement.

Department of Transportation (PennDOT) Response:

1. PennDOT agrees with the finding and acknowledges that the issue was remediated.
2. PennDOT agrees with the finding and acknowledges that the issue was remediated.
3. PennDOT agrees with the finding.
4. PennDOT agrees with the finding.
5. PennDOT agrees with the finding.

Department of Human Services (DHS) Response:

1. DHS agrees with this deficiency; however, please note as stated in this preliminary finding, this deficiency has been remediated.
2. DHS agrees with this deficiency.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 005: (continued)

3. DHS agrees with this deficiency.

Department of Health (DOH) Response:

1. DOH will take no further action relative to this finding, as there are no current year weaknesses cited and all prior year weaknesses have been remediated.
2. DOH will take no further action relative to this finding, as there are no current year weaknesses cited and all prior year weaknesses have been remediated.

Department of Education (PDE) Response:

1. During the GAAP IT Audit Exit Conference, held January 29, 2016, the auditors stated that the only remaining correction needed for PDE's portion of this finding was to document PDE's policy and procedures for the restriction of vendor staff access cited in this finding as partially remediating this finding. With this clarification, PDE now agrees with PDE's portion of this finding.
2. During the GAAP IT Audit Exit Conference, held January 29, 2016, the auditors stated that the only remaining correction needed for PDE's portion of this finding was to document PDE's policy and procedures for the restriction of vendor staff access cited in this finding as partially remediating this finding. With this clarification, PDE now agrees with PDE's portion of this finding.
3. During the GAAP IT Audit Exit Conference, held January 29, 2016, the auditors stated that the only remaining correction needed for PDE's portion of this finding was to document PDE's policy and procedures for the restriction of vendor staff access cited in this finding as partially remediating this finding. With this clarification, PDE now agrees with PDE's portion of this finding.
4. During the GAAP IT Audit Exit Conference, held January 29, 2016, the auditors stated that the only remaining correction needed for PDE's portion of this finding was to document PDE's policy and procedures for the restriction of vendor staff access cited in this finding as partially remediating this finding. With this clarification, PDE now agrees with PDE's portion of this finding.
5. During the GAAP IT Audit Exit Conference, held January 29, 2016, the auditors confirmed the statement in this portion of the finding that it was remediated by PDE's corrective action of September 2015, and therefore no further corrective action would be necessary. With this clarification, PDE now agrees with PDE's portion of this finding.

Department of Revenue (DOR) Response:

1. DOR agrees with the finding.
2. DOR agrees with the finding.
3. DOR agrees with the finding.
4. DOR agrees with the finding.
5. DOR agrees with the finding.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2015

Finding 2015 – 005: (continued)

Auditors' Conclusion: We continue to be mindful that the amount of information contained in this finding is considerable, and we are pleased that management has agreed with the majority of the finding deficiencies. Moreover, we are encouraged that management has corrected many of the identified deficiencies and continues to develop corrective actions for the remaining deficiencies.

Regarding OA's disagreement with Condition #4, Item #2, of the five control deficiencies noted under General Computer Control Deficiencies, we reviewed the additional information provided and will examine evidence to support it in the subsequent audit.

Regarding PDE's response to Condition #1-4, we communicated at the exit conference that not only should PDE document policy and procedures for the restriction of vendor staff access, but also for monitoring of authorized vendor staff actions when accessing the system and the appropriateness of the actions.

We will review corrective actions in the subsequent audit.

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

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2015

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2015-006 *	93.044 93.045 93.053	Aging Cluster	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Aging's Financial Reporting Requirements System	N/A	None	PDA	75	197
2015-007 **	14.228	Community Development Block Grants – State's Program	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 2014-008)	MNC	ND	DCED	77	198
2015-008 *	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Internal Control Weakness Related to Personnel Expenditures	N/A	None	DDAP	80	199
2015-009 N/A	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Material Noncompliance Exists Over the Department of Drug and Alcohol Programs' Level of Effort and Earmarking Related to HIV Services	MNC	\$6,485,237	DDAP	82	199
2015-010 *	10.553 10.555 10.556 10.559 10.558	Child Nutrition Cluster Child and Adult Care Food Program	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 2014-010)	N/A	None	PDE	85	200
2015-011 *	84.010	Title I Grants to Local Educational Agencies	A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount (A Similar Condition Was Noted in Prior Year Finding 2014-011)	NC	None	PDE	87	200

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2015

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2015-012 **	84.010	Title I Grants to Local Educational Agencies	A Material Weakness and Noncompliance Exist Over the Pennsylvania Department of Education's Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (A Similar Condition Was Noted in Prior Year Finding 2014-012)	NC	None	PDE	90	201
2015-013 *	84.027 84.173	Special Education Cluster (IDEA)	Noncompliance and Internal Control Deficiencies Over Subrecipient Monitoring	NC	None	PDE	98	203
2015-014 *	84.027 84.173	Special Education Cluster (IDEA)	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Private Non-Public Enrollment System	N/A	None	PDE	101	203
2015-015 *	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Noncompliance and Internal Control Weakness Related to Compliance Investigations of High-Risk Vendors	NC	\$3	DOH	103	204
2015-016 *	93.917	HIV Care Formula Grants	Significant Deficiency and Noncompliance Over Drug Rebates	NC	ND	DOH	105	204
2015-017 **	10.551 93.558 93.714	Supplemental Nutrition Assistance Program Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)	A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (A Similar Condition Was Noted in Prior Year Finding 2014-015)	MNC	ND	DHS	107	204
2015-018 *	93.558	Temporary Assistance for Needy Families	A Significant Deficiency and Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 2014-016)	NC	None	DHS	109	205

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2015

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page																																							
2015-019 *	93.558	Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)	Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding 2014-018)	NC	ND	DHS	112	206																																							
	93.714								2015-020 **	93.558	Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)	Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (A Similar Condition Was Noted in Prior Year Finding 2014-017)	MNC	ND	DHS	117	206	93.658	Foster Care – Title IV-E	93.659	Adoption Assistance	2015-021 *	93.558	Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)	Noncompliance and Significant Deficiency in Internal Controls Over Quality Control Review	NC	ND	DHS	120	207	93.714		2015-022 **	93.575	Child Care and Development Fund (CCDF) Cluster	Material Noncompliance and Material Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-021)	MNC	ND	DHS	122	207	93.596		2015-023 ** SSBG * SABG	93.667	Social Services Block Grant	Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 2014-022)
2015-020 **	93.558	Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)	Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (A Similar Condition Was Noted in Prior Year Finding 2014-017)	MNC	ND	DHS	117	206																																							
	93.658	Foster Care – Title IV-E																																													
	93.659	Adoption Assistance																																													
2015-021 *	93.558	Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)	Noncompliance and Significant Deficiency in Internal Controls Over Quality Control Review	NC	ND	DHS	120	207																																							
	93.714																																														
2015-022 **	93.575	Child Care and Development Fund (CCDF) Cluster	Material Noncompliance and Material Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-021)	MNC	ND	DHS	122	207																																							
	93.596																																														
2015-023 ** SSBG * SABG	93.667	Social Services Block Grant	Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 2014-022)	MNC-SSBG NC-SABG	ND	DHS	124	208																																							
	93.959	Block Grants for Prevention and Treatment of Substance Abuse																																													

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

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

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2015

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2015-024 *	93.775 93.777 93.778	Medicaid Cluster (including ARRA)	Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 2014-023)	NC	\$3,345	DHS	128	209
2015-025 *	17.225	Unemployment Insurance (including ARRA)	Department of Labor and Industry Did Not Comply With Unemployment Compensation Program Integrity Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-024)	NC	None	L&I	130	210
2015-026 *	17.225 17.258 17.259 17.278 84.126	Unemployment Insurance (including ARRA) Workforce Investment Act (WIA) Cluster Rehabilitation Services – Vocational Rehabilitation Grants to States	Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 2014-025)	N/A	None	L&I	132	210
2015-027 **	17.258 17.259 17.278	Workforce Investment Act (WIA) Cluster	Material Noncompliance and a Material Weakness Exist Over Subrecipient Monitoring	MNC	ND	L&I	134	210
2015-028 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry’s Procedures for Performing Eligibility Determinations and Completing Individualized Plans for Employment (A Similar Condition Was Noted in Prior Year Finding 2014-027)	NC	None	L&I	137	211
2015-029 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (A Similar Condition Was Noted in Prior Year Finding 2014-026)	NC	None	L&I	139	211

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2015

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2015-030 *	96.001	Social Security-Disability Insurance	The Bureau of Disability Determination Failed to Maintain Documentation to Support the Performance of Consultative Examinations	NC	None	L&I	141	212
2015-031 *	64.015	Veterans State Nursing Home Care	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Result in Questioned Costs of \$3,174 (A Similar Condition Was Noted in Prior Year Finding 2014-030)	NC	\$3,174	DMVA	143	212
2015-032 *	97.067	Homeland Security Grant Program	Significant Deficiency and Noncompliance Over Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding 2014-032)	NC	ND	PEMA	145	213
2015-033 *	97.067	Homeland Security Grant Program	Significant Deficiency in Internal Control Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 2014-033)	N/A	ND	PEMA	147	213
2015-034 **	66.458	Capitalization Grants for Clean Water State Revolving Funds	Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 2014-034)	MNC	None	PENNVEST	149	214
2015-035 *	Various	Various CFDA Numbers – See Finding	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 2014-035)	NC	ND	Various	151	214

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2015

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2015-036 **	Various	Various CFDA Numbers – See Finding	State Agencies Did Not Identify the Federal Award Information and Applicable Requirements at the Time of the Subaward and Did Not Evaluate Each Subrecipient’s Risk of Noncompliance as Required by the Uniform Grant Guidance	NC	ND	Various	155	216
2015-037 **	Various	Various CFDA Numbers – See Finding	Material Noncompliance and a Material Weakness Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding 2014-037)	MNC	ND	Various	161	218
2015-038 *	Various	Various CFDA Numbers – See Finding	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$95,403 in Questioned Costs Related to the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding 2014-036)	NC	\$95,403	OB/OCO	169	221

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

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

COMMONWEALTH OF PENNSYLVANIA

Matrix of Findings by Federal Agency - June 30, 2015

Finding	USDA	HUD	DOL	DOT	ARC	DVA	EPA	ED	HHS	SSA	USDHS
Prefix	10	14	17	20	23	64	66	84	93	96	97
2015-006									X		
2015-007		X									
2015-008									X		
2015-009									X		
2015-010	X										
2015-011								X			
2015-012								X			
2015-013								X			
2015-014								X			
2015-015	X										
2015-016									X		
2015-017	X								X		
2015-018									X		
2015-019									X		
2015-020									X		
2015-021									X		
2015-022									X		
2015-023									X		
2015-024									X		
2015-025			X								
2015-026			X					X			
2015-027			X								
2015-028								X			
2015-029								X			
2015-030										X	
2015-031						X					
2015-032											X
2015-033											X
2015-034							X				
2015-035				X	X				X		
2015-036				X	X				X		
2015-037	X	X	X	X	X		X	X	X		X
2015-038	X						X	X	X	X	

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Department of Aging

Finding 2015 – 006:

CFDA #93.044, 93.045, and 93.053 – Aging Cluster

Deficiencies in Information Technology Controls Over the Pennsylvania Department of Aging’s Financial Reporting Requirements System

Federal Grant Numbers and Years: 15AAPAT3SS (10/01/2014 – 9/30/2015), 15AAPAT3CM (10/01/2014 – 9/30/2015), 15AAPAT3HD (10/01/2014 – 9/30/2015), 15AAPANSIP (10/01/2014 – 9/30/2015)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Financial Reporting Requirements System (FRRS) is a mainframe application developed by the Pennsylvania Department of Aging (PDA) that records Area Agency on Aging (AAA) expenditures and tracks matching at the subrecipient level. Additionally, the FRRS tracks program income reported by AAAs. As part of our audit of the PDA major program for the fiscal year ended June 30, 2015, we performed certain information technology (IT) general controls review procedures for the FRRS. During our review, we found that password requirements for FRRS did not fully comply with requirements of Information Technology Policy (ITP) – SEC007, “Minimum Standards for User IDs and Passwords,” specifically regarding the requirements to change default passwords and for password complexity.

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

Cause: The FRRS resides on an IBM AS/400 computer system. PDA management creates FRRS user accounts with a default password. Although users are instructed to change their default passwords to match their CWOPA passwords, the AS/400 system settings do not require the user to change the default password, nor do the settings require the user to create a password that complies with the password complexity requirements of ITP – SEC007. PDA management indicated that a program code change request to IBM would be necessary for the AS/400 to require FRRS passwords comply with the requirements of ITP – SEC007.

Effect: The deficiencies noted above in IT general controls could result in inappropriate system access and unauthorized changes to key financial data of the Aging Cluster.

Recommendation: We recommend that PDA management change the system parameter password settings to comply with Commonwealth ITP – SEC007, or request a waiver from the Office of Administration, Office for Information Technology, for the non-compliance.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 006: (continued)

Agency Response: The Department of Aging agrees with the finding.

Questioned Costs: None

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Department of Community and Economic Development

Finding 2015 – 007:

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

The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 2014-008)

Federal Grant Numbers and Years: B-08-DC-42-0001 (1/01/2008 – 9/30/2015), B-09-DC-42-0001 (1/01/2009 – 9/30/2016), B-10-DC-42-0001 (01/01/2010 – 9/30/17), B-11-DC-42-0001 (01/01/2011 – 9/30/2018), B-12-DC-42-0001 (1/1/2012 – 9/30/2019), B-13-DC-42-0001 (01/01/2013 – 9/30/2020), B-08-DN-42-0001 (12/29/2008 – 12/29/2012), B-11-DN-42-0001 (03/17/2011 – 03/17/2014), B-13-DS-42-0001 (6/01/2015 – 9/30/2017)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2015, the Department of Community and Economic Development (DCED) reported subrecipient expenditures for the US Department of Housing and Urban Development (HUD), Community Development Block Grants (CDBG) – State’s Program (including Neighborhood Stabilization Programs (NSP)) of \$34,273,185, which represented approximately 95 percent of total CDBG cluster expenditures on the Schedule of Expenditures of Federal Awards (SEFA). Based on our examination of the DCED Monitoring Schedule, there were 90 on-site visits scheduled for calendar year 2014. Of the scheduled on-site visits during the audit period, there were on-site monitoring visits made to 25 subrecipients during which 43 contracts were reviewed spanning contract years 2009 – 2014. DCED continues to be behind in monitoring all of its subrecipients in accordance with its monitoring schedule.

DCED is required to maintain internal controls that ensure subrecipient grant funds are utilized within the established contract period. The grant managers monitor the subrecipient contracts and the progress of projects through review of expenditure reports, written and verbal communication, and desk and site visits. Additionally, beginning in March 2014 with the issuance of Fiscal Directive 2014-04, the Financial Management Center (FMC) of DCED has performed a review of invoices submitted by CDBG subrecipients prior to the disbursement of federal funds through HUD’s Integrated Disbursement & Information System (IDIS) for compliance with the following:

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

In addition, on a sample basis, documentation and controls that support the CDBG invoices submitted by the subrecipients are reviewed. For NSP, as part of during-the-award monitoring, NSP invoices and supporting documentation are reviewed and approved by grant managers prior to payment.

During the year ended June 30, 2015, we selected a sample of 40 requests for reimbursement submitted from various subrecipients and noted that each request contained invoice support that had been reviewed by the FMC.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 007: (continued)

The table below highlights the number of awarded subrecipients by grant year and the outstanding monitoring activities that have not been conducted as of June 30, 2015.

Grant Year	Total Subrecipients	Subrecipient Desk Reviews/On-Site Visits Outstanding
2009*	185	125
2010	156	108
2011*	133	89
2012**	159	145
2013	140	135

* Includes NSP 1 and NSP 3 contracts

** Includes Disaster Recovery contracts

There were no 2014 grant funds expended during the fiscal year ended June 30, 2015.

Criteria: Regarding subrecipient monitoring, HUD regulation 24 CFR Section 85.40 (a) states:

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

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

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

A material number of subrecipients expended individually less than \$500,000 in total federal awards from the Commonwealth during the fiscal year ended June 30, 2014, and as a result would not have been required to submit an OMB A-133 Single Audit to the Commonwealth during the fiscal year ended June 30, 2015. Therefore, these subrecipients were only subject to fiscal monitoring by the program.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 007: (continued)

Agency Response: DCED agrees with the finding.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Drug and Alcohol Programs

Finding 2015 – 008:

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

Internal Control Weakness Related to Personnel Expenditures

Federal Grant Numbers and Years: TI010044-14 (10/01/2013 – 9/30/2014) and TI010044-15 (10/01/2014 – 9/30/2015)

Type of Finding: Significant Deficiency

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Condition: Our testing of the Department of Drug and Alcohol Programs' (DDAP) administration of the Block Grants for Prevention and Treatment of Substance Abuse (SABG) Program found that personnel expenditures were not adequately supported by employee job descriptions. Employee job descriptions are integral to document the employee's responsibilities, including detailing the functions performed for each program, and should be signed by the employee evidencing the employee understands the job requirements. The job descriptions should also be reviewed and approved by DDAP management and revisited and updated regularly.

DDAP employees document their hours worked on each program using biweekly timesheets. Initially all of the personnel expenditures for any DDAP employee working on SABG are charged to SABG. At the end of each quarter, DDAP management accumulates the hours charged to other programs from the timesheets and adjusts the expenditures accordingly. During the fiscal year ended June 30, 2015, personnel expenditures for SABG totaled \$5.26 million or 10.1% of total program expenditures of \$52.23 million.

We reviewed 25 SABG personnel expenditures totaling \$55,719, which included payroll for 23 individual DDAP employees. We obtained the related employee biweekly timesheet and reconciled the employee hours to the quarterly personnel report. However, DDAP could not provide employee job descriptions for 7 or 30.4 percent of the 23 employees tested. Job descriptions for these positions have not existed since DDAP, formerly under the Department of Health, became a department in July 2012. Additionally, 3 or 18.7 percent of the 16 job descriptions provided did not have employee or management signatures.

Criteria: 45 CFR §96.30 in part states:

(a) Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

Cause: DDAP management stated when DDAP became a department in July 2012, it continued to use the Department of Health employee job descriptions for several positions until the transition from a bureau into a department was complete. Additionally, DDAP in conjunction with the Governor's Executive Offices, Office of Human Resources, began conducting a classification study of a number of DDAP positions to ensure job class specifications were consistent with current procedures and practices. The study began in May 2014 and a tentative completion date is unknown due to the involvement of multiple agencies. DDAP management stated that updating employee job descriptions during the course of the study would be counterproductive.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 008: (continued)

Effect: Although our audit determined DDAP personnel costs to be allowable, the lack of signed employee job descriptions represents an internal control weakness in the required documentation to evidence allowability of costs. If controls are not operating effectively, there is the potential for errors to go undetected, and costs may not be appropriately allocated to federal programs.

Recommendation: DDAP management should strengthen SABG internal controls to ensure employee job descriptions are on file for all DDAP staff and have been approved by DDAP management and signed by the employee.

Agency Response: The Department of Drug and Alcohol Programs (DDAP) became a cabinet level agency on July 1, 2012. Prior to that date, this office functioned as a Bureau within the Department of Health. DDAP acknowledges that signed employee job descriptions are currently unavailable for some employees. However, it is important to note that since becoming a Department, DDAP utilizes the Office of Administration, Human Resources Office (OA HR), as its Human Resources Office through an MOU. DDAP had been working through OA HR with Department of Health to transition job descriptions. Additionally, staff from OA HR and DDAP have worked to conduct a classification study of job titles. This occupational study is expected to result in significant changes that will ultimately be adopted into the Commonwealth's Classification and Compensation Plan. Recently, DDAP has made tremendous progress in this area and continues to make every effort to meet all requirements as it relates to current employee job descriptions.

Auditors' Conclusion: We acknowledge that DDAP is conducting the classification study to update job titles and descriptions. However, job descriptions should currently be in place to ensure personnel costs are for program employees.

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

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Drug and Alcohol Programs

Finding 2015 – 009:

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

Material Noncompliance Exists Over the Department of Drug and Alcohol Programs' Level of Effort and Earmarking Related to HIV Services

Federal Grant Number and Year: TI010044-14 (10/01/2013 – 9/30/2015)

Type of Finding: Material Noncompliance

Compliance Requirement: Matching, Level of Effort, Earmarking

Condition: The Department of Drug and Alcohol Programs (DDAP) received a letter from the Substance Abuse and Mental Health Services Administration (SAMHSA) inviting Pennsylvania to apply for the federal fiscal year (FFY) 2014 Substance Abuse Prevention and Treatment Block Grant (SABG). The letter indicated that Pennsylvania was a designated state based on the 2011 data from the most recent "HIV AIDS Surveillance Report" issued by the Centers for Disease Control and Prevention (CDC). A designated state is defined as any state whose rate of cases of acquired immune deficiency syndrome (AIDS) is 10 or more such cases per 100,000 individuals. According to the letter, Pennsylvania's rate of cases was 11.1 per 100,000 individuals.

As a designated state for FFY 2014, DDAP must expend 5 percent or \$2,896,165 of the state allotment reported by SAMHSA for human immunodeficiency virus (HIV) services. Also, DDAP must maintain expenditures of nonfederal amounts for HIV services exceeding the average of such expenditures maintained by the state for the two years prior to the first fiscal year the state received such a grant. For Pennsylvania, the nonfederal expenditure level is based on the average of fiscal years ended June 30, 1992 and 1993, or \$3,589,072.

Through the end of the FFY 2014 block grant on September 30, 2015, DDAP did not expend any federal or nonfederal amounts for HIV services. Total SABG program expenditures for the fiscal year ended June 30, 2015 were \$52.2 million.

Criteria: 45 CFR §96.128 states:

(b) For purposes of this section, a "designated State" is any State whose rate of cases of acquired immune deficiency syndrome is 10 or more such cases per 100,000 individuals (as indicated by the number of such cases reported to and confirmed by the Director of the Centers for Disease Control for the most recent calendar year for which the data are available).

(f) With respect to services provided for a State for purposes of compliance with this section, the State shall maintain Statewide expenditures of non-Federal amounts for such services at a level that is not less than the average level of such expenditures maintained by the State for 2-year period preceding the first fiscal year for which the State receives such a grant. In making this determination, States shall establish a reasonable base for fiscal year 1993. The base shall be calculated using Generally Accepted Accounting Principles and the composition of the base shall be applied consistently from year to year.

Additionally, 42 USC §300x-24(b) states:

(4) Applicable percentage regarding expenditures for services

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 009: (continued)

(A)(i) For purposes of paragraph (1)(B), the percentage that is applicable under this paragraph for a designated State is, subject to subparagraph (B), the percentage by which the amount of the grant under section 300x–21 of this title for the State for the fiscal year involved is an increase over the amount specified in clause (ii). (ii) The amount specified in this clause is the amount that was reserved by the designated State involved from the allotment of the State under section 300x–1a of this title for fiscal year 1991 in compliance with section 300x–4(c)(6)(A)(ii) 1 of this title (as such sections were in effect for such fiscal year).

(B) If the percentage determined under subparagraph (A) for a designated State for a fiscal year is less than 2 percent (including a negative percentage, in the case of a State for which there is no increase for purposes of such subparagraph), the percentage applicable under this paragraph for the State is 2 percent. If the percentage so determined is 2 percent or more, the percentage applicable under this paragraph for the State is the percentage determined under subparagraph (A), subject to not exceeding 5 percent.

Cause: While evaluating the reinstatement of HIV early intervention services in treatment programs, DDAP management revisited the CDC’s 2011 data and found the basis of SAMHSA’s determination of Pennsylvania as a designated state was based upon data specific to adults and adolescents and not the total population. DDAP management stated this appeared contrary to the language in 45 CFR §96.128, and Pennsylvania would not be considered a designated state if the rate used was based upon total population. Additionally, DDAP management stated both HIV and AIDS cases appeared to be trending downward and it would be an imprudent use of limited SABG funds to move forward with actual implementation of HIV programs since similar services were successfully being provided through the Department of Health.

Effect: Failure to expend SABG funds and related nonfederal funds for HIV services violates federal regulations and negatively impacts the Pennsylvania citizens that should have benefitted from these programs.

Recommendation: DDAP should comply with federal regulations or pursue reevaluation of the determination of Pennsylvania as a designated state from SAMHSA.

Agency Response: The Department of Drug and Alcohol Programs (DDAP) does not concede that Pennsylvania is truly an HIV designated state for Federal Fiscal Year (FFY) 2014, the period designated under this audit finding. HIV Early Intervention Services were terminated beginning with the FFY 2012 Substance Abuse Prevention and Treatment Block Grant when the state became a non-designated state for such services. Although the initial invitation for application to the Substance Abuse Prevention and Treatment (SAPT) Block Grant listed Pennsylvania as an HIV designated state, that invitation also indicated that this would be confirmed through subsequent correspondence. No further correspondence was received in this regard. Additionally, the statute applicable to the SAPT Block Grant clearly states that a state or territory is a designated state if the number of AIDS cases registered with the Center for Disease Control (CDC) for the three year preceding the year of application is 10 cases per 100,000 or greater. A review of the CDC data indicates a rate of 9.4 per 100,000 for the total population, including the population of 13 years of age and older combined with the ages of 0 through 12. The language of the statute does not discern between age groups. Although DDAP had included language in the FFY 2014 SAPT Block Grant Assessment and Plan addressing plans to reinstate HIV Early Intervention Services under the FFY 2014 Block Grant, the approved FFY 2015 Block Grant Report clearly states that such efforts were abandoned. The state is in the process of seeking confirmation in this regard from the Substance Abuse and Mental Health Administration, beyond approval of the prior FFY 2015 and FFY 2016 Block Grant Reports, both which stated the position of the State Single Authority concerning HIV Early Intervention Services under the FFY 2014 Block Grant.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 009: (continued)

Auditors' Conclusion: We acknowledge that DDAP's understanding is that Pennsylvania is not a HIV designated state; however, the documentation from SAMHSA designates Pennsylvania as a designated state. Confirmation from SAMHSA is necessary for resolution of this finding. Our finding and recommendations remain as previously stated.

Questioned Costs: The questioned costs total \$6,485,237 (\$2,896,165 of federal funds and \$3,589,072 of nonfederal funds).

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Education

Finding 2015 – 010:

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

Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 2014-010)

Federal Grant Numbers and Years: 2014-1PA300305 (10/1/2013 – 9/30/2014) and 2015-1PA300305 (10/1/2014 – 9/30/2015)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) is customized software developed as a joint effort by an outside vendor and the Pennsylvania Department of Education (PDE). As part of our audit of the PDE major programs for the fiscal year ended June 30, 2015, we performed certain information technology (IT) general controls review procedures for the CN-PEARS system. In prior audits, we found a lack of segregation of duties between application development and deployment of program changes into production, as well as a lack of a monitoring process to detect unauthorized changes in the production environment to which the vendor has continuous access. In addition, two outside vendor employees deployed programs to production using only one shared user ID, and PDE management did not effectively monitor this activity.

During the current year audit we found that PDE had received a Letter of Determination from the United States Department of Agriculture (USDA) on November 23, 2015, resolving prior year finding 2014-010, based on sample documents provided to USDA on November 5, 2015. According to the Letter of Determination, PDE had provided evidence that they were requiring deployment identifiers be assigned for all items deployed to production and that the PDE IT manager signs off on all deployments. Although USDA resolved the finding based on these sample documents, PDE did not provide these documents to the auditors since they were created after June 30, 2015. Therefore, we could not conclude that the controls were functioning during the 2014-2015 fiscal year.

Further, we found that management remediated a prior year weakness in October 2014 by requiring two outside vendor employees (a primary and a backup) to utilize unique user IDs when promoting programs to production. They had previously been sharing one user ID.

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*, published May 2013, Control Activities Component, states in part:

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed; and deploys control activities through policies that establish what is expected and procedures that put policies into action.

General control activities over technology are integral to the overall internal control structure of the Commonwealth. A well-designed system of internal controls dictates that sound general computer controls be established and functioning to ensure that federal programs are administered in accordance with management’s intent.

Cause: Vendor personnel develop all program changes and then deploy the changes into PDE’s production environment using their remote access into PDE’s system. In prior audits, PDE was unable to demonstrate that all changes deployed by the vendor had been approved by PDE. According to the USDA Letter of Determination, PDE now requires a “build number” to be assigned to all deployments when the SharePoint site is updated by the vendor. Formal change requests

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Finding 2015 – 010: (continued)

involving a cost are reviewed by the IT staff, the IT Project Manager, and the Division Director. Deployments performed at no charge by the vendor (bug fixes, complimentary updates, etc.) are approved by the IT Project Manager and these items are entered and tracked through SharePoint. Under PDE's previous policy, these no-cost deployments had no identifier, and PDE approval of the deployment could not be tracked. According to the USDA Determination letter, in fiscal year 2015, PDE modified their policy to require a build number or deployment identifier be assigned in SharePoint for all items deployed. These numbers are referenced in the deployment log and assist in ensuring that all deployments have been approved by PDE. However, evidence of the new control was not provided to the auditors since they were implemented after June 30, 2015. We will review the new controls in the subsequent audit.

Regarding the shared user ID to deploy programs to production, the vendor infrastructure team that deploys code into PDE's production servers consisted of one primary person to deploy and one backup. During the audit period, the primary and the backup had the ability to access PDE's server using the same user ID, until a second user ID was created in October 2014 to remediate the weakness.

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

Recommendation: We recommend that PDE review and approve all vendor changes to the CN-PEARS system. PDE should maintain documentation of management's authorization, testing, and final approval of each change before deployment to the production environment. Evidence of the review should be documented, retained, and provided for audit.

Agency Response: PDE, Division of Food and Nutrition, will continue to implement the corrective action that was approved by USDA in the Program Determination Letter (PDL) dated November 23, 2015. This PDL also stated that the prior year Finding 2014-010 was closed with no further corrective action needed. Documentation will be available for the subsequent audit and should remediate this finding.

Questioned Costs: None

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

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Department of Education

Finding 2015 – 011:

CFDA #84.010 – Title I Grants to Local Educational Agencies

A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education’s Reporting of the Annual State Per Pupil Expenditure Amount (A Similar Condition Was Noted in Prior Year Finding 2014-011)

Federal Grant Numbers and Years: S010A110038 (7/01/2011 – 12/30/2013), S010A120038 (7/01/2012 – 12/30/2015), S010A130038 (7/01/2013 – 12/30/2015), and S010A140038 (7/01/2014 – 12/30/2016)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

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

During the fiscal year ended June 30, 2015, PDE obtained the 2013-2014 school year ADA data from PIMS and used the data to calculate its SPPE amount. Although the underlying expenditures used in the SPPE calculation appeared to be accurately reported by PDE on the 2014 NPEFS in August 2015, Basic Financial Statement Finding 2015-005, which was reported for the Commonwealth for the fiscal year ended June 30, 2015, disclosed that control deficiencies over segregation of duties, program and data access, and program change methodology existed within PDE’s PIMS from which the ADA data is obtained. PDE has a manual compensating control requiring that the ADA be reported on the Accuracy Certification Statement (ACS) which is to be submitted to PDE with each LEA’s upload of PIMS child accounting data and certified for accuracy by each LEA’s chief administrator. We selected a sample of 40 LEAs’ ADA data as reported by PDE and the corresponding ACS forms, and we were able to recalculate PDE’s reported ADA. However, for 6 of the 40 LEAs, the ADA reported by PDE did not agree to the ADA reported by the LEAs on the ACS forms as follows:

Item Number	ADA Reported by PDE	ADA Reported by the LEAs on the ACS	Difference Overstatement/ (Understatement)
1	9762.084	9761.738	0.346
2	780.220	783.010	(2.790)
3	2726.915	2727.069	(0.154)
4	766.105	767.037	(0.932)
5	2944.296	2944.098	0.198
6	1061.732	1062.234	(0.502)

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Finding 2015 – 011: (continued)

PDE's manual compensating control to ensure the accuracy of the PIMS' ADA data was not operating effectively. Therefore, PDE is placing reliance on a system with information technology general control deficiencies to report the ADA for the SPPE in the NPEFS.

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

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

20 USC § 7801 states:

(1) *Average daily attendance*

(A) *In general*

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

(i) *The aggregate number of days of attendance of all students during a school year; divided by*

(ii) *The number of days school is in session during that year.*

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

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

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

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

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

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

Cause: The ADA data used in the calculation of the SPPE amount on the NPEFS was prepared by PDE from PIMS which has inadequate information technology general controls as reported in Basic Financial Statement Finding 2015-005. Although PDE has a manual compensating control, when the LEAs submitted revised ADA data they did not submit the revised ACS as instructed, and PDE does not have a procedure to enforce the submission of the revised ACS.

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

Recommendation: PDE management should take the necessary action to resolve the various general computer control deficiencies cited in Basic Financial Statement Finding 2015-005. PDE should check the accuracy of the LEAs' ADA which did not agree to the ACS and make any necessary corrections. PDE management should ensure that manual compensating controls are adequately designed and operating effectively to ensure that the ADA data used in the calculation of the SPPE amount on the NPEFS is accurate. PDE should implement procedures to require the LEAs to submit the revised ACS with the submission of the revised ADA.

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Finding 2015 – 011: (continued)

Agency Response: PDE recognizes that one of its challenges in ensuring the accuracy of ADA data is that it has limited control over the local information on which it is based. While PDE provides training, guidance and resources to the local education agencies (LEAs) that prepare and submit this data, it has no practical mechanism for reconciling this data to source documentation. Nevertheless, once PDE obtains the data, it does have procedures for ensuring its accuracy, including requiring LEAs to submit an Accuracy Certification Statement (ACS). The ACS form requires the LEA’s top officer to attest in writing to the accuracy of any PIMS-Child Accounting data it provides to PDE. In an effort to increase LEA compliance with this requirement, PDE recently revised both its PIMS Override Request and Data Maintenance Request forms, which LEAs must complete to upload new or revised child accounting data, to include the explicit statement that LEAs must also submit a revised ACS.

However, the ACS is not the only manual compensating control that PDE utilizes to ensure that the data it receives from LEAs is accurate. These other procedures for verifying the end-of-year attendance and membership data used to calculate ADA include:

- Annually reviewing the accuracy of the data submitted by LEAs that pose the greatest risk for having data errors.
- Tracking potential errors and resolving them with the LEAs.
- Providing manuals, checklists and validation reports to help LEAs identify inaccuracies in the data before it is submitted.

The audit recommendation for this finding states that “PDE should implement procedures to require the LEAs to submit the revised ACS with the submission of revised ADA.” However, as previously indicated, PDE has already established this requirement. PDE has no mechanism for forcing LEAs to submit the ACS form, nor does PDE have the authority to levy a penalty against those LEAs that fail to comply. Until such authority is awarded, PDE can only obtain LEA compliance through education and cooperative assistance.

Auditors’ Conclusion: As noted above, Basic Financial Statement Finding 2015-005 disclosed information technology control deficiencies over the PIMS system which PDE is using to accumulate and report the ADA. PDE management should make certain that manual compensating controls are adequately designed and operating effectively to ensure that the ADA data is correctly compiled and reported. We will evaluate any corrective action in the subsequent audit.

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

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

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Department of Education

Finding 2015 – 012:

CFDA #84.010 – Title I Grants to Local Educational Agencies

A Material Weakness and Noncompliance Exist Over the Pennsylvania Department of Education’s Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (A Similar Condition Was Noted in Prior Year Finding 2014-012)

Federal Grant Numbers and Years: S010A110038 (7/01/2011 – 12/30/2013), S010A120038 (7/01/2012 – 12/30/2015), S010A130038 (7/01/2013 – 12/30/2015), and S010A140038 (7/01/2014 – 12/30/2016)

Type of Finding: Material Weakness, Noncompliance

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

Condition: The Title I Grants to Local Educational Agencies (LEAs) program (Title I) is enacted under the Elementary and Secondary Education Act (ESEA), as amended, and by the No Child Left Behind (NCLB) federal legislation of 2002, as amended. Under ESEA and NCLB, Title I services are linked to state-determined performance standards. The U.S. Department of Education (USDE) approved a flexibility waiver for the Pennsylvania Department of Education (PDE) for the current audit period. This waiver permitted PDE to implement an alternate method of assessing Title I LEAs in order to report to USDE and the public which schools PDE has identified as reward, priority, and focus based on the results of assessment examinations administered to students.

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

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

To determine the accuracy of the CSPR and the RFRM, we selected 20 information fields from the CSPR and 20 information fields from the RFRM, out of more than a thousand fields of data reported for the 2013-14 school year during the fiscal year ended June 30, 2015. For each item selected, we requested detailed source documentation from PDE in order to substantiate the number or percentage reported in the data field. Based on the results, we noted reporting errors or missing information, and PDE did not adequately document the performance of all planned manual review procedures regarding the collection, compilation, and verification of the accuracy of the data reported. Specifically, we noted the following deficiencies:

- The CSPR, Section 1.4, School and District Accountability, for a state educational agency with an approved ESEA flexibility request that includes the optional waiver to not make adequate yearly progress determinations for LEAs and schools, was incomplete for the following data fields, and was not detected by PDE, which is indicative of a lack of supervisory review of the final CSPR:

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Finding 2015 – 012: (continued)

Item Number	CSPR Section Number	Section Name	Data Field Name	Data Field Name
1	1.4.1	All Schools and Districts Accountability	Total Number that Met all Annual Measurable Objectives, 95 Percent Participation Rate, and Other Academic Indicator in School Year 2013-14	Percentage that Met all Annual Measurable Objectives, 95 Percent Participation Rate, and Other Academic Indicator in School Year 2013-14
2	1.4.2	Title I School Accountability	Number of Title I Schools that Met all Annual Measurable Objectives, 95 Percent Participation Rate, and Other Academic Indicator in School Year 2013-14	Percentage of Title I Schools that Met all Annual Measurable Objectives, 95 Percent Participation Rate, and Other Academic Indicator in School Year 2013-14
3	1.4.3	Accountability of Districts That Received Title I Funds	Number of Districts That Received Title I Funds and Met all Annual Measurable Objectives, 95 Percent Participation Rate, and Other Academic Indicator in School Year 2013-14	Percentage of Districts That Received Title I Funds and Met all Annual Measurable Objectives, 95 Percent Participation Rate, and Other Academic Indicator in School Year 2013-14

- PDE uses a vendor as part of its data collection, compilation, and reporting process. PDE management represented that manual review and supervisory approval procedures were performed by PDE personnel to ensure the accuracy of the vendor data and the PIMS data reported in the CSPR and the RFRM. Therefore, we selected and tested the seven individual review procedures for the RFRM or the specific assessments (Pennsylvania System of School Assessment (PSSA) examinations, Keystone examinations, or Pennsylvania Alternate System of Assessment (PASA) examinations) which are listed in the table below. Our testing disclosed that for four out of the seven review procedures selected, PDE was unable to provide sufficient documented evidence that these procedures were performed as indicated by “No” in the chart below. Also, the first review procedure listed below (indicated by *) was not performed until December 2015, which was after the RFRM data was reported in October 2014. (The blank cells in the table indicate that the procedure tested was not applicable to the respective RFRM or assessment listed.)

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Test Item	PDE's Review Procedure	RFRM 2 School Districts	RFRM State	PSSA Grade 3	PSSA Grades 4 & 5	PSSA Grade 6	PSSA Grades 7 & 8	Keystone Algebra	Keystone Biology	Keystone Literature	PASA Grades 3-7, 11
1	Select 2 districts and associated schools and replicate the reported accountability and assessment data using individual student data files.	Yes*	-	-	-	-	-	-	-	-	-
2	Verify that students who have no exclusion codes have both multiple choice and/or open ended scores in each subject area.	-	-	-	-	-	Yes	-	-	-	-
3	Verify score ranges – multiple choice scores in each content area.	-	-	No	No	-	-	No	Yes	-	-
4	Verify scaled scores by comparing raw scores to the scaled score table.	-	-	Yes	No	No	No	No	No	No	-
5	Verify overall process – total multiple choice and open-ended scores.	-	-	-	-	-	-	-	-	Yes	-
6	Verify score ranges – achievement levels or performance standards.	-	-	-	-	-	-	-	-	-	No
7	Attendance and graduation – compare graduation data to previous year.	-	No	-	-	-	-	-	-	-	-

- For two CSPR fields out of 40 fields selected from the CSPR and RFRM combined, the data reported by PDE did not agree to supporting documentation as follows:

Item Number	CSPR Section Number	Data Field Name	Data Reported by PDE	Data per Supporting Documentation	Difference Overstatement/ (Understatement)
1	1.6.3	Number tested on State annual English Language Proficiency assessment	49,061	49,062	(1)
		Percent attained proficiency on State annual English Language Proficiency assessment	29.96	29.13	0.83
2	1.6.3.2.1	Number tested on State annual English Language Proficiency assessment	46,171	46,174	(3)

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- The documentation provided to support the information contained in 37 out of the 40 fields selected from the CSPR and the RFRM combined was supplied by the outside vendor, and the remaining three out of the 40 fields contained enrollment data from PDE's PIMS system. Although we were able to recalculate the data reported, except as noted in the third table above, Basic Financial Statement Finding 2015-005, which was reported for the Commonwealth for the fiscal year ended June 30, 2015, disclosed that control deficiencies over segregation of duties, program and data access, and program change methodology existed within PDE's PIMS database system. Since there was insufficient documented evidence of the performance of the manual validation controls listed in the second table above, it does not appear that PDE has sufficiently implemented its manual compensating controls to ensure the accuracy of the outside vendor's data and the PIMS data. PDE is relying on systems that are not adequately controlled to report data in the CSPR and the RFRM. Therefore, errors in the underlying vendor data and the PIMS data could be made and remain undetected when reported in the CSPR and the RFRM.
- The vendor who compiles the student testing data for PDE has not received a Service Organization Controls (SOC) report issued under the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*. As in the prior year, when the SOC report was requested during the audit, PDE responded that the vendor had been subjected to a different type of information security standards assessment using criteria from the National Institute of Standards and Technology (NIST) Special Publication 800-53, revision 4, Security and Privacy Controls for Federal Information Systems and Organizations. PDE provided an unsigned and undated summary of the report which referenced a number of configuration and vulnerability issues. PDE also provided a status update of corrective action plans from the prior year report which appeared to indicate that the vendor had not yet developed "...a formal process to approve, control and monitor [system] maintenance tools." Without a copy of the report, we cannot determine whether the vendor had proper controls over the student testing data. However, the presence of configuration and vulnerability issues and the lack of controls over system maintenance tools indicate an inadequate control environment.

In addition, in order to improve high school accountability, the USDE established a uniform measure of the high school graduation rate that is comparable between states and reported annually. PDE reported the 2012-13 school year graduation rate data for public high schools in Pennsylvania at the school, LEA, and state levels using the 4-year adjusted cohort rate in conjunction with the 2013-14 school year State RFRM which was submitted to the USDE during the fiscal year ended June 30, 2015. This data generally represents the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for the graduating class. This data is required to be reported in the aggregate and also must be disaggregated by subgroups (for example, gender, ethnic group, etc.) resulting in thousands of fields of data reported at the school level, the LEA level, and the state level.

During the fiscal year ended June 30, 2015, PDE calculated the high school graduation rate data based on the LEAs' student data acquired from PDE's PIMS. We selected a sample of 40 data fields, which included school district level and individual school level high school graduation rate percentages for various subgroups. We were able to recalculate PDE's reported percentages using the PIMS data provided by PDE. However, our analysis of the overall state level high school graduation rate data disclosed the following deficiencies:

- The data file which contained the 4-year adjusted cohort for the 2012-13 school year graduating class included 2,213 duplicate students out of 143,479 students, which resulted in an overstatement of the actual total of 141,266 students.
- An additional analysis which only extracted graduates from the 4-year adjusted cohort data file disclosed the inclusion of 1,438 duplicate graduates out of 123,385 students who graduated in four years with a regular high school diploma, which resulted in an overstatement of the actual total of 121,947 graduates.

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Finding 2015 – 012: (continued)

- The exclusion of the duplicate records and recalculation of the overall state level high school graduation rate percentage for the school year 2012-13 state cohort resulted in a rate of 86.32 percent, instead of the 86.00 percent reported by PDE, which was an understatement of 0.32 percent.

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

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

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

(h) Reports.

(1) Annual State Report Card.

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

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

- (i) information, in the aggregate, on student achievement at each proficiency level on the State academic assessments described in subsection (b)(3) (disaggregated by race, ethnicity, gender, disability status, migrant status, English proficiency, and status as economically disadvantaged...)*
- (vii) the professional qualifications of teachers in the State, the percentage of such teachers teaching with emergency or provisional credentials, . . .*

(4) Annual State Report to the Secretary. Each State educational agency receiving assistance under this part shall report annually to the Secretary, and make widely available within the State—

(A) beginning with school year 2002-2003, information on the State's progress in developing and implementing the academic assessments described in subsection (b)(3);

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

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

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

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

(1) Graduation rate. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

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(i)(A) A State must calculate a “four-year adjusted cohort graduation rate,” defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduation class.

(4) *Reporting.*

(i) *In accordance with the deadlines in paragraph (b)(4)(ii) of this section, a State and its LEAs must report under section 1111(h) of the Act (annual report cards) graduation rate at the school, LEA, and State levels in the aggregate and disaggregated by each subgroup described in § 200.13(b)(7)(ii).*

In addition, a well-designed system of internal controls dictates that information technology general controls be adequately designed and operating effectively to ensure that federal programs are administered in accordance with management’s intent. In addition, the AICPA’s Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*, AT Section 801, provides guidance on obtaining assurance that information technology controls outsourced to vendors are adequately designed and operating effectively.

Cause: PDE personnel indicated that the incomplete data fields were due to USDE not populating all the CSPR tables with the school data provided in separate files by PDE. PDE personnel responsible for the CSPR data indicated that the source documentation errors were due to the implementation of source extract processing for Limited English Proficiency data files used in federal reporting. However, PDE’s review procedures were not sufficient to detect and correct the incomplete data fields and the reporting errors in the final CSPR. PDE uses PIMS data which has inadequate information technology general controls as reported in Basic Financial Statement Finding 2015-005, and PDE also relies upon the outside vendor for the administration and compilation of student assessment data and classification of Title I schools as reward, priority, and focus. PDE has designed manual review procedures over the report compilation process to ensure the accuracy of the reports. However, PDE’s review procedures for the CSPR and RFRM were not all adequately documented or performed timely. PDE personnel stated this was due to an insufficient number and turnover among PDE staff combined with a short turnaround time between PDE’s receipt of the vendor’s data and the vendor’s completion of the data for publication.

PDE personnel stated that the duplicate students were due to the attribution of individual students to more than one school that remained at the time of PDE’s reporting even after the LEAs reviewed the data and reattributed students. PDE personnel represented that additional procedures were implemented subsequent to the reporting of the 2012-13 data to eliminate the reporting of duplicates and to improve the accuracy of the student data reported.

Regarding the lack of a SOC report, PDE is attempting to obtain an appropriate report from the student testing vendor. PDE provided a Request for Proposal document dated April 15, 2015, which requires the vendor to obtain a SOC report performed in accordance with AICPA SSAE No. 16. However, neither a SOC report nor a NIST report was provided to the auditors in response to our request.

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

Since PDE did not provide an independent report to confirm the operating effectiveness of the controls at the vendor who compiles the student testing data, or assurance that previous control deficiencies at the vendor were corrected, we cannot be assured that controls over the student testing data were designed and operating effectively at the vendor. Inadequate computer controls at the vendor increase the importance of the manual compensating controls referred to above.

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Recommendation: PDE management should take the necessary action to resolve the various general computer control deficiencies cited in Basic Financial Statement Finding 2015-005. PDE management should also ensure that manual compensating controls are adequately designed and operating effectively to ensure the proper and accurate reporting of data on the CSPR and the RFRM, including the high school graduation rate. PDE should remediate attribution problems in order to prevent duplicate student counts in the high school graduation rate data. PDE should ensure that reasonable documentation is maintained as evidence that manual review procedures to ensure the accuracy of the reports have been completed on a timely basis and should maintain source documentation for data fields reported.

PDE should obtain a Service Organization Controls report performed in accordance with AICPA SSAE No. 16, as required by PDE's Request for Proposal document, to ensure that the student testing data is secure and processed in accordance with PDE's intent. This report should be provided to the auditors as audit evidence when requested.

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

PDE disagrees with this portion of the finding. PDE submitted the data at the individual school level but the noted fields were not populated by USDE. PDE has no control over whether or not this data is shown in the report. Our data review concluded that there were no errors in our reporting. PDE is not held responsible for District Level accountability. Only schools that receive ESEA Title I funds are held accountable. These fields were not required by USDE as granted in PA's ESEA Flexibility Waiver; therefore, there was no lack of controls or reviews.

PDE states that the review procedures were completed, but the documentation, other than e-mails to attest to the fact that the procedures were completed, could not be provided to the auditors. In reference to one (1) specific procedure which entails the review of two (2) randomly selected school districts, this was not implemented until the fall of 2014, after the RFRM had been published. It is the desire of the auditors to have review procedures completed prior to publication. PDE will implement changes in our review procedures and documentation to address these issues in the future so that the reviews may be completed prior to publication.

Item #12 identified in the CSPR was Section 1.6.3.1.2, Percent Attained Proficiency on State LEP Assessment, not Section 1.6.3.1.1, Number Tested on State Annual English Language Proficiency Assessment, as stated in the Finding. PDE, Division of Instructional Quality (DIQ), agrees that it was unable to provide the supporting documentation for Section 1.6.3.1.2; however, DIQ maintains that the reason the supporting documentation does not support the identified item is because the auto-calculated percentage is through another process outside the control of the data source.

PDE has provided the following Preliminary Response to Basic Financial Finding 2015-005. During the GAAP IT Audit Exit Conference held January 29, 2016, the Auditor General auditor stated that the only remaining correction needed for Items 1, 2, 3, and 4 of PDE's portion of this finding was to document PDE's policy and procedures for the restriction of vendor staff access cited in this finding as partially remediating this finding. Item 5 was also remediated with no further corrective action needed. With this clarification, PDE now agrees with PDE's portion of this finding.

PDE disagrees with this finding. PDE has already addressed this issue in the prior year audit and through its Corrective Action Plan. The NIST Summary and the Corrective Action Plan had been provided to the auditors along with updates through October 31, 2015. The most recent updated Corrective Action Plan and NIST updates were provided through December 31, 2015 by January 27, 2016. PDE expects to receive the SOC Report in the beginning of 2017.

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PDE agrees that there were 2,213 students included in more than one record. However, PDE disagrees that there are errors in the attribution process. The duplicates were not the result of a system failure or failed processes and procedures. They were caused by multiple LEAs reporting and claiming the same student. PDE works closely with LEAs to ensure data is complete and accurate. There were three levels of reporting and outreach to LEAs with cohort graduation rate data: (1) based on data reported by each LEA, (2) based on students attributed to an LEA (they may have been reported by the LEA of attribution or another LEA), and (3) a graduation attribution window where LEAs had the ability to reattribute students, if necessary.

Over the years, PDE has drastically reduced the number of duplicate records in the cohort graduation rate data. The difference of 2,213 students is a matter of three tenths of one percent in the graduation rate and is not the result of system or process failures on the part of PDE. The remaining duplicates are the result of two different LEAs saying two different things about a single student, despite the guidance and opportunities provided to rectify incorrect data.

PDE never changes LEA data, because each LEA maintains ownership of all reported information.

Auditors' Conclusion: Regarding PDE's response related to the incomplete data fields, our review of the ESEA Flexibility Waiver did not disclose that district level data was not required to be reported on the CSPR. If PDE has evidence that this information is not applicable, PDE should add explanatory comments to those sections of the CSPR to justify leaving those data fields on the CSPR blank.

Regarding PDE's response related to the review procedures, the effectiveness of the review procedures is dependent on the quality and the timing of the procedures. Good internal controls dictate that review procedures should be performed prior to the reporting of the CSPR and RFRM data in order to ensure that the reported data is accurate. Documentation should be retained by PDE as evidence the review procedures were performed.

Regarding PDE's response related to the incorrect data, the 49,061 reported by PDE was a component of the calculation of the 29.96 percent reported by PDE. Therefore, supporting documentation was requested for both numbers. If PDE believes that the auto-calculation feature is not functioning properly within the CSPR, PDE should follow up with USDE to request technical assistance with the CSPR process.

Regarding PDE's response to Basic Financial Finding 2015-005, we communicated at the GAAP exit conference that not only should PDE document policy and procedures for the restriction of vendor staff access, but also for monitoring of authorized vendor staff actions when accessing the system and the appropriateness of the actions.

Regarding the NIST report of information security at the student testing vendor, PDE did not provide the complete NIST report to the auditors for review. PDE provided only a short summary of the report and corrective action plan. Without reviewing the complete report, we cannot determine whether the vendor had proper controls over the student testing data. However, our review of the documents that were provided revealed the presence of configuration and vulnerability issues and the lack of controls over system maintenance tools, which indicate an inadequate control environment at the vendor. If provided, we will review the future Service Organization Controls (SOC) report during the subsequent audit.

Regarding PDE's response related to the graduation rate data, PDE is in agreement that the data included duplicate student records. PDE is responsible for reporting accurate data, regardless of the data's source, and should work with the LEAs to resolve attribution issues.

We will evaluate any corrective action in the subsequent audit.

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

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

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Department of Education

Finding 2015 – 013:

CFDA #84.027 and 84.173 – Special Education Cluster (IDEA)

Noncompliance and Internal Control Deficiencies Over Subrecipient Monitoring

Federal Grant Numbers and Years: H027A130162 (07/01/2013 – 09/30/2014), H027A140093 (07/01/2014 – 09/30/2015), H173A130090 (07/01/2013 – 09/30/2014), and H173A140090 (07/01/2014 – 09/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2015, the Pennsylvania Department of Education (PDE) reported subrecipient expenditures for the Special Education Cluster (IDEA) totaling \$416.6 million. Of this amount, \$42,860,184 or 10 percent of total IDEA expenditures was passed through for Preschool Early Intervention Programs. Preschool programs are administered by the Office of Child Development and Early Learning (OCDEL), Bureau of Early Intervention Services (BEIS). A new monitoring process was implemented on July 1, 2014 whereby BEIS began performing on-site subrecipient monitoring of the 34 Early Intervention (EI) providers on a four-year cycle. During implementation, new forms and procedures were developed adding a goal-oriented aspect to the subrecipient monitoring.

After the on-site monitoring is performed, BEIS’s on-site verification team prepares a Verification Results (VR) report which provides an account of the team’s findings, identifying the areas of noncompliance, and communicating the results to the EI provider. Afterwards, the EI provider is required to submit the Quality Enhancement Plan (QEP) which identifies its plan of corrective action. According to the OCDEL Early Intervention Verification Process Protocol (monitoring procedures), specific timelines were established for submission and approval of monitoring documents as outlined in the table below. The BEIS validation process ensures any noncompliance identified is corrected within one year of VR report date.

VR Report	QEP	BEIS Approval / Disapproval of QEP	BEIS Validation of QEP
Due within 45 days of verification visit	Due within 30 days of receipt of VR	Due within 15 days of QEP	Due within 365 days of VR Report

Of the ten EI providers monitored during the fiscal year ended June 30, 2015, we tested one and found that the established timeframes were not met as noted in the table below.

On-Site Monitoring End Date	VR Report Due Date	VR Report Issued	Number of Days from On-Site Monitoring to VR Issued	Number of Days VR Report Was Late
10/30/2014	12/14/2014	03/05/2015	126	81

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Timely validation of the QEP is dependent on the initial timeliness of the issuance of the VR report and QEP approval process. Therefore, untimely submission of the VR report may lead to untimely implementation of corrective action by the EI provider. In addition, although a BEIS advisor was involved in the QEP development process, BEIS never provided written approval of the QEP to the EI provider we tested as required.

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

A pass-through entity is responsible for:

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

The United States Department of Education’s Regulations 34 CFR 80 address the State Educational Agency’s role in monitoring subrecipients and state in part:

34 CFR Section 80.40 Monitoring and reporting program performance.

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Cause: The new monitoring process was piloted from July 1, 2014 through December 31, 2014. The use of new forms and procedures during the pilot period caused delays in meeting established timeframes.

Effect: Without timely subrecipient monitoring and resolution of noncompliance identified, PDE has limited assurance the EI providers are administering the awards in compliance with federal requirements.

Recommendation: We recommend BEIS provide subrecipient VR reports and QEP approvals within established timeframes to ensure BEIS validation occurs as designed. In addition, we recommend BEIS consider shortening the required closure of BEIS validation to ensure timely corrective action.

Agency Response: PDE, Bureau of Early Intervention Services (BEIS), began using a new verification tool, process and reporting system in the audit year. The BEIS priority was to work with programs as they were implementing the new tool, developing plans of correction (Quality Enhancement Plan) and gathering feedback on the tool and experience. A timeline was drafted for the first year, but was not followed as it was not the priority of the first year of this new process.

In future verification years, starting in January 2016, implementation protocols that include timelines will be added to the priorities. There are two (2) publications, “Early Intervention Verification Process --- Protocol for the Early Intervention Verification Visit” and “Early Intervention Self-Verification Tool Protocol” which include the timeline protocol that can be used to measure BEIS performance with the verification process. These publications are available by contacting BEIS.

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Auditors' Conclusion: We acknowledge the steps taken by BEIS to develop and implement a new monitoring tool which can be challenging. We will review and test any corrective action in the subsequent audit.

Questioned Costs: None

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

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Department of Education

Finding 2015 – 014:

CFDA #84.027 and 84.173 – Special Education Cluster (IDEA)

Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education’s Private Non-Public Enrollment System

Federal Grant Numbers and Years: H027A120093 (07/01/2012 – 09/30/2013), H027A130162 (07/01/2013 – 09/30/2014), H027A140093 (07/01/2014 – 09/30/2015), H173A130090 (07/01/2013 – 09/30/2014), H173A140090 (07/01/2014 – 09/30/2015)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Private Non-Public Enrollment (PNPE) system is a Pennsylvania Department of Education (PDE) web application that collects child counts from private/non-public schools and is administered by PDE’s Center for Data Quality and Information Technology (CDQIT). Child counts are used in the process of allocating non-discretionary pass-through funds among Local Educational Agencies (LEAs) for private/nonpublic school enrollment data. As part of our audit of the PDE major programs for the fiscal year ended June 30, 2015, we performed certain information technology (IT) general controls review procedures for the PNPE system. We found one control weakness existed during the audit period whereby there are no policies and procedures to ensure timely removal of access for terminated users at private/nonpublic LEAs.

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*, published May 2013, Control Activities Component, states in part:

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed; and deploys control activities through policies that establish what is expected and procedures that put policies into action.

General control activities over technology are integral to the overall internal control structure of the Commonwealth. A well-designed system of internal controls dictates that sound general computer controls be established and functioning to ensure that federal programs are administered in accordance with management’s intent.

Cause: Over 15,000 users access several PDE applications (including 3,631 PNPE users) via PDE’s web portal. PDE’s CDQIT is using a de-centralized process to remove users’ access by designating the responsibility to Local Security Administrators (LSAs) at LEAs. LSAs are notified by LEA supervisors when users are terminated or no longer require access to PDE systems.

PDE’s CDQIT management stated that removing PNPE access does not follow PDE’s established web portal policies and procedures, primarily because of numerous PNPE institutions and their limited administrative support personnel. Consequently, when private/nonpublic LEA users no longer require access to the PNPE system, notification must be sent directly to a PDE administrator or to another LEA’s LSA to remove access. Notification may occur via e-mail or through verbal communication from private/nonpublic LEAs and is not always timely. Since notification of terminated users is not always timely, PDE noted that an audit process of its web portal to detect separated users is being developed as a compensating control.

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

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Finding 2015 – 014: (continued)

Recommendation: We recommend that PDE's CDQIT management develop policies and procedures to remove access rights timely upon separation of a user or when a user no longer requires access. Timely removal of access should be documented. At a minimum, PDE should continue its efforts to develop a detective compensating control for periodic reviews of its web portal and separated users.

Agency Response: PDE concurs with the finding.

Questioned Costs: None

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

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Department of Health

Finding 2015 – 015:

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

Noncompliance and Internal Control Weakness Related to Compliance Investigations of High-Risk Vendors

Federal Grant Numbers and Years: 14141PA705W1006 (10/01/2013 – 09/30/2014), 15151PA705W1006 (10/01/2014 – 09/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to Compliance Investigations of High-Risk Vendors

Condition: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food instrument and cash-value voucher (FI) expenditures totaled \$192 million for the fiscal year ended June 30, 2015. These funds are distributed to vendors which redeem the FI checks from WIC participants. The Department of Health (DOH) conducts compliance buys on a minimum of five percent of the authorized vendors each year. A compliance buy is a covert, onsite investigation in which a representative of the program poses as a WIC participant, redeems one or more food instruments, and does not reveal during the visit that he or she is a program representative. The investigator may intentionally attempt to purchase unauthorized food items to ensure the cashier identifies the unauthorized items and prevents the purchase of them in accordance with regulations. If a compliance buy discloses vendor violations, DOH will establish a claim against the vendor or impose other sanctions mandated by program regulations. We reviewed 17 vendors out of the total 162 vendors with compliance buys performed by DOH during the fiscal year ended June 30, 2015.

For the 17 vendors tested, DOH provided completed investigation reports. DOH management stated all compliance buys were reviewed by a supervisor prior to the results being sent to the vendor; however, for the 17 tested there was no documented evidence of the supervisor review being performed.

Additionally, one of 17 vendors tested allowed the purchase of an unauthorized food item totaling \$3. The item was adequately documented within the investigation report; however, DOH did not establish a claim for this amount from the vendor within the results letter.

Criteria: Regarding Food delivery systems, 7 CFR Section 246.12 states:

(j)(4)(i) The State agency must conduct compliance investigations of a minimum of five percent of the number of vendors authorized by the State agency as of October 1 each fiscal year.

(h)(3)(ii)(A) The vendor may not provide unauthorized food items, nonfood items, cash, or credit (including rain checks) in exchange for food instruments or cash-value vouchers.

(k)(2) When the State agency determines the vendor has committed a vendor violation that affects the payment to the vendor, the State agency must delay payment or establish a claim. Such vendor violations may be detected through compliance investigations, food instrument or cash-value voucher reviews, or other reviews or investigations of a vendor's operations. The State agency may delay payment or establish a claim in the amount of the full purchase price of each food instrument or cash-value voucher that contained the vendor overcharge or other error.

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Finding 2015 – 015: (continued)

Further, adequate internal controls over compliance investigations would include a documented supervisory level of review and approval which would detect and correct errors in the investigation process.

Cause: DOH management stated prior to the federal fiscal year (FFY) 2014, local agency staff conducted the compliance buys and completed the investigation reports. A DOH supervisor would review and approve the investigation report evidenced through signing the results letter sent to the vendor. However, in FFY 2014, DOH staff conducted the compliance buys, completed the investigation reports, and completed the results letter sent to the vendor. DOH management stated the investigation reports and results letters were reviewed by a supervisor; however, the review was not documented.

Furthermore, DOH management stated the unauthorized purchase of \$3 was an oversight and should have been claimed from the vendor.

Effect: Without adequate controls related to compliance buys, errors could occur in the investigation process and not be detected, resulting in vendor violations not being adequately addressed and overcharges being unclaimed.

Recommendation: DOH should ensure that supervisory review and approval of compliance buys is adequate to detect and correct errors and is properly documented.

Agency Response: DOH's Bureau of Women, Infants and Children (WIC) is in agreement with the facts of the finding and, as of November 29, 2015, has implemented several controls to ensure that supervisory review and approval of compliance buys is adequate to detect and correct errors and is properly documented. The controls implemented are as follows:

- Bureau of WIC staff conducting the compliance buy will no longer be the same staff reviewing compliance buys.
- A routing slip will accompany each compliance buy recording the initials of the supervisor and manager reviewing and approving the compliance buys.
- The calculation sheet utilized by the Bureau of WIC staff reviewing the compliance buy will contain signature fields for both the staff and the supervisor indicating supervisor review was performed.

Questioned Costs: The amount of questioned costs is \$3.

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Health

Finding 2015 – 016:

CFDA #93.917 – HIV Care Formula Grants

Significant Deficiency and Noncompliance Over Drug Rebates

Federal Grant Numbers and Years: N/A

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Cash Management

Condition: Within the HIV Care Formula Grants Program states are required to use a portion of the grant funds to provide therapeutics to treat human immunodeficiency virus (HIV)/acquired immune deficiency syndrome (AIDS) or to prevent the serious deterioration of health arising from HIV/AIDS in eligible individuals. The portion of funds to be used for this purpose is earmarked within the grant award as the AIDS Drug Assistance Program (ADAP). As a result of the drugs purchased through the ADAP, the Department of Health (DOH) subsequently receives rebates from the drug manufacturers from whom the drugs are purchased.

As of July 1, 2014, we noted DOH had approximately \$48.9 million in drug rebates from the purchase of HIV/AIDS drugs in prior fiscal years in a restricted revenue account. During the fiscal year ended June 30, 2015, DOH transferred \$18 million from the rebates account to a state-funded program for HIV treatment at the PA Department of Corrections (DOC), leaving a balance of approximately \$30.9 million in unspent drug rebates as of June 30, 2015. Although it is permissible to redirect the state portion of the rebates for this purpose, DOH does not have a process to account for the rebates being state or federal. As a result, we cannot 1) determine whether DOH is in compliance with cash management requirements to expend federal rebates prior to drawing additional federal funds, or 2) verify the rebates transferred to DOC were from non-federal funds. Total program expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) during the fiscal year ended June 30, 2015, are \$39.2 million.

Criteria: 42 U.S.C. Section 300ff-26 (g) states:

(g) Drug rebate program

A State shall ensure that any drug rebates received on drugs purchased from funds provided pursuant to this section are applied to activities supported under this subpart, with priority given to activities described under this section.

45 CFR 75.305 (b) (5) states:

(5) Use of resources before requesting cash advance payments. To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

Cause: DOH officials indicated the restricted revenue account only contained the state portion of HIV ADAP rebates; however, DOH did not have documentation to support that only the state share of rebates was retained in the restricted revenue account.

Effect: Since DOH did not provide documentation to support that all of the funds retained in the restricted revenue account only contained the state portion of HIV ADAP rebates, DOH may be requesting additional federal cash payments prior to spending down federal rebates.

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Finding 2015 – 016: (continued)

Recommendation: DOH should determine the amount of rebates in the restricted revenue account that were generated with federal drug expenditures and spend those rebates prior to requesting any additional federal funds. DOH should develop a process to separately track state and federal rebates.

Agency Response: The DOH respectfully disagrees.

The restricted reserve account contains rebates previously collected and the state portion of rebates currently being collected. All funds currently being deposited into the account are tracked and accounted for.

Although federal rebates were deposited into the restricted reserve account, those rebates were collected and deposited into the account based on the Health Resources and Services Administration's (HRSA) prevailing guidance at the time.

In 2007, HRSA provided clarification and guidance on the proper handling of rebates. Guidance provided by HRSA on October 23, 2007 states: "Program income as a result of rebates, should be accumulated over the course of the grant year to be used at a later date to expand the services of the program". As a result of that guidance, the restricted reserve account was established and a portion of rebates received were deposited to that account.

On November 16, 2012, HRSA issued new guidance regarding the handling of rebates. As a result, the DOH determined all rebates received would be utilized as a refund of expenditure and no rebates would be deposited into the restricted reserve account.

In 2015, additional clarification and guidance was received from HRSA, and it was determined that rebates would be split into state rebates and federal rebates, with the state portion of rebates being deposited into the restricted reserve account, and the federal portion of rebates being utilized as a refund of expenditure. Account coding was established for the purposes of tracking the "old rebates" and the "new rebates" in this account.

The rebates in the restricted reserve account that were collected prior to HRSA's most recent guidelines are subject to the requirements that were in place at the time they were collected.

The federal portion of rebates currently received is utilized as a refund of expenditures and therefore in full compliance with current HRSA guidance, as they are utilized prior to any drawn down of federal grant funds.

Auditors' Conclusion: Our finding addresses the use of rebates received prior to the fiscal year ended June 30, 2015. Based upon HRSA guidance and discussions with HRSA, any rebates that were generated 100 percent with state funds are not subject to HRSA oversight or authority. However, it was noted by HRSA that states must provide a clear accounting of state versus federal rebates, and if the amount of rebates cannot be verified as 100 percent state rebates, then all the rebates would be subject to federal requirements. Since rebates remaining in the restricted reserve account at July 1, 2014 could not be determined to be 100 percent state rebates, DOH must determine the amount of rebates in the restricted revenue account that were generated with federal drug expenditures, and spend those rebates prior to requesting any additional federal funds.

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

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Human Services

Finding 2015 – 017:

CFDA #10.551 – Supplemental Nutrition Assistance Program

CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)

A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (A Similar Condition Was Noted in Prior Year Finding 2014-015)

Federal Grant Numbers and Years: 15151PA405S2514 (10/1/2014 – 9/30/2015), 1202PATANF (10/1/2011 – 9/30/2013), 1302PATANF (10/1/2012 – 9/30/2013), 1402PATANF (10/1/2013 – 9/30/2014), 1502PATANF (10/1/2014 – 9/30/2015)

Type of Finding: Material Weakness, Material Noncompliance

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

Condition: During our audit of the Supplemental Nutrition Assistance Program (SNAP), we evaluated the security over Electronic Benefits Transfer (EBT) cards, which includes both the physical security of EBT cards during the issuance process at County Assistance Offices (CAO), as well as the handling of EBT cards returned from the United States Postal Service as undeliverable, or those that have been lost or stolen. EBT cards are the method by which SNAP benefit payments are made available to recipients. Also, EBT cards are the primary method by which cash and special allowance benefit payments are made available to Temporary Assistance for Needy Families (TANF) recipients. Total benefit expenditures for SNAP for the year ended June 30, 2015 totaled over \$2.7 billion. Total EBT benefit expenditures for TANF for the year ended June 30, 2015 totaled over \$226.1 million.

Seventeen of the 110 CAO and district locations that the system shows issued EBT cards were selected for site visits in the current audit period. During our review of the physical security over EBT cards, we noted exceptions at eleven of the seventeen CAO locations selected for testing. These exceptions included the following:

- CAO list of personnel authorized to create EBT cards or grant PIN numbers differed from the Department of Human Services' (DHS's) master list (5 locations; 4 district offices);
- Failure to shred used EBT card printer ribbons in a timely manner (1 location);
- Failure to maintain the EBT Card Destruction Log (1 location);
- CAO personnel found to have dual authorization/access for both the EBT Card Creation station and the pinning device (1 district);
- Failure to properly complete the EBT Card Reconciliation Log (2 locations);
- Failure to properly secure EBT-related equipment and supplies (2 locations);
- Failure to report or provide evidence of reporting employee termination/change in Xerox EPPIC EBT System responsibilities to the EBT Security Administrator within 24 hours of the termination/change effective date (1 location); and
- Failure to timely remove employee access after CAO submitted change in Xerox EPPIC EBT System responsibilities form (1 district).

Forty of the 261 business days in the current audit period were selected to review the handling and destruction of returned EBT cards. We noted during our review two exceptions, as there was a discrepancy between the total number of cards received on the EBT Headquarters Destruction Log and the total number of cards returned and destroyed in the database report.

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Finding 2015 – 017: (continued)

Criteria: Federal Regulation 7 CFR Section 274.8 related to EBT systems provides:

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

(1) Authorizing household benefits.

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

(x) Inventorying and securing accountable documents;

In addition, the OMB Circular A-133 Compliance Supplement for the SNAP Cluster, Part N, EBT Card Security, states:

The State is required to maintain adequate security over, and documentation/records for, EBT cards to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR Section 274.8(b)(3)).

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

Internal control. Effective internal control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

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

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

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

Agency Response: DHS agrees with this finding.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Human Services

Finding 2015 – 018:

CFDA #93.558 – Temporary Assistance for Needy Families

A Significant Deficiency and Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 2014-016)

Federal Grant Number and Year: 1402PATANF (10/01/2013 – 9/30/2014)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: Within the Temporary Assistance for Needy Families (TANF) program, the Department of Human Services (DHS) is required to submit the TANF Data Report, or Form ACF-199, on a quarterly basis. The ACF-199 Report provides the U.S. Department of Health and Human Services (HHS) with various types of data on Pennsylvania's TANF participants including family type, work participation status, subsidized and unsubsidized employment activity, job search and job readiness activities, etc. Each quarter, DHS electronically submits a file to HHS that contains the aforementioned data. This file consisted of three stratified random monthly samples of 250-300 cases (one for each month in the quarter) for submission to HHS. After the end of the federal fiscal year (FFY) on September 30, DHS had until March 31 of the following year to submit a final TANF Data Report with any changes noted during its review of the monthly sample of case data submitted to HHS.

In order to determine whether the data on the file submitted to HHS was complete and accurate, we obtained the final file submitted to HHS to meet the March 31, 2015 cut-off date for the submission of complete and accurate data for the FFY ended September 2014. We selected a sample of 60 out of the 3,193 total cases in the data file, and traced the key line items to support documentation in the participant's case file. Our testing disclosed reporting errors relating to the hours and/or the amount of subsidized child care reported on the ACF-199 for two of the 60 cases, or 3.3 percent, as follows:

- One of the 33 cases that contained work activity reported unsubsidized weekly employment hours that were not properly calculated as follows:

<u>Case</u>	<u>Month Tested</u>	<u>Hours Reported On ACF-199</u>	<u>Hours Worked Per Documentation</u>	<u>Difference</u>
A - Adult #1	November 2013	55	49	6

- One of the 60 cases reported the wrong amount of subsidized child care received as follows:

<u>Case</u>	<u>Month Tested</u>	<u>Amount of Child Care Received</u>	<u>Amount of Child Care Reported</u>	<u>Difference</u>
B	October 2013	\$561	\$511	\$50

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Finding 2015 – 018: (continued)

Criteria: Section 411(a)(1) of the Social Security Act states, in part:

(A) *CONTENTS OF REPORT—Each eligible State shall collect on a monthly basis, and report to the Secretary on a quarterly basis, the following disaggregated case record information on the families receiving assistance under the State program funded under this part:*

(xi) *If the adults participated in, and the number of hours per week of participation in, the following activities:*

(III) *Unsubsidized employment*

Federal Instructions for the TANF Data Report ACF-199, Adult Work Participation Activities, states in part:

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

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

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

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

Cause: Regarding the current year discrepancy in work hours reported, a clerical error was made in the calculation which was not detected by DHS review.

In regard to reporting the amount of subsidized child care, DHS management could not explain why the amount was not properly reported.

Effect: DHS did not comply with TANF reporting requirements which resulted in incorrect work hours and an incorrect amount of subsidized child care being reported to HHS on ACF-199 TANF Data Report. The incorrect reporting of ACF-199 data could result in the DHS’s future funding being incorrectly modified.

Recommendation: DHS should strengthen its existing procedures over its review of the monthly sample of cases to ensure that all reported work activities and amounts of subsidized child care are properly calculated and reported in accordance with TANF ACF-199 reporting requirements. Also, DHS should review and evaluate its procedures and controls to accumulate, review, and report its TANF information on the ACF-199 Report and make the necessary revisions to ensure that future information reported is accurate.

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

1. Deficiency: Case A was determined to have a six (6) hour difference in employment hours.

DHS Response: DHS disagrees, in part, with this finding. It is agreed that the number of employment hours were miscalculated based on the case record documentation, specifically due to shift differential hours being erroneously added to the actual hours worked. However, the discrepancy did not impact the Work Participation Status (WPS)

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 018: (continued)

code of the individual, which was accurately reported as WPS code 19 (Required to Participate and Meeting Minimum Participation Requirements), and had no impact on the all-family or two-parent work participation rate calculation for this case.

2. Deficiency: Case B was reported with the wrong amount of subsidized child care received, with a difference of \$50.

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

DHS continues to strive to provide outstanding service to its clients by providing newer tools to get clients the services they need. The Department has made substantial improvements in the operation of its Customer Service Centers, expansions in COMPASS (our on-line client self-service system), and continual updates to our Client Information System (CIS) and CIS IV-B system introduced into all County Assistance Offices in 2012. Additionally, CIS Imaging was implemented in the same year, and has significantly improved the DHS documentation process. These improvements allow greater analysis of trends to better anticipate the needs of the residents of the Commonwealth with economy fluctuations and to provide tools for our staff to make it easier for them to meet these needs and ensure that resources are managed effectively.

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

Questioned Costs: None

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

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Department of Human Services

Finding 2015 – 019:

CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)

Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding 2014-018)

Federal Grant Numbers and Years: 1202PATANF (10/1/2011 – 9/30/2012), 1302PATANF (10/1/2012 – 9/30/2013), 1402PATANF (10/1/2013 – 9/30/2014), 1502PATANF (10/1/2014 – 9/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2015, the Department of Human Services (DHS) paid \$74.5 million in Temporary Assistance for Needy Families (TANF) funding to subrecipients within the New Directions, Cash Grants, and Alternatives to Abortion appropriations (or 15.5 percent) out of total federal TANF expenditures of \$480.6 million reported on the June 30, 2015 Schedule of Expenditures of Federal Awards (SEFA).

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

Also, DHS did not perform required risk assessments of TANF subrecipients. This deficiency is discussed in detail in Finding 2015-036.

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

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

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Finding 2015 – 019: (continued)

2 CFR Section 200.331, applicable to TANF grants awarded after December 25, 2014, states:

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and programmatic reports required by the pass-through entity.

(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient.

The OMB Compliance Supplement Part 3.1, Section M, Subrecipient Monitoring, states:

A pass-through entity is responsible for:

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

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

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

The OMB Circular A-133 Compliance Supplement Part 3.2, Section M, related to Subrecipient Monitoring by pass-through entities, states:

A pass-through entity (PTE) must:

Monitor – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.

2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.

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Finding 2015 – 019: (continued)

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

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

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

Agency Response: DHS disagrees with this finding:

We have reviewed the criteria cited in the finding and agree with the criteria. We are performing the items noted.

The Criteria references the OMB Circular A-133 Compliance Supplement Part 3, Section M, Subrecipient Monitoring, and 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.*”. Although not repeated in the criteria, this section of the Compliance Supplement also states:

“Monitoring activities normally occur throughout the year and may take various forms, such as:
- *Reporting – Reviewing financial and performance reports submitted by the subrecipient.*
- *Site Visits – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.*
- *Regular Contact – Regular contacts with subrecipients and appropriate inquiries concerning program activities.”*

For Reporting:

- DHS compares the Employment Advancement & Retention Network (EARN) providers’ Cost Reimbursement Invoices or Cash Needs Request to the corresponding Cost Reimbursement Expenditure Detail Reports to ensure that the EARN providers are invoicing DHS for the appropriate cost categories.
- In order to sufficiently monitor the pay-for-performance portion of its grantees’ budgets, DHS conducts a monthly validation of performance goals resulting in performance payments. Performance payments are issued on a monthly basis to EARN vendors who achieve payment benchmarks in the reporting month based on information entered in the Commonwealth Workforce Development System (CWDS). EARN vendors are required to substantiate performance payments by providing all documentation related to the achievement of the performance payment to DHS for review. If any payments are deemed invalid, DHS will adjust the next payment invoice for the vendor’s failure to provide adequate documentation to support the performance payment.

For Site Visits:

- Since the spring of 2013, DHS has continued to conduct on-site monitoring of all EARN programs. All deficiencies identified during the visits are discussed with the grantee at an exit conference to ensure understanding so that corrective action measures can be implemented by the EARN program to prevent future deficiencies from occurring.

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Finding 2015 – 019: (continued)

For Regular Contact:

- DHS participates in quarterly meetings and monthly conference calls with grantees to ensure they are aware of all policies and procedures for operating the EARN program.

We disagree with certain items noted in the condition, as follows:

- 1) *“For example, DHS did not perform procedures to ensure subrecipient invoices agree to the books and records of the subrecipient and the records are adequate to support the allowability of costs paid by DHS.”*

DHS requires the subrecipients to submit with their Single Audit report a supplemental schedule of revenues and expenditures for this program, which has been subjected to an agreed-upon procedures (AUP) engagement. The procedures are:

- a) Verify by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DHS for fiscal year ended June 30, ____, have been accurately compiled and reflect the audited books and records of (Auditee). Also verify by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by DHS.
- b) Inquire of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to DHS for the period in question.
- c) Based on the procedures detailed in paragraphs (a) and (b) above, disclose any adjustments and/or findings and identify which have (have not) been reflected on the corresponding schedules: (List each separately. Indicate whether it has/has not been reflected on the schedule.)

DHS uses this supplemental schedule and related AUP report to cost settle the amounts paid to the subrecipient, thereby agreeing the invoices back to the audited books and records of the subrecipient.

- 2) *“Also, DHS did not perform procedures to ensure that TANF funds subgranted by DHS subrecipients were properly monitored for compliance with applicable federal regulations, including ensuring that all required OMB Circular A-133 audits were obtained by all DHS subrecipients.”*

DHS obtains single audit reports from its subrecipients. As part of the single audit process, DHS’s subrecipients’ independent auditors should evaluate the reports, and issuing a finding if applicable. DHS will evaluate any findings and related corrective action plans identified in its subrecipients’ single audit reports, in accordance with OMB Circular A-133.

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

While the recommendation to *“strengthen our controls to ensure during-the-award monitoring of TANF subrecipients includes procedures to ensure that subrecipients are in compliance with applicable Federal regulations...”*, is duly noted and continuously revisited, DHS has shown that, through the stipulations given in Circular A-133, Section M, the undertaken activities do not dissatisfy the regulations and suffice to during-the-award monitor DHS’s subrecipients.

Auditors’ Conclusion: We do not agree with the DHS response. In addition to monitoring procedures currently performed by DHS as noted in the condition above and discussed with DHS at the meetings on February 12, 2015 and April 22, 2015, DHS’s during-the-award monitoring processes should also include procedures to ensure

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Finding 2015 – 019: (continued)

subrecipient invoices agree to the books and records of the subrecipient and the records are adequate to support the allowability of costs paid by DHS during the award period. At these meetings with DHS, we emphasized that relying on receiving and reviewing Single Audits to ensure that subrecipient costs reimbursed by DHS are allowable is not an adequate during-the-award monitoring procedure because Single Audits are post award monitoring. Single Audits are not due to be received until 9 months after the end of a subrecipient's fiscal year, and are therefore, not a timely method of performing during-the-award monitoring.

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

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

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

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Department of Human Services

Finding 2015 – 020:

CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)

CFDA #93.658 – Foster Care – Title IV-E

CFDA #93.659 – Adoption Assistance

Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (A Similar Condition Was Noted in Prior Year Finding 2014-017)

Federal Grant Numbers and Years: 1402PATANF (10/1/2013 – 9/30/2014), 1502PATANF (10/1/2014 – 9/30/2015), 1401PA1401 (10/1/2013 – 9/30/2014), 1501PAFOST (10/1/2014 – 9/30/2015), 1401PA1407 (10/1/2013 – 9/30/2014), and 1401PAADPT (10/1/2014 – 9/30/2015)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: The Department of Human Services' (DHS) Office of Children, Youth and Families (OCYF) performs two types of during-the-award monitoring of its 67 subrecipient County Children and Youth Agencies (CCYAs). One group within OCYF performs on-site inspections to support its reissuance of licenses for all 67 CCYAs to whom DHS subgrants funds to perform Foster Care, Adoption Assistance services, and Temporary Assistance for Needy Families (TANF) Child Welfare. These inspections primarily focus on health, safety, and performance issues, and each on-site inspection is documented on an Annual Survey and Evaluation Summary. In addition, a separate group within DHS's OCYF performs Title IV-E Quality Assurance Compliance Reviews which primarily focus on eligibility and allowability. These two types of on-site monitoring visits are not performed at the same time. To test DHS's licensing/inspections and Quality Assurance Compliance Reviews in the current year, we selected 13 of the 67 CCYAs receiving Foster Care, Adoption Assistance, and TANF funds.

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

- On-site inspections of seven of the 13 CCYAs tested were not completed within 12 months of the completion of the prior on-site inspection. Six current year inspections were completed one month late, and one current year inspection was completed two months late. In addition, on-site inspections were not being reviewed and approved by a supervisor and a Regional Director timely. The approvals ranged from 31 to 228 days after completion for the 13 inspections tested. Also, two of the 13 inspections were approved by the same person; the Regional Director approved on behalf of a supervisor and as the Regional Director.

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

Foster Care program payments made by DHS to its 67 CCYA subrecipients during the fiscal year ended June 30, 2015 were \$200.3 million, or 92.8 percent of total Foster Care expenditures of \$215.8 million reported on the June 30, 2015 Schedule of Expenditures of Federal Awards (SEFA). Adoption Assistance program payments made by DHS to its 67 CCYA subrecipients during the fiscal year ended June 30, 2015 were \$83.3 million, or 76.5 percent of total Adoption Assistance expenditures of \$108.9 million reported on the June 30, 2015 SEFA. TANF Child Welfare program payments made by DHS to its 67 CCYA subrecipients during the fiscal year ended June 30, 2015 were \$59.4 million, or 12.4 percent of total TANF expenditures of \$480.6 million reported on the June 30, 2015 SEFA.

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Finding 2015 – 020: (continued)

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

(a) Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

2 CFR Section 200.331, applicable to TANF, Foster Care, and Adoption Assistance grants awarded after December 25, 2014 states:

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

(1) Reviewing financial and programmatic reports required by the pass-through entity.

(2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

(3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient.

The OMB Circular A-133 Compliance Supplement Part 3.1, Section M, Subrecipient Monitoring, states:

A pass-through entity is responsible for:

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

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

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

The OMB Circular A-133 Compliance Supplement Part 3.2, Section M, related to Subrecipient Monitoring by pass-through entities, states:

A pass-through entity (PTE) must:

Monitor – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.

2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.

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

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

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Finding 2015 – 020: (continued)

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

DHS personnel did not explain why the on-site inspections were not reviewed and approved by the supervisor or Regional Director timely or why the Regional Director signed two inspections on behalf of a supervisor, instead of having the supervisor actually sign the inspections.

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

Effect: CCYAs could be operating in noncompliance with federal regulations without timely detection and correction by DHS management. Issuing a license prior to the current inspection being approved increases the risk that DHS may issue a license to a CCYA that is in noncompliance at the time the license is issued.

Recommendation: DHS's OCYF should strengthen its controls to ensure monitoring and inspections of Foster Care, Adoption Assistance, and TANF subrecipients are performed and reviewed by management on a timely basis and include procedures to ensure CCYAs are monitoring their subrecipients or contractors.

Agency Response: DHS agrees with the facts related to the licensing inspections as detailed in the finding; however, it's important to note that we did restructure the timing of the on-site inspection as well as the activities following the on-site to assure timely completion and approval of the on-site findings prior to the expiration of the prior year's license following last year's audit. We identified during the response phase of the audit last year that this finding may recur as the changes were not implemented until July 1, 2015 (FY 2015-16).

Despite the finding, we believe that our monitoring procedures to determine subrecipient eligibility, monitor programmatic operations, review subrecipient audits, and review subrecipient agreed upon procedure reports are sufficient to effectively monitor our subrecipients/contractors.

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

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

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

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Department of Human Services

Finding 2015 – 021:

CFDA # 93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)

Noncompliance and Significant Deficiency in Internal Controls Over Quality Control Review

Federal Grant Numbers and Years: 1402PATANF (10/1/2013 – 9/30/2014), 1502PATANF (10/1/2014 – 9/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Eligibility

Condition: The objective of the Department of Human Services (DHS) Quality Control (QC) review process is to provide data on the accuracy with which the County Assistance Offices (CAOs) apply eligibility determination and benefit issuance policies and procedures. During our audit testwork over the QC review process for the TANF Cluster, we determined that for one of the seven sanctioned case files sampled, the QC reviewer did not detect or report that the benefit amount paid to the recipient was calculated incorrectly by the CAO case worker, due to two errors in applying policies and procedures.

- a. Policies and procedures for calculating unearned income for voluntary support payments require that the amount of voluntary support included in unearned income be reduced by \$100 for one child and \$200 for two children in the month of application. The caseworker did not correctly calculate the unearned income amount for voluntary support payments made during the review month, resulting in a \$200 overstatement of unearned income and an understatement of the benefit amount.
- b. Policies require that non-cooperation from program participants be sanctioned and that the benefit amount be reduced if good cause cannot be determined. The caseworker did not apply the required reduction in benefits for the sanctioned individual.

The combined effect of these two errors was an underpayment of benefits to the TANF recipient which was not detected or reported by the quality control process.

Criteria: The Pennsylvania Code (55 Pa. Code, Chapter 111 for Quality Control and Chapter 187 for Support from Relatives Not Living with the Client) provides the following regulations:

§ 111.1 Policy:

(a) General. Quality Control is a system of continuing Commonwealth review designed to operate an effective measurement of the accuracy of decisions on eligibility and extent of entitlement for assistance payments, Food Stamps, and eligibility for Medical Assistance.

§ 111.3 Requirements (b) QC Process:

(3) The Quality Control review will include coverage of the elements of Commonwealth regulations related to any of the following:

- (i) Determination of eligibility and the amount of the assistance grant.*

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Finding 2015 – 021: (continued)

(4) *The review will also include the adequacy of each step taken in the process of making the determination, the adequacy of the application of regulations to the facts obtained, and how well clients meet their responsibility for eligibility requirements.*

§ 187.23 Requirements:

(b) *Cooperation requirements for child support. As a condition of eligibility for cash assistance, every applicant or recipient seeking or receiving cash assistance on behalf of an unemancipated minor child shall cooperate in establishing paternity of an unemancipated minor child with respect to whom assistance is sought and cooperate in obtaining support from a legally responsible relative for the unemancipated minor child, unless the applicant or recipient establishes good cause for failing to do so.*

§ 187.26 Noncooperation

(c) *If the CAO determines that the applicant has failed to cooperate, without good cause, with § 187.23, or upon receipt of a notice of a noncooperation determination by the court or DRS under subsection (b), the CAO will:*

(1) *In the case of an applicant:*

(i) *Provide notice to the applicant of the noncooperation determination, the basis for the noncooperation determination and the reduction of the cash assistance allowance by 25% effective upon authorization of assistance.*

(ii) *Provide notice to the applicant of the right to appeal to the Department's Bureau of Hearings and Appeals under Chapter 275 (relating to appeal and fair hearing and administrative disqualification hearings).*

(iii) *Authorize the cash assistance allowance reduced by 25% effective upon authorization of assistance.*

(iv) *Authorize the full cash assistance allowance if so ordered as a result of a decision rendered by the Bureau of Hearings and Appeals, as a result of a good cause claim initiated by the applicant, or as a result of the applicant cooperating with the support requirements.*

Cause: The CAO caseworker did not correctly apply policies for determining unearned income and for applying a deduction to the monthly benefit amount due to a sanction for non-cooperation. The errors were not detected by the quality control process.

Effect: Failure to ensure the monthly TANF computation is accurate may result in over or under issuances of cash assistance to the recipient for not only the month in review, but also for prior and subsequent months.

Recommendation: We recommend that DHS ensure all elements in case files are properly redetermined by the QC reviewer and the QC supervisor to ensure the necessary policies and procedures have been applied to the TANF computation to ensure the amount of grant assistance is properly calculated.

Agency Response: DHS agrees with the exception identified in this finding.

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

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

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Department of Human Services

Finding 2015 – 022:

CFDA #93.575 and 93.596 – Child Care and Development Fund (CCDF) Cluster

Material Noncompliance and Material Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-021)

Federal Grant Numbers and Years: G1301PACCDF (10/1/2012 – 9/30/2015), G1401PACCDF (10/1/2013 – 9/30/2016), G1501PACCDF (10/1/2014 – 9/30/2017)

Type of Finding: Material Weakness, Material Noncompliance

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

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

Our prior audit disclosed significant deficiencies in DHS's internal controls designed to provide timely on-site inspections of child care providers and to issue child care certificates to ensure an entity is maintaining the proper health and safety requirements. Inspections for 20 of the 60 child care providers tested (52 child care centers and 8 group homes), were not completed within 12 months of the completion of the prior on-site inspection.

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

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

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

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

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Finding 2015 – 022: (continued)

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

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

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

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

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

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

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

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

Cause: The Office of Child Development and Early Learning (OCDEL) had experienced personnel vacancies which made it difficult to conduct timely on-site inspections.

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

Recommendation: We recommend that OCDEL ensure that all on-site inspections for child care centers and group child care homes are performed and reviewed by management on a timely basis.

Agency Response: Although DHS, OCDEL, agrees with the finding that there was more than 12 months between the inspections, 14 of the 20 facilities identified were inspected prior to the date of the license expiration. OCDEL policy states that a facility is timely inspected if the inspection was conducted prior to the expiration date of the license.

Auditors' Conclusion: We concur that the 14 facilities inspected were within the licensure period; however, the timing of these inspections was not in compliance with the stated Pennsylvania Code. In addition, the agency did not disagree with the six facilities that were inspected after the expiration of the certificate of compliance. Based on the agency response, our finding and recommendation remain as previously stated.

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

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

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Department of Human Services

Finding 2015 – 023:

CFDA #93.667 – Social Services Block Grant

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

Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 2014-022)

Federal Grant Numbers and Years: 1401PASOSR (10/01/2013 – 9/30/2014), 1501PASOSR (10/01/2014 – 9/30/2015), TI010044-14 (10/01/2013 – 9/30/2014), and TI010044-15 (10/01/2014 – 9/30/2015)

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

Compliance Requirement: Cash Management, Subrecipient Monitoring

Condition: For the twenty-third consecutive year, our examination of the Department of Human Services' (DHS) procedures for monitoring Social Services Block Grant (SSBG) subgrantees revealed that, other than Subsidized Child Day Care Program and Intellectual Disabilities subgrantees, DHS did not adequately monitor SSBG subgrantees to ensure that SSBG awards are used in compliance with laws and regulations, which include, but are not limited to allowable costs, or period of performance, among other requirements. The inadequately monitored subgrantees received \$42.1 million (or approximately 44 percent) of total SSBG program expenditures of \$96.6 million on the current Schedule of Expenditures of Federal Awards (SEFA). DHS did not perform adequate during-the-award monitoring and on-site visits by state officials did not occur. In addition, we determined that the same Homeless Services program subgrantees that received SSBG funding and were not adequately monitored by DHS personnel also received \$1,983,000 in Block Grants for Prevention and Treatment of Substance Abuse (SABG) funding during the fiscal year ended June 30, 2015. Total SABG expenditures on the current SEFA were \$52.2 million.

Furthermore, for the compliance requirement related to cash management, we noted that DHS advanced funds to SSBG subgrantees in five of nine program areas, representing \$39.7 million (or approximately 41 percent) of SSBG program expenditures, without adequately monitoring the reasonableness of the subgrantee cash balances. In particular, for the Legal Services components of the SSBG program, DHS advanced funds to subgrantees on a monthly basis. For program areas related to Mental Health, Intellectual Disabilities, Homeless Services and Child Welfare, DHS advanced funds to subgrantees on a quarterly basis. Also, we noted \$1,983,000 of SABG funds were advanced under the Homeless Services program area without adequately monitoring the reasonableness of the subgrantee cash balances. Our inquiries with applicable DHS program administrators disclosed that DHS did not adequately monitor the five program area subgrantees for cash management compliance either at the time of payment or at any other time during the fiscal year ended June 30, 2015.

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

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

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

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Finding 2015 – 023: (continued)

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In addition, the OMB Circular A-133 Compliance Supplement Part 3.1, Section M, Subrecipient Monitoring, states:

A pass-through entity is responsible for:

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

Cash advances by a state to secondary recipients shall conform substantially to the same standards of timing and amount which apply to the state.

45 CFR Section 92.37, Subgrants, states:

(a) States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

(4) Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.

In addition:

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

Cause: DHS management indicated that on-site monitoring was not performed due to staffing issues. However, DHS management stated a new County Human Services Planning and Monitoring Unit was formed that will perform monitoring for all subgrantees, including SSBG and SABG. DHS management also indicated that a risk assessment and monitoring documents were created that will be used during on-site monitoring related to SSBG and SABG subgrantees during the fiscal year ending June 30, 2016.

Consistent with prior year audits, DHS management has again noted that there have been no changes to the payment methodology for the Legal Services, Homeless Services, Mental Health, Intellectual Disabilities, and Child Welfare components of SSBG. These programs provide subgrantees with advances, in part, to comply with Commonwealth law and also to ensure that adequate funds are available to provide services to participants on a timely basis. DHS officials believe that their in-house payment review procedures for the SSBG and SABG programs are as efficient as is administratively feasible and that controls exist in each of the program areas. With no on-site program monitoring visits by funding agency officials, we consider DHS’s limited in-house reviews of subgrantee status reports or other documents to be insufficient to detect potential subrecipient noncompliance, including excess cash violations. DHS does not adjust payments to the subgrantees based on in-house reviews.

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

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Finding 2015 – 023: (continued)

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

As recommended in previous Single Audits and supported by U.S. Department of Health and Human Services, DHS should either consider changing their current subrecipient payment procedures from advancement basis to reimbursement basis or establish procedures to adequately monitor subrecipient cash on hand to ensure it is limited to immediate needs, but no longer than one month. The implementation and strengthening of these controls should provide DHS with reasonable assurance as to compliance with cash management requirements at the subgrantee level.

Agency Response: The Department of Human Services (DHS) agrees with the audit finding. The DHS expends Social Services Block Grant (SSBG) funds through several program offices, and directly on certain contracts. In order to effectively monitor all funded programs, the DHS has a dedicated monitoring position within the Office of Administration, Bureau of Financial Operations (BFO). This position has the benefit of centralized monitoring and evaluation through both on-site monitoring visits and the review of supporting documentation (desk reviews). The monitoring position was filled August 11, 2014. With the implementation of the County Human Services Block Grant (HSBG) on July 1, 2012, a County Human Services Planning and Monitoring Unit within BFO has been created. The Unit will be responsible for SSBG and HSBG monitoring. Due to continued work priorities of the Unit, monitoring did not occur in fiscal year 2014-2015. Instead, it is anticipated that monitoring will begin during the second quarter of state fiscal year 2015-2016.

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

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

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

On-site visits will be completed with counties and providers receiving SSBG. The information obtained during the visits will be documented and a draft version of the monitoring report will be issued to the county. Counties are provided ten days to comment and are given the option of scheduling an exit meeting within 40 days of the draft. At the exit conference, the report contents are discussed to the level necessary to ensure clarity and the exchange of positive and productive ideas for the timely implementation of the report recommendations. County program

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 023: (continued)

responses, if provided, are incorporated into the preparation of the final report. Any deficiencies are identified in the final report to the county commissioners and the commissioners are required to submit a corrective action plan, if necessary.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Human Services

Finding 2015 – 024:

CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)

Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 2014-023)

Federal Grant Numbers and Years: 1505PA5MAP (10/01/2014 – 9/30/2015), 1405PA5MAP (10/1/2013 – 9/30/2014)

Type of Finding: Significant Deficiency, Noncompliance

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

Condition: The objective of the Medicaid Cluster at the Department of Human Services (DHS) is to provide payments for medical assistance to eligible low-income individuals. During the fiscal year ended June 30, 2015, \$11.7 billion of the \$12.97 billion expenditures reported on the Schedule of Expenditures of Federal Awards were for medical assistance to individuals.

We selected a sample of 95 payments to providers on behalf of individuals totaling \$229,725 (federal share) of the \$11.7 billion charged to the Medicaid Cluster for medical assistance during the fiscal year ended June 30, 2015. We performed procedures to determine whether the individuals were eligible under the Medicaid Cluster at the time the services were rendered. Our review disclosed that for two out of the 95 payments, or 2.1 percent, totaling \$3,345 in federal share benefit payments, the respective case files did not contain a written application nor a reapplication for the time period that services were rendered. Therefore, we were unable to substantiate that the individuals in question were eligible for medical assistance at the time the services were rendered.

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

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

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

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

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

Cause: DHS management did not have adequate procedures in place to retain applications and reapplications. DHS management indicated that one case in question was for federal adoption assistance, and the client was automatically eligible for medical assistance. DHS management indicated that the case related to a private adoption, all records were sealed in the county of origin, and the case record was subsequently expunged from the DHS system. Regarding the second case, the dates of service covered the entire month of May 2014, and the DHS system notes indicated the client was deceased on May 24, 2015. DHS management stated they could not locate the archived eligibility documentation for the deceased client.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 024: (continued)

Effect: Since DHS management does not have adequate procedures in place to retain applications and reapplications, medical assistance may be paid for individuals who were never eligible or are no longer eligible. Additionally, the lack of documentation to support eligibility determinations does not allow an external party to independently ensure that eligibility was correctly determined. Since there was no documented evidence to support the eligibility of the individuals in question and the allowability of the payments made on their behalf, the payments of \$3,345 are considered questioned costs.

Recommendation: We recommend that DHS management ensure policies and procedures are in place to ensure that all applications, reapplications, and eligibility documentation are obtained and properly retained in the individual's case record.

Agency Response: DHS agrees with this finding; however, with regard to the deceased individual; DHS acknowledges that the file could not be located. The CAO indicated that the record was boxed for shipment to the Records Retention Center. The boxes have not yet been retrieved by Records Retention and the CAO is reviewing all boxes on site to locate the case record. When located, the case record will be scanned to imaging. DHS continues its commitment to electronic case records and has taken steps to ensure all materials are scanned to an electronic record to substantiate eligibility determinations.

Auditors' Conclusion: DHS is in agreement with the finding. We will evaluate any corrective action in the subsequent audit period.

Questioned Costs: Known questioned costs for the sample items were \$3,345.

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Labor and Industry

Finding 2015 – 025:

CFDA #17.225 – Unemployment Insurance (including ARRA)

Department of Labor and Industry Did Not Comply With Unemployment Compensation Program Integrity Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-024)

Federal Grant Numbers and Years: UI-26557-15-55-A-42 (Effective 10/1/2014), UI-25228-14-55-A-42 (Effective 10/1/2013)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to Unemployment Compensation (UC) Program Integrity - Overpayments

Condition: The prior Single Audit of the Unemployment Insurance program noted changes to the Social Security Act and the Federal Unemployment Tax Act (FUTA), effective October 21, 2013, requiring states to (1) impose a monetary penalty of not less than 15 percent on claimants whose fraudulent acts resulted in overpayments of unemployment compensation (claimant provision), and (2) prohibit from providing relief from charges to an employer's UC account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information (employer provision). We reported in the prior year that Pennsylvania's Department of Labor & Industry (L&I) did not fully implement either requirement by the effective date of October 21, 2013.

During the fiscal year ended June 30, 2015, L&I implemented procedures in September 2014 to comply with the claimant provision. We tested 60 overpayments to evaluate the new procedures. Our testing disclosed no exceptions, therefore, for this provision L&I is in compliance. Regarding the employer provision, L&I indicated that procedures were fully implemented statewide in March 2015. Although the design of the new procedures appear adequate, they were not fully implemented for nine months of the audit period. As a result, the finding is reissued for this provision. We will evaluate the procedures for the employer provision in the subsequent fiscal year.

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

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

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

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*, published May 2013, Risk Assessment Component, states in part:

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. The organization should identify and assess changes that could significantly impact the system of internal control.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 025: (continued)

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

Effect: Failure to timely prohibit providing relief from charges to an employer’s UC account when overpayments are the result of an employer’s failure to respond timely or adequately to a request for information may have resulted in an employer receiving relief that it was not entitled to receive. Furthermore, by not having an adequate employer provision in place, L&I officials are not proactively seeking prompt and adequate responses from employers as intended by the provision. Untimely responses from employers could also lead to incorrect eligibility determinations.

Recommendation: The Commonwealth should ensure that a mechanism is in place, to identify changed conditions and take actions necessary relative to the associated risks to ensure objectives continue to be met.

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

Labor and Industry has implemented the necessary procedures to be in compliance with the requirements resulting from the recent changes to the Social Security Act and FUTA. The 15 percent fraud overpayment penalty provision was implemented statewide in September 2014. The employer penalty provision was implemented in the Lancaster UC Service Center in December 2014 and rolled out statewide in April 2015. Labor and Industry will continue to follow the policies and procedures established to apply both the 15 percent fraud overpayment penalty and the employer penalty where the employer’s untimely or inadequate response results in an overpayment.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Labor and Industry

Finding 2015 – 026:

CFDA #17.225 – Unemployment Insurance (including ARRA)

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

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

Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 2014-025)

Federal Grant Numbers and Years: UI-26557-15-55-A-42 (Effective 10/1/2014), UI-25228-14-55-A-42 (Effective 10/1/2013), H126A140056 (10/01/2013 – 9/30/2014), AA-22958-12-55 (7/1/2012 – 6/30/2015), AA-24115-13-55 (7/1/2013 – 6/30/2016), and AA-25376-14-55 (7/1/2014 – 6/30/2017)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: As part of our audit of the Department of Labor and Industry (L&I) federal programs listed above for the fiscal year ended June 30, 2015, we performed certain procedures to review information technology (IT) general controls for the significant applications identified for these programs, and noted the following deficiencies in the Commonwealth Workforce Development System (CWDS):

L&I utilizes CWDS to manage the Workforce Investment Act programs and the Rehabilitation Services – Vocational Rehabilitation program. During our procedures to review related information technology general controls, we noted that five users have administrative access in both the development and production environments. The five individuals in question have administrative rights in Team Foundation Server, a change management tool, in order to prepare the development environment architecture, control the work of developers, and build software releases. These same five individuals also have administrative rights to the production environment to make configuration changes, check batches, and ensure the production servers are functioning properly on a day-to-day basis. This access creates a potential segregation of duties conflict because they have the ability to develop code and deploy it to production.

In the audit of the Commonwealth's Basic Financial Statement (BFS) for the fiscal year ended June 30, 2015, certain general computer control weaknesses were reported that significantly impact the federal programs listed above:

- In Finding 2015-005, general controls weaknesses were reported citing L&I for the lack of formal documented system development life cycle policies. The finding also reported a lack of adequate logical access controls over the Unemployment Compensation (UC) mainframe. In the Unemployment Compensation Management System (UCMS), the finding reported a lack of periodic access reviews to determine the appropriateness of all users with privileged access in UCMS. Further, certain other control weaknesses were reported in the SAP computer environment, which is the primary source of reporting program revenues and expenditures for the major programs listed above.
- In BFS Finding 2015-001, general controls weaknesses were reported citing the Treasury Department for control weaknesses in their vendor-provided UC electronic disbursement system related to change control procedures, systems access, and password settings.
- In BFS Finding 2015-004, general controls weaknesses were reported regarding a lack of segregation of duties in the overall SAP computer environment.

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Finding 2015 – 026: (continued)

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*, published May 2013, Control Activities Component, states in part:

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed; and deploys control activities through policies that establish what is expected and procedures that put policies into action.

General control activities over technology are integral to the overall internal control structure of the Commonwealth. A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: Although the five individuals' job responsibilities as assigned do not create a segregation of duties conflict, their administrative access rights in both the development and production environments inherently create the potential for the conflict. Further, the procedures for deployment to production are informal and are not documented. Finally, there are no compensating controls in place, which could provide assurance that no unauthorized changes were deployed to production.

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

Recommendation: We recommend that management implement controls to eliminate potential segregation of duties conflicts. If preventive controls are not feasible to restrict users from both developing and deploying code, management should consider implementing compensating detective controls, such as documented reviews of server logs, to ensure that no program changes are deployed to production outside of the normal process. Also, the procedures currently used for deploying code to production should be formally documented.

Finally, we recommend that management address the control deficiencies noted in BFS Findings 2015-005, 2015-001, and 2015-004.

Agency Response: L&I acknowledges this finding. L&I will work with the CWDS application team to eliminate the identified separation of duties finding while avoiding any impact to the application. This may result in the issuance of read only access in production, realigned duties, or implementation of alternative processes. L&I will work towards implementing this remediation by June 30, 2016.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Labor and Industry

Finding 2015 – 027:

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

Material Noncompliance and a Material Weakness Exist Over Subrecipient Monitoring

Federal Grant Numbers and Years: AA-22958-12-55 (7/1/2012 – 6/30/2015), AA-24115-13-55 (7/1/2013 – 6/30/2016), and AA-25376-14-55 (7/1/2014 – 6/30/2017)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: The Bureau of Workforce Development Administration (BWDA) Oversight Services within the Department of Labor and Industry (L&I) performs annual subrecipient monitoring of the 22 Local Workforce Investment Boards (LWIB). Following the monitoring, a narrative report is prepared by BWDA which outlines any findings or concerns. For each finding noted, the LWIB must submit a corrective action plan (CAP) that BWDA staff subsequently reviews to determine if it adequately resolves the finding(s). If the CAP does not adequately address the findings, BWDA will request a second CAP. When all findings have been resolved, BWDA notifies the LWIB in writing. During the fiscal year ended June 30, 2015, Workforce Investment Act subrecipient expenditures totaled \$83.3 million, or 92 percent of total program expenditures.

Beginning with program year (PY) 2013 for LWIB monitoring, L&I began conducting desk reviews in some instances instead of the traditional on-site monitoring as required by federal regulations. L&I management stated the new method was discussed with the United States Department of Labor (USDOL); however, L&I could not provide evidence of USDOL's approval of the desk review process. For the 22 LWIBs monitored, L&I performed 10 on-site reviews and 12 desk reviews.

We tested 4 of the 22 LWIB PY 2013 subrecipient monitoring reports, including 2 desk reviews and 2 on-site reviews. We found that the issuance of the monitoring reports and the follow-up performed by L&I was untimely as outlined in the below table. Note that in all four of these instances, L&I's most recent communications with the LWIB were subsequent to the auditor's initial request for information on December 9, 2015.

LWIB	Review Performed	Report Issued	Months To Issue Report	CAP 1 Received	CAP 2 Requested	Months to Review CAP	Final Approval
Bucks County	4/23/2014	3/20/2015	11	3/30/2015	10/19/2015	6	1/6/2016
Delaware County	5/15/2014	11/6/2014	6	12/17/2014	12/17/2015	12	Pending
Lehigh Valley	5/30/2014	6/2/2015	12	6/16/2015	N/A	6	12/17/2015
Southern Allegheny	5/23/2014	12/31/2015	19	N/A	N/A	N/A	12/31/2015

As shown in the above table, L&I issued its monitoring reports to the LWIB anywhere from 6 to 19 months after the review was performed. Also, L&I did not issue a response to the LWIB for 6 to 12 months after receiving the LWIB's first CAP.

L&I issued a finding to one LWIB noting the executive director of the LWIB received WIA funds to pay for one-third of his automobile expense. The car was leased in his name and the lease agreement stated the car was for personal use. L&I did not instruct the LWIB to cease all expense reimbursements in relation to this vehicle for over 19 months after identifying the unallowable costs. Instead, L&I's response to the LWIB's CAP, dated December 17, 2015, stated it will conduct an investigation of this issue, which does not appear to be reasonable.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 027: (continued)

In addition to the untimely subrecipient monitoring, we also question L&I's acceptance of an inadequate finding resolution regarding procurement of services. L&I's finding stated the LWIB either based qualifications for a request for quote (RFQ) directly on information from the bidder's website or the bidder assisted in writing the RFQ. The course description on the RFQ matched the bidder's website nearly verbatim. The finding stated the LWIB engaged in non-competitive practices which attempted to reduce or eliminate competition and formally questioned costs for two contracts totaling \$28,500. Approximately two months after receiving the LWIB's response to the second CAP and subsequent to the auditor's request, L&I issued a response stating the LWIB failed to refute or provide evidence refuting the finding, and L&I accepted this as acknowledgement that the LWIB has no substantive evidence that it did not violate federal regulations. L&I's response concluded, "Bureau leadership has determined that even though it appears a violation of the federal regulations occurred, it will not be requiring further corrective action in this case; however, the Local Board should take steps to ensure no further violation of 29 CFR 95.43 occurs." L&I's decision to require no action on a finding where it formally questioned costs and determined federal regulations were likely violated is inadequately documented and does not appear to be reasonable.

Criteria: Regarding subrecipient monitoring, 20 CFR §667.410 states:

(a) Roles and responsibilities for all recipients and subrecipients of funds under WIA title I in general. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to:

(1) Determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act and the regulations in this part;

(2) Determine whether or not there is compliance with other provisions of the Act and the WIA regulations and other applicable laws and regulations; and

(3) Provide technical assistance as necessary and appropriate.

(b) State roles and responsibilities for grants under WIA sections 127 and 132.

(1) The Governor is responsible for the development of the State monitoring system. The Governor must be able to demonstrate, through a monitoring plan or otherwise, that the State monitoring system meets the requirements of paragraph (b)(2) of this section.

(2) The State monitoring system must:

(i) Provide for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4);

(ii) Ensure that established policies to achieve program quality and outcomes meet the objectives of the Act and the WIA regulations, including policies relating to: the provision of services by One-Stop Centers; eligible providers of training services; and eligible providers of youth activities;

(iii) Enable the Governor to determine if subrecipients and contractors have demonstrated substantial compliance with WIA requirements; and

(iv) Enable the Governor to determine whether a local plan will be disapproved for failure to make acceptable progress in addressing deficiencies, as required in WIA section 118(d)(1).

(v) Enable the Governor to ensure compliance with the nondiscrimination and equal opportunity requirements of WIA section 188 and 29 CFR part 37. Requirements for these aspects of the monitoring system are set forth in 29 CFR 37.54(d)(2)(ii).

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 027: (continued)

(3) *The State must conduct an annual on-site monitoring review of each local area's compliance with DOL uniform administrative requirements, including the appropriate administrative requirements for subrecipients and the applicable cost principles indicated at § 667.200 for all entities receiving WIA title I funds.*

(4) *The Governor must require that prompt corrective action be taken if any substantial violation of standards identified in paragraphs (b) (2) or (3) of this section is found. (WIA sec. 184(a)(5))*

(5) *The Governor must impose the sanctions provided in WIA section 184 (b) and (c) in the event of a subrecipient's failure to take required corrective action required under paragraph (b)(4) of this section.*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control - Integrated Framework*, published in 2013, Control Activities Component, states in part:

The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels; and deploys control activities through policies that establish what is expected and procedures that put policies into action.

Cause: L&I management stated that the Workforce Innovation and Opportunity Act (WIOA) became effective July 1, 2015. Some of the PY 2013 subrecipient monitoring process was delayed in an effort to give the LWIBs adequate time to transition to the new law without having to worry about providing responses to the monitoring reports. Also, L&I management stated that on-site visits for all areas were not feasible with the new monitoring being developed for PY 2014, and BWDA monitors were physically on-site in every local area for other monitoring. L&I management stated the desk reviews would be more expedient.

Effect: Without timely completing its subrecipient monitoring, L&I has no assurance that LWIBs operated the WIA program per federal regulations. Any delay in completing annual monitoring can impact the timeliness of subsequent monitoring cycles. L&I's lack of adequate attention to LWIB control weaknesses and noncompliance with federal regulations creates a potential for fraud or abuse of program funds to occur.

Recommendation: We recommend L&I perform on-site annual monitoring of all LWIBs and issue monitoring reports and resolve findings in a timely manner. We also recommend L&I adequately address all LWIB violations of federal regulations and recapture funds spent on unallowable costs immediately.

Agency Response: BWDA, L&I, agrees with the finding, but disagrees with the following statement because L&I has not made a determination on the allowability of the cost and is awaiting USDOL guidance. Also, L&I has worked jointly with PA Department of Human Services given that the nature of the vehicle cross-cuts multiple funding streams aside from the WIA/WIOA cluster.

L&I did not instruct the LWIB to cease all expense reimbursements in relation to this vehicle for over 19 months after identifying the unallowable costs. Instead, L&I's response to the LWIB's CAP, dated December 17, 2015, stated it will conduct an investigation of this issue, which does not appear to be reasonable.

Auditors' Conclusion: L&I agrees with the finding. Although L&I has not determined the unallowable amount of the cost due to the multiple finding streams involved, they were aware that the costs were unallowable for 19 months for which they did not instruct the LWIB to cease reimbursement.

Based on the agency response, our finding and recommendations remain as previously stated.

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

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

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Department of Labor and Industry

Finding 2015 – 028:

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

Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry’s Procedures for Performing Eligibility Determinations and Completing Individualized Plans for Employment (A Similar Condition Was Noted in Prior Year Finding 2014-027)

Federal Grant Numbers and Years: H126A140056 (10/01/2013 – 9/30/2014) and H126A150056 (10/01/2014 – 9/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Eligibility, Special Tests and Provisions related to Completion of Individualized Plans for Employment (IPEs)

Condition: As part of the Rehabilitation Services – Vocational Rehabilitation Grants to States (RS-VR) program, the Office of Vocational Rehabilitation (OVR), Pennsylvania Department of Labor and Industry, purchases vocational rehabilitation services from vendors to be provided to OVR clients. We selected a sample of 52 payments to vendors and the Commonwealth’s Hiram G. Andrews Center for the benefit of OVR clients totaling \$100,737 (federal portion only) of the \$57,097,945 charged to the RS-VR program during the fiscal year ended June 30, 2015. Our review of the 52 OVR client case files disclosed the following:

- For 7 of the 52 clients tested for whom RS-VR program payments were made, OVR personnel did not make the eligibility determinations within 60 days after the RS-VR program application date or by the agreed upon extension date as required by federal regulations. The untimely eligibility determinations were completed between 19 and 378 days after the eligibility determination period expired. Our testing did not disclose any costs being incurred for ineligible clients.
- For 2 of the 52 clients tested for whom RS-VR payments were made, OVR personnel did not complete an IPE within 90 days after the RS-VR eligibility was determined as required by federal regulations. The two IPEs that were not completed timely were completed 50 and 113 days after the IPE deadline.

Criteria: The United States Department of Education’s Regulation 34 CFR 361 regarding the State Vocational Rehabilitation Services Program states in part:

Section 361.41 Processing referrals and applications.

(a) Referrals. The designated State unit must establish and implement standards for the prompt and equitable handling of referrals of individuals for vocational rehabilitation services, including referrals of individuals made through the One-Stop service delivery systems established under section 121 of the Workforce Investment Act of 1998. The standards must include timelines for making good faith efforts to inform these individuals of application requirements and to gather information necessary to initiate an assessment for determining eligibility and priority for services.

(b) Applications. (1) Once an individual has submitted an application for vocational rehabilitation services, including applications made through common intake procedures in One-Stop centers established under section 121 of the Workforce Investment Act of 1998, an eligibility determination must be made within 60 days, unless-

(i) Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

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Finding 2015 – 028: (continued)

(ii) An exploration of the individual's abilities, capabilities, and capacity to perform in work situations is carried out in accordance with section 361.42(e) or, if appropriate, an extended evaluation is carried out in accordance with section 361.42(f).

In addition, Section 361.45 states in part:

Section 361.45 Developing of the individualized plan for employment.

(a) General requirements. The State plan must assure that—

(1) An individualized plan for employment (IPE) meeting the requirements of this section and Section 361.46 is developed and implemented in a timely manner for each individual determined to be eligible for vocational rehabilitation services...

Further, 29 USC 722(b)(3)(F) states in part:

(F) Timeframe for completing the individualized plan for employment.

The individualized plan for employment shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility described in paragraph (1), unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed.

Cause: OVR personnel indicated that the untimely eligibility determinations and IPE completions were due to administrative errors and employee oversight.

Effect: Since OVR personnel did not have adequate procedures in place to ensure that client eligibility determinations were completed within 60 days of the application date or within the specific time period extension agreed upon by the client, or that IPEs were completed within 90 days of the eligibility determination, OVR was not in compliance with federal regulations and a control deficiency exists. Also, OVR clients may not receive necessary RS-VR program services timely. Our sample contained no ineligible OVR clients for whom case service costs were incurred, so no costs are questioned.

Recommendation: We recommend that OVR personnel have procedures in place to timely identify and follow up on incomplete eligibility determinations and to ensure that all client eligibility determinations are completed within the 60 day period subsequent to the application date or within the specific time period extension agreed upon by the client to ensure compliance with federal regulations. In addition, OVR personnel should have procedures in place to ensure that IPEs are completed within 90 days of the eligibility determination.

Agency Response: The OVR acknowledges the finding.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Labor and Industry

Finding 2015 – 029:

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

Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (A Similar Condition Was Noted in Prior Year Finding 2014-026)

Federal Grant Number and Year: H126A140056 (10/01/2013 – 9/30/2014)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: The Pennsylvania Department of Labor and Industry’s (L&I) Office of Vocational Rehabilitation (OVR) is required to submit the *Annual Vocational Rehabilitation Program Cost Report (RSA-2)* on an annual basis to the United States Department of Education (USDE). The RSA-2 Report includes data related to the Rehabilitation Services – Vocational Rehabilitation Grants to States (RS-VR) program expenditures, unobligated balance, and the number of clients served on a federal fiscal year basis. During the fiscal year ended June 30, 2015 audit of the RSA-2 Report submitted for grant H126A140056 for the reporting period ended September 30, 2014, we noted that the expenditure amounts reported as Services Purchased by Agency within Section 2B, and Schedule III – Number of Individuals Served and Purchased Service Expenditures by Service Category did not agree to the L&I Commonwealth Workforce Development System (CWDS), or the Comptroller Office reconciliation of CWDS to the Commonwealth’s SAP Accounting System as follows:

Expenditures per the RSA-2 Report	\$52,483,991
Expenditures per CWDS Report 11	\$48,467,520
Expenditures per SAP to CWDS reconciliation	\$48,587,563

Although the RSA-2 Report was signed and was subjected to a documented supervisory review and approval, the existence of unreconciled differences with both CWDS and SAP, the official accounting system for the Commonwealth, indicates that the preparation and the supervisory review and approval processes were not adequate, and a control deficiency exists over the preparation and submission of the RSA-2 report. As a result, the expenditures on the RSA-2 Report are overstated by \$3,896,428 from the amount reconciled to SAP, and overstated by \$4,016,471 from the amount reported on the CWDS Report 11.

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

34 CFR Section 80.20, Standards for Financial Management systems, states:

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

34 CFR Section 361.40, Reports, states:

(a) The State plan must assure that the designated State agency will submit reports ...

(b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 029: (continued)

Further, adequate internal controls over report preparation would include detailed written report preparation procedures, a segregation of duties between the preparation and the review and approval of the report, and an adequate review and approval process which would detect errors in the report preparation and ensure that such errors are corrected.

Cause: OVR personnel indicated that the expenditures reported on the RSA-2 Report included expenditures that were billed up until November 21, 2014 within CWDS so that all services provided by September 30, 2014 are included on the Report. However, L&I did not provide a CWDS report as of November 21, 2014 that agreed to the amount reported on the RSA-2 Report. Also, there is no reconciliation between CWDS and SAP to account for the timing difference between the end of the federal fiscal year on September 30, 2014, and the expenditures within CWDS as of November 21, 2014.

Effect: Since the preparation and the supervisory review and approval processes were not adequate, the RSA-2 Report was misstated for the federal fiscal year 2014. OVR is not in compliance with federal regulations and a control deficiency exists.

Recommendation: OVR should retain CWDS Reports that agree to all amounts reported on the RSA-2 Report, and OVR should implement procedures to reconcile expenditures reported on the RSA-2 Report to SAP. In addition, OVR should improve their written procedures for the preparation, review, approval, and submission of the annual RSA-2 Report and ensure the procedures are implemented. These procedures should be sufficiently detailed to ensure that the RSA-2 Report is prepared accurately in accordance with federal regulations. Finally, OVR should make the proper corrections to the RSA-2 Report for the federal fiscal year 2014, and submit the revised report to USDE.

Agency Response: The OVR acknowledges the finding.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Labor and Industry

Finding 2015 – 030:

CFDA #96.001 – Social Security – Disability Insurance

The Bureau of Disability Determination Failed to Maintain Documentation to Support the Performance of Consultative Examinations

Federal Grant Numbers and Years: 04-1304PAD100 (10/1/2012 – 9/30/2015), 04-1404PAD100 (10/1/2013 – 9/30/2016), 04-1504PAD100 (10/1/2014 – 9/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to the Consultative Examination Process

Condition: During the fiscal year ended June 30, 2015, the Bureau of Disability Determination (BDD) failed to maintain adequate records to support the required checks for licensure, and suspension and debarment, which ensure that Consultative Examinations (CE) for Social Security – Disability Insurance (SS – DI) applicants are performed only by qualified providers.

There are two different types of CE providers; those which are performed by providers within Industrial Medicine Associates' (IMA) network, and those which are performed by the SS – DI applicant's treating physician. Since the contract for CE and Ancillary Testing between IMA and the Department of Labor & Industry (L&I) was originated in June 2013, the majority of CEs are performed by providers from within IMA's provider network. Less frequently, CEs are performed by the SS – DI applicant's treating physician. In all cases, the BDD is required to ensure that both the initial and periodic checks for licensure and suspension and debarment are completed in accordance with the Social Security Administration's (SSA) Program Operations Manual (POMS) as well as Federal regulations.

From our sample of fifteen new service agreements entered into for Consultative Examinations for the fiscal year ended June 30, 2015, we found one case for which there was no evidence to support that the required checks for licensure and suspension and debarment, were performed prior to utilizing the services of the treating physician CE provider.

Criteria: Federal regulations at 20 CFR 404.1519 (g) requires that:

A consultative examination (CE) will only be purchased from qualified medical sources, which may not be any individuals or entity who is currently excluded, suspended, or otherwise barred from participation in the Medicare or Medicaid programs, or any other federal or Federally assisted program (Federal Regulation 20 CFR 404.1503a). Section 39569.300 of the Social Security Administration's Programs Operation Manual System (POMS) requires an annual review of the U.S Department of Health and Human Services Office of Inspector General's List of Excluded Individuals and Entities (LEIE) for each CE provider.

Cause: The BDD indicated that, for CEs where the SS – DI applicant elects to use a treating physician, supporting documentation was maintained at the BDD branch level during the fiscal year ended June 30, 2015. Each of the three branch offices, located in Harrisburg, Greensburg, and Wilkes-Barre, maintained their own records to support the required checks for the treating physician CEs performed at their respective branches. As a result of the decentralized structure for the treating physician CE process, there was lack of oversight by BDD to ensure that each of the branch offices maintained the appropriate documentation.

Effect: The BDD did not maintain adequate records to support the required checks for licensure, and suspension and debarment for treating physician CEs. We were unable to determine whether the required checks were performed appropriately or in a timely manner for one of the samples selected.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 030: (continued)

Recommendation: We recommend that BDD review its documentation procedures to ensure support is obtained and maintained for the initial and annual consultative examinations.

Agency Response: BDD concurs with this finding. BDD performs approximately 60,000 consultative examinations every year of which almost all are performed through our contracted consultative examination process. Auditors performed testing of physician vendors in the contracted consultative examination process and found no deficiencies. Of the 60,000 consultative examinations performed annually, approximately 50 a year are performed by claimants' treating physicians, called treating physician consultative examinations (TPCE). BDD had a decentralized, local process in place to verify provider credentials for TPCEs. During the course of their testing, the auditors found the decentralized process was not followed consistently. BDD is preparing a revised centralized process to address the audit deficiency noted in the credentialing of TPCEs that will add additional internal controls to ensure future compliance with all Social Security Administration consultative examination federal regulations.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Department of Military and Veterans Affairs

Finding 2015 – 031:

CFDA #64.015 – Veterans State Nursing Home Care

Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Result in Questioned Costs of \$3,174 (A Similar Condition Was Noted in Prior Year Finding 2014-030)

Federal Grant Numbers and Years: D70314 (07/01/2014 – 06/30/2015), D75114 (07/01/2014 – 06/30/2015), D75214 (07/01/2014 – 06/30/2015), D75514 (07/01/2014 – 06/30/2015), D75814 (07/01/2014 – 06/30/2015), and D77814 (07/01/2014 – 06/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Eligibility

Condition: The Department of Military and Veterans Affairs (DMVA) operates six veterans' nursing homes in Pennsylvania. DMVA receives federal financial assistance for providing nursing home care to eligible veterans residing in these homes. The amount of funding received depends on the type of care provided to eligible veterans for each day of residency at the home. Each nursing home determines applicant eligibility for admission to the home by having a physician identify the level of care needed and certify eligibility. The homes maintain the daily count of residents and type of care provided for each resident on the MatrixCare system, which is maintained by an external service provider. At the end of each month, system data is used to prepare a monthly invoice. The amount of the invoice is calculated using the applicable federally-established rate for each type of care provided times the number of days the care was provided during the month. Monthly reimbursed amounts for the Veterans State Nursing Home Care program are reported as expenditures on the Schedule of Expenditures of Federal Awards (SEFA). For the state fiscal year ended June 30, 2015, program expenditures totaled \$41,683,114.

As reported in a prior year Single Audit finding, our current year review of DMVA's application/admissions process and invoicing procedures found a lack of written comprehensive monitoring and oversight procedures to ensure the six veterans' nursing homes receive the appropriate federal funding for the care of eligible veterans. We selected nine monthly invoices and examined the admissions documents of 60 nursing home residents included on the invoices. We found that DMVA under-billed the federal government approximately \$14,700 on one invoice that was undetected by management. In response, DMVA submitted an amended invoice to recoup this amount. Additionally, DMVA provided incomplete eligibility determination forms for one resident, which resulted in questioned costs totaling \$3,174, of the total \$247,537 tested.

Further, the service provider that maintains the MatrixCare system has not received a Service Organization Controls (SOC) report issued under the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*.

Criteria: According to 38 CFR 51.210(s), *Compliance with Federal, State, and local laws and professional standards*, "The facility management must operate and provide services in compliance with all applicable Federal, State, and local laws, regulations, and codes with accepted professional standards and principles that apply to professional services in such a facility."

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control - Integrated Framework*, published in May 2013, Control Activities Component, states in part:

The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels; and deploys control activities through policies that establish what is expected and procedures that put policies into action.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 031: (continued)

Thus, written procedures are necessary for nursing home employees to consistently and properly process applications at each home, and should include procedures for determining applicant eligibility and comprehensive supervisory oversight.

Cause: As noted in the prior year Single Audit finding, no written admissions procedures existed for nursing home employees to process applications. Management stated that written procedures have been drafted, but have not yet been finalized or implemented. DMVA's application process involves procedures conducted at DMVA headquarters, as well as procedures conducted at each State Veterans Home.

Effect: The lack of written procedures, to include supervisory oversight, has led to incorrect invoicing, incomplete documentation, and inadequate monitoring of the application process. Incomplete applications and documentation could result in incorrect eligibility determinations, which could result in expenditures being charged to the program that are not eligible for reimbursement from the federal government.

Recommendation: We recommend that DMVA ensure all application documents are complete and properly reviewed for every veteran applying for admission to a State Veterans Home to ensure compliance with federal and state regulations. We also recommend that written policies and procedures be finalized, approved, and implemented that will ensure the consistent handling and review of application documents at each of the six homes. DMVA management should also develop and implement comprehensive monitoring and oversight procedures to ensure the homes comply with the written procedures. Finally, we recommend that DMVA should consider requesting the service provider that maintains the MatrixCare application to obtain a SOC report.

Agency Response: In response to this Office of the Auditor General finding related to the operation of the PA State Veterans Homes, the Department of Military and Veterans Affairs (DMVA) is in general agreement with the auditors' findings that:

1. The State Veterans Homes' admission process is not documented, allowing for variation in the way each home processes applications and determines level of care for applicants.
2. Veterans Administration (VA) forms 10-10SH and 10-10EZ were not properly completed resulting in a potential loss of revenue.
3. Comprehensive monitoring and oversight procedures are needed to ensure that application and admission documentation and processes are in compliance with DMVA and VA policies and regulations.

Finding 1: DMVA agrees with the finding. The bureau admissions coordinator has completed a standardized process, which will be reviewed and discussed with the Commandants and Deputy Commandants at the SLC in April 2016.

Finding 2: DMVA agrees with the finding. DMVA has not yet instituted uploading 10-10SH and 10-10EZ forms and management review into the electronic medical records system. However, these forms are scrutinized by Quality Assurance and the Assistant Director of Nursing (ADON) to verify completeness.

Finding 3: DMVA agrees with the finding. Although a new information management system, Matrix, has been implemented, DMVA is still learning all of the core processes. Management has requested the SOC.

Questioned Costs: \$3,174

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Pennsylvania Emergency Management Agency

Finding 2015 – 032:

CFDA #97.067 – Homeland Security Grant Program

Significant Deficiency and Noncompliance Over Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding 2014-032)

Federal Grant Numbers and Years: EMW-2011-SS-00092-S01 (09/01/2011 – 08/31/2014), EMW-2012-SS-00038 (09/01/2012 – 08/31/2014), EMW-2013-SS-00095 (09/01/2013 – 08/31/2015), EMW-2014-SS-00037 (09/01/2014 – 08/31/2016)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2015, the Pennsylvania Emergency Management Agency (PEMA) reported subrecipient expenditures for the Homeland Security Grant Program (HSGP) of \$48,027,789, which represented approximately 79 percent of total HSGP expenditures on the Schedule of Expenditures of Federal Awards (SEFA). Under the HSGP, PEMA, the State Administrative Agency (SAA) for the grant program, has nine regional task forces that are subrecipients of State Homeland Security Grant Program (SHSGP) funds. These task forces are comprised of local governments that are responsible for carrying out program initiatives. In addition to subrecipients of SHSGP funds, PEMA also subawards Urban Areas Security Initiative (UASI) funds to two subrecipients and Operation Stone Garden (OPSG) funds to one subrecipient, all under the HSGP. PEMA has established internal policies regarding during-the-award monitoring as documented in its Federal Grant Programs Administrative Manual (Manual). The Manual states that PEMA is to perform desk or on-site monitoring for each subrecipient each year.

According to PEMA's Manual, "Subgrantee monitoring is carried out through two means: office-based (desk) monitoring and on-site monitoring. The SAA monitoring team will conduct an office-based (desk) monitoring or on-site monitoring session reviews for each subgrantee every state fiscal year. Monitoring assists the SAA in identifying areas of need for subgrantee support and provides feedback on ways to improve its services. Both forms of monitoring require written documentation. The SAA conducts subgrantee fiscal, compliance and programmatic monitoring based upon federal financial and programmatic guidance, OMB Circulars, and the CFRs." In addition, PEMA provides guidance to all subrecipients on an on-going basis related to consultations on allowable costs with respect to program expenditures.

The audit report for the fiscal year ended June 30, 2014, identified a finding that PEMA did not monitor one of the nine task forces that received SHSGP funds under HSGP. During the fiscal year ended June 30, 2015, no formal desk or on-site review was performed for the Operation Stone Garden (OPSG) subrecipient. This subrecipient received \$74,007 of allocated 2014 grant funds.

Criteria: 44 CFR Section 13.40, *Monitoring by grantees*, requires grantees to monitor subgrantees to ensure compliance with Federal regulations. Additionally, the OMB Circular A-133 Compliance Supplement Part 3, M. Subrecipient Monitoring, states:

A pass-through entity is responsible for:

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 032: (continued)

Cause: Staffing in addition to other tasks assigned to the CRD (Compliance Review Division), such as subrecipient single audit reviews, has made the subrecipient review process challenging.

Effect: The lack of desk or on-site monitoring procedures does not allow PEMA to assess subrecipient compliance with federal requirements.

Recommendation: We recommend that PEMA perform desk or on-site monitoring of its subrecipients as stipulated in federal guidelines and the Manual.

Agency Response: During the state fiscal year ended June 30, 2015, PEMA's Compliance Review Division completed monitoring reviews on all nine regional task forces that receive State Homeland Security Grant Program (SHSGP) and Urban Areas Security Initiative (UASI) funds under HSGP. In state fiscal year 2015/16, PEMA Compliance Review Division developed monitoring guides for all federal grant programs identified that the OPSG was a separate award under HSGP and had not been monitored. We acknowledge that a monitoring review was not performed on the OPSG program's single subrecipient during the state fiscal year ended June 30, 2015. In December 2015, the Compliance Review Division began developing monitoring guides and protocols for this program and has scheduled a site monitoring visit in May 2016.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Pennsylvania Emergency Management Agency

Finding 2015 – 033:

CFDA #97.067 – Homeland Security Grant Program

Significant Deficiency in Internal Control Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 2014-033)

Federal Grant Numbers and Years: 2010-SS-T0-0037 (08/01/2010 – 07/31/2013), EMW-2011-SS-00092-S01 (09/01/2011 – 08/31/2014), EMW-2012-SS-00038 (09/01/2012 – 08/31/2014), EMW-2013-SS-00095 (09/01/2013 – 08/31/2015), EMW-2014-SS-00037 (09/01/2014 – 08/31/2016)

Type of Finding: Significant Deficiency

Compliance Requirement: Equipment and Real Property Management

Condition: The Pennsylvania Emergency Management Agency (PEMA) is the State Administrative Agency (SAA) for the Homeland Security Grant Program (HSGP) in Pennsylvania. As such, in addition to maintaining its own fixed asset records, PEMA is responsible for oversight with respect to the management of equipment purchased by other Commonwealth of Pennsylvania (Commonwealth) agencies for the HSGP. PEMA has established internal policies regarding equipment management as documented in its Federal Grant Programs Administrative Manual (Manual).

The Manual requires that accurate property and equipment records be maintained. These property and equipment records shall include:

- (a) Description of the property (including make and model);
- (b) Manufacturer's serial number or other identification number;
- (c) Vendor (source of property);
- (d) Acquisition date;
- (e) Cost of the property;
- (f) Percentage of Federal participation in the cost of the property;
- (g) Location of the equipment;
- (h) Condition of the equipment as of the date the information is reported; and
- (i) Date of disposal and sales price.

Upon receipt of purchased equipment, the Manual requires agencies to submit an Equipment Control Form (DGM-08) detailing the applicable information noted above to PEMA.

During our audit we reviewed a sample of nine equipment purchases and noted that the Form DGM-08 was not accurately completed. The nine equipment purchases sampled did not have a designated "Federal Cost" element on their respective DGM-08 indicating the Federal participation in the cost of the property, however these same nine assets were accurately classified as 100% Federal participation in the fixed asset tracking system.

Criteria: 44 CFR Section 13.32 states the following in regard to Equipment:

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 033: (continued)

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

In addition, the PEMA Federal Grant Programs Administrative Manual (Manual) requires that property and equipment to submit Control Form DGM-08 detailing the purchase information noted above.

Cause: PEMA staff had undergone a process of reviewing the property records submitted by other Commonwealth agencies to ensure that they reconcile to total purchases and contain all of the required information for Federal compliance in the fixed asset tracking system. However, the form (DGM-08) that is utilized to identify the required information was not accurately completed.

Effect: Policies and procedures in the manual were not followed which could result in noncompliance in federal requirements for equipment property records.

Recommendation: We recommend that the DGM-08 form be completed to indicate the Federal participation percentage.

Agency Response: As discussed previously, the DGM-08 form is used only for federal HSGP equipment purchases. However, we do acknowledge the form has an area to indicate percent of federal funds used to acquire the described equipment. In the future, this area will be removed from the form so as to avoid any confusion.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Pennsylvania Infrastructure Investment Authority

Finding 2015 – 034:

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

Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 2014-034)

Federal Grant Numbers and Years: CS-420001-14 (7/1/2014 – 9/3/2017)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Pennsylvania Infrastructure Investment Authority (PENNVEST) requires Clean Water State Revolving Funds (CWSRF) loan recipients to submit annual financial statements, which are then used to evaluate each recipient's fiscal position and its ability to repay its loan. Once received, PENNVEST forwards the loan recipients' financial statements to an independent accounting firm that reviews the statements in detail to determine if there are any adverse fiscal conditions indicating potential problems with any recipient's ability to repay the loan. After evaluating the financial statements, the independent accounting firm provides a report to PENNVEST which identifies any adverse conditions in the entity's fiscal position. PENNVEST uses this information to determine if follow up with that loan recipient is needed.

PENNVEST compiles a listing of all loans in repayment status to track the financial statements to be submitted by the loan recipients and to track the progress of the independent accounting firm's reviews. The listing includes the date the financial statements are sent to the accounting firm, the date the accounting firm submits its report, and any identified adverse conditions. We found that as of June 30, 2015, 567 CWSRF loans were in repayment or interest only status and included on PENNVEST's tracking list. Of the loan recipients' financial statements that were received by PENNVEST and forwarded to the independent accounting firm for evaluation, 32 borrowers, representing 39 loans with outstanding principal balances totaling \$67.9 million as of June 30, 2015, were identified to have adverse fiscal conditions. Our testing of 6 out of the 32 borrowers disclosed that PENNVEST did not have documentation for 3 of the 6 tested to support that PENNVEST had contacted the loan recipients regarding the identified adverse fiscal conditions and that the loan recipients had taken corrective action to address the adverse fiscal conditions.

Criteria: According to OMB Circular A-133, pass-through entities must perform program monitoring of subrecipient activity. OMB Circular A-133, Subpart D, Section .400, states in regard to pass-through entity responsibilities:

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

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In addition, adequate internal controls should include procedures to ensure corrective action is taken if adverse conditions are noted by the independent accounting firm.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 034: (continued)

Cause: According to PENNVEST management, the adverse fiscal conditions were addressed through letters mailed to each respective loan recipient requiring corrective action. However, PENNVEST cannot locate documentation to support that PENNVEST had contacted the loan recipient regarding the identified adverse fiscal condition and that the loan recipient had taken corrective action to address the adverse fiscal condition. PENNVEST believes these files have been misfiled and will be impossible to locate.

Effect: Failure to adequately monitor identified adverse fiscal conditions may jeopardize the timely and complete repayment of PENNVEST loans. It should be noted that none of the 39 loans identified above to have adverse fiscal conditions, were found to be delinquent as of June 30, 2015.

Recommendation: We recommend that PENNVEST perform follow-up and maintain documentation to support adequate follow up for loan recipients that have identified adverse conditions.

Agency Response: PENNVEST is in agreement that there was missing correspondence. During the audit period the primary person responsible for the work was out on medical leave, returned, and then retired. In the interim we had three temporary clerical people helping to cover the work and filing the paperwork. In addition to all these people being involved we found that one of the temporary clerical people misfiled many documents. PENNVEST continues to try to resolve this issue. A new permanent person has been hired and a thorough review of processes and procedures completed.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 035:

CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)

CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)

CFDA #93.563 – Child Support Enforcement

CFDA #93.658 – Foster Care – Title IV-E

CFDA #93.659 – Adoption Assistance

CFDA #93.667 – Social Services Block Grant

CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)

CFDA #93.917 – HIV Care Formula Grants

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

State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 2014-035)

Federal Grant Numbers and Years: N78000 (7/01/2014 – 6/30/2015), N78ARR (7/01/2014 – 6/30/2015), 1302PATANF (10/01/2012 – 9/30/2013), 1402PATANF (10/01/2013 – 9/30/2014), 1404PA4005 (10/01/2013 – 9/30/2014), 1401PA1401 (10/01/2013 – 9/30/2014), 1401PA1407 (10/01/2013 – 9/30/2014), 1401PASOSR (10/01/2013 – 9/30/2014), 1501PASOSR (10/01/2014 – 9/30/2015), 1405PA5MAP (10/01/2013 – 9/30/2014), 1505PA5MAP (10/01/2014 – 9/30/2015), X07HA00021-24 (4/01/2014 – 3/31/2015), TI1010044-14 (10/01/2013 – 9/30/2014), and TI1010044-15 (10/01/2014 – 9/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: For the major federal programs listed above, the state agencies did not identify federally-required information in subrecipient award documents. This failure represents an internal control weakness which causes subrecipients to be improperly informed of federal award information and, while no instances were noted in our testing, it could cause the omission or improper identification of program expenditures on subrecipients' Single Audit Schedules of Expenditures of Federal Awards (SEFAs). The following chart shows which federally-required award information was missing from subrecipient award documents at the time of award.

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Finding 2015 – 035: (continued)

Program	** Amount Passed to Subrecipients (in thousands)	CFDA Title	CFDA Number	Award Name	Federal Grant Number	Federal Awarding Agency
HPC Cluster	\$162,923	No*	No*	-	-	-
TANF – New Directions	\$32,328	-	-	-	No	No
TANF – Child Welfare	\$23,378	-	-	-	No	No
Child Support Enforcement	\$41,106	-	-	No	No	No
Foster Care – Counties	\$41,651	-	No	-	No	No
Foster Care – Non-Profit Contract	\$2,271	No	No	No	No	No
Adoption Assistance – Counties	\$28,004	-	No	-	No	No
Adoption Assistance – SWAN Contract	\$7,320	No	No	No	No	No
SSBG – Child Welfare	\$12,021	-	-	-	No	No
SSBG – Mental Health	\$10,366	-	-	-	No	No
SSBG – Intellectual Disabilities	\$7,455	-	-	-	No	No
SSBG – Homeless Services	\$4,183	-	-	-	No	No
SSBG – Domestic Violence	\$5,705	-	No	-	No	No
SSBG – Family Planning	\$1,736	-	-	-	No	No
SSBG – Rape Crisis	\$1,721	-	-	-	No	No
SSBG – Legal Services	\$5,725	No	No	No	No	No
Medicaid Cluster	\$949,020	No	No	No	No	No
HIV Care Formula Grants – Consortia	\$7,839	-	-	-	No	-
HIV Care Formula Grants – ADAP	\$28,502	No	No	No	No	No
SABG – DHS	\$1,983	-	-	No	No	No

* - For the Highway Planning and Construction (HPC) Cluster we noted a lack of CFDA Name and/or Number on the Reimbursement Agreement Signature page for 5 of 16 expenditures tested. These results were expected because PennDOT's corrective action was implemented during the audit period. In December 2014 PennDOT implemented an electronic reimbursement agreement format to standardize the agreement language and process. PennDOT noted not all agreements were included. Out of the 5 agreements noted, 3 were prior to PennDOT's corrective action. The remaining 2 agreements were subsequent to corrective action. Also, PennDOT is currently reviewing the feasibility of migrating remaining agreements or putting a protocol in place to ensure the required information is communicated. We will perform further evaluation in the subsequent audit period.

** Amount passed to subrecipients is net of Uniform Grant Guidance (UGG) subrecipient expenditures. UGG subrecipient expenditures as applicable are included in Finding 2015-036.

Criteria: The OMB Circular A-133 Compliance Supplement, Part 3.1, Section M, related to Subrecipient Monitoring by pass-through entities, states:

A pass-through entity is responsible for:

Award Identification – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number, award name and number; if the award is research and development, and name of Federal agency) and applicable compliance requirements.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 035: (continued)

Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003... have met the audit requirements of OMB Circular A-133...

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.

Cause: In general, state agencies believed that federal award information historically provided on award documents was sufficient because no errors or omissions in subrecipient reporting have historically been identified. However, all information as required by federal requirements noted above was not being provided to the subrecipients at the time of award.

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

Recommendation: State agencies should develop policies and reporting mechanisms to ensure all required federal award information is disseminated to all subrecipients at the time of award to ensure subrecipient compliance with applicable federal regulations and compliance requirements.

Department of Transportation (PennDOT) Response:

PennDOT agrees with the finding.

Department of Human Services (DHS) Response:

The DHS concurs with the auditors that the federal award information was not identified in the award documents for BCSE and ODP. We are implementing procedures to provide this required information to subrecipients. However, DHS disagrees with the part of this finding regarding OCYF. OCYF has added the CFDA numbers for TANF, Title IV-E Foster Care and Adoption Assistance, and SSBG to the Allocation letters received by County Children and Youth Agencies in FYE 2014/15.

Department of Health (DOH) Response:

The Department of Health (DOH) disagrees with this finding. DOH complies with the requirements of Management Directive 305.21, Payments to Local Governments and other Subrecipients, wherein we must identify the amounts of Federal and state funding we provide to Grantees. This identification includes the breakdown of Federal and state dollars provided and the related Federal and state financial assistance program name and number. DOH will continue to comply with the requirements of the most current version of Management Directive 305.21.

Auditors’ Conclusion: The agency responses from PennDOT and DHS indicate agreement with the finding as it pertains to the HPC Cluster, the Child Support Enforcement program, and the Medicaid Cluster.

For the part of the finding DHS disagrees with, we did note in the condition that the CFDA number was identified for TANF and SSBG Child Welfare (OCYF) funding provided to county subrecipients. However, DHS did not provide any allocation letters, or other documentation, that were provided to county subrecipients that included Foster Care and Adoption Assistance CFDA numbers.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 035 (continued)

DOH states that it disagrees with this finding because it complies with the requirements of Commonwealth Management Directive 305.21. However, this management directive does not require subrecipient award documentation to include all of the federal award information specified by the OMB Circular A-133, including the federal award name, number, and awarding agency. Therefore, to ensure compliance with federal regulations, DOH should ensure it complies with OMB Circular A-133 and identify all required federal award information to its subrecipients in award documentation.

We will follow up on any corrective action in the subsequent audit.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 036:

CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)

CFDA #93.044, 93.045, and 93.053 – Aging Cluster

CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)

CFDA #93.563 – Child Support Enforcement

CFDA #93.658 – Foster Care – Title IV-E

CFDA #93.659 – Adoption Assistance

CFDA #93.917 – HIV Care Formula Grants

State Agencies Did Not Identify the Federal Award Information and Applicable Requirements at the Time of the Subaward and Did Not Evaluate Each Subrecipient’s Risk of Noncompliance as Required by the Uniform Grant Guidance

Federal Grant Numbers and Years: N78000 (7/01/2014 – 6/30/2015), 15AAPAT3SS (10/01/2014 – 9/30/2015), 15AAPAT3CM (10/01/2014 – 9/30/2015), 15AAPAT3HD (10/01/2014 – 9/30/2015), 15AAPANSIP (10/01/2014 – 9/30/2015), 1502PATANF (10/01/2014 – 09/30/2015), 1501PACSES (10/01/2014 – 09/30/2015), 1501PAFOST (10/01/2014 – 09/30/2015), 1501PAADPT (10/01/2014 – 09/30/2015), X07HA00021-25 (04/01/2015 – 03/31/2016)

Type of Finding: Material Weakness, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: The Uniform Grant Guidance (UGG) in 2 CFR section 200 applies to the major programs listed above for the fiscal year ended June 30, 2015. Our testing disclosed that the state agencies did not identify the federal award information and applicable requirements in subrecipient award documents. Additionally, the state agencies did not evaluate each subrecipient’s risk of noncompliance for the purpose of determining the appropriate subrecipient monitoring related to the subaward. This represents an internal control weakness which causes subrecipients to be improperly informed of federal award information and not adequately monitored by the state agencies. Also, while no instances were noted in our testing, it could cause the omission or improper identification of program expenditures on subrecipients’ Schedules of Expenditures of Federal Awards (SEFAs). The following chart shows which federal award information required by 2 CFR section 200 was missing (as indicated by “No”) from the subrecipient award documents at the time of the subaward and which major programs did not have a state agency evaluation of each subrecipient’s risk of noncompliance.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 036: (continued)

Program	** Amount Passed to Subrecipients (in thousands)	Federal Award Date	Subaward Period of Performance Start and End Dates	Contact Information for Awarding Official	Terms and Conditions Concerning Closeout	Evaluation of Subrecipient Risk
HPC Cluster	\$21,304	Varies per project	-	No	No	No
Aging Cluster	\$44,015	No	No	-	-	No
TANF – New Directions	\$35,531	No	No	No	-	No
TANF – Child Welfare	\$36,066	No	No	No	-	No*
CSE	\$90,382	No	No	No	-	No
Foster Care – Counties	\$158,618	No	No	No	-	No*
Foster Care – Non-Profit Contract	\$90,382	No	No	No	-	No
Adoption Assistance – Counties	\$55,262	No	No	No	-	No*
Adoption Assistance – SWAN Contract	\$12,589	No	No	No	-	No
HIV Care Formula Grants – Consortia	\$928	No	No	-	-	No

Program	Federal Award Identification Number	Name of Federal Awarding Agency	CFDA Number	CFDA Title
TANF – New Directions	No	No	-	-
TANF – Child Welfare	No	No	-	-
CSE	No	No	-	-
Foster Care – Counties	No	No	No	-
Foster Care – Non-Profit Contract	No	No	No	No
Adoption Assistance – Counties	No	No	No	-
Adoption Assistance – SWAN Contract	No	No	No	No
HIV Care Formula Grants – Consortia	No	-	-	-

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 036: (continued)

(The cells with a hyphen in the table indicate that the federal award information was included in the subrecipient award documents or was not applicable for the respective major program.)

* - Although an evaluation of subrecipient risk was conducted, it was inadequate since the only factor used in the evaluation of subrecipient risk was error rates detected in prior monitoring at county subrecipients. Factors such as the results of prior audits, changes in personnel, changes in systems, and the extent and results of any federal awarding agency monitoring were not considered.

** - Amount passed through to subrecipients represents the net UGG subrecipient expenditures. The balance of subrecipient expenditures as applicable are included in Finding 2015-035.

Criteria: The OMB Circular A-133 Compliance Supplement, Part 3.2, Section M, related to Subrecipient Monitoring by pass-through entities, states:

A pass-through entity (PTE) must:

Identify the Award and Applicable Requirements – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g. financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

Evaluate Risk – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:

- 1. The subrecipient’s prior experience with the same or similar subawards;*
- 2. The results of previous audits including whether or not the subrecipient receives a single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;*
- 3. Whether the subrecipient has new personnel or new or substantially changed systems; and*
- 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).*

2 CFR section 200.331, Requirements for Pass-through Entities, states:

All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 036: (continued)

(1) *Federal award identification.*

(iii) *Federal Award Identification Number (FAIN);*

(iv) *Federal Award Date (see section 200.39 Federal award date) of award to the recipient by the Federal agency;*

(v) *Subaward Period of Performance Start and End Date;*

(x) *Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity;*

(xi) *CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;*

(6) *Appropriate terms and conditions concerning closeout of the subaward.*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework*, published May 2013, Risk Assessment Component, states in part:

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. The organization should identify and assess changes that could significantly impact the system of internal control.

Cause: In general, state agency personnel stated that they did not become aware of the new Uniform Grant Guidance requirements until they received training in May 2015, which was not in time to implement the new requirements during the current audit period which ended June 30, 2015. The state agencies do not have a system in place to timely identify new federal requirements and implement policies and procedures to ensure compliance.

Effect: Excluding the federal grant award information at the time of the subaward may cause subrecipients and their auditors to be uninformed about specific program and other regulations that apply to the funds they receive. There is also the potential for subrecipients to have incomplete SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds may not be properly audited at the subrecipient level in accordance with the Single Audit Act and OMB Circular A-133.

Not evaluating each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward may result in subrecipients using the subaward for unauthorized purposes or in violation of the terms and conditions of the subaward, and state agency monitoring would not detect this noncompliance and ensure it is corrected in a timely manner.

Recommendation: State agencies should develop policies and reporting mechanisms to ensure all required federal award information is disseminated to all subrecipients at the time of the subaward to ensure subrecipient compliance with the Uniform Grant Guidance in 2 CFR section 200, other applicable federal regulations, and OMB Circular A-133. In addition, state agencies should correspond with applicable subrecipients to ensure they are aware of the correct federal award information and review applicable subaward documents prior to issuance to ensure federal information is complete and accurate. State agencies should also implement procedures to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.

Department of Transportation (PennDOT) Response:

PennDOT agrees with the finding.

Department of Aging (Aging) Response:

The Department of Aging agrees with the finding.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 036: (continued)

Department of Human Services (DHS) Response:

The finding indicates there is a material weakness, material noncompliance.

The finding consists of two components:

- 1) Identifying Federal Award information
- 2) Performing a risk assessment

Identifying Federal Award information

The DHS concurs with the auditors that the federal award information was not identified in the award documents for TANF, CSE, Foster Care, and Adoption Assistance. We are implementing procedures to provide this required information to subrecipients.

Performing a risk assessment

The DHS disagrees with this part of the finding. DHS has performed risk assessments for TANF and CSE.

The DHS concurs with the auditors that the risk assessments were not conducted for Foster Care-Counties, Foster Care – Non-Profit Contract, Adoption Assistance-Counties, and Adoption Assistance-SWAN Contract based.

Department of Health (DOH) Response:

The Department of Health (DOH) disagrees with this finding. DOH complies with the requirements of Management Directive 305.21, Payments to Local Governments and Other Subrecipients, wherein we must identify the amounts of federal and state funding we provide to Grantees. This identification includes the breakdown of federal and state dollars provided and the related federal and state financial assistance program name and number. DOH will continue to comply with the requirements of the most current version of Management Directive 305.21.

Auditors' Conclusion: The agency responses from Aging and PennDOT indicate agreement with the finding.

Regarding the risk assessment the DHS has performed for CSE, it was only related to post award performance auditing and not related to during-the-award monitoring. These audits of subrecipients were for periods prior to the fiscal year ended June 30, 2015.

Regarding TANF New Directions subgrantees, the DHS responded to us on December 18, 2015 via e-mail: “a risk assessment for the TANF subgrantees was not performed during the audit period.” In response to the issuance of this finding DHS e-mailed the following statement to us on February 12, 2016: “Based on the factors listed such as prior experience, prior audits and staffing it was determined that the current monitoring process which includes regular conference calls, site visits and trainings would continue since the partners for Employment and Training programs has remained the same.” However, DHS did not provide any written evidence that any risk assessment of New Directions, Employment and Training, subgrantees was performed prior to the start of its during-the-award subrecipient monitoring for fiscal year ended June 30, 2015.

Regarding the DOH disagreement with the finding, while DOH may comply with the requirements of Management Directive 305.21, Payments to Local Governments and Other Subrecipients, this Management Directive was not updated to address the new Uniform Grant Guidance (UGG). In order to ensure compliance with federal regulations, DOH should ensure it complies with the new Uniform Grant Guidance.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 036: (continued)

We will follow up on any corrective action in the subsequent audit.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037:

- CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #14.228 – Community Development Block Grants – State’s Program**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.048 – Career and Technical Education – Basic Grants to States**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.563 – Child Support Enforcement**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.658 – Foster Care – Title IV-E**
- CFDA #93.659 – Adoption Assistance**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.767 – Children’s Health Insurance Program**
- CFDA #93.917 – HIV Care Formula Grants**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #97.067 – Homeland Security Grant Program**
- CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster**
- CFDA #17.258, 17.259, and 17.278 – Workforce Investment Act (WIA) Cluster**
- CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)**
- CFDA #84.027 and 84.173 – Special Education Cluster (IDEA)**
- CFDA #93.044, 93.045, and 93.053 – Aging Cluster**
- CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families (TANF) Cluster (including ARRA)**
- CFDA #93.575 and 93.596 – Child Care and Development Fund (CCDF) Cluster**
- CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)**

Material Noncompliance and a Material Weakness Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding 2014-037)

Federal Grant Numbers and Years: 14141PA705W (10/01/2013 – 09/30/2014), 15151PA705W (10/01/2014 – 09/30/2015), 2015-1PA300305 (10/01/2014 – 09/30/2015), 2014-1PA300305 (10/01/2013 – 09/30/2014), B-08-DC-42-0001 (01/01/2008 – 09/30/2015), B-09-DC-42-0001 (01/01/2009 – 09/30/2016), B-10-DC-42-0001 (01/01/2010 – 09/30/2017), B-11-DC-42-0001 (01/01/2011 – 09/30/2018), B-11-DN-42-0001 (03/17/2011 – 03/17/2014), B-12-DC-42-0001 (01/01/2012 – 09/30/2019), B-13-DC-42-0001 (01/01/2013 – 09/30/2020), B-13-DS-42-0001 (06/01/2015 – 09/30/2017), S010A110038 (07/01/2011 – 12/30/2013), S010A120038 (07/01/2012 – 12/30/2015), S010A130038 (07/01/2013 – 12/30/2015), S010A140038 (07/01/2014 – 12/30/2016), V048140038 (07/01/2014 – 09/30/2015), V048130038 (07/01/2013 – 09/30/2014), S367B120033 (07/01/2012 – 12/30/2014), S367A120051 (07/01/2012 – 12/30/2014), S367B130033 (07/01/2013 – 12/30/2015), S367A130051 (07/01/2013 – 12/30/2015), S367B140033 (07/01/2014 – 12/30/2016), S367A140051 (07/01/2014 – 12/30/2016), 1502PATANF (10/01/2014 – 09/30/2015), 1402PATANF (10/01/2013 – 09/30/2014), 1404PA4005 (10/01/2013 – 09/30/2014), 1504PACSES (10/01/2014 – 09/30/2015), G-13B1PALIEA (10/01/2012 – 09/30/2014), G-14B1PALIEA (10/01/2013 – 09/30/2015), 1401PALIE4 (10/01/2013 – 09/30/2015), G-15B1PALIEA (10/01/2014 – 09/30/2016), 1501PAFOST (10/01/2014 – 09/30/2015), 1401PA1401 (10/01/2013 – 09/30/2014), 1501PAADPT (10/01/2014 – 09/30/2015),

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037: (continued)

1401PA1407 (10/01/2013 – 09/30/2014), 1501PASOSR (10/01/2014 – 09/30/2015), 1401PASOSR (10/01/2013 – 09/30/2014), 05-1405PA5021 (10/01/2013 – 09/30/2015), X07HA00021-25 (04/01/2015 – 03/31/2016), X07HA00021-24 (04/01/2014 – 03/31/2015), TI010044-13 (10/01/2012 – 09/30/2014), TI010044-14 (10/01/2013 – 09/30/2015), TI010044-15 (10/01/2014 – 09/30/2016), 2010-SS-T0-0037 (08/01/2010 – 07/31/2013), EMW-2011-SS-00092-S01 (09/01/2011 – 02/28/2015), EMW-2012-SS-00038 (09/01/2012 – 05/31/2015), EMW-2013-SS-00095 (09/01/2013 – 08/31/2015), EMW-2014-SS-00037 (09/01/2014 – 08/31/2016), AA-22958-12-55 (07/01/2012 – 06/30/2015), AA-24115-13-55 (07/01/2013 – 06/30/2016), AA-25376-14-55 (07/01/2014 – 06/30/2017), N78000 (07/01/2014 – 06/30/2015), N78ARR (07/01/2014 – 06/30/2015), H027A120093 (07/01/2012 – 09/30/2013), H027A130162 (07/01/2013 – 09/30/2014), H173A140090 (07/01/2014 – 09/30/2015), H173A130090 (07/01/2013 – 09/30/2014), H027A140093 (07/01/2014 – 09/30/2015), 14AAPAT3SS (10/01/2013 – 09/30/2014), 14AAPAT3CM (10/01/2013 – 09/30/2014), 14AAPAT3HD (10/01/2013 – 09/30/2014), 15AAPANSIP (10/01/2014 – 09/30/2015), 15AAPAT3SS (10/01/2014 – 09/30/2015), 15AAPAT3CM (10/01/2014 – 09/30/2015), 15AAPAT3HD (10/01/2014 – 09/30/2015), 14AAPANSIP (10/01/2013 – 09/30/2014), G1501PACCDF (10/01/2014 – 09/30/2017), G1301PACCDF (10/01/2012 – 09/30/2015), G1401PACCDF (10/01/2013 – 09/30/2016), 1405PA5028 (10/01/2013 – 09/30/2014), 1405PA5MAP (10/01/2013 – 09/30/2014), 1505PA5MAP (10/01/2014 – 09/30/2015)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Under the Commonwealth of Pennsylvania's (Commonwealth) implementation of the Single Audit Act, review and resolution of OMB Circular A-133 (A-133) subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through Office of the Budget's Bureau of Audits (OB-BOA) which ensures the reports meet technical standards through a centralized desk review process. Once they are deemed acceptable by OB-BOA, the reports are transmitted to the various funding agencies in the Commonwealth and each agency in the Commonwealth's resolution system must make a management decision on each finding within six months of receipt by the Commonwealth to ensure corrective action is taken by the subrecipient. The agency is responsible for reviewing financial information in each audit report to determine whether the audit included all pass-through funding provided by the agency in order to ensure pass-through funds were audited. Most Commonwealth agencies meet this requirement by performing Schedule of Expenditures of Federal Awards (SEFA) reconciliations. The agency is also required to adjust Commonwealth records, if necessary. Our testing of this two-stage process disclosed that although management decisions were made and the underlying records were adjusted when addressing related findings, we found the following audit exceptions regarding untimely reviews of audit reports:

OB-BOA and Agencies: The overall time period for processing subrecipient audit reports with findings, from the date OB-BOA received the report until the various funding agencies made management decisions on audit findings and ensured subrecipients took corrective action, was in excess of the six month time frame required by OMB Circular A-133. Based on detailed testing of 40 subrecipient audit reports with findings at a sample of four different funding agencies: Department of Labor and Industry (L&I), Department of Health (DOH), Pennsylvania Infrastructure Investment Authority (PENNVEST), and Department of Human Services (DHS), we noted that 23 out of 40 audit reports were untimely processed and resolved between approximately 7 months to over 14 months after originally received by OB-BOA.

The following exceptions relate to agency processing time only:

- Pennsylvania Department of Education (PDE): The time period for making a management decision on findings was approximately 6.4 months to over 14 months for ten out of 98 subrecipient audit reports with findings.

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Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037: (continued)

- DHS: The time period for making management decisions on findings ranged from approximately 6 months to over 14 months for 35 out of the 81 subrecipient audit reports with findings. DHS did not perform procedures to ensure the subrecipient SEFAs were accurate so that major programs were properly determined and subject to audit.
- Department of Drug and Alcohol Programs (DDAP): The time period for making a management decision on three subrecipient audit reports with findings was approximately 6.6 months to over 8 months.
- Department of Health (DOH): The time period for making a management decision on findings was over 6.3 months for one out of 12 subrecipient audit reports with findings. There was also a delay in the completion of the SEFA reconciliation.
- Pennsylvania Infrastructure Investment Authority (PENNVEST): The time period for making a management decision on findings was approximately 6.6 months to 12 months for nine out of 15 subrecipient audit reports with findings. There were also delays in the completion of SEFA reconciliations.
- Department of Community and Economic Development (DCED): The time period for making a management decision on findings was over 7 months for two out of 19 subrecipient audit reports with findings.

As part of our audit of OB-BOA’s statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient expenditures for each of the 24 major programs or clusters with material subgranted funds recorded on OB-BOA’s subrecipient universe in the prior fiscal year (the fiscal year ended June 30, 2014) for which audits were required to be submitted in the current year (the fiscal year ended June 30, 2015). Our testwork disclosed that for 16 out of the 24 major programs/clusters, unaudited expenditures were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133, and seven out of 24 major programs/clusters did not have unaudited expenditures as of our test date. However, for one out of 24 major programs/clusters, fiscal year ended June 30, 2014 unaudited expenditures were considered material to the program/cluster and the related audit should have been submitted, as follows:

CFDA #	Program Name	Total Subgranted Funds Per OB-BOA Universe	Total Subgranted to Entities Without Audits*	Number of Unaudited Subrecipients
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$86,141,111	\$3,524,790	1

* Totals subgranted to entities without audits only include entities receiving \$500,000 or more which were required to submit audits in our current audit period. Unaudited expenditures represent the subrecipient’s fiscal year ended December 31, 2013, for which an audit was due September 30, 2014.

As part of our follow up on the prior year finding, we evaluated the status of the City of Philadelphia Single Audit which was due March 31, 2015. The Commonwealth subgranted federal funds totaling \$155,912,968 to the City of Philadelphia during the fiscal year ended June 30, 2014. The City of Philadelphia Single Audit was received by the Commonwealth over 8 months late in December 2015. DHS was the lead agency responsible for remedial action.

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.

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Finding 2015 – 037: (continued)

OMB Circular A-133, Section 400, states the following:

- (d) *Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*
- (2) *Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*
 - (3) *Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*
 - (4) *Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
 - (5) *Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*
 - (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are representative of state payment records each year, and that the related federal programs have been properly subjected to Single Audit procedures.

OMB Circular A-133, Section 320, Report Submission, states the following:

- (a) General. *The audit shall be completed and ... submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.*

To ensure Commonwealth enforcement of OMB Circular A-133 for subrecipient noncompliance with audit requirements, Commonwealth Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, Section 5 related to policy states, in part:

- (a) *Agencies must develop and implement remedial action that reflects the unique requirements of each program...*
- (b) *Overall periods for the implementation of remedial action should not exceed six months from the date the first remedial action is initiated. At the end of the six-month period, the recipient should take the appropriate corrective action or the final stage of remedial action should be imposed on the recipient. Examples of remedial action include, but are not limited to:*
- (4) *Withholding a portion of assistance payments until the noncompliance is resolved.*
 - (5) *Withholding or disallowing overhead costs until the noncompliance is resolved.*
 - (6) *Suspending the assistance agreement until the noncompliance is resolved.*
 - (7) *Terminating the assistance agreement with the recipient and, if necessary, seeking alternative entities to administer the program.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037: (continued)

Cause: The common reason provided by Commonwealth management for untimely audit resolution in the various agencies, the late submission of subrecipient audit reports, and untimely procedures to ensure the accuracy of subrecipient SEFAs was either a change in staff or a lack of staff to follow up and process A-133 subrecipient audit reports more timely. In general, the Commonwealth agencies do not appear to be taking any additional action other than sending dunning letters to the delinquent subrecipients, which has not provided enough of a penalty to elicit compliance with the federal rules.

Regarding the unaudited subrecipient under CFDA #66.458, approximately 12 months elapsed from the September 30, 2014 audit due date until PENNVEST notified the subrecipient it would withhold funds. We believe OB-BOA should have dunned and transmitted the audit to PENNVEST at an earlier date, and PENNVEST should have implemented its remedial action, including withholding funds, at an earlier date.

OB-BOA personnel stated that they believed they fulfilled their responsibilities regarding the City of Philadelphia by sending a dunning letter to the unaudited subrecipient in April 2015 and by transmitting the unaudited subrecipient's information to the lead agency, DHS, for follow up in May 2015. DHS personnel stated that they began remedial action via telephone inquiry to the organization responsible for conducting the subrecipient audit and provided evidence of correspondence with the audit organization dated October 2015. We believe that DHS should have implemented its remedial action, including withholding funds, on a more timely basis.

Effect: Since the Commonwealth did not make the required management decisions within six months of receipt to ensure appropriate corrective action was taken on audits received from subrecipients, the Commonwealth did not comply with federal regulations, and subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner. Further, noncompliance may recur in future periods if control deficiencies are not corrected on a timely basis, and there is an increased risk of unallowable charges being made to federal programs if corrective action and recovery of questioned costs is not timely.

With respect to the SEFA reviews or alternate procedures which are not being performed timely and the late Single Audit report submissions, there is an increased risk that subrecipients could be mispending and/or inappropriately tracking and reporting federal funds over multiple year periods, and these discrepancies may not be properly monitored, detected, and corrected by agency personnel on a timely basis as required.

Since the Commonwealth did not obtain and review the required Single Audit reports, material federal funds in the major program listed above were not audited timely, resulting in noncompliance with OMB Circular A-133. In addition, a weakness exists since DHS and PENNVEST did not implement remedial action timely. Untimely remedial action resulted in the disbursement of approximately \$141 million in federal funds to Philadelphia City subsequent to the audit due date of March 31, 2015 through the audit report submission date of December 2015, and the disbursement of \$1.5 million in federal funds to the unaudited PENNVEST subrecipient subsequent to the audit due date of September 30, 2014. Additional material dollars may be unaudited in the future without timely and effective remedial action from DHS and PENNVEST to enforce compliance.

Recommendation: We recommend that the above weaknesses that cause untimely OMB Circular A-133 audit resolution, including untimely review of the SEFA or lack of alternate procedures, late audit report submissions, and untimely finding resolutions, be corrected to ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements.

We also recommend that OB-BOA continue its effort to follow up on outstanding subrecipient audits on a timely basis, including providing timely notification to the respective lead agency regarding outstanding audits. DHS and PENNVEST as lead agencies should implement their respective remedial action plans on a timely basis, including withholding funding from subrecipients which do not comply with audit submission requirements.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037: (continued)

OB-BOA Response:

OB-BOA concurs with the finding as written. It should be noted that in regards to the unaudited subrecipient under CFDA #66.458, the audit report for the fiscal year ended December 31, 2013, was received by OB-BOA on February 9, 2016.

PDE Response:

PDE, Bureau of Budget and Fiscal Management, Audit Section has implemented corrective action addressing all Subrecipient Single Audit Reports with Findings and is making management decisions in a timelier manner. The Audit Section will continue to improve this process as it addresses these issues in accordance with OMB A-133 and Management Directive 325.9.

DHS Response:

The following is provided in response to this finding as presented to DHS. The finding indicates there is a material weakness, material noncompliance.

The finding consists of three components:

- 1) The timeliness of finding resolution
- 2) The requirement to perform procedures to ensure the subrecipient SEFAs were accurate
- 3) Unaudited expenditures/enforcement of the subrecipients' submission deadlines

The timeliness of finding resolution

DHS concurs with the auditors that resolution of some subrecipient single audit reports and the related required management decisions have not been timely. We are continuing to work to rectify this issue, and plan to have this corrected before June 30, 2016.

The requirement to perform procedures to ensure the subrecipient SEFAs were accurate

DHS continues to disagree with this part of the finding; however, in an effort to eliminate this part of the finding in future years, we have implemented procedures for the subrecipients to submit a supplemental schedule with their single audit that is subject to an Agreed-Upon Procedures engagement and will reconcile their SEFA to the funding they received from DHS. As part of DHS' review of the single audit reports, we will review this schedule and compare to our payment records and investigate any significant differences.

Unaudited expenditures / Enforcement of the subrecipients' submission deadlines

DHS disagrees with this part of the finding.

In General

DHS disagrees with the auditor's characterization that late submission of a subrecipient's single audit report represents an "unaudited" subrecipient. The term "unaudited" implies that information was never subjected to audit procedures. The funding provided to the City of Philadelphia is audited; however, we agree that the report listed in the condition of the finding was not issued timely.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037: (continued)

DHS disagrees with the auditors' characterization that a weakness exists since DHS did not implement its remedial action plan, including withholding funds, on a more timely basis. As stated during discussions with the auditors in relation to a prior year finding, 12-OB-04, DHS does have procedures in place, which can include the withholding of a percentage of State funds until the subrecipient submits its single audit report. DHS continues its efforts to obtain the required single audits from subrecipients, which includes continuing to consider withholding a percentage of State funding.

DHS did implement its remedial action on a timely basis. We continued to monitor the status of this audit report and DHS did in fact follow its remedial action plans, which is to consider withholding a percentage of State funding. There continue to be discussions within DHS regarding this consideration, but ultimately the decision was made to not withhold, as any withholding could adversely impact the provision of required human services.

DHS will continue to monitor the status of, and work with the City of Philadelphia, to assist them to become compliant with audit submission requirements.

DDAP Response:

DDAP agrees with the finding.

DOH Response:

DOH agrees with the DOH-specific condition cited in this finding.

PENNVEST Response:

PENNVEST is in agreement that responses were late in some cases. This was due to a shortage of staff and the use of temporary clerical people in the absence of the full time employee devoted to SEFA work.

The timing of notification of the SEFA deficiencies for the City of Philadelphia did not align to withholding further funding. Where appropriate we do withhold further disbursements to the City and or any other projects where there are deficiencies in reporting. In some cases there are no further funds to be disbursed because our funding has been closed out.

DCED Response:

DCED feels the two reports that had been resolved past the six month deadline were isolated incidents. The Department had given the grantee until July 1, 2015 to provide a response to its inquiry, which would have allowed the Department to close the report within the six month window. The grantee was given an extension, which then exceeded the six month window for resolution. We did not enforce any remedial action because the grantee was working with us in good faith.

Auditors' Conclusion: The agency responses from OB-BOA, PDE, DDAP, DOH, PENNVEST, and DCED indicate agreement with the finding.

DHS: DHS agreed that management decisions on findings are not timely.

Regarding DHS's response for subrecipients' SEFAs, we will review any corrective action in the subsequent audit period.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 037: (continued)

Regarding DHS's response related to unaudited expenditures and enforcement of the subrecipients' submission deadlines, the auditor has the responsibility to report noncompliance with federal regulations in accordance with OMB Circular A-133. We encourage DHS to follow up and implement effective remedial action for outstanding audits earlier and to work with subrecipients to ensure timely submission of audits, especially for subrecipients whose significant level of funding requires them to submit audits annually.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 038:

CFDA #10.551 and 10.561 – Supplemental Nutrition Assistance Program (SNAP) Cluster
CFDA #10.553 – School Breakfast Program
CFDA #10.555 – National School Lunch Program
CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.558 – Child and Adult Care Food Program
CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds
CFDA #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.027 – Special Education – Grants to States
CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #93.268 – Immunization Cooperative Agreements
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.575 and 93.596 – Child Care and Development Fund (CCDF) Cluster
CFDA #93.658 – Foster Care – Title IV-E
CFDA #93.659 – Adoption Assistance
CFDA #93.667 – Social Services Block Grant
CFDA #93.767 – Children’s Health Insurance Program
CFDA #93.778 – Medical Assistance Program (including ARRA)
CFDA #96.001 – Social Security – Disability Insurance

Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$95,403 in Questioned Costs Related to the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding 2014-036)

Federal Grant Numbers and Years: 15151PA405S2514 (10/1/2014 – 9/30/2015), 2014-1PA300305 (10/1/2013 – 9/30/2014), 13131PA305N1099 (10/1/2013 – 9/30/2014), 14141PA705W1006, 15151PA705W1006, 2015-1PA300305 (10/1/2014 – 9/30/2015), CS-420001-14 (7/1/2014 – 9/3/2017), S010A110038 (7/01/2011 – 12/30/2013), S010A120038 (7/01/2012 – 12/30/2015), S010A130038 (7/01/2013 – 12/30/2015), S010A140038 (7/01/2014 – 12/30/2016), H027A130162 (07/01/2013 – 09/30/2014), H027A140093 (07/01/2014 – 09/30/2015), H126A140056 (10/01/2013 – 9/30/2014), H126A150056 (10/01/2014 – 9/30/2015), S367B120033 (07/01/2012 – 12/30/2014), S367A120051 (07/01/2012 – 12/30/2014), S367B130033 (07/01/2013 – 12/30/2015), S367A130051 (07/01/2013 – 12/30/2015), 5H23IP000769 (01/01/2013 – 12/31/2017), S367B140033 (07/01/2014 – 12/30/2016), S367A140051 (07/01/2014 – 12/30/2016), 1402PATANF (10/01/2013 – 9/30/2014), 1502PATANF (10/01/2014 – 09/30/2015), 1304PA4005 (10/1/2012 – 9/30/2013), 1404PA4005 (10/1/2013 – 9/30/2014), G-14B1PALIEA (10/1/2013 – 9/30/2015), G-140PALIE4 (10/1/2013 – 9/30/2015), G-13B1PALIEA (10/1/2012 – 9/30/2014), G-12B2PALIE2 (10/1/2011 – 9/30/2013), G-12B1PALIEA (10/1/2011 – 9/30/2013), G1301PACCDF (10/1/2012 – 9/30/2015), G1401PACCDF (10/1/2013 – 9/30/2016), G1501PACCDF (10/1/2014 – 9/30/2017), G1301PA1401 (10/1/2012 – 9/30/2013), G1401PA1401 (10/1/2013 – 9/30/2014), G1301PA1407 (10/1/2012 – 9/30/2013), G1401PA1407 (10/1/2013 – 9/30/2014), 1401PASOSR (10/01/2013 – 9/30/2014), 1501PASOSR (10/01/2014 – 9/30/2015), 05-1405PA5021 (10/1/2013 – 9/30/2015), 05-1305PA5021 (10/1/2012 – 9/30/2014), 1405PA5MAP (10/1/2013 – 9/30/2014), 1505PA5MAP (10/01/2014 – 9/30/2015), 04-1304PAD100 (10/1/2012 – 9/30/2015), 04-1404PAD100 (10/1/2013 – 9/30/2016), 04-1504PAD100 (10/1/2014 – 9/30/2015)

Type of Finding: Significant Deficiency, Noncompliance

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 038: (continued)

Compliance Requirement: Cash Management

Condition: The Commonwealth of Pennsylvania (Commonwealth) has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement (TSA), the Commonwealth has developed policies and procedures contained in the Comptroller Operations' Directive #540.1 and has developed the CMIA Grant Drawdown System (GDS) which calculates and provides recommended drawdown amounts for most federal programs using the Average Daily Clearance (ADC) method.

As in prior years, we noted various weaknesses in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns, as follows:

- The Office of the Budget's Bureau of Accounting and Financial Management (BAFM) conducted a new check clearance study to be incorporated into the fiscal year ended June 30, 2013 TSA. However, in order to establish the delay of draw, the date the invoice was sent to Pennsylvania Treasury for payment that BAFM used in the study is a SAP-generated date. Due to the weakness in information technology general controls (ITGC) noted in the SAP system as reported in findings in our current year audit of the Commonwealth's Basic Financial Statements, there is a possibility that system generated dates could be modified and not detected, and therefore, we cannot place any reliance on dates posted on SAP.
- Section 6.2.4 of the TSA contains a paragraph specific to CFDA #10.557 which states that payments are to be received in accordance with the Modified Zero Balance Account (ZBA) – Next Day Payment method. However, in Exhibit II of the TSA, the Payments to Local Agencies category of expenditures are lumped together with the Benefit Payments for the related federal revenues to be received by this same method. In our current year audit of the CFDA #10.557 program, we noted that Payments to Local Agencies are a separate and different type of payment and should not be subject to the Modified ZBA – Next Day Payment method. The Commonwealth's new calculation of ADC patterns implemented in the TSA for the fiscal year ended June 30, 2013 indicated that the ADC for CFDA #10.557 was nine days. Considering the fact that this calculation of nine days lumped Benefit Payments, Payments to Local Agencies, and Direct Payroll together, this indicates that the Payments to Local Agencies have a longer ADC than the Modified ZBA – Next Day Payment method and should in fact be accounted for, and the related drawdowns be requested separately from the Benefit Payments.

Also, the state's interest liability on the CMIA Annual Report for the fiscal year ended June 30, 2014 and 2015 was understated by a minimum of \$65,871 and \$29,532, respectively, as follows:

- Within the Medical Assistance program, the Department of Human Services (DHS) PROMISe system processed \$92.1 million in school-based medical claims for the fiscal year ended June 30, 2015. Since the Pennsylvania Department of Education (PDE) administers the school-based medical program, DHS pays PDE for claims processed and PDE subsequently reimburses the school districts (\$92.1 million during the fiscal year ended June 30, 2015) for services provided. Based on our review of the federal restricted receipts account used by PDE to reimburse the school districts, there is a carry-forward balance from the prior fiscal year of \$135 million and a balance of \$133 million as of June 30, 2015, which means PDE is not reimbursing the school districts prior to the Office of Comptroller Operations' (OCO's) drawdown of federal funds. We also reviewed the Grants Management Interest Report which disclosed that the Commonwealth did not pay any interest on the balance of federal funds maintained within this account. As a result, the state's interest liability was understated by an estimated \$65,871 for the Medical Assistance Program, CFDA #93.778, for the fiscal year ended June 30, 2014 and an estimated \$29,532 for the fiscal year ended June 30, 2015.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 038: (continued)

Criteria: 31 CFR Section 205.20 provides the following regarding clearance patterns:

States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

- a. A clearance pattern must be auditable.*
- b. A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. A clearance pattern must include seasonal or other periodic variations in clearance activity.*

31 CFR Section 205.15 states the following pertaining to state interest liabilities:

- (a) General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*

The Commonwealth's TSA, in effect until June 30, 2015, with the U.S. Treasury Department, Section 8.6 related to State Interest Liabilities states:

8.6.1 The State shall be liable for interest on Federal funds from the date Federal funds are credited to a State account until the date those funds are paid out for program purposes.

8.6.2 The State shall use the following method to calculate State interest liabilities on Federal funds:

8.6.2.1 Measuring Time Funds Are Held

To determine the total time Federal funds are held, the State shall measure the time between the date Federal funds are received and credited to a State's account and the date those funds are debited from the State's account.

Cause: The OCO believes that since the dates used to determine the day invoices are sent to Treasury for payment are system generated it provides assurance that dates cannot be modified. However, due to deficiencies in the ITGC noted in the SAP system we cannot place any reliance on these dates posted on SAP.

The OCO believes that Section 6.3.2 of the TSA, which states that the CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants and Children benefit payments/payments to local agencies components will be funded using the technique identified and described under Modified ZBA – Next Day Payment (CFDA #10.557), overrides the issue we state in our Condition.

In regard to the condition that the Commonwealth owes interest on money currently held by PDE for the Medical Assistance Program, the OCO believes that a previous Centers for Medicare and Medicaid Services (CMS) review conducted in 2002 gives approval of this process and no interest is owed. However, this CMS review addressed the expenditures claimed but not whether the payment process complied with CMIA regulations.

Effect: As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations related to the procedures for clearance pattern requirements and the interest calculation in the CMIA Annual Report as stated in 31 CFR Part 205.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 038: (continued)

The state interest liability amounts reported on the CMIA Annual Report for the fiscal years ended June 30, 2014 and 2015 are not accurate. Our testing disclosed a minimum estimate of \$65,871 in understatements in the state interest liability to the federal government for the fiscal year ended June 30, 2014, and \$29,532 plus an indeterminate amount for the fiscal year ended June 30, 2015.

Recommendation: We recommend that OCO:

- Calculate current and prior year additional CMIA interest due to the U.S. Treasury as a result of the drawdown system weaknesses disclosed above and repay the amount calculated or pursue appropriate settlement with the U.S. Treasury, which would include obtaining written documentation that all issues in the condition are in compliance with cash management regulations and do not require corrective action.
- Change the GDS drawdown of federal funds related to the Payments to Local Agencies under CFDA #10.557 to be drawn down in accordance with the calculated ADC pattern of nine days.

Office of the Budget, Bureau of Accounting & Financial Management (BAFM), Response: The Office of Comptroller Operations (OCO) disagrees with the condition that computer control weaknesses prevented the auditor from relying on the dates posted in SAP. The dates used to determine the day invoices are sent to Treasury for payment are system generated and cannot be edited by users. These facts provide assurance to the auditors that dates cannot be modified.

The OCO disagrees with the auditor's condition which indicates that the payments to local agencies should in fact be accounted for, and the related drawdowns, be requested separately for CFDA #10.557. Section 6.3.2 of the TSA specifically states that the CFDA #10.557 Supplemental Nutrition Program for Women, Infants and Children benefit payment/payments to local agencies components will be funded using the technique identified as and described under Modified ZBA – Next Day Payment (CFDA #10.557). As part of the TSA, the U.S. Department of the Treasury has approved this funding technique for the benefit payment/payments to local agencies component of the Supplemental Nutrition Program for Women, Infants and Children Program, CFDA #10.557.

The OCO disagrees with the auditor's condition that the Commonwealth owes interest on money currently held by the Pennsylvania Department of Education (PDE) for the Medical Assistance Program. This program was established as a result of the Medicare Catastrophic Act (PL 100-360). This law stated that federal Medicaid funds must be available to reimburse for the cost of health related services found in a child's individualized education plan (IEP), or individualized family service plan (IFSP). As a result of this law, state education agencies are eligible for federal reimbursement for the health related services provided to children who are eligible for Medicaid. The PDE developed the School Based ACCESS program (SBAP) as a method to identify and collect eligible claims related to services provided to Medical Assistance eligible students. Due to the complexity of the program, the PDE has contracted with a service provider to enroll and train LEAs and to periodically collect and submit the claims to the Department of Human Services (DHS). Through this process Local Educational Agencies are provided training which explains the entire process. During that time the LEAs enroll as providers with the DHS and direct claim payments to the PDE. As eligible claims are reimbursed the PDE deposits these monies into a restricted account. The law provides that the PDE is able to retain the federal reimbursement. However, rather than retain the federal reimbursements, PDE has decided to make the funds available to the LEAs to fund program activities. Each LEA has a separately identified account balance, which correlates to the amount of claims originally submitted and the LEAs request funds as they deem necessary. The auditor's assertion that a large carry-forward balance exists and that the PDE is not reimbursing school districts is inaccurate. The auditors have been provided a copy of the MOUs that describe the process, copies of provider agreements completed by the schools that specifically direct payment to PDE, approval by CMS of a review that was performed of the process (including the MOU that describes the process), and offered additional information such as training materials that are provided to the LEAs and forms used to request money when the schools want their funds disbursed. It was also communicated to the auditors that the program is voluntary for the LEAs. Given the process described and all of the information provided we disagree

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2015

Finding 2015 – 038: (continued)

that the state's interest liability was understated by a minimum of \$95,403. Additionally, OCO believes the auditor's statement that "PDE is not reimbursing the school districts prior to OCO's drawdown of federal funds" is misleading. The auditor's statement incorrectly implies that the federal fund drawdowns are tied to the PDE payments to the school districts. The drawdown of federal funds occurs after DHS receives and processes the eligible health related service claim for services provided to medical assistance eligible students.

Auditors' Conclusion: With regard to management's disagreement with the same identified weaknesses from prior years relating to the condition that computer control weaknesses prevented the auditors from relying on the dates posted in SAP, and the condition that the Commonwealth owes interest on money currently held by PDE for the Medical Assistance Program, we contacted the CMIA program representative from the U.S. Department of the Treasury during the fiscal year ended June 30, 2011 audit and discussed whether or not to retain the identified weaknesses. The CMIA program representative requested that we forward the draft findings and agency response for review, which we did. Consequently, the CMIA program representative noted that he had no basis to recommend that we remove the conditions from our finding. As for these conditions and for the remaining conditions in the finding, management provided no additional information or documentation from federal officials to support the removal of any of the conditions from the finding. Therefore, our finding and recommendations remain as previously stated.

Questioned Costs: \$95,403

The 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, 2015

Finding	State Agency/Finding	Comments
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2014:</u>		
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
2014-008	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 13-DCED-01)	DCED has hired KPMG to assist with the program monitoring back-log. We anticipate them starting their work September 2015. In order to provide more of a focus on the program monitoring back-log, DCED has begun to reorganize the Community Finance Division. The Community Financing Director retired in June 2015 and his duties were split between three directors. One of those directors will be focusing on future monitoring and the existing back-log.
2014-009	Material Noncompliance and Material Weaknesses in Internal Control in Department of Community and Economic Development's Consolidated Annual Performance and Evaluation Report	Corrective action was taken.
DEPARTMENT OF EDUCATION (PDE)		
2014-010	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 13-PDE-01)	PDE developed a process to reconcile vendor reported activity to server activity.
2014-011	A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount (Prior Year Finding 13-PDE-06)	PDE revised its PIMS Override Request and Data Maintenance Request forms.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings - June 30, 2015

Finding	State Agency/Finding	Comments
DEPARTMENT OF EDUCATION (PDE) (Continued)		
2014-012	A Material Weakness and Material Noncompliance Exist Over the Pennsylvania Department of Education's Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (Prior Year Findings 13-PDE-05 and 13-PDE-06)	Results of a study to determine the quality of the LEA enrollment data are expected in Fall 2015. A contract for a data vendor that is expected to be awarded December 2015 includes a request for a SOC Report. An additional two (2) data quality engines rules are being developed to reduce the number of duplicate or missing records and will be implemented for the 2015-2016 school year.
2014-013	A Material Weakness and Material Noncompliance Exist in the Pennsylvania Department of Education's Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (Prior Year Finding 13-PDE-07)	Corrective action was taken.
DEPARTMENT OF HEALTH (DOH)		
2014-014	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (Prior Year Finding 13-DOH-01)	Corrective action was taken.
DEPARTMENT OF HUMAN SERVICES (DHS)		
2014-015	A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (Prior Year Finding 13-DPW-01)	DHS required EBT Coordinators and their designees to complete the EBT Security Procedure eLearning module to reinforce the proper use, retention or destruction of EBT logs and Ribbons. Periodic statewide reconciliations will be completed to verify, add, or remove the names of EBT card pinner/maker.
2014-016	A Material Weakness and Material Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 13-DPW-05)	DHS disagrees with this finding.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings - June 30, 2015

Finding	State Agency/Finding	Comments
DEPARTMENT OF HUMAN SERVICES (DHS) (Continued)		
2014-017	Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (Prior Year Finding 13-DPW-03)	In an effort to enhance subrecipient monitoring, Section 4.1 of the FY16-17 Needs-Based Plan and Budget Bulletin has been changed to have the counties provide a more specific description of their efforts by which the CCYAs monitor their subrecipients/contractors. For monitoring of the CWEL/CWEB program, an onsite visit has been scheduled during July 2015. The contract manager will complete a review of program eligibility, coupled with a fiscal review by OCYF's fiscal staff, to ensure compliance with the federal program.
2014-018	Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (Prior Year Finding 13-DPW-04)	DHS is implementing additional monitoring reviews of subrecipients operating EARN and Work Ready Programs. This will be completed in the Fall of 2015. This additional monitoring will focus on subrecipient's compliance issues with contractually obligated items.
2014-019	Noncompliance and Controls Not Operating Effectively in the Department of Human Services' Administration of the Low-Income Home Energy Assistance Program	Corrective action was taken.
2014-020	Noncompliance and Internal Control Weakness in Department of Human Services' Contracting With Child Care Subgrantees (Prior Year Finding 13-DPW-08)	Corrective action was taken.
2014-021	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 13-DPW-07)	DHS has: 1. Hired additional licensing inspectors that are being trained and will soon be deployed; 2. Staff have been equipped with technology that enables immediate processing of inspection results, more expedient correction of violations, and optimal use of inspectors' time; 3. Legislative language has been introduced to meet requirements imposed by the reauthorized Child Care Development Block Grant.
2014-022	Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (Prior Year Finding 13-DPW-09)	A comprehensive monitoring program has been developed and a risk-based approach will be used to conduct monitoring. Due to continued work priorities of the unit, monitoring did not occur in June 2015. Instead, it is anticipated that monitoring will begin during the first quarter of SFY 2015-2016.

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Summary Schedule of Prior Audit Findings - June 30, 2015

Finding	State Agency/Finding	Comments
DEPARTMENT OF HUMAN SERVICES (DHS) (Continued)		
2014-023	Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (Prior Year Finding 13-DPW-10)	DHS disagreed with certain items in this finding. DHS policy continues to emphasize the timeliness of replications to enhance the monitoring of reapplications. DHS continues to scan documentation into CIS, which will cut down on misplaced and duplication, and allow easier access to these items.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
2014-024	Department of Labor and Industry Did Not Comply With UC Program Integrity Requirements	L&I completed implementation of the necessary procedures to be in compliance with the new requirements resulting from the changes to the Social Security Act and the FUTA.
2014-025	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 13-L&I-01)	The CWDS Workforce Access Disabling Policy was updated. This update incorporated a procedural change for Local Office System Admin permissions. Access disabling policy and CWDS disabling process will be reviewed after each quarterly audit.
2014-026	Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (Prior Year Finding 13-L&I-03)	A copy of the revised RSA-2 instructions and action items were forwarded to RSA for review. We continue to define various Workforce Innovation and Opportunity Act (WIOA) requirements within CWDS and updates to the system are scheduled for releases in August and October 2015. This issue should be resolved following the October release.
2014-027	Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations (Prior Year Finding 13-L&I-02)	Central Office specialists visited all of our offices in the past year to conduct onsite reviews and provide instant feedback and training. We are seeing quantitative (higher case review scores) and qualitative (improved case progress notes, comprehensive assessments, etc.) improvements since the new case review system was rolled out at Level 3. Any office that scored below a 70% for any particular review topic at any time in the last review period was required to provide training on that specific topic to all of their staff members. We are in the process of revising our Back to Basics training series to reflect forthcoming changes in WIOA. It will be available on the Commonwealth's Employee Self Service Training site, as well as our local network. Completion of the training series will be tracked on the ESS site, as well as by our Central Office training coordinator.

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Finding	State Agency/Finding	Comments
DEPARTMENT OF LABOR AND INDUSTRY (L&I) (Continued)		
2014-028	Noncompliance and General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (Prior Year Finding 13-SW-02)	Corrective action was taken.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
2014-029	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$106,162 (Prior Year Finding 13-DMVA-01)	Corrective action was taken.
2014-030	Material Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$11,848	DMVA is now completing criminal background and Megan's Law checks prior to admission to any of our State Veterans Homes.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)		
2014-031	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (Prior Year Finding 13-PEMA-01)	Corrective action was taken.
2014-032	Material Weakness and Material Noncompliance Over Subrecipient Monitoring	PEMA's Compliance Review Division conducted a site monitoring visit to the SE task force in March 2015, and issued a formal monitoring report on May 11, 2015.
2014-033	Material Weakness and Material Noncompliance Over Equipment and Real Property Management (Prior Year Finding 13-PEMA-03)	PEMA completed the equipment inventory upload into the management system and conducted training on the equipment inventory software.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
2014-034	Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 13-PENNVEST-04)	PENNVEST has assigned an employee to be responsible for accurately filing documentation and addressing compliance with follow up on the sub-recipient CAPs.

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Finding	State Agency/Finding	Comments
OFFICE OF THE BUDGET (OB)		
2014-036	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$186,323 Questioned Costs of the CMIA Interest Liability (Prior Year Finding 13-SW-04)	Due to OCO's disagreement with the finding, no corrective action plan is deemed necessary.
2014-038	Internal Control Weakness Over Expenditure Information Reported on the SEFA	Corrective action was taken.
STATEWIDE (SW)		
2014-035	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 13-SW-03)	PDE & DCED have taken corrective action. PennDOT completed implementation of Release 1 of the Reimbursement Agreement System. This release digitalizes the reimbursement agreements and ensures consistency with the use of the most current forms including the required federal information DOH, DHS & OCO disagreed with this finding.

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Summary Schedule of Prior Audit Findings - June 30, 2015

Finding	State Agency/Finding	Comments
STATEWIDE (SW) (Continued)		
2014-037	Material Noncompliance and a Material Weakness Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding 13-SW-01)	<p>BOA's subrecipient dunning process for 6/30/2014 was performed to notify those delinquent subrecipients, including Philadelphia City. At the same time, the listing of those delinquent subrecipients was forwarded to all affected Commonwealth agencies that provided the federal funding.</p> <p>DHS has developed an agreed-upon procedures (AUP) engagement to be performed by the subrecipients' auditors to provide a reconciliation of the SEFA to the funding they received. DHS will review this AUP during the review of the single audits. This AUP is required for fiscal years beginning on or after December 26, 2014. The backlog of single audit reviews should be eliminated during the first quarter of SFY 2015-2016.</p> <p>DDAP has filled the position that will be assisting with audit reviews.</p> <p>DOH now maintains a separate subrecipient single audit tracking report for subrecipient single audit reports with findings to ensure the reports with findings are reviewed and resolved as soon as possible after their receipt by DOH.</p> <p>PENNVEST has implemented a new tracking system.</p> <p>PDE has reassigned the position that is responsible for the review of subrecipient audit reports.</p> <p>DCED has focused more effort and communication into resolving findings timely with subrecipient auditees.</p> <p>Aging, PEMA, L&I & PID have taken corrective action.</p>

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Summary Schedule of Prior Audit Findings - June 30, 2015

Finding	State Agency/Finding	Comments
FINDINGS FOR THE YEAR ENDED JUNE 30, 2013:		
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
13-DCED-01	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 12-DCED-01)	Refer to finding 2014-008 for the status of this issue.
DEPARTMENT OF EDUCATION (PDE)		
13-PDE-01	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 12-PDE-01)	Refer to finding 2014-010 for the status of this issue.
13-PDE-05	A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding 12-PDE-04)	Refer to finding 2014-012 for the status of this issue.
13-PDE-06	A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data (Prior Year Finding 12-PDE-06)	Refer to findings 2014-011 and 2014-012 for the status of this issue.
13-PDE-07	A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (Prior Year Finding 12-PDE-07)	Refer to finding 2014-013 for the status of this issue.
DEPARTMENT OF HEALTH (DOH)		
13-DOH-01	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (Prior Year Finding 12-DOH-01)	Refer to finding 2014-014 for the status of this issue.

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Finding	State Agency/Finding	Comments
DEPARTMENT OF HUMAN SERVICES (DHS)		
13-DPW-01	Internal Control Deficiencies and Noncompliance at the Department of Human Services Related to Electronic Benefits Transfer Card Security	Refer to finding 2014-015 for the status of this issue.
13-DPW-03	Weaknesses in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Public Welfare Office of Children, Youth and Families	Refer to finding 2014-017 for the status of this issue.
13-DPW-04	Department of Human Services Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients	Refer to finding 2014-018 for the status of this issue.
13-DPW-05	Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 12-DPW-03)	Refer to finding 2014-016 for the status of this issue.
13-DPW-07	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 12-DPW-06)	Refer to finding 2014-021 for the status of this issue.
13-DPW-08	Noncompliance and Internal Control Weakness in DPW's Contracting With Child Care Subgrantees	Refer to finding 2014-020 for the status of this issue.
13-DPW-09	Weaknesses in the Department of Human Services Program Monitoring of Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (Prior Year Finding 12-DPW-07)	Refer to finding 2014-022 for the status of this issue.
13-DPW-10	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (Prior Year Finding 12-DPW-08)	Refer to finding 2014-023 for the status of this issue.

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Finding	State Agency/Finding	Comments
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
13-L&I-01	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 12-L&I-02)	Refer to finding 2014-025 for the status of this issue.
13-L&I-02	A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations (Prior Year Finding 12-L&I-05)	Refer to finding 2014-027 for the status of this issue.
13-L&I-03	A Control Deficiency Exists Over the Preparation and Submission of the Annual RSA-2 Report	Refer to finding 2014-026 for the status of this issue.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
13-DMVA-01	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement (Prior Year Finding 12-DMVA-01)	Refer to finding 2014-029 for the status of this issue.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)		
13-PEMA-01	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (Prior Year Finding 12-PEMA-03)	Refer to finding 2014-031 for the status of this issue.
13-PEMA-03	Material Weakness and Material Noncompliance Over Equipment and Real Property Management (Prior Year Finding 12-PEMA-01)	Refer to finding 2014-033 for the status of this issue.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
13-PENNVEST-04	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 12-PENNVEST-02)	Refer to finding 2014-034 for the status of this issue.

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Summary Schedule of Prior Audit Findings - June 30, 2015

Finding	State Agency/Finding	Comments
STATEWIDE (SW)		
13-SW-01	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding 12-OB-04)	Refer to finding 2014-037 for the status of this issue.
13-SW-02	General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (Prior Year Finding 12-OB-03)	Refer to finding 2014-028 for the status of this issue.
13-SW-03	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 12-OB-01)	Refer to finding 2014-035 for the status of this issue.
13-SW-04	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (Prior Year Finding 12-OB-02)	Refer to finding 2014-036 for the status of this issue.

Corrective Action Plans



Commonwealth of Pennsylvania

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Corrective Action Plans - June 30, 2015

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-001	Treasury	Ed Palmer, Comptroller	<p>General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 2014-002)</p> <p>1. Previous versions of OnBase had security issues which unfortunately necessitated the current configuration. BUCD will upgrade to a newer version of Onbase by March 31st 2016 that will allow modification of the user rights to a stricter, more appropriate security setting.</p> <p>2. It is the policy of the Department of Labor and Industry to provide police and fire personnel access to all areas of the building. The access to the data center currently includes 136 officials (124 capitol and state police, 12 DGS fire and safety personnel) as required by Labor and Industry. These individuals have been established as a separate access group. Since December 2010, BUCD conducts regular reviews of authorized users with Department of General Services.</p> <p>3. Treasury BUCD is not a client of the Treasury Department network, but is a client of the Department of Labor and Industry (L&I) network. All password requirements of the L&I network apply to users of BUCD. On or about August 15, 2012 L&I OIT issued a Security Awareness Program (Program) bulletin that updated its Information Technology Acceptable Use Policy. BUCD will adapt aspects of the Program bringing BUCD into substantial alignment with Treasury's strong password policy, as well as utilizing newly available encryption for transmission of sensitive data.</p> <p>OnBase passwords are required after network login and consist of 6 alphanumeric characters. These expire every 30 days. The newest version of OnBase password settings are being evaluated by Treasury CIO. This evaluation will be complete by early March 2016.</p> <p>4. BUCD has no control over this functionality, but acknowledges that this is a limitation of the software. In lieu of system generated logs, BUCD continues to maintain change logs to document system changes and updates.</p> <p>5. Treasury agrees that some data is kept on spreadsheets. These spreadsheets are in secured folders on Treasury servers. The security is set such that only those needing access to the information have access to the folder. Typically, only bureau members have access to folders located within the bureau folder, however, specific individuals can have additional file security. Access to these folders requires network logon to which strong passwords are applied and which are required to change every 60 days.</p>	<p>03/31/2016</p> <p>Ongoing</p> <p>March 2016</p> <p>Ongoing</p> <p>Ongoing</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-003 (cont'd)			5. Although we recognize supervisors have the ability to enter a one-time vendor invoice, the internal audit procedure is to only allow direct posting to a one-time vendor with the approval of the Assistant Director or Director of Payable Services. OCO is working on transferring all Non-PO invoice entry to the Agency entry by changing the business process, providing training, and assisting in getting the proper SAP roles. Once all invoices are posted in SAP by the Agency, FB60 access to enter Non-PO invoices will be removed from BPS staff roles.	12/31/2016
	OB-BAFM	Andy Cameron, Assist. Director	1. BAFM disagrees with this finding item. See response in the body of the finding for details regarding the disagreement	N/A
		Brian Seno, Assist. Director	3. BAFM disagrees with this finding item. See response in the body of the finding for details regarding the disagreement.	N/A
2015-004	OB-BQA	Joshua Naylor, Director	Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 2014-004) BQA continues to implement the Governance, Risk and Compliance (GRC) module of SAP. GRC will be utilized to identify user level segregation of duty (SoD) risks. The project team's goal is to identify and communicate all remaining SoD risks to agency staff for remediation by June 30, 2016. Following that, BQA will implement a process for identifying and monitoring access to sensitive transactions in SAP. The target for developing and implementing this process is December 31, 2016.	12/31/2016
	OB-BPS	Bret Challenger, Director	Vendor Master Data Access: SAP access to add/change/delete records will be removed from employees not in the VDMU. Comptroller Role Access: Although SAP functionality allows an invoice to be entered by OCO, BPS internal procedures require the invoice to be approved by the agency for those invoices and the invoices are attached in Docfinity. OCO is working on transferring all Non-PO invoice entry to the agency entry by changing the business process, providing training, and assisting in getting the proper SAP roles. Once all invoices are posted in SAP by the agency, FB60 access to enter Non-PO invoices will be removed from BPS staff roles.	06/30/2016 12/31/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-005	OB-BQA, OA	Josh Naylor (OB-BQA), Director	General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 2014-006) OB-BQA and IES have already jointly updated written procedures that address the improvement, maintenance and monitoring of the interface listing. These procedures include responsibilities by office, timetables and a flowchart of all involved actions. These procedures include:	Completed
		Michael Hoover (OA-IES), Assistant Director, Business Operations Division	<ul style="list-style-type: none"> • Identifying needed improvements to the IES IERP Request Process when agencies request new interfaces or changes to existing interfaces. The IERP Request application will ask for more information related to interface source system, agency owner, frequency, timeliness and transactions processed. • Maintaining an expanded version of the Source System Interface Listing on a common SharePoint site, to be owned by OB-BQA and jointly maintained by OB-BQA and IES staff. Additional fields will be included to maintain all information necessary for OB and IES management to monitor and track interfaces into SAP. • Quarterly review and monitoring efforts by OB-BQA and IES to ensure accuracy and completeness of the interface listing. • Annual audit and review procedures by OB-BOA prior to submission of the list to external auditors. 	June 2016
	OA	Rosa Lara, Deputy CIO	<p><u>OA CAPs for issues 2 – 4 listed under General Computer Control Deficiencies:</u></p> <p>2. Under the PACS agreement, the Commonwealth will document a new policy to address completion and distribution of SSAE No. 16 audit reports to appropriate consumers of services provided under PACS. This new PACS program policy has been drafted and is being reviewed; we intend to have a finalized version by April 2016 that can be distributed to agencies and PACS consumers.</p> <p>3. The Office for Information Technology has initiated the development of a new IT Policy that highlights procedures agencies should consider for any migration of a critical application. The IT Policy will enforce checklists for all critical data migrations and the target completion is 7/1/2016.</p> <p>4. <i>Due to the sensitive and confidential nature of the management response/CAP to this condition, the information is not included in the published report.</i></p>	April 2016
				07/01/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-005 (cont'd)			<p><u>OA Section:</u></p> <p>1. OA, OB-OCO and PDE are working to establish a governance model and framework for approval of changes and review of internal controls on the application before it can be re-platformed. The target completion for the governance document is May 2016.</p> <p>2. The current LEAPS application resides on unsupported technology, namely an end-of-life version of Progress. OA will work with the governance committee to define an approach to migrate off of this unsupported platform. In the meantime, OA will submit a waiver to ITP SEC007 regarding the length, complexity and maximum lifetime requirements. The target completion for the waiver submission and approval is April 2016.</p>	May 2016
	OB-BPS	Bret Challenger, Director	A work group will be formed with Office of Administration, Office of Budget, and Department of Education staff analyze the LEAPS process and to address the audit findings. OB-BPS will also document processing steps and internal controls required by Management Directive 205.43 "Quality Assurance for Business Productivity Tools".	06/30/2016
	DOR-Lottery	Douglas Miller, IT Manager 1 Erica Shellenberger, ITG Admin 1 Kevin Sarnowski, ITG Admin 2	<p>1. The accounts for the three developers on ICS servers were deleted.</p> <p>2. Removed the setting that automatically unlocked a locked account after 60 minutes. Accounts will now remain locked until a server administrator unlocks them.</p> <p>3. Remediation is acknowledged. User accounts were deleted from the servers.</p>	Completed
	L&I	Michael Sage, DCIO Andrew Brown, Security Division Chief	1. Within L&I, the creation of a detailed, documented enterprise SDLC is a shared responsibility across multiple OIT groups, including enterprise architecture and project management. Unfortunately, due to staffing limitations caused by past hiring freezes imposed by the Governor's Office during the budget impasse and because of past hiring restrictions, OIT has limited resources available required to create an enterprise SDLC. L&I OIT is currently re-organizing, and as part of the re-organization, resources will be realigned to help fill gaps that we have today. Based on these factors it is the goal of OIT to create an enterprise SDLC by October 1st 2016. Testing prior to implementation of program changes, and data	10/01/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-005 (cont'd)			<p>migration accuracy, will be part of the pending enterprise SDLC.</p> <p>2. Due to current staffing levels the documented access has been determined to be necessary. L&I will work to document the reason for these access levels by June 1, 2016.</p> <p>3. Due to current staffing levels resources do not currently exist to conduct the access reviews on a regular basis. However, L&I will work towards implementing access reviews by October 31, 2016.</p>	06/01/2016
	L&I- SWIF	<p>Michael Sage, DCIO</p> <p>Andrew Brown, Security Division Chief</p>	<p>1. Within L&I, the creation of a detailed, documented enterprise SDLC is a shared responsibility across multiple OIT groups, including enterprise architecture and project management. Unfortunately, due to staffing limitations caused by past hiring freezes imposed by the Governor's Office during the budget impasse and because of past hiring restrictions, OIT has limited resources available required to create an enterprise SDLC. L&I OIT is currently re-organizing, and as part of the re-organization, resources will be realigned to help fill gaps that we have today. Based on these factors it is the goal of OIT to create an enterprise SDLC by October 1st 2016. Additionally, it is the expectation of OIT that once the pending SWIF RFP is awarded, and before the vendor starts development/design efforts, a document SDLC will be created for the SWIF modernization project based on the L&I SDLC and/or L&I requirements.</p> <p>2. A RFP is currently being drafted to modernize the SWIF systems. The modernization of the SWIF systems will include a data migration, which will include formal reconciliation processes as requirements of the RFP and associated project.</p> <p>3. Research is underway to determine if it's possible to implement changes for staff to use their CWOPA credentials to access the server without losing the access needed to perform their daily job duties. Replacement or adaptation of the OnBase product with a product or configuration that meets all requirements is part of the pending SWIF modernization RFP.</p> <p>4. Waiver COPPAR 2015ITBW0648 was approved with the following condition; Report the non-compliant systems, devices, or applications to the Commonwealth CISO as part of the agency's annual Nationwide Cyber Security Review (NCSR). Submit new waiver request if the application or systems undergoes a substantial revision or replacement.</p> <p>5. Waiver COPPAR 2015ITBW0648 was approved with the following condition; Report the non-compliant systems, devices, or applications to the Commonwealth CISO as part of the agency's annual</p>	10/01/2016
				10/31/2016
				12/31/2016
				12/31/2016
				Completed
				Completed

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Corrective Action Plans - June 30, 2015

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-005 (cont'd)	PennDOT	John Bowser, IT Manager (CARATS)	Nationwide Cyber Security Review (NCSR). Submit new waiver request if the application or systems undergoes a substantial revision or replacement.	N/A
			<p>1. Remediation is acknowledged. No corrective action required.</p> <p>2. Remediation is acknowledged. Corrective action completed and implemented of removing group account and creating separate accounts for dotGrants occurred in March 2015.</p> <p>3. Since the review conducted by the auditors of the OPEX administrative access and the issue of the shared account was brought to PennDOT's attention, the agency has implemented corrective changes. Currently all OPEX technicians have their own individual CWOPA account. This action was completed on September 17, 2015.</p>	N/A
			<p>4. PennDOT's Bureau of Business Solutions and Services has instituted a quarterly access review process starting in December 2015. As part of the corrective action, two access reviews will have occurred by June 2016.</p> <p>5. Corrective action of removing the developer individuals recognized with inappropriate access to CARATS was completed in December 2015.</p>	Completed
DHS	John Miknich, Chief Info. Security Officer	1. Remediation is acknowledged.	N/A	
		<p>Alan Fowler, HPE Account Executive</p> <p>Denise Luce, OMAP, BDCM, Contract Monitor</p>	<p>2. On April 23, 2015, the HAP ES PAXIX account team implemented a new logical security access request form. The new form has built-in workflows that improve notifications on requests via email and provides an enhanced audit log to increase visibility and reporting. As an additional enhancement, there is an area within the form where the HP ES PAXIX Account Security Officer is to acknowledge and timestamp when a termination request has been fulfilled. This enhanced process is documented within the Accounts Security policy and procedures manual. HP ES investigated solutions to ensure a complete listing of database changes can be obtained from a system or ticketing tool. HP ES investigated solutions to ensure a complete listing of job schedule changes can be obtained from Autosys or ticketing tool.</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-005 (cont'd)		Lydia Ford, Unisys Rep. (HPE sub.) Alan Fowler, HPE Account Executive Denise Luce, OMAP, BDCM, Contract Monitor	3. Unisys is in the process of moving this Drug Rebate PRIMS server from its current location to a new center. The configuration of this server can include the enabling of audit files for any capture of authorized user groups.	06/30/2016
	DOH	Paul Przewoznik, Information Security Officer	1. DOH acknowledged the remediation cited in the finding. 2. DOH acknowledged the remediation cited in the finding.	N/A N/A
	PDE	Connie L. Derr, Audit Coord. PDE Chief Information Officer LAN Team Manager PIMS System Administrator Chief, Division of Data Quality	PDE, Center for Data Quality and Information Technology's (CDQIT) portion of this finding include four items that clearly state that they are partially remediated by CDQIT's new procedures for granting on limited-time accesses to vendor staff that automatically expired if not specifically terminated by CDQIT administrators. During the CDQIT's Exit Conference held January 29, 2016, the Audit Team confirmed that the only additional remediation needed is to formally document the new policy and procedures, and disseminate them to CDQIT Staff and the vendor in question. CDQIT Network Team Manager and PIMS System Administrator will draft a policy and a procedures document outlining the policy, and specific steps to be followed, to request, grant, and delete server accesses by eScholar (and any other PIMS vendor) staff. The draft will include request and approval e-mail templates to be used for all access requests. Implementation – March 31, 2016. CDQIT IT Support Manager will review the drafts and provide any edits, Implementation – April 8,	03/31/2016 04/08/2016

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2015-005 (cont'd)			<p>2016.</p> <p>CDQIT Network Team Manager and PIMS System Administrator will complete final edits to the policy and procedures documents. Implementation – April 15, 2016.</p> <p>Copies of new policy and procedure document will be sent to eScholar Managers with a cover e-mail explaining purpose of the documents. Implementation – May 15, 2016.</p> <p>Final copies placed in CDQIT policy folder and a link sent to Division of Data Quality and LAN Team Manager. Implementation – May 31, 2016.</p> <p>CDQIT’s portion of this finding includes a fifth item that states in part: “Management remediated the weakness after the audit period by revoking the employee’s administrator access in September 2015.” Because the weakness has been confirmed as remediated, no further corrective action is needed by PDE.</p>	04/15/2016
				05/15/2016
				05/31/2016
				N/A
	DOR	<p>Michael Dailey, Director, Bureau of Information Systems</p> <p>Bernard Stakem, Director, BIDM</p> <p>Michael Dailey, Director, Bureau of Information Systems</p>	<p>1. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to promote changes to production since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.</p> <p>As a compensating control, DOR utilizes the System Implementation Document (SID) process. For each change implemented in production, we require the programmer to receive management approval prior to moving the change into production.</p> <p>2. Work was completed in January 2016 to address this finding. The server room has two separate entrances, both equipped with card readers, and access is limited to authorized personnel only.</p> <p>3. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to promote changes to production and change the operation schedule since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.</p> <p>As a compensating control, DOR utilizes the System Implementation Document (SID) process. For each</p>	<p>Completed</p> <p>Completed</p> <p>Completed</p>

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2015-005 (cont'd)		<p>Danette Roy, Revenue Research Analyst Manager</p> <p>Jeff Edmiston, IT Manager 2</p>	<p>change implemented in production, we require the programmer to receive management approval prior to moving the change into production.</p> <p>4. The following addresses the three key provisions that were in the audit finding:</p> <ul style="list-style-type: none"> - Provisions for Annual SOC/SSAE-16 Reporting – SOC/SSAE-16 reporting requirements were made part of the LOU beginning with amendment 10, in January 2013. A copy of the amendment has been provided to the Auditor General’s Office for their information. -Service Level Agreements (SLA) or Other Performance Metrics Service level agreements/performance metrics were a part of the original RFQ for the services, and the RFQ is incorporated into the LOU by reference. A copy of the RFQ, the original LOU, and the thirteen amendments have been provided to the Auditor General’s Office for their information. - Provisions for Payment Card Industry (PCI) Standards - DOR will review the existing agreement with the vendor to determine payment card industry standards and related language that may need to be included. <p>5. DOR will work with the business team and technical team to address the access controls and account management findings identified by the auditors.</p>	<p>July 2017</p> <p>December 2016</p>
2015-006	Aging	Robert Heinlen, Contracting Division Chief	<p>Deficiencies in Information Technology Controls Over the Pennsylvania Department of Aging’s Financial Reporting Requirements System</p> <p>IBM has been contacted and will make the necessary programming adjustments to bring the system into compliance.</p>	Completed

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2015-007	DCED	Kathy Possinger, Director, Center for Compliance, Monitoring and Training	<p>The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 2014-008)</p> <p>DCED has taken a three-pronged approach to addressing this finding – addressing a backlog of subrecipient monitoring, review of grantee expenditures and invoicing, and developing a monitoring plan to prevent future occurrences.</p> <ol style="list-style-type: none"> 1. Backlog Monitoring – Under RFP, DCED engaged KPMG to complete a review of 132 grantees, representing 331 CDBG contracts, representing 1379 individual activities undertaken by grantees from the period 2001-2011, including 179 contracts subject to the finding identified herein. The backlog of review is scheduled for completion by KPMG on March 31, 2016. DCED will follow up with each grantee monitored identifying the results of the visit, findings identified (if any), technical assistance provided, and corrective action required, if necessary. This phase of the engagement, with additional DCED follow up and review will be complete by September 30, 2016. 2. Fiscal Monitoring/Review of Invoicing – As indicated in the finding, in March 2014 DCED required grantees to submit invoices under the CDBG program for review by the DCED Financial Management Center’s Quality Assurance Division to receive approval PRIOR to a draw of the IDIS – US Treasury disbursement system. Quality Assurance staff review invoices for contract amount, budget, activity period, IDIS number, Environmental Review Record (ERR) clearance and period of expenditure. Subsequent to this review, the FMC Compliance and Monitoring Division will randomly select invoices each quarter for a more detailed review. During this review, the Compliance Unit will review the grantee’s internal controls and documentation to support the draw in IDIS. DCED will continue to review invoices and internal control procedures of grantees using this method and will continue to work to refine this process, where necessary. In addition, the Monitoring Division is performing on-site visits of the grantees. 3. Monitoring Plan – On July 1, 2015 DCED, through a targeted reorganization, has established the Center for Compliance, Monitoring and Training (CMT) placing a focus on creating the tools necessary to prioritize compliance areas, establish a risk assessment evaluation process, and develop a plan to monitor subrecipients of federal HUD programs. DCED drafted a Monitoring Plan for the CDBG and HOME Programs in December 2014, which was forwarded to HUD for review and comment. The new plan established a risk analysis protocol for all grantees provided funds in the 2014 entitlement program application process. Grantee risk was evaluated on the basis of type of project proposed, reporting and 	09/30/2016

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2015-007 (cont'd)			<p>monitoring, timeliness of expenditures, status of grantee and administrator. Those deemed highest risk were subject to supplemental remote monitoring, on-site review and ERR remote review. Moderate level risk grantees were subject to remote review using the new Monitoring Activity Performance Report (MAPR) tool. Following six months of activity and two submitted MAPR reports, DCED is identifying opportunities to refine the monitoring process to ensure that grantees' annual contracts are reviewed in a timely fashion. As of 3/1/16, DCED is incorporating comments from HUD on its monitoring plan and checklists. DCED will submit a revision to the plan to HUD by 6/30/16. Visits to 40 CDBG grantees are on the monitoring list for 2016.</p>	
2015-008	DDAP	Terry W. Matulevich, Director, Bureau of Administration and Program Support	<p>Internal Control Weakness Related to Personnel Expenditures</p> <p>DDAP acknowledges that signed employee job descriptions were unavailable for some employees during the Single Audit for SFYE 6/30/15. However, DDAP staff has already made significant progress to ensure that a number of those job descriptions have been made current. They have been signed and uploaded to the Employee Self Service (ESS) System. DDAP has worked closely with DOH and the OA Human Resource Office to retrieve job descriptions originally housed in DOH. Upon completion of this task, DDAP will no longer need to rely on another agency to retrieve job descriptions for its employees. Therefore, DDAP staff will be able to take the necessary steps within the Department to ensure that job descriptions are current and signed when applicable. As job descriptions are revised upon completion of the classification study, DDAP will continue to maintain and keep those job descriptions current in the ESS System.</p>	06/30/2016
2015-009	DDAP	Terry W. Matulevich, Director, Bureau of Administration and Program Support	<p>Material Noncompliance Exists Over the Department of Drug and Alcohol Programs' Level of Effort and Earmarking Related to HIV Services</p> <p>See disagreement in agency response. DDAP has been working with SAMHSA to obtain documentation that corroborates their position.</p>	06/30/2016

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2015-010	PDE	Connie L. Derr, Audit Coord. Vonda Cooke M.S., R.D. State Director, Child Nutrition Programs, Div. of Food and Nutrition, Bur. of Budget and Fiscal Management	<p>Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 2014-010)</p> <p>PDE, Division of Food and Nutrition (DFN) has completed the following corrective action:</p> <ol style="list-style-type: none"> 1. Colyar will provide DFN with details of Colyar initiated updates. 2. All Colyar related deployments will be recorded within SharePoint. 3. The system generated report from CN-PEARS to provide all code deployments was created. 4. During the monthly PEARS Deployment Review, DFN will cross check the PEARS System Generated Report with the Colyar Deployment/Access Excel Report and SharePoint entries to verify all deployments are recorded and matched. Any discrepancies will be addressed immediately. 5. Full documentation on the Deployment Log Process was created. 	Completed
2015-011	PDE	Connie L. Derr, Audit Coord. Benjamin Hanft, Chief, Division of Subsidy Data and Administration	<p>A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education’s Reporting of the Annual State Per Pupil Expenditure Amount (A Similar Condition Was Noted in Prior Year Finding 2014-011)</p> <p>As PDE, Bureau of Budget and Fiscal Management (BBFM) indicated in its response, it has already taken corrective action to try to address local education agencies’ (LEAs) failure to provide an Accuracy Certification Statement (ACS) when they submit data through the Pennsylvania Information Management System (PIMS). Specifically, BBFM revised both its PIMS Override Request and Data Maintenance Request forms, which LEAs must complete to upload new or revised child accounting data after the initial submission window closes, to include the explicit statement that LEAs must also submit a revised ACS.</p> <p>In addition, BBFM will continue to maintain the other manual compensating controls that it uses to ensure that the data it receives from LEAs is accurate. These other procedures for verifying the end-of-year attendance and membership data used to calculate ADA include:</p> <ul style="list-style-type: none"> - Annually reviewing the accuracy of the data submitted by LEAs that pose the greatest risk for having 	Completed

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2015-011 (cont'd)			<p>data errors.</p> <ul style="list-style-type: none"> - Tracking potential errors and resolving them with the LEAs. - Providing manuals, checklists and validation reports to help LEAs identify inaccuracies in the data before it is submitted. <p>In addition, if at any time BBFM is provided with a mechanism for forcing LEAs to submit the ACS form or is given the authority to levy a penalty against those LEAs that fail to comply, BBFM will use those powers with fidelity.</p>	
2015-012	PDE	<p>Connie L. Derr, Audit Coord.</p> <p>Susan McCrone, Division Chief, Federal Programs</p> <p>Connie L. Derr, Audit Coord.</p> <p>Assist. Dir., Bureau of Curriculum, Assessment and Instruction</p>	<p>A Material Weakness and Noncompliance Exist Over the Pennsylvania Department of Education's Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (A Similar Condition Was Noted in Prior Year Finding 2014-012)</p> <p>Item #1 Incomplete Data Fields PDE, Bureau of Curriculum, Assessment and Instruction (BCAI) disagrees with this finding. BCAI has contacted USDE to address the blank fields in the CSPR. The lack of data is a result of PDE's ESEA flexibility waiver. BCAI is no longer responsible for supplying this data and cannot enact any changes such as adding a label to these fields, indicating that these fields may be blank or provide an explanation regarding the blank fields. USDE's system accepted BCAI's reporting, indicating no errors. In addressing this issue for future publications of the CSPR, BCAI discussed with USDE the possibility of providing an explanation for these blank fields in the CSPR. As of this time, BCAI has not received a definitive response from USDE. BCAI will contact USDE again, should we not have a response by March 31, 2016. Based upon USDE's response, BCAI will be able to determine the next steps in addressing this issue.</p> <p>Item #2 Lack of Good Internal Controls BCAI reviews test results from its PSSA and Keystone exams as they become available throughout the year. BCAI will continue to use its 7-step process for reviewing data and has established a central repository for all data verification documents. This change will become fully operational effective for the SY 2015-2016 data however the storage of documentation will be implemented by June 30, 2016. BCAI has created a new review procedure that will assess the integrity of the data to an individual school level. BCAI will randomly select 12 individual schools and select 3 randomly selected data points from each school's RFRM and then create the documentation to validate the accuracy of the data</p>	<p>03/31/2016</p> <p>06/30/2016</p>

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2015-012 (cont'd)		Thomas J. Dubbs, Div. of Performance, Analysis and Reporting	shown in the report. BCAI will also select 3 data points from 3 randomly selected district level reports and provide documentation to support the accuracy of the data. Finally, BCAI will select 10 data points from the State level RFRM and complete the data verification. All of these supporting documents will be stored in the central repository. This review procedure replaces a previously defined process. BCAI will no longer review the entire RFRM for two selected school districts and supply documentation for all data points.	
		Connie L. Derr, Audit Coord.	Item #3 Inconsistent Data – ELL PDE, Division of Instructional Quality (DIQ) contacted EDFacts Partner Support Center (PSC) for an explanation of the components used for the calculation of percent attained proficiency on state annual ELP assessment in order to determine why there is a discrepancy between the EDFacts File Counts and the CSPR auto-calculation. DIQ is awaiting a reply and will contact PSC if a response is not provided by March 31, 2016. PDE has implemented a system to maintain accurate source documentation for data fields reported for the 2014-2015 data.	07/30/2016
		Div. Chief, Div. of Instruct. Quality		
		Linda Long, Div. of Instruct. Quality		
		Connie L. Derr, Audit Coord.	Item #4 SOC Report Requirements PDE, Division of Performance Analysis and Reporting (DPAR) disagrees with the finding due to the confidential proprietary nature of the reporting requested from the vendor. The auditors should not expect the entire report as requested. The vendor in question, DRC, has provided an executive summary and CAP from their own NIST report as a professional courtesy to DPAR. DPAR will request quarterly updates of the CAP throughout 2016 and hopefully, the vendor will continue to provide this confidential, proprietary documentation that address the 2014-2015 SY data. DPAR has included the request for a SOC Report from DRC as part of its new contract. The SOC Report will be provided the first quarter of 2017 for the 2016 calendar year which would apply to the 2015-2016 data.	03/31/2017
		Asst. Dir., Bureau of Curriculum, Assessment and Instruction		
		Thomas J. Dubbs, Div. of Performance, Analysis and Reporting		

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2015-012 (cont'd)		Connie L. Derr, Audit Coord. Manager, Div. of Data Quality Deb Rodrigues, Educational Statistics Dir.	Item #5 Graduate Rate Disparities Due to Duplicate Records PDE, Center for Data Quality and Information Technology (CDQIT) took corrective action in association with the prior year finding 2014-012 and greatly reduced the number of duplicate students in the cohort graduation rate files. The duplicates in the 2013-2014 year resulted in a 0.32% understatement of the cohort graduation rate, which doesn't significantly change one's evaluation of the program as either a success or failure. Still, CDQIT continues to analyze processes and procedures, and make modifications that will further rectify cases where LEAs submit conflicting student information with the goal of eliminating all duplicates.	02/28/2017
2015-013	PDE	Connie L. Derr, Audit Coord. Dir., Bur. of Early Intervention	Noncompliance and Internal Control Deficiencies Over Subrecipient Monitoring For the new verification cycle, beginning in January 2016, implementation protocols that include timelines will be added and followed. Timelines that will be followed are described in two (2) publications, "Early Intervention Verification Process ---Protocol for the Early Intervention Verification Visit" and "Early Intervention Self-Verification Tool Protocol."	Completed
2015-014	PDE	Connie L. Derr, Audit Coord. Chief Info Off. PDE Web Portal Administrator Asst. Dir., Bur. of Curriculum, Assessment,	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Private Non-Public Enrollment System PDE, CDQIT Web Portal Administrator will draft a document clearly describing PDE Policy and Procedures to be followed by PNPE Chief School Administrators in the event a PNPE staff person's PNPE access is no longer needed and needs to be deleted. This is normally due to a change in the person's job duties or their departure from PNPE school staff. PDE, CDQIT Web Portal Administrator will provide final draft to CDQIT application development staff and to PDE Private and Nonpublic Schools Program Office for review and comment. Final policy and procedure document will be provided to PDE PNPS Office. PNPS Program Office with the assistance of PDE Web Portal Administrator will perform the following: • Update Annual PNPE Instructions to reflect the new policies.	04/30/2016 05/06/2016 05/30/2016 08/30/2016

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2015-014 (cont'd)		and Instruction Education Administration Specialist	<ul style="list-style-type: none"> • Include a separate copy of the new access termination policy clearly marked “Important/Urgent” along with the instructions. • Distribute the above information to schools required to complete PNPE Report. • Ensure that this communication will be completed each successive year until policy/procedures are superseded. 	
2015-015	DOH	Abigail Coleman, Director, Quality Assurance and Program Integrity	<p>Noncompliance and Internal Control Weakness Related to Compliance Investigations of High-Risk Vendors</p> <ul style="list-style-type: none"> •Bureau of WIC staff conducting the compliance buys will no longer be the same staff reviewing compliance buys. •A routing slip will accompany each compliance buy recording the initials of both the supervisor and manager reviewing and approving the compliance buys. •The calculation sheet utilized by the Bureau of WIC staff reviewing the compliance buy will contain signature fields for both the staff and the supervisor indicating review was performed. A revised calculation sheet has been drafted. 	Completed
2015-016	DOH	Cheryl Henne, Human Service Program Specialist Supervisor	<p>Significant Deficiency and Noncompliance Over Drug Rebates</p> <p>The Department of Health is in disagreement with this finding. See Agency Response in the body of the finding for details regarding the disagreement. In addition, the DOH has a clear accounting of the balance in the reserve account. The balance in the account as of July 1, 2014 was collected based on the guidance from HRSA in 2007 which stated: “Program income as a result of rebates, should be accumulated over the course of the grant year to be used at a later date to expand the services of the program.” Therefore, there is no requirement for the SPBP to spend those dollars prior to requesting federal funds. Any deposit of state rebates made after July 1, 2014 have been separately tracked.</p>	N/A
2015-017	DHS	Scott G	<p>A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (A Similar Condition Was Noted in Prior Year Finding 2014-015)</p> <p>The Corrective Action Plan for the exceptions noted in the audit findings are as follows:</p>	

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<p>2015-017 (cont'd)</p>		<p>Cawthern, Staff Assistant, Operations</p>	<p>Update EBT forms to eliminate duplicative work and refine reconciliation process.</p>	<p>Completed</p>
		<p>Phil Stock, EBT Project Officer, Program Support</p>	<p>Update EBT Procedure Manual to provide instruction for new EBT forms and direction regarding used ribbon security and destruction.</p>	<p>Completed</p>
			<p>Review new EBT forms and updated EBT Procedure Manual with Executive Directors and EBT Coordinators to provide overview and expectations.</p>	<p>Completed</p>
			<p>Review EBT storage cabinet key security with Executive Directors and EBT Coordinators.</p>	<p>04/15/2016</p>
			<p>Continue to reconcile EBT Project Office lists with CAOs at least quarterly.</p>	<p>Ongoing</p>
<p>2015-018</p>	<p>DHS</p>	<p>Joel O'Donnell, Director, Bur. of Program Eval., OIM</p>	<p>A Significant Deficiency and Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 2014-016)</p> <p>DHS disagreed in part with this finding to the extent that there was no impact on the all-family or two-parent work participation rate calculations for the cases cited in error; the work participation status (WPS) of the cases remains unchanged. However, for both cases cited in error, DHS does concur that reporting errors occurred. As a result, DHS will be more diligent in both the calculation of participation hours and reporting of child care benefits in the future.</p> <p>Significant steps have been taken by DHS over the last several years to strengthen existing procedures in an effort to ensure all reported work activities are properly documented, supported and classified, in such ways as subjecting sampled cases to several layers of review prior to federal submission, as well as re-reviewing cases that did not meet the federal work participation requirements. DHS re-reviews ten percent of all cases with work activities of employment, educational calculations, and child care payments to ensure reporting accuracy and consistency. The reviews prove effective and continue as a strategy to safeguard against errors in reporting participation hours and child care payments.</p>	<p>Ongoing</p>

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2015-018 (cont'd)			<p>Headquarters staff continues to hold calls with supervisory units assigned to review the sampled cases to ensure consistency in calculations, evaluation and reporting of cases.</p> <p>DHS will address concerns related to the calculation of hours as necessary during monthly Employment & Training calls with County Assistance Office Operations, led by Policy and Program Evaluation staff.</p>	
2015-019	DHS	Joel O'Donnell, Director, Bur. of Program Eval., OIM	<p>Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding 2014-018)</p> <p>DHS disagrees with this finding; however, DHS will consider improvements to strengthen the existing subrecipient monitoring processes moving forward.</p>	N/A
2015-020	DHS	Stephanie Weigle, Administrative Officer 4	<p>Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (A Similar Condition Was Noted in Prior Year Finding 2014-017)</p> <p>DHS agrees with the facts related to the licensing inspections as detailed in the finding. Changes were implemented July 1, 2015 to restructure the timing of the on-site inspections as well as the activities following the on-site inspection to assure timely completion and approval of the on-site findings prior to the expiration of the license. Despite the finding, we believe our monitoring procedures to determine subrecipient eligibility, monitor programmatic operations, review subrecipient audits, and review subrecipient agreed upon procedure reports are sufficient to effectively monitor our subrecipients/contractors.</p> <p>However, to enhance subrecipient monitoring, OCYF will issue additional guidance to all County Children and Youth Agencies and Juvenile Probation Offices by March 31, 2016. The guidance will discuss the requirements to monitor subrecipients' or contractors' use of federal & state dollars through reporting, site visits, regular contact & any other means to provide reasonable assurance that federal & state dollars are used in compliance with laws, regulations & the provisions of the contracts/agreements & that performance goals are achieved. It will also address monitoring efforts throughout the fiscal year.</p>	03/31/2016

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2015-021	DHS	Joel O'Donnell, Director, Bur. of Program Eval., OIM	<p>Noncompliance and Significant Deficiency in Internal Controls Over Quality Control Review</p> <p>DHS has maintained a 100% Quality Control supervisory re-review policy for all examinations conducted and will continue to do so. Additionally, increased oversight exists for reviews with findings in the form of a review committee comprised of Quality Control, Corrective Action and TANF Policy. Issues such as those which arose in the case identified in the finding would then have been discussed and resolved at that time. What DHS does and commits to continue to do to ensure greater accuracy for completed reviews is what was done in the instance of this case. When it was indicated that there was a question regarding application of policy and procedure, members of the Office of Income Maintenance's Bureau of Policy were contacted to vet interpretation of relevant citations to arrive at a correct disposition for the eligibility determination. Where the resulting procedural and policy clarifications differ from past practice, Quality Control staff is updated through revised procedural guidelines and applicable handbook updates. This represents a more formal approach to modifying QC standard operating procedures. Informally, review accuracy is ensured through emails and other contact with the appropriate subject matter experts.</p> <p>The methods outlined in this corrective action plan effectively maintain the integrity of the review disposition process.</p>	Completed
2015-022	DHS	Tanya Vasquez, Director, Bureau of Certification Services	<p>Material Noncompliance and Material Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-021)</p> <p>OCDEL's current practice will continue for the scheduling and conducting annual inspections as follows:</p> <p>Schedule an annual inspection to occur during the one year period and prior to certificate expiration date.</p> <p>Do not require receipt of renewal application to schedule and conduct the annual inspection (completion of a renewal application is required before issuing the renewal certificate of compliance)</p> <p>Continue to use facility reports to identify expiring certificates in advance and plan accordingly. These reports are available monthly and provide information on the expiration date of each facility to allow for timely inspections prior to the expiration of the license.</p>	06/30/2016

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2015-022 (cont'd)			<p>In addition, OCDEL will investigate and evaluate connectivity issues that at times prevent certification staff from entering timely inspection reports.</p> <p>14 of the 60 sampled facilities cited for being out of compliance because the annual inspection for these facilities was more than 12 months, were considered timely by OCDEL in that the inspection occurred prior to the date of the license expiration. OCDEL considers the annual inspection to be timely and not past due since they occurred during the period of licensure and prior the expiration dates of their certificate of compliance.</p> <p>For FY 14-15, OCDEL was granted a staff complement increase of 60 and 55% of the positions have been filled. OCDEL will strive to hire the remaining staff and to maintain a full staff complement to enable inspections to be conducted in a timely fashion.</p>	
2015-023	DHS	Kelly Leighty, Director, Division of Financial Policy and Operations	<p>Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 2014-022)</p> <p>In order to effectively monitor all funded programs, the DHS has a dedicated monitoring position within the Office of Administration, Bureau of Financial Operations (BFO), Division of Financial Policy and Operations. This position has the benefit of centralized monitoring and evaluation through both on-site monitoring visits and the review of supporting documentation (desk reviews). This position is located within the County Human Services Planning and Monitoring Unit (PMU), which was created on July 1, 2012 with the implementation of the County Human Services Block Grant (HSBG).</p> <p>In addition to the reporting and monitoring of the Social Services Block Grant (SSBG), the PMU is responsible for administering and monitoring the Human Services Development Fund (HSDF), the coordination and review of the annual County Human Services Plans, and the monitoring of the HSBG.</p> <p>It is the Monitor's responsibility to ensure fiscal and programmatic compliance of subrecipients with established federal and state regulations and policies.</p> <p>The counties will be chosen for monitoring in accordance with a risk assessment based on the SSBG allocations to each county and the presence of program findings noted in each county's single audit</p>	Completed

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2015-023 (cont'd)			<p>report. Counties with higher allocations and findings are considered to be high risk and therefore, will be monitored first.</p> <p>The Monitor will ensure that costs are assigned and tracked in compliance with federal requirements and that SSBG funding is used only for authorized purposes and in compliance with federal cost principles and the subrecipients' county contracts in the fiscal year being monitored. A comprehensive monitoring tool was developed to monitor such core areas as Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Period of Availability of Funds, Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions, and Conflicts of Interest. In addition, general areas related to compliance with Federal laws, Eligibility, Personnel, Civil Rights Laws, and the Health Insurance Portability and Accountability Act (HIPAA) will be monitored.</p> <p>On-Site visits will be completed with counties and providers receiving SSBG. The information obtained during the visits will be documented and a draft version of the monitoring report will be issued to the county. Counties will be provided ten days to comment and will be given the option of scheduling an exit meeting within 40 days of the draft. At the exit conference, the report contents will be discussed to the level necessary to ensure clarity and the exchange of positive and productive ideas for the timely implementation of the report recommendations. County program responses, if provided, will be incorporated into the preparation of the final report. Any deficiencies will be identified in the final report to the county commissioners, and the commissioners will be required to submit a corrective action plan, if necessary.</p>	
2015-024	DHS	Scott G Cawthern, Staff Assistant, Operations	<p>Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 2014-023)</p> <p>DHS will ensure staff is adequately informed of record retention policies and the scanning and imaging requirements that allow for electronic storage of critical documentation. Communication to County Assistance Office Executive Directors instructing them to cover record retention along with scanning and imaging policies at their next monthly staff meeting will be completed. County Assistance Offices will retain signed training attendance sheets validating that all staff have been informed of the policies.</p>	06/30/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-025	L&I	Susann B. Morrison, Director, Office of Unemployment Compensation Benefits Policy	<p>Department of Labor and Industry Did Not Comply with UC Program Integrity Requirements (A Similar Condition Was Noted in Prior Year Finding 2014-024)</p> <p>L&I has implemented the necessary procedures to be in compliance with the requirements resulting from the recent changes to the Social Security Act and FUTA. The 15% fraud overpayment penalty provision was implemented statewide in September 2014. The employer penalty provision was implemented in the Lancaster UC Service Center in December 2014 and rolled out statewide in April 2015. L&I will continue to follow the policies and procedures established to apply both the 15% fraud overpayment penalty and the employer penalty where the employer's untimely or inadequate response results in an overpayment.</p>	Completed
2015-026	L&I	Michael Sage, DCIO Andrew Brown, Security Division Chief	<p>Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 2014-025)</p> <p>L&I acknowledges this finding. The CWDS application team will divide the administration team into two access groups. One group will have full access to the development environment with read only access to the production environment, the other group will have full access to the production environment with read only access to the development environment. During a scheduled and approved deployment window, the group that has full access to the development environment will be granted temporary access to the production environment to assist with code/configuration deployment. Access will be granted following L&I's document change control process. Once the deployment is over the access will be removed, again following L&I's documented change control processes. After access is removed the users with full production access will review the deployment and access logs to ensure no unauthorized activities took place and that only approved code/configurations were deployed.</p>	04/15/2016
2015-027	L&I	Brandy Burnham, Director, BWDA David Bohanick,	<p>Material Noncompliance and a Material Weakness Exist Over Subrecipient Monitoring</p> <p>L&I's Bureau of Workforce Development Administration (BWDA) will remedy the audit findings in the following manner. Beginning calendar year 2016, BWDA's Oversight Services unit will ensure that on-site monitoring of the uniform administrative requirements is completed in all local workforce development areas at least once per calendar year in accordance with Section 184(a)(4) of both the Workforce Investment Act (WIA) and the Workforce Innovation and Opportunity Act (WIOA). Additionally, L&I is in the process of amending its workforce monitoring and oversight policy, which will require that initial reports be sent to the monitored entity within 45 days of the exit conference and</p>	05/01/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-027 (cont'd)		Deputy Director, BWDA Gregory Hart, Oversight Services Supervisor, BWDA	responses to corrective action plans be sent within 30 days of receipt. Oversight Services is currently addressing a backlog of reports; however, once the new policy is in place it should address the timeliness issue. This policy is expected to be in place within the next several weeks and will begin with program year 2015 monitoring. With regards to one of the report's stated conditions, that L&I did not resolve an outstanding issue where WIA funds paid for 1/3rd of a vehicle for the executive director for personal use. This has been a complex issue since it was first identified by BWDA Oversight Services in 2014. BWDA is now working directly with the USDOL Regional Office for a final determination and/or appropriate corrective action to include the possibility of repayment of disallowed costs. Effective for the program year 2015 monitoring, BWDA will further ensure all findings are resolved adequately and in accordance with all applicable regulations.	
2015-028	L&I	Nat Raney Division Chief, Systems & Evaluation Division, Office of Vocational Rehabilitation	Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations and Completing Individualized Plans for Employment (A Similar Condition Was Noted in Prior Year Finding 2014-027) Over the course of the past year OVR has utilized a new case review process for all case reviews (Levels I, II, & III). The revised process incorporates a greater emphasis on eligibility determination compliance (Timeliness). Furthermore, review scores are tied directly to one's annual performance evaluation. We continue to monitor this new process with hopes of seeing positive results in the category of "Timeliness" as related to making eligibility determinations. Additionally, we are reviewing our Status Over Days report and are evaluating modifications to both the report itself and to the frequency of its dissemination/accessibility to field staff. We are analyzing ways to place a greater emphasis on the cases that are nearing (within 15 days) either the 60 or 90 day mark, with hopes that this will ultimately reduce the number of cases found over days/out of compliance.	July 2016
2015-029	L&I	Nat Raney Division Chief, Systems & Evaluation Division, Office of	Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (A Similar Condition Was Noted in Prior Year Finding 2014-026) OVR held a meeting with OCO to discuss this finding. It is believed that the primary driver for this finding comes from the fact that OCO uses a "hard-stop" as of 9/30 of each year, whereas, in preparing the RSA-2 report OVR continues to account for accruals/expenditures that were booked as of 9/30 but have yet to settle, as well as any other adjustments that may be booked during period. Between 10/1 and 11/20 these transactions continue to be reconciled as OVR prepares the RSA-2 report. OVR and OCO plan to continue a dialogue of how best to capture and reconcile both the 9/30 and 11/20 figures. We are	August 2016

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2015-029 (cont'd)		Vocational Rehabilitation	in agreement that the process described above is clearly one thing that is leading to the variations in the reconciliation between the RSA-2 report, CWDS Report 011, and the SAP/CWDS reconciliation. Additionally, we plan to analyze the CWDS reports that are used when preparing the RSA-2 report. We will look at the requirements of the RSA-2 report and ensure that our CWDS reports are effectively and accurately capturing all relevant data.	
2015-030	L&I	Cathy DiLeonardo, Deputy Director, BDD	<p>The Bureau of Disability Determination Failed to Maintain Documentation to Support the Performance of Consultative Examinations</p> <p>BDD is taking the following actions to correct this deficiency :</p> <ol style="list-style-type: none"> 1. The statewide administrative office will review the current decentralized Treating Physician Consultative Examination (TPCE) process, specifically to determine how to strengthen oversight of all actions that the Branch offices take to secure appropriate documentation. 2. The statewide administrative office will revise business processes to include greater controls over the branch process regarding credentialing TPCE providers and scheduling TPCEs. 3. The statewide administrative office will prepare a written centralized business process that will replace the current decentralized branch process. The process will detail both the steps branch offices must follow prior to scheduling a TPCE, and ensure appropriate controls exist for securing and maintaining credentialing documentation on all TPCEs. In addition, changes to the bureau legacy system will inactivate treating physician records to ensure new processes must be followed to schedule TPCE. 	Completed
2015-031	DMVA	Gene Mizdail, Admissions and Marketing Coord. Edward Beck,	<p>Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Result in Questioned Costs of \$3,174 (A Similar Condition Was Noted in Prior Year Finding 2014-030)</p> <ol style="list-style-type: none"> 1. The bureau admissions coordinator has completed a standardized process, which will be reviewed and discussed with the Commandants and Deputy Commandants at the Semiannual Leadership Conference (SLC) in April 2016. Following feedback, staffing through the headquarters, and any necessary revisions, the policy will be disseminated to the homes for implementation. The bureau admissions coordinator and chief of operations will conduct a conference call with the home's admissions coordinators to review the new policy and process. 	05/31/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-031 (cont'd)		Chief of Ops. Edward Beck, Chief of Ops. Dr. John Bart, Chief Med. Off. Gene Mizdail, Admissions and Marketing Coord. Edward Beck, Chief of Ops.	<p>2. The bureau will develop a standardized process for use in all the homes. All personnel in the homes involved in the process will be trained and BVH will audit the process for compliance.</p> <p>3. The bureau admissions and marketing coordinator is working with DMVA information technology staff to develop a tracking database for applications. The database will allow bureau of veterans homes staff to track all applications through the entire admissions process from receipt of the application through disposition (admission or rejection). The database will be developed and pilot tested in one of the homes. Following pilot testing and upgrades, the database will be deployed to all homes. DMVA will conduct training for admissions coordinators.</p> <p>In the interim, the bureau admissions and marketing coordinator will review active applications with the homes' admission and marketing coordinators bi-monthly to determine status and ensure adherence to admissions policies and procedures. During annual Facility Performance Appraisals (FPA) the bureau admissions and marketing coordinator will review admissions packets to ensure adherence to policies and procedures.</p>	<p>09/01/2016</p> <p>08/01/2016</p>
2015-032	PEMA	Nicole Manyko, CPA, Auditor Supervisor	<p>Significant Deficiency and Noncompliance Over Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding 2014-032)</p> <p>PEMA's Compliance Review Division developed a subrecipient monitoring program for OPSG in December 2015. The Compliance Review Division will conduct a site monitoring visit, to monitor the OPSG subrecipient program, and anticipates issuing a formal monitoring report by June 30, 2016.</p>	06/30/2016
2015-033	PEMA	Kathryn Poe, Budget Analyst	<p>Significant Deficiency in Internal Control Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 2014-033)</p> <p>PEMA has modified the Form DGM-08 to include columns that specifically indicate the federal percentage and match percentage of each line item. These fields will be required to be completed in order for the form to be accepted.</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-034	PENNVEST	Beverly L. Reinhold, Dep. Ex. Dir. for Fin. Mgmt. Heather Brookmyer, Loan Service Officer (AO2)	<p>Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 2014-034)</p> <ol style="list-style-type: none"> Hire a permanent replacement for vacant position being covered by temporary clerical staff. Review and improve tracking of financial statements and documentation. 	<p>Completed 12/31/2016</p>
2015-035	PennDOT	Christine Spangler, Project Development Engineer	<p>State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 2014-035)</p> <p>PennDOT is working on getting most of their Reimbursement Agreements in the Reimbursement Agreement System (RAS). There are currently seven standard templates available in RAS. Work is progressing on getting additional templates added into RAS:</p> <ul style="list-style-type: none"> Review of what Federally required information must be included. Modify RAS to allow Railroads to be selectable as a Local Project Sponsor so that railroad reimbursement agreements can use RAS. (Completed 2/22/16) Upload the Bridge Inspection Reimbursement Agreement template into RAS. Upload other standardized reimbursement agreement templates into the RAS Test Environment to ensure functionality prior to uploading them into the RAS production environment. After testing, upload other standardized reimbursement agreement templates into RAS accordingly. For remaining paper reimbursement agreements, OCC reviews them and ensures that current templates are being used. 	<p>December 2016</p>
	DHS	Deborah S. Bush, Human Services Program	<p><u>TANF</u> Corrective action to this finding was initiated at the beginning of State Fiscal Year 2015-2016 when processing new grants and grant renewals. The federal award information is listed in the Description section of the SAP Form For Contractual Agreements (Funds Commitment/Funds Reservation). This</p>	<p>06/30/2016</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-035 (cont'd)		Specialist Supervisor	form is part of the grant package that is provided to the subrecipient. SAP forms will be continuously updated in this current state fiscal year to ensure that subrecipients are aware of its federal award information.	July 2016
		Robert Patrick, Dir., Bureau of Child Support Enforcement	<p><u>CSE</u> The Bureau of Child Support Enforcement (BCSE) did not previously receive copies of the quarterly award notices from the federal Office of Child Support Enforcement. BCSE now requests each quarter and receives a copy of the quarterly award notice from the Department of Human Services / Office of Budget / Bureau of Financial Reporting. BCSE received copies of all notices for federal fiscal year 2014-2015 after the audit period ended. On November 24, 2015, BCSE issued a BCSE Information Memorandum (BIM) to provide the subrecipient agencies (Domestic Relations Sections) with all quarterly notices. Beginning with federal fiscal year 2015-2016, a BIM is issued each quarter with the award notice.</p>	
		Kevin Guistwite, Dir., Div. of Program Dev. & Eval.	<p><u>Foster Care and Adoption Assistance</u> DHS' Office of Children Youth and Families (OCYF) disagrees with this finding. The CFDA information for TANF, Title IV-E Foster Care, Adoption Assistance, and Social Services Block Grant were added to the allocation letters sent to the County Children and Youth Agencies in FY 2014/15.</p>	N/A
		Donna Argenio, Audit Splst 3	<p><u>SSBG</u> The Bureau of Financial Operations (BFO) within DHS included the required federal award information in its county payment letters and invoices, effective the first quarter of State Fiscal Year 2015-2016 for the Mental Health, Intellectual Disabilities, Child Welfare, Homeless Assistance and Human Services Block Grant programs.</p>	06/30/2016
		Kelly Leighty, Director, Division of Financial Policy and Operations	The appropriate Department staff were notified of the required federal award information to include in the special contracts and/or supporting payment documentation for: Family Planning, Legal Services, Rape Crisis, and Domestic Violence.	06/30/2016
Theresa Boucher, Budget Analyst,	<p><u>Medicaid Cluster</u> DHS' Office of Developmental Programs (ODP) is in the process of adding a paragraph to all standard correspondence going to the Intermediate Care Facilities for the Intellectually Disabled (ICF/ID)</p>	06/30/2016		

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-035 (cont'd)		ODP	providers and the Consolidated and Person/Family Directed Supports Waiver Programs providers that will comply with OMB Circular A-133. ODP will now include the required information.	
	DOH	Terri A. Matio, Deputy Secretary for Administration	Please see DOH's disagreement contained in the response to the finding. The reporting requirements for pass-through entities described in §200.331 of the Uniform Guidance of 2 CFR 200 (which incorporates and expands upon the criteria cited by the auditors in the finding) will necessitate that the Commonwealth either implement a revised Management Directive 305.21, Payments to Local Governments and Other Subrecipients, or the development of entirely new, statewide, "policies and reporting mechanisms to ensure all required federal award information is disseminated to all subrecipients at the time of award...." DOH will then ensure that all grants and contracts completed after the Commonwealth's implementation of this new policy comply with the reporting requirements of the new policy.	N/A
2015-036	PennDOT	Christine Spangler, Project Development Engineer Jenny Righter, Division Chief Regional Audit	<p>State Agencies Did Not Identify the Federal Award Information and Applicable Requirements at the Time of the Subaward and Did Not Evaluate Each Subrecipient's Risk of Noncompliance as Required by the Uniform Grant Guidance</p> <p>PennDOT is working on getting most of their Reimbursement Agreements in the Reimbursement Agreement System (RAS). There are currently seven standard templates available in RAS. Work is progressing on getting additional templates added into RAS:</p> <ul style="list-style-type: none"> • Review of what Federally required information must be included. • Modify RAS to allow Railroads to be selectable as a Local Project Sponsor so that railroad reimbursement agreements can use RAS. (Completed 2/22/16) • Upload the Bridge Inspection Reimbursement Agreement template into RAS. • Upload other standardized reimbursement agreement templates into the RAS Test Environment to ensure functionality prior to uploading them into the RAS production environment. • After testing, upload other standardized reimbursement agreement templates into RAS accordingly. • For remaining paper reimbursement agreements, OCC reviews them and ensures that current templates are being used. <p>In regards to the recommendation for evaluation of the subrecipient's risk or non-compliance, PennDOT's Internal Audit Division will be conducting scheduled risk assessments yearly.</p>	<p>December 2016</p> <p>December 2016</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-036 (cont'd)	Aging	Robert Heinlen, Contracting Division Chief	The required grant identification data has been merged into the Department’s annual funding directive notifying subrecipients of their allocations for the fiscal year. Additionally, the risk assessment process has been incorporated into the Department’s review program of each area agency on aging’s fiscal and programmatic operations.	April 2016
	DHS	Deborah S. Bush, Human Services Program Specialist Supervisor	<p><u>TANF</u> Corrective action to this finding was initiated at the beginning of State Fiscal Year 2015-2016 when processing new grants and grant renewals. The federal award information is listed in the Description section of the SAP Form For Contractual Agreements (Funds Commitment/Funds Reservation). This form is part of the grant package that is provided to the subrecipient. SAP forms will be continuously updated in this current state fiscal year to ensure that subrecipients are aware of its federal award information.</p> <p>DHS disagrees that a risk assessment was not performed for TANF.</p>	06/30/2016
		Robert Patrick, Dir., Bureau of Child Support Enforcement	<p><u>CSE</u> The Bureau of Child Support Enforcement (BCSE) did not previously receive copies of the quarterly award notices from the federal Office of Child Support Enforcement. BCSE now requests each quarter and receives a copy of the quarterly award notice from the Department of Human Services / Office of Budget / Bureau of Financial Reporting. BCSE received copies of all notices for federal fiscal year 2014-2015 after the audit period ended. On November 24, 2015, BCSE issued a BCSE Information Memorandum (BIM) to provide the subrecipient agencies (Domestic Relations Sections) with all quarterly notices. Beginning with federal fiscal year 2015-2016, a BIM is issued each quarter with the award notice.</p>	07/01/2016
		Kevin Guistwite, Dir., Div. of Program Dev. & Eval.	<p><u>CSE</u> The Bureau of Child Support Enforcement (BCSE) did not previously receive copies of the quarterly award notices from the federal Office of Child Support Enforcement. BCSE now requests each quarter and receives a copy of the quarterly award notice from the Department of Human Services / Office of Budget / Bureau of Financial Reporting. BCSE received copies of all notices for federal fiscal year 2014-2015 after the audit period ended. On November 24, 2015, BCSE issued a BCSE Information Memorandum (BIM) to provide the subrecipient agencies (Domestic Relations Sections) with all quarterly notices. Beginning with federal fiscal year 2015-2016, a BIM is issued each quarter with the award notice.</p>	
	Donna Argenio, Audit Splst 3	<p><u>CSE</u> BCSE is implementing written policy and procedures pertaining to the programmatic and financial monitoring of its federally sponsored award subrecipients and completing a full risk analysis to address the evaluation of each subrecipient’s risk of noncompliance for the purpose of determining the appropriate subrecipient monitoring related to each subaward to be completed by July 1, 2016.</p>		
	Stephanie Weigle, Administrative Officer 4	<p><u>Foster Care and Adoption Assistance</u> DHS’ Office of Children Youth and Families (OCYF) disagrees with part of this finding. The CFDA information for TANF, Title IV-E Foster Care, Adoption Assistance, and Social Services Block Grant were added to the allocation letters sent to the County Children and Youth Agencies (CCYA) in FY</p>	06/30/2016	

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2015-036 (cont'd)			2014/15. OCYF agrees that we did not include applicable requirements in the CCYA allocation letters or evaluate each subrecipient's risk of noncompliance as required by the Uniform Grant Guidance. However, we are developing a policy to address applicable requirements that will be referenced in each allocation letter in addition to developing a risk assessment process.	
	DOH	Terri A. Matio, Deputy Secretary for Administration	Please see DOH's disagreement contained in the response to the finding. The reporting requirements for pass-through entities described in §200 of the Uniform Guidance of 2 CFR 200 will necessitate that the Commonwealth either implement a revised Management Directive 305.21, Payments to Local Governments and Other Subrecipients, or the development of entirely new, statewide, "policies and reporting mechanisms to ensure all required federal award information is disseminated to all subrecipients at the time of the subaward to ensure subrecipient compliance with the Uniform Grant Guidance in 2 CFR section 200, other applicable federal regulations, and OMB Circular A-133." DOH will then ensure that all grants and contracts completed after the Commonwealth's implementation of this new policy comply with the reporting requirements of the new policy.	N/A
2015-037	OB-BOA	Denise Lovejoy, Section Chief, Desk Review	Material Noncompliance and a Material Weakness Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding 2014-037) OB-BOA concurs that we should have dunned and transmitted the lists of outstanding and/or prospective audits to the lead agencies at an earlier date. A procedural change to the dunning process that addresses this issue has already been discussed in November 2015. This procedural change will be implemented for the fiscal year ended June 30, 2015 audits due by March 31, 2016.	04/15/2016
	PDE	Connie L. Derr, Audit Coord.	PDE, Audit Section continues to improve the process for the Subrecipient Single Audits with Findings by providing management decisions within the six-month timeframe required by OMB Circular A-133. As stated in the Corrective Action Plan of the prior year audit, a position has been reassigned that is responsible for the review of the Subrecipient Single Audit Reports with Findings.	Completed
	DHS	David Bryan, Manager, Audit Resolution Section	Regarding the timeliness of finding resolution, the DHS hired contracted staff to reduce and eventually eliminate the backlog of single audit reviews. The backlog has been significantly reduced during the year ended June 30, 2015, and we expect the backlog to be eliminated by June 30, 2016.	06/30/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-037 (cont'd)		Alexander Matolyak, Director, Division of Audit and Review	<p>Regarding the requirement to perform procedures to ensure the subrecipient SEFAs were accurate, although we disagree with this requirement, in an effort to eliminate this part of the finding in future years, we have implemented procedures for the subrecipients to submit a supplemental schedule with their single audit that is subject to an Agreed-Upon Procedures engagement and will reconcile their SEFA to the funding they received from DHS. As part of DHS' review of the single audit reports, we will review this schedule and compare to our payment records and investigate any significant differences. This schedule is required to be submitted beginning with subrecipients' fiscal years ending on or after June 30, 2015.</p> <p>Regarding enforcement of the subrecipients' submission deadlines, we will continue to monitor the status of audit reports and follow our remedial action plans, which is to consider withholding a percentage of State funding. We will continue to have discussions within DHS regarding this consideration. DHS will continue to monitor the status of, and work with the City of Philadelphia, to assist them to become compliant with audit submission requirements.</p>	06/30/2017 06/30/2016
	DDAP	Terry W. Matulevich, Director, Bureau of Administration and Program Support	<p>As indicated in the response to a similar audit finding issued for the prior fiscal period, DDAP became a separate cabinet-level department within the Commonwealth, effective July 1, 2012. Prior to that time, the Bureau of Drug and Alcohol Programs (BDAP), as recipient of funds under the Substance Abuse Prevention and Treatment Block Grant, existed as part of DOH. Within DOH, the Bureau of Administrative and Financial Services (BAFS) served as the Single Audit Coordinator for all DOH subrecipient audits. Since BDAP's role under the auspices of DOH was considerably less involved than it is currently as DDAP, DDAP began transitioning all aspects of the subrecipient audit review process from BAFS staff, beginning in March of 2012, in order to assume the role as Single Audit Coordinator for the newly formed agency.</p> <p>Following the above referenced transition, it was necessary for DDAP to address a large number of subrecipient audit reports that had not yet been reviewed by DOH through the period ended June 30, 2012, as well as the subrecipient audit reports being received directly from the Office of the Budget, Bureau of Audits (BOA). While the backlog of SEFA reconciliations has been significantly reduced, the ability to process subrecipient audits with limited staff and without institutional knowledge and established protocols has resulted in the untimely completion of SEFA reconciliations and a slight delay in resolving a finding with one fund recipient during the audit period.</p> <p>DDAP's Division of Budget and Grants Management (DBGM) has two staff members trained on</p>	12/31/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-037 (cont'd)			<p>subrecipient audit report review procedures, with one member conducting SEFA reconciliations and addressing audit findings issued to vendors, and the other position serving in a supervisory and review role. DDAP has revised Division job descriptions to accommodate a greater capacity to address the audit functions of the agency, but still maintains one vacancy within the Division. The ability to fill this position has proven difficult. At this time, DDAP's DBGM is taking the necessary steps to post the vacant Budget Analyst 2 position as a Budget Analyst 1 or 2. This will allow for a larger pool of candidates to be eligible for this position. The Department continues to make every effort to eliminate the backlog of outstanding open audits, but so far this has proven difficult while carrying a vacancy within this Division.</p> <p>The Division continues to formalize policies and procedures for activities conducted by the Division, including procedures for the processing of subrecipient audits. Division staff will continue to attend all future Commonwealth.</p>	
	DOH	David D. DePeau, Chief, Audit Resolution Section	<p>Lack of staff in DOH's Audit Resolution Section (ARS) prevented the timely finalization of the review of the report cited in the finding.</p> <p>To minimize the time period for making a management decision on subrecipient audit reports with findings, DOH's ARS will utilize an annuitant to perform the work of the unfilled subrecipient audit review position that is assigned to do this work. In addition, DOH's ARS continues to take the following actions:</p> <ol style="list-style-type: none"> 1. DOH's ARS maintains a separate subrecipient single audit tracking report for subrecipient single audit reports with findings to ensure that all identified subrecipient single audit reports with findings are reviewed and resolved as soon as possible after their receipt by DOH. 2. DOH's ARS forwards subrecipient single audit reports with findings to the appropriate DOH program offices for resolution as soon as possible after receipt from OB-BOA. Doing so allows the resolution of findings to occur concurrent with the SEFA review and reconciliation process being performed by the ARS. This process minimizes the time needed to reach a management decision on the reports. 	Completed
	PENNVEST	Beverly L. Reinhold, Dep. Ex. Dir.	<ol style="list-style-type: none"> 1. Hire a permanent replacement for vacant position being covered by temporary clerical staff. 2. Review and improve tracking of single audit reviews and documentation. 	Completed 12/31/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2015-037 (cont'd)		for Fin. Mgmt. Heather Brookmyer, Loan Service Officer (AO2)	3. Place a hold on further disbursements where there are funds still to be disbursed.	06/30/2016
	DCED	Brad Shover, Director of Compliance Monitoring	When a grantee requires significant time to provide corrective action for a finding in its Single Audit Report, we will try to negotiate shorter windows to ensure compliance with OMB Circular A-133.	Completed
2015-038	OB-BAFM	Danny Novak, Assistant Director	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$95,403 in Questioned Costs Related to the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding 2014-036) Corrective action is not necessary. Refer to the agency response within the audit finding to view details regarding our disagreements.	N/A

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Appendix



Commonwealth of Pennsylvania

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APPENDIX - Legend of Abbreviations - June 30, 2015

The following legend presents descriptions of abbreviations that appear throughout the report:

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
ACF	Administration for Children and Families
ACH	Automated Clearing House
AG	Department of the Auditor General
AGRI	Department of Agriculture
AICPA	American Institute of Certified Public Accountants
ARC	Appalachian Regional Commission
ARRA	American Recovery and Reinvestment Act
BAFM	Bureau of Accounting and Financial Management
BCSE	Bureau of Child Support Enforcement
BFO	Bureau of Financial Operations
BFS	Basic Financial Statements
BOA	Bureau of Audits
BPS	Bureau of Payable Services
BQA	Bureau of Quality Assurance
BUCD	Bureau of Unemployment Compensation Disbursements
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CAO	County Assistance Office
CAP	Corrective Action Plan
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grants
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHIP	Children's Health Insurance Program
CIS	Client Information System
CMIA	Cash Management Improvement Act of 1990
CNC	Child Nutrition Cluster
CN-PEARS	Child Nutrition Program Electronic Application and Reimbursement System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSE	Child Support Enforcement
CWDS	Commonwealth Workforce Development System
CWSRF	Capitalization Grants for Clean Water State Revolving Funds
DCED	Department of Community and Economic Development
DDAP	Department of Drug and Alcohol Programs
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	Department of Human Services (Formerly Department of Public Welfare (DPW))
DMVA	Department of Military and Veterans Affairs
DOD	United States Department of Defense
DOH	Department of Health
DOI	United States Department of Interior
DOL	United States Department of Labor
DOR	Department of Revenue
DOT	United States Department of Transportation
DVA	Department of Veterans Affairs
EBT	Electronic Benefits Transfer
eCIS	Electronic Client Information System
ED	United States Department of Education
EPA	United States Environmental Protection Agency
ESEA	Elementary and Secondary Education Act

COMMONWEALTH OF PENNSYLVANIA

Legend of Abbreviations (Continued) - June 30, 2015

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
FC	Foster Care – Title IV-E
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
HIV	Human Immunodeficiency Virus
HPC	Highway Planning and Construction
HSGP	Homeland Security Grant Program
HUD	United States Department of Housing and Urban Development
IDEA	Individuals With Disabilities Education Act
IES	Integrated Enterprise System
IT	Information Technology
ITP	Information Technology Policy
ITS	Integrated Tax System
L&I	Department of Labor and Industry
LEA	Local Educational Agency
LIHEAP	Low-Income Home Energy Assistance Program
LCB	Liquor Control Board
MA	Medical Assistance Program
MD	Management Directive
MLF	Motor License Fund
MOU	Memorandum of Understanding
NCLB	No Child Left Behind
NGMO	National Guard Military Operations and Maintenance Projects
NSLP	National School Lunch Program
OA	Office of Administration
OB	Office of the Budget
OCO	Office of Comptroller Operations
OCYF	Office of Children, Youth and Families
ODP	Office of Developmental Programs
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OIT	Office of Information Technology
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PennDOT	Pennsylvania Department of Transportation
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PID	Pennsylvania Insurance Department
PIMS	Pennsylvania Information Management System
PLCB	Pennsylvania Liquor Control Board
RS-VR	Rehabilitation Services - Vocational Rehabilitation Grants to States
SABG	Substance Abuse Prevention and Treatment Block Grant
SAPT	Block Grants for Prevention and Treatment of Substance Abuse
SAS	Statement on Auditing Standards
SDLC	Systems Development Life Cycle
SEFA	Schedule of Expenditures of Federal Awards
SNAP	Supplemental Nutrition Assistance Program
SOC	Service Organization Controls
SSA	United States Social Security Administration

COMMONWEALTH OF PENNSYLVANIA

Legend of Abbreviations (Continued) - June 30, 2015

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
SSAE	Standards for Attestation Engagements
SSBG	Social Services Block Grant
SW	Statewide Finding
SWIF	State Workers' Insurance Fund
TANF	Temporary Assistance for Needy Families
UC	Unemployment Compensation
UI	Unemployment Insurance
USDA	United States Department of Agriculture
USDE	United States Department of Education
USDHS	United States Department of Homeland Security
USDOL	United States Department of Labor
WIA	Workforce Investment Act
WIC	Women, Infants, and Children