

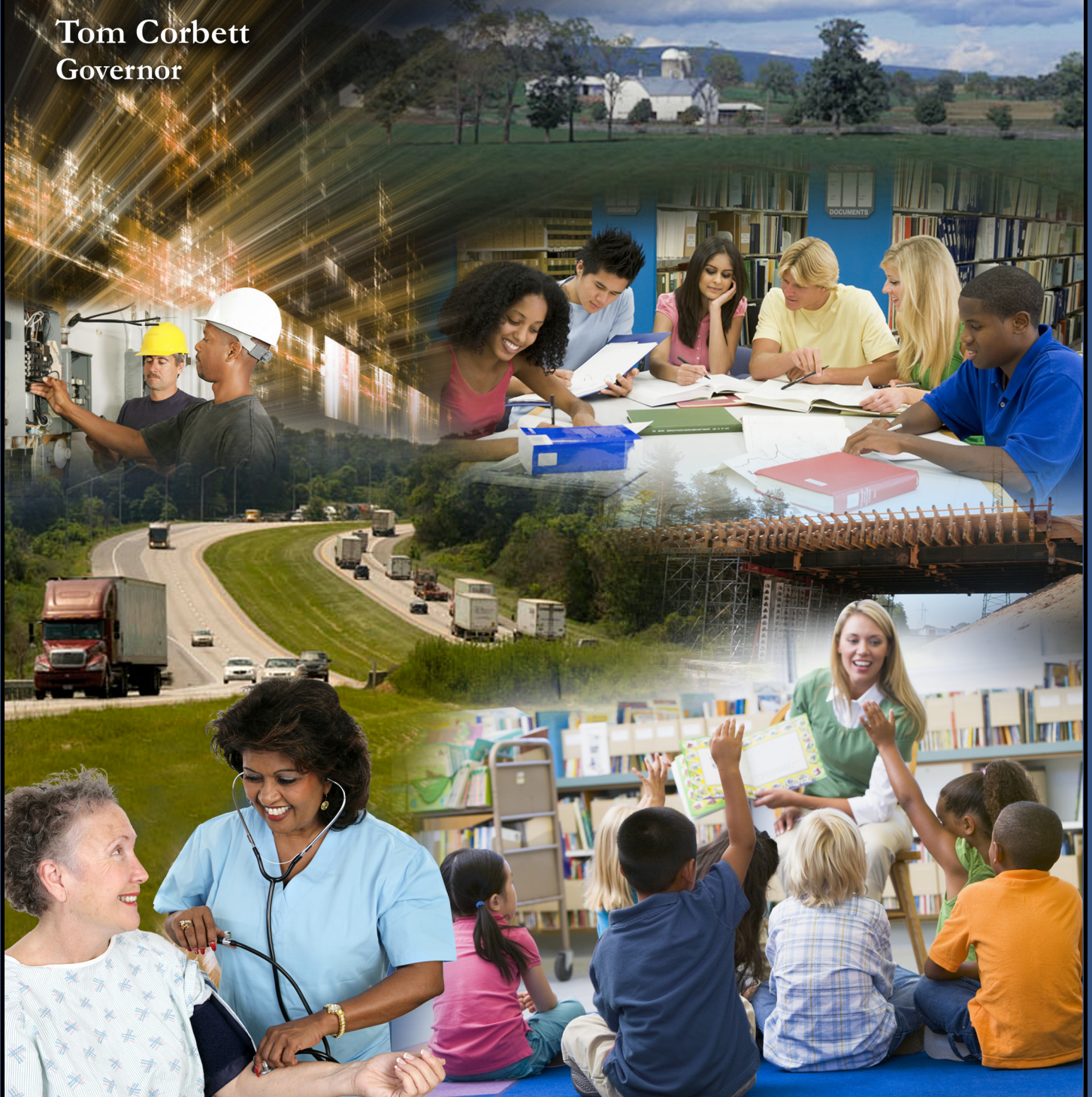
COMMONWEALTH OF PENNSYLVANIA



# Single Audit Report

For the Fiscal Year Ended June 30, 2011

Tom Corbett  
Governor





**Commonwealth of Pennsylvania**  
**Single Audit Report**  
**For the Fiscal Year Ended June 30, 2011**



*Tom Corbett, Governor*

Prepared By:

*Charles Zogby, Secretary*  
**Office of the Budget**

*Peter Tartline*  
*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, 2011**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

CHARLES B. ZOGBY  
SECRETARY  
OFFICE OF THE BUDGET

March 28, 2012

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, 2011. 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, 2011 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 \$34.4 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2011. Most of the \$34.4 billion in federal expenditures occurred in twelve state agencies, as follows:

AGENCY NAME	<b>FEDERAL EXPENDITURES</b> <b>(in thousands)</b>
Public Welfare	\$18,502,099
Labor & Industry	8,554,327
Education	3,548,585
Transportation	1,629,929
Health	479,379
Insurance	279,833
Community & Economic Development	246,241
Corrections	177,138
Environmental Protection	155,413
Infrastructure Investment Authority	150,163
Military & Veterans Affairs	149,235
Aging	142,021
Subtotal	<u>\$34,014,363</u>
Other Agencies (18)	375,370
Grand Total	<u>\$34,389,733</u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$51.6 million. Of the \$34.4 billion expended, 96.2 percent, or \$33.1 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 32 major federal programs for the fiscal year ended June 30, 2011.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2011 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 126 findings are described from single audits between the years ended June 30, 2008 through June 30, 2010.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2011 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of KPMG LLP. The audits were performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

REPORTS OF OTHER INDEPENDENT AUDITORS

Other auditors performed the single audits of the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the State System of Higher Education, the Philadelphia Regional Port Authority (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,



Charles B. Zogby  
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**



**KPMG LLP**  
Suite 1000  
30 North Third Street  
PO Box 1190  
Harrisburg, PA 17108-1190

## Independent Auditors' Report on the Basic Financial Statements

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

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2011, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents of the Comprehensive Annual Financial Report. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain discretely presented component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 96 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total additions of the Private Purpose Trust Fund, which, in total comprises 86 percent of total assets, 96 percent of total net assets and 73 percent of total additions/revenues of the aggregate remaining fund information opinion unit. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds, are based solely on the reports of the other auditors.

The Honorable Tom Corbett, Governor

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with US generally accepted accounting principles.

As discussed in Note N to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under a Lease and Funding Agreement as required under the terms of Act 44 of 2007. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing ability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt.

As disclosed in Notes A and B to the financial statements, the Commonwealth adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2011, dated December 12, 2011 on our consideration of the Commonwealth of Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our

The Honorable Tom Corbett, Governor

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



December 12, 2011



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



KPMG LLP  
Suite 1000  
30 North Third Street  
PO Box 1190  
Harrisburg, PA 17108-1190

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

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

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2011, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 12, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain discretely presented component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 96 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total additions of the Private Purpose Trust Fund, which, in total comprises 86 percent of total assets, 96 percent of total net assets and 73 percent of total additions/revenues of the aggregate remaining fund information opinion unit. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit and Private Purpose Trust Funds, are based solely on the reports of the other auditors. This report does not include the results of

the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Life and Health Insurance Guaranty Association, the PA Property and Casualty Insurance Guaranty Association, the Tuition Account Investment Program, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, the Insurance Fraud Prevention Authority, Port of Pittsburgh Commission, Ben Franklin Technology Development Authority, and Patient Safety Trust Authority were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in the Commonwealth's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as Finding 11-03 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 11-01, 11-02, and 11-04 through 11-09 to be significant deficiencies in internal control over financial reporting.

The Honorable Tom Corbett, Governor

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the Commonwealth of Pennsylvania in a separate letter dated December 12, 2011.

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

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



December 12, 2011



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



**KPMG LLP**  
30 North Third Street  
Suite 1000  
Harrisburg, PA 17101-1715

**Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards**

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

Compliance

We have jointly audited the Commonwealth of Pennsylvania's (the Commonwealth) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2011. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

The Commonwealth's basic financial statements include the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, the Philadelphia Regional Port Authority, the Pennsylvania Convention Center Authority, and the Judicial Department of Pennsylvania, which received approximately \$10.7 billion in federal awards and \$45.3 billion of federal loan guarantees that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2011. Our audit, described below, did not include the operations of these seven component units or agencies because these entities engaged other auditors to perform audits (when required) in accordance with OMB Circular A-133.

Except as discussed in the following paragraph, we jointly conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the



audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth’s compliance with those requirements.

As described in Finding 11-OB-05, we were unable to obtain management representations regarding the compliance of the Commonwealth with requirements referred to above for the following major federal programs: Child and Adult Care Food Program (CFDA #10.558), Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559), Temporary Assistance for Needy Families Cluster (CFDA #93.558 and #93.714), Child Care Development Fund Cluster (CFDA #93.575, #93.596, and #93.713), and Social Services Block Grant (CFDA #93.667), nor were we able to satisfy ourselves as to the Commonwealth’s compliance with those requirements by other auditing procedures. Due to the lack of management representation, we are unable to express, and do not express, an opinion on these programs.

As identified in the following table and described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements as noted below that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Department of Aging	11-PDA-01	93.044 93.045 93.053 93.705 – A 93.707 – A	Aging Cluster	Subrecipient Monitoring
Department of Community and Economic Development	11-DCED-01	14.228 14.255 – A	Community Development Block Grants / State Administered CDBG Cluster	Subrecipient Monitoring
Department of Community and Economic Development	11-DCED-03	81.042 – A	Weatherization Assistance for Low-Income Persons	Allowable Costs, Eligibility, and Subrecipient Monitoring
		93.568	Low-Income Home Energy Assistance	
Department of Corrections	11-DOC-01	84.397 – A	State Fiscal Stabilization Fund Cluster	Allowable Costs

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Department of Education	11-PDE-01	10.553 10.555	Child Nutrition Cluster	Subrecipient Monitoring and Special Tests and Provisions Related to School Food Accounts
Department of Education	11-PDE-03	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
Department of Education	11-PDE-04	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
Department of Education	11-PDE-06	84.010 84.389 – A	Title I, Part A Cluster	Special Tests and Provisions related to identifying schools and LEAs needing improvement
Department of Education	11-PDE-07	84.010 84.389 – A	Title I, Part A Cluster	Allowable Costs and Subrecipient Monitoring
		84.367	Improving Teacher Quality State Grants	
Department of Education	11-PDE-08	84.367	Improving Teacher Quality State Grants	Eligibility and Special Tests and Provisions related to Assessment of Need for LEAs
Department of Environmental Protection	11-DEP-02	81.041 – A	State Energy Program	Cash Management and Reporting
Department of Health	11-DOH-04	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Subrecipient Monitoring
Department of Labor & Industry	11-L&I-02	17.258 – A 17.259 – A 17.260 – A 17.278	WIA Cluster	Subrecipient Monitoring
Department of Labor & Industry	11-L&I-03	17.258 – A 17.259 – A 17.260 – A 17.278	WIA Cluster	Subrecipient Monitoring
Department of Labor & Industry	11-L&I-06	84.126 84.390 – A	Vocational Rehabilitation Cluster	Procurement and Suspension and Debarment

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Department of Public Welfare	11-DPW-01	10.551 10.561 – A	SNAP Cluster	Special Tests and Provisions related to the ADP System
Department of Public Welfare	11-DPW-02	10.551	SNAP Cluster	Special Tests and Provisions related to EBT Card Security
		93.558 93.714 – A	TANF Cluster	
Department of Public Welfare	11-DPW-04	10.551	SNAP Cluster	Special Tests and Provisions related to EBT Reconciliation
Department of Public Welfare	11-DPW-06	93.558	TANF Cluster	Subrecipient Monitoring
		93.658 – A	Foster Care Title IV-E	
		93.659 – A	Adoption Assistance	
Department of Public Welfare	11-DPW-07	93.558	TANF Cluster	Reporting, Special Tests and Provisions related to Penalty for Failure to Comply with Work Verification Plan
Department of Public Welfare	11-DPW-08	93.558 93.714 – A	TANF Cluster	Special Tests and Provisions related to ADP Risk Analysis and System Security Review
		93.563	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596 93.713 – A	CCDF Cluster	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
		93.658 – A	Foster Care Title IV-E	
		93.659 – A	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.767	Children’s Health Insurance Program	
		93.720 – A 93.775 93.777 93.778 – A	Medicaid Cluster	
Department of Public Welfare	11-DPW-10	93.568	Low-Income Home Energy Assistance	Allowable Costs and Eligibility
Department of Public Welfare	11-DPW-11	93.575 93.596 93.713 – A	CCDF Cluster	Special Tests and Provisions related to Health and Safety Requirements
Department of Public Welfare	11-DPW-12	93.667	Social Services Block Grant	Cash Management and Subrecipient Monitoring
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
Department of Public Welfare	11-DPW-14	93.778 – A	Medicaid Cluster	Allowable Costs and Eligibility
Department of Public Welfare	11-DPW-16	93.558 93.714 – A	TANF Cluster	Subrecipient Monitoring
		93.563 – A	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596 93.713 – A	CCDF Cluster	
		93.658 – A	Foster Care Title IV-E	
		93.659 – A	Adoption Assistance	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
		93.667	Social Services Block Grant	
		93.778 – A	Medicaid Cluster	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
Department of Transportation	11-PennDOT-01	20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	Procurement and Suspension and Debarment
Department of Transportation	11-PennDOT-03	20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	Subrecipient Monitoring
Office of the Budget	11-OB-04	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Subrecipient Monitoring
		10.557	Special Supplemental Nutrition Program for WIC	
		10.558	Child and Adult Care Food Program	
		14.228 14.255 – A	Community Development Block Grants / State Administered CDBG Cluster	
		17.258 – A 17.259 – A 17.260 – A	WIA Cluster	
		20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	
		66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	
		66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	
		81.041 – A	State Energy Program	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
		81.042 – A	Weatherization Assistance for Low-Income Persons	
		84.010 84.389 – A	Title I, Part A Cluster	
		84.027 84.173 84.391 – A 84.392 – A	Special Education Cluster (IDEA)	
		84.367	Improving Teacher Quality State Grants	
		84.394 – A 84.397 – A	State Fiscal Stabilization Fund Cluster	
		93.044 93.045 93.053 93.705 – A 93.707 – A	Aging Cluster	
		93.558 93.714 – A	TANF Cluster	
		93.563 – A	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596 93.713 – A	CCDF Cluster	
		93.658 – A	Foster Care Title IV-E	
		93.659 – A	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.767	Children’s Health Insurance Program	
		93.775 93.777 93.778 – A	Medicaid Cluster	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	

The Honorable Tom Corbett, Governor

In our opinion, except for the noncompliance described in the preceding paragraph and other than the programs listed in the second preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its remaining major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133, and which are identified in the following table and described in the accompanying schedule of findings and questioned costs as follows:

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Department of Aging	11-PDA-02	93.044 93.045 93.053 93.705 – A 93.707 – A	Aging Cluster	Special Tests and Provisions related to the Distribution of Cash
Department of Agriculture	11-AGRI-01	10.555 10.559	Child Nutrition Cluster	Special Tests and Provisions related to the Accountability for USDA-Donated Foods
Office of Comptroller Operations	11-OCO-01	17.258 – A 17.259 – A 17.260 – A 17.278	WIA Cluster	Reporting
Office of Comptroller Operations	11-OCO-02	66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	Reporting
		66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	
Department of Education	11-PDE-05	10.558	Child and Adult Care Food Program	Eligibility
Department of Education	11-PDE-09	84.389 – A	Title I, Part A Cluster	Subrecipient Monitoring
		84.391 – A 84.392 – A	Special Education Cluster (IDEA)	
		84.394 – A	State Fiscal Stabilization Fund Cluster	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Department of Environmental Protection	11-DEP-01	81.041 – A	State Energy Program	Activities Allowed / Allowable Costs
Department of General Services	11-DGS-01	12.401 – A	National Guard Military Operations and Maintenance Projects	Procurement and Suspension and Debarment
Department of Health	11-DOH-01	10.557	Special Supplemental Nutrition Program for WIC	Special Tests and Provisions related to Food Instrument Disposition
Department of Health	11-DOH-02	10.557	Special Supplemental Nutrition Program for WIC	Activities Allowed / Allowable Costs
Department of Health	11-DOH-03	93.268 93.712 – A	Immunization Cluster	Activities Allowed / Allowable Costs
Department of Labor & Industry	11-L&I-04	17.258 – A 17.259 – A 17.260 – A 17.278	WIA Cluster	Period of Availability
Department of Labor & Industry	11-L&I-07	84.126	Vocational Rehabilitation Cluster	Matching, Level of Effort, Earmarking
Department of Military and Veterans Affairs	11-DMVA-01	12.401 – A	National Guard Military Operations and Maintenance Projects	Cash Management and Period of Availability
Department of Military and Veterans Affairs	11-DMVA-02	12.401 – A	National Guard Military Operations and Maintenance Projects	Equipment and Real Property Management
Pennsylvania Investment Authority	11-PENNVEST-01	66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	Reporting



<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Pennsylvania Investment Authority	11-PENNVEST-03	66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring
		66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	
Department of Public Welfare	11-DPW-03	10.551	SNAP Cluster	Reporting
		93.778 – A	Medicaid Cluster	
Department of Public Welfare	11-DPW-05	10.561	SNAP Cluster	Activities Allowed / Allowable Costs and Eligibility
		93.558	TANF Cluster	
Department of Public Welfare	11-DPW-09	93.568	Low-Income Home Energy Assistance	Activities Allowed / Allowable Costs
Department of Public Welfare	11-DPW-13	93.667	Social Services Block Grant	Activities Allowed / Allowable Costs
Department of Public Welfare	11-DPW-15	93.917	HIV Formula Care Grants (not a major program)	Eligibility
Department of Public Welfare	11-DPW-16	10.561 – A	SNAP Cluster	Subrecipient Monitoring
Office of the Budget	11-OB-01	93.563 – A	Child Support Enforcement	Procurement and Suspension and Debarment
		93.659 – A	Adoption Assistance	
		93.767	Children’s Health Insurance Program	
		93.778 – A	Medicaid Cluster	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
Office of the Budget	11-OB-02	17.258 – A 17.259 – A 17.260 – A 17.278	WIA Cluster	Subrecipient Monitoring and Special Tests and Provisions related to Awards with ARRA Funding
		20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	
		66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	
		66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	
		81.041 – A	State Energy Program	
		81.042 – A	Weatherization Assistance for Low-Income Persons	
		84.010 84.389 – A	Title I, Part A Cluster	
		84.027 84.173 84.391 – A 84.392 – A	Special Education Cluster (IDEA)	
		84.367	Improving Teacher Quality State Grants	
		84.394 – A	State Fiscal Stabilization Fund Cluster	
		84.410	Education Jobs Fund	
		93.044 93.045 93.053 93.705 – A 93.707 – A	Aging Cluster	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
		93.558 93.714 – A	TANF Cluster	
		93.563 – A	Child Support Enforcement	
		93.658 – A	Foster Care Title IV-E	
		93.659 – A	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.713 – A	CCDF Cluster	
		93.778 – A	Medicaid Cluster	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
Office of the Budget	11-OB-03	10.555	Child Nutrition Cluster	Cash Management
		10.557	Special Supplemental Nutrition Program for WIC	
		10.558	Child and Adult Care Food Program	
		10.561 – A	SNAP Cluster	
		84.010	Title I, Part A Cluster	
		84.027	Special Education Cluster (IDEA)	
		84.126	Vocational Rehabilitation Cluster	
		84.367	Improving Teacher Quality State Grants	
		93.558	TANF Cluster	
		93.563 – A	Child Support Enforcement	

<b>State Administering Agency</b>	<b>Finding Number</b>	<b>CFDA No. (A-ARRA)</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658 – A	Foster Care Title IV-E	
		93.667	Social Services Block Grant	
		93.767	Children’s Health Insurance Program	
		93.778 – A	Medicaid Cluster	
		96.001	Social Security – Disability Insurance	

Internal Control Over Compliance

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 Findings 11-PDA-01, 11-DCED-01, 11-DCED-03, 11-DOC-01, 11-PDE-01,

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11-PDE-03, 11-PDE-04, 11-PDE-06, 11-PDE-07, 11-PDE-08, 11-DEP-02, 11-DOH-04, 11-L&I-02, 11-L&I-03, 11-L&I-06, 11-DPW-01, 11-DPW-02, 11-DPW-04, 11-DPW-06, 11-DPW-07, 11-DPW-08, 11-DPW-10, 11-DPW-11, 11-DPW-12, 11-DPW-14, 11-DPW-16, 11-PennDOT-01, 11-PennDOT-03, and 11-OB-04 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 Findings 11-PDA-02, 11-AGRI-01, 11-DCED-02, 11-DCED-04, 11-OCO-01, 11-OCO-02, 11-PDE-02, 11-PDE-05, 11-PDE-09, 11-DEP-01, 11-DGS-01, 11-DOH-01, 11-DOH-02, 11-DOH-03, 11-PID-01, 11-L&I-01, 11-L&I-04, 11-L&I-05, 11-DMVA-01, 11-DMVA-02, 11-PENNVEST-01, 11-PENNVEST-02, 11-PENNVEST-03, 11-DPW-01, 11-DPW-03, 11-DPW-05, 11-DPW-13, 11-DPW-16, 11-PennDOT-02, 11-OB-01, 11-OB-02, and 11-OB-03 to be significant deficiencies.

#### Schedule of Expenditures of Federal Awards

We have jointly audited the basic 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, 2011, and have issued our report thereon dated December 12, 2011 which includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the 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 financial statements, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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



March 28, 2012

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# Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>SNAP Cluster:</i>			
10.551	Supplemental Nutrition Assistance Program		2,566,765	
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm	185,975		33,557
10.561	ARRA - State Admin Matching Grants for Supp Nutrition Assist Prgm	3,966		
	Total State Admin Matching Grants for Supp Nutrition Assist Prgm		<u>189,941</u>	
	Total SNAP Cluster			2,756,706
	<i>Child Nutrition Cluster:</i>			
10.553	School Breakfast Program		77,062	76,760
10.555	National School Lunch Program (Cash Assistance)	299,543		299,002
10.555	National School Lunch Program (Food Commodities)	37,516		37,516
	Total National School Lunch Program		337,059	
10.556	Special Milk Program for Children		506	506
10.559	Summer Food Service Program for Children (Cash Assistance)	11,956		11,460
10.559	Summer Food Service Program for Children (Food Commodities)	153		153
	Total Summer Food Service Program for Children		<u>12,109</u>	
	Total Child Nutrition Cluster			426,736
	<i>Emergency Food Assistance Cluster:</i>			
10.568	Emergency Food Assistance Program (Administrative Costs)	1,965		1,733
10.568	ARRA - Emergency Food Assistance Program (Administrative Costs)	1,100		591
	Total Emergency Food Assistance Program (Administrative Costs)		3,065	
10.569	Emergency Food Assistance Program (Food Commodities)		<u>23,459</u>	23,459
	Total Emergency Food Assistance Cluster			26,524
10.025	Plant and Animal Disease, Pest Control, and Animal Care		2,245	408
10.069	Conservation Reserve Program		30	
10.086	Aquaculture Grants Program (AGP)		212	193
10.162	Inspection Grading and Standardization		204	
10.163	Market Protection and Promotion		179	
10.170	Specialty Crop Block Grant Program - Farm Bill		592	396
10.215	Sustainable Agriculture Research and Education		55	55
10.304	Homeland Security - Agricultural		17	
10.458	Crop Insurance Education in Targeted States		1,001	
10.550	Food Donation		55	



# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children		208,174	55,605
10.558	Child and Adult Care Food Program (Cash Assistance)	90,676		90,036
10.558	Child and Adult Care Food Program (Food Commodities)	49		49
	Total Child and Adult Care Food Program		90,725	
10.560	State Administrative Expenses for Child Nutrition		5,704	5
10.565	Commodity Supplemental Food Program (Cash Assistance)	2,789		2,788
10.565	Commodity Supplemental Food Program (Food Commodities)	6,061		6,061
	Total Commodity Supplemental Food Program		8,850	
10.572	WIC Farmers' Market Nutrition Program (FMNP)		1,866	
10.574	Team Nutrition Grants		252	
10.576	Senior Farmers Market Nutrition Program		1,958	
10.578	ARRA - WIC Grants to States (WGS)		669	
10.579	Child Nutrition Discretionary Grants Limited Availability	519		
10.579	ARRA - Child Nutrition Discretionary Grants Limited Availability	311		311
	Total Child Nutrition Discretionary Grants Limited Availability		830	
10.580	Supp Nutrition Assistance Program Outreach/Participation		272	258
10.582	Fresh Fruit and Vegetable Program		2,731	2,731
10.664	Cooperative Forestry Assistance		1,756	658
10.665	Schools and Roads - Grants to States		4,184	4,184
10.675	Urban and Community Forestry Program		2	
10.676	Forest Legacy Program		(1)	
10.678	Forest Stewardship Program		130	
10.680	Forest Health Protection		161	
10.683	National Fish and Wildlife Foundation		5	
10.687	ARRA - Capital Improvement and Maintenance		52	
10.913	Farm and Ranch Lands Protection Program		2,547	
	<b>Total - U.S. Department of Agriculture</b>		<b>\$3,545,423</b>	<b>\$648,475</b>
11.307	Economic Adjustment Assistance		4,470	
11.407	Interjurisdictional Fisheries Act of 1986		58	
11.419	Coastal Zone Management Administration Awards		1,897	988
11.474	Atlantic Coastal Fisheries Cooperative Management Act		148	
11.555	Public Safety Interoperable Communications Grant Program		15,312	8,101
11.557	ARRA - Broadband Technology Opportunities Program (BTOP)		1,915	
11.558	ARRA - State Broadband Data and Development Grant Program		1,214	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
<b>Total - U.S. Department of Commerce</b>			<b>\$25,014</b>	<b>\$9,089</b>
12.400	Military Construction, National Guard		12,962	
12.401	National Guard Military Operations and Maintenance Projects	46,767		
12.401	ARRA - National Guard Military Operations and Maintenance Projects	5,151		
	Total National Guard Military Operations and Maintenance Projects		51,918	
<b>Total - U.S. Department of Defense</b>			<b>\$64,880</b>	<b>\$0</b>
<i>CDBG - State-Administered CDBG Cluster:</i>				
14.228	Community Development Block Grants/State's Program	62,852		61,738
14.255	ARRA - Community Development Block Grants/State's Program	5,964		5,881
	Total CDBG - State-Administered CDBG Cluster		68,816	
14.231	Emergency Shelter Grants Program		3,561	3,507
14.235	Supportive Housing Program		121	
14.239	Home Investment Partnerships Program		10,420	10,068
14.241	Housing Opportunities for Persons with AIDS		1,855	1,855
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program		12,063	11,795
14.401	Fair Housing Assistance Program - State and Local		273	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		701	551
14.908	ARRA - Healthy Homes Demonstration Grants		389	299
<b>Total - U.S. Department of Housing and Urban Development</b>			<b>\$98,199</b>	<b>\$95,694</b>
<i>Fish and Wildlife Cluster:</i>				
15.605	Sport Fish Restoration Program	8,963		
15.611	Wildlife Restoration and Basic Hunter Education	16,083		
	Total Fish and Wildlife Cluster		25,046	
15.250	Regulation of Surface Coal Mining		10,932	
15.252	Abandoned Mine Land Reclamation (AMLR) Program		24,551	353
15.608	Fish and Wildlife Management Assistance		57	
15.612	Endangered Species Conservation		30	
15.615	Cooperative Endangered Species Conservation Fund		13	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
15.625	Wildlife Conservation and Restoration	90	
15.633	Landowner Incentive Program	73	
15.634	State Wildlife Grants	1,650	
15.657	Endangered Species Conservation - Recovery Implement Funds	32	
15.808	U.S. Geological Survey - Research and Data Collection	198	
15.810	National Cooperative Geologic Mapping Program	207	
15.817	ARRA - National Geospatial Prgm: Building The National Map	656	
15.819	Energy Coop to Support National Coal Resources Data System	68	
15.904	Historic Preservation Fund Grants-In-Aid	1,156	95
15.916	Outdoor Recreation - Acquisition, Development and Planning	2,298	2,294
15.929	Save America's Treasures	135	127
<b>Total - U.S. Department of the Interior</b>		<b>\$67,192</b>	<b>\$2,869</b>
<i>JAG Program Cluster:</i>			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	8,367	5,884
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant Prgm	15,009	11,567
	Total JAG Program Cluster	23,376	
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training	1,427	
16.017	Sexual Assault Services Formula Program	336	336
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	556	
16.523	Juvenile Accountability Block Grants	844	782
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	589	332
16.550	State Justice Statistics Prgm for Statistic Analysis Centers	37	37
16.554	National Criminal History Improvement Program (NCHIP)	204	17
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants	549	26
16.575	Crime Victim Assistance	14,222	13,306
16.576	Crime Victim Compensation	6,782	
16.579	Edward Byrne Memorial Formula Grant Program	28	
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm	1,696	
16.588	Violence Against Women Formula Grants	3,382	3,128
16.588	ARRA - Violence Against Women Formula Grants	2,695	2,453
	Total Violence Against Women Formula Grants	6,077	
16.593	Residential Substance Abuse Treatment for State Prisoners	294	73
16.607	Bulletproof Vest Partnership Program	256	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
16.609	Project Safe Neighborhoods	176	169
16.610	Regional Information Sharing Systems	6,858	
16.727	Enforcing Underage Drinking Laws Program	297	93
16.740	Statewide Automated Victim Info Notification (SAVIN) Program	102	73
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	533	297
16.746	Capital Case Litigation	46	46
16.753	Congressionally Recommended Awards	762	763
16.801	ARRA - State Victim Assistance Formula Grant Program	652	652
16.802	ARRA - State Victim Compensation Formula Grant Program	75	
<b>Total - U.S. Department of Justice</b>		<b>\$66,774</b>	<b>\$40,034</b>
<i>Employment Service Cluster:</i>			
17.207	Employment Service/Wagner-Peyser Funded Activities	38,548	
17.207	ARRA - Employment Service/Wagner-Peyser Funded Activities	2,445	
	Total Employment Service/Wagner-Peyser Funded Activities		40,993
17.801	Disabled Veterans' Outreach Program (DVOP)		2,894
17.804	Local Veterans' Employment Representative Program		3,395
	Total Employment Service Cluster		47,282
<i>WIA Cluster:</i>			
17.258	WIA Adult Program	29,077	28,118
17.258	ARRA - WIA Adult Program	6,478	5,825
	Total WIA Adult Program		35,555
17.259	WIA Youth Activities	27,972	27,083
17.259	ARRA - WIA Youth Activities	11,645	9,904
	Total WIA Youth Activities		39,617
17.260	WIA Dislocated Workers	14,389	13,936
17.260	ARRA - WIA Dislocated Workers	15,183	13,565
	Total WIA Dislocated Workers		29,572
17.278	WIA Dislocated Worker Formula Grants		26,990
	Total WIA Cluster		131,734
17.002	Labor Force Statistics		2,796
17.005	Compensation and Working Conditions		59
17.225	Unemployment Insurance		5,193,748

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
17.225	ARRA - Unemployment Insurance		2,696,279	
	Total Unemployment Insurance			7,890,027
17.235	Senior Community Service Employment Program		6,795	6,795
17.235	ARRA - Senior Community Service Employment Program		292	292
	Total Senior Community Service Employment Program			7,087
17.245	Trade Adjustment Assistance			36,011
17.261	WIA Pilots, Demonstrations, and Research Projects			569
17.268	H-1B Job Training Grants			6
17.271	Work Opportunity Tax Credit Program (WOTC)			522
17.273	Temporary Labor Certification for Foreign Workers			273
17.275	ARRA - Training and Placement in Growth and Industry Sectors			2,609
17.600	Mine Health and Safety Grants			415
17.802	Veterans' Employment Program			518
	<b>Total - U.S. Department of Labor</b>			<b>\$8,119,908</b>
				<b>\$131,970</b>
	<i>Highway Planning and Construction Cluster:</i>			
20.205	Highway Planning and Construction		1,126,875	192,788
20.205	ARRA - Highway Planning and Construction		418,178	20,529
	Total Highway Planning and Construction			1,545,053
20.219	Recreational Trails Program			844
23.003	Appalachian Development Highway System			2,765
	Total Highway Planning and Construction Cluster			1,548,662
	<i>Federal Transit Cluster:</i>			
20.500	Federal Transit - Capital Investment Grants		427	427
20.500	ARRA - Federal Transit - Capital Investment Grants		403	403
	Total Federal Transit - Capital Investment Grants			830
20.507	Federal Transit - Formula Grants		1,155	
20.507	ARRA - Federal Transit - Formula Grants		3,071	3,071
	Total Federal Transit - Formula Grants			4,226
	Total Federal Transit Cluster			5,056
	<i>Transit Services Programs Cluster:</i>			
20.513	Capital Assistance Program for Elderly and Disabled Persons		5,357	5,357
20.516	Job Access - Reverse Commute		499	499

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
20.521	New Freedom Program		1,128	1,128
	Total Transit Services Programs Cluster			6,984
	<i>Highway Safety Cluster:</i>			
20.600	State and Community Highway Safety		9,915	3,764
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I		5,606	5,403
20.602	Occupant Protection Incentive Grants		100	100
20.604	Safety Incentive Grants for Use of Seatbelts		7,147	422
20.605	Incentives to Prevent Operation by Intoxicated Persons		300	
20.610	State Traffic Safety Information System Improvement Grants		220	222
20.612	Incentive Grant Program to Increase Motorcyclist Safety		232	
	Total Highway Safety Cluster			23,520
20.106	Airport Improvement Program			17,488
20.218	National Motor Carrier Safety			6,573
20.232	Commercial Driver's License Program Improvement Grant			368
20.238	Commercial Drivers License Information System			(13)
20.318	Maglev Project Selection Program - SAFETEA-LU			121
20.320	Rail Line Relocation and Improvement			94
20.505	Metropolitan Transportation Planning			3,639
20.509	Formula Grants for Other Than Urbanized Areas		18,232	18,141
20.509	ARRA - Formula Grants for Other Than Urbanized Areas		11,235	11,235
	Total Formula Grants for Other Than Urbanized Areas			29,467
20.515	State Planning and Research			8,769
20.700	Pipeline Safety Program Base Grants			709
20.703	Interagency Hazardous Materials Training and Planning Grants			582
20.930	Payments for Small Community Air Service Development			73
	<b>Total - U.S. Department of Transportation</b>			<b>\$1,652,092</b>
				<b>\$281,977</b>
23.008	Appalachian Local Access Roads			25
23.009	Appalachian Local Development District Assistance			479
23.011	Appalachian Research, Technical Assistance and Demo Projects			134
	<b>Total - Appalachian Regional Commission</b>			<b>\$638</b>
				<b>\$426</b>

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
30.002	Employment Discrimination - State and Local Agency Contracts	1,820	
<b>Total - Equal Employment Opportunity Commission</b>		<b>\$1,820</b>	<b>\$0</b>
39.003	Donation of Federal Surplus Personal Property	2,718	2,718
39.011	Election Reform Payments	2,211	2,188
<b>Total - General Services Administration</b>		<b>\$4,929</b>	<b>\$4,906</b>
45.025	Promotion of the Arts - Partnership Agreements	974	663
45.025	ARRA - Promotion of the Arts - Partnership Agreements	101	101
Total Promotion of the Arts - Partnership Agreements		1,075	
45.310	Grants to States	5,233	3,283
45.313	Laura Bush 21st Century Librarian Program	200	200
<b>Total - National Foundation on the Arts and Humanities</b>		<b>\$6,508</b>	<b>\$4,247</b>
64.005	Grants to States for Construction of State Home Facilities	3,593	
64.005	ARRA - Grants to States for Construction of State Home Facilities	4,609	
Total Grants to States for Construction of State Home Facilities		8,202	
64.010	Veterans Nursing Home Care	1,159	
64.014	Veterans State Domiciliary Care	3,965	
64.015	Veterans State Nursing Home Care	35,556	
64.111	Veterans Education Assistance	1,237	
<b>Total - U.S. Department of Veterans Affairs</b>		<b>\$50,119</b>	<b>\$0</b>
66.001	Air Pollution Control Program Support	3,836	51
66.032	State Indoor Radon Grants	367	60
66.039	National Clean Diesel Emissions Reduction Program	593	593
66.039	ARRA - National Clean Diesel Emissions Reduction Program	2,284	2,284
Total National Clean Diesel Emissions Reduction Program		2,877	
66.040	ARRA - State Clean Diesel Grant Program	1,088	1,088
66.202	Congressionally Mandated Projects	54	
66.312	State Environmental Justice Cooperative Agreement Program	57	57
66.419	Water Pollution Control State and Interstate Program Support	5,408	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
66.432	State Public Water System Supervision	4,060	
66.436	Clean Water Act Surveys, Studies, Investigations and Demos	58	
66.438	Construction Management Assistance	115	
66.454	Water Quality Management Planning	357	
66.454	ARRA - Water Quality Management Planning	1,098	1,018
	Total Water Quality Management Planning		1,455
66.458	Capitalization Grants for Clean Water State Revolving Funds	15,318	11,548
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds	79,362	79,362
	Total Capitalization Grants for Clean Water State Revolving Funds		94,680
66.460	Nonpoint Source Implementation Grants	5,622	4,456
66.461	Regional Wetland Program Development Grants	106	
66.466	Chesapeake Bay Program	2,755	2,151
66.468	Capital Grants for Drinking Water State Revolving Funds	39,548	28,451
66.468	ARRA - Capital Grants for Drinking Water State Revolving Funds	24,500	24,500
	Total Capital Grants for Drinking Water State Revolving Funds		64,048
66.469	Great Lakes Program	93	77
66.474	Water Protection Grants to the States	67	
66.479	Wetland Program Grants - Environmental Outcome Demo Prgm	266	
66.511	Office of Research and Development Consolidated Research	173	
66.605	Performance Partnership Grants	2,149	
66.606	Surveys, Studies, Investigations and Special Purpose Grants	761	18
66.608	Environmental Information Exchange Network Grant Program	23	
66.707	TSCA Title IV State Lead Grants Certification	192	
66.708	Pollution Prevention Grants Program	63	63
66.709	Multi-Media Capacity Building Grants for States and Tribes	119	
66.714	Regional Agriculture IPM Grants	12	12
66.716	Research, Dev, Education, Training, Demos, and Studies	3	3
66.801	Hazardous Waste Management State Program Support	5,015	762
66.802	Superfund State Site-Specific Cooperative Agreements	11	
66.804	Underground Storage Tank Prevention and Compliance Program	1,662	
66.805	Leaking Underground Storage Tank Trust Fund Program	2,635	
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Program	2,799	
	Total Leaking Underground Storage Tank Trust Fund Program		5,434
66.817	State and Tribal Response Program Grants	1,304	318
<b>Total - Environmental Protection Agency</b>		<b>\$203,933</b>	<b>\$156,872</b>



# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
81.039	National Energy Information Center		6	
81.041	State Energy Program	2,987		2,108
81.041	ARRA - State Energy Program	48,956		39,436
	Total State Energy Program		51,943	
81.042	Weatherization Assistance for Low-Income Persons	10,685		10,306
81.042	ARRA - Weatherization Assistance for Low-Income Persons	76,494		74,722
	Total Weatherization Assistance for Low-Income Persons		87,179	
81.117	Energy Efficiency and Renewable Energy Info Dissemination		15	15
81.119	ARRA - State Energy Program Special Projects		238	239
81.122	ARRA - Electricity Delivery and Energy Reliability, Research & Dev		497	
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)		4,086	4,018
81.128	ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)		8,278	8,129
	<b>Total - U.S. Department of Energy</b>		<b>\$152,242</b>	<b>\$138,973</b>
	<i>Title I, Part A Cluster:</i>			
84.010	Title I Grants to Local Educational Agencies	670,267		666,057
84.389	ARRA - Title I Grants to Local Educational Agencies	119,386		118,644
	Total Title I, Part A Cluster		789,653	
	<i>Special Education Cluster (IDEA):</i>			
84.027	Special Education - Grants to States	422,097		412,189
84.173	Special Education - Preschool Grants	13,986		13,677
84.391	ARRA - Special Education Grants to States	187,021		186,594
84.392	ARRA - Special Education - Preschool Grants	6,984		6,244
	Total Special Education Cluster (IDEA)		630,088	
	<i>Student Financial Assistance Programs Cluster:</i>			
84.032	Federal Family Education Loans	2,165		
84.033	Federal Work-Study Program	37		
84.063	Federal Pell Grant Program	3,018		
84.375	Academic Competitiveness Grants	30		
	Total Student Financial Assistance Programs Cluster		5,250	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
<i>Vocational Rehabilitation Cluster:</i>				
84.126	Rehabilitation Services - Vocational Rehab Grants to States		125,347	30
84.390	ARRA - Rehab Services - Vocational Rehab Grants to States		12,167	(80)
	Total Vocational Rehabilitation Cluster			137,514
<i>Independent Living State Grants Cluster:</i>				
84.169	Independent Living - State Grants		435	394
84.398	ARRA - Independent Living State Grants		216	216
	Total Independent Living State Grants Cluster			651
<i>Independent Living Services for Older Blind Individuals Cluster:</i>				
84.177	Rehab Serv - Indep Living Services for Older Blind Indiv		1,388	
84.399	ARRA - Independent Living Serv for Older Blind Individuals		444	88
	Total Independent Living Services for Older Blind Individuals Cluster			1,832
<i>Early Intervention Services (IDEA) Cluster:</i>				
84.181	Special Education - Grants for Infants and Families		13,047	11,735
84.393	ARRA - Special Education - Grants for Infants and Families		7,381	6,545
	Total Early Intervention Services (IDEA) Cluster			20,428
<i>Education for Homeless Children and Youth Cluster:</i>				
84.196	Education for Homeless Children and Youth		2,106	1,990
84.387	ARRA - Education for Homeless Children and Youth		764	764
	Total Education for Homeless Children and Youth Cluster			2,870
<i>Educational Technology State Grants Cluster:</i>				
84.318	Education Technology State Grants		9,814	9,482
84.386	ARRA - Education Technology State Grants		20,653	20,291
	Total Educational Technology State Grants Cluster			30,467
<i>Statewide Data Systems Cluster:</i>				
84.372	Statewide Data Systems		1,087	
84.384	ARRA - Statewide Data Systems		1,366	
	Total Statewide Data Systems Cluster			2,453

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>School Improvement Grants Cluster:</i>		
84.377	School Improvement Grants	8,431	7,236
84.388	ARRA - School Improvement Grants	8,046	9,070
	Total School Improvement Grants Cluster		16,477
	<i>State Fiscal Stabilization Fund Cluster:</i>		
84.394	ARRA - State Fiscal Stabilization Fund - Education Grants	745,222	742,896
84.397	ARRA - State Fiscal Stabilization Fund - Gov Services	173,439	
	Total State Fiscal Stabilization Fund Cluster		918,661
84.002	Adult Education - Basic Grants to States		16,446
84.007	Federal Supplemental Educational Opportunity Grants		35
84.011	Migrant Education - State Grant Program		8,155
84.013	Title I Program for Neglected and Delinquent Children		1,040
84.021	Overseas Programs - Group Projects Abroad		84
84.042	TRIO - Student Support Services		202
84.048	Career and Technical Education - Basic Grants to States		41,849
84.144	Migrant Education - Coordination Program		171
84.184	Safe and Drug-Free Schools & Communities - National Programs		4
84.185	Byrd Honors Scholarships		1,575
84.186	Safe and Drug-Free Schools and Communities - State Grants		4,631
84.187	Supp Employment Serv for Indiv with Significant Disabilities		546
84.213	Even Start - State Educational Agencies		2,219
84.235	Rehabilitation Services Demonstration and Training Programs		462
84.243	Tech-Prep Education		4,348
84.265	Rehab Training - State Voc Rehab Unit In-Service Training		359
84.282	Charter Schools		92
84.287	Twenty-First Century Community Learning Centers		41,472
84.323	Special Education - State Personnel Development		1,312
84.330	Advanced Placement Program		374
84.331	Grants to States for Training for Incarcerated Individuals		503
84.357	Reading First State Grants		5,812
84.358	Rural Education		1,097
84.365	English Language Acquisition Grants		11,820
84.366	Mathematics and Science Partnerships		6,336
84.367	Improving Teacher Quality State Grants		119,236

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
84.368	Grants for Enhanced Assessment Instruments		855	
84.369	Grants for State Assessments and Related Activities		10,453	
84.378	College Access Challenge Grant Program		2,105	2,105
84.410	Education Jobs Fund		387,816	387,816
84.902	National Assessment of Educational Progress		113	
<b>Total - U.S. Department of Education</b>			<b>\$3,239,861</b>	<b>\$2,869,117</b>
89.003	National Historical Publications and Records Grants		3	
<b>Total - National Archives and Records Administration</b>			<b>\$3</b>	<b>\$0</b>
90.400	Help America Vote College Program		47	
90.401	Help America Vote Act Requirements Payments		5,527	3,336
<b>Total - Elections Assistance Commission</b>			<b>\$5,574</b>	<b>\$3,336</b>
<i>Aging Cluster:</i>				
93.044	Special Programs for the Aging - Title III, Part B	23,775		23,775
93.045	Special Programs for the Aging - Title III, Part C	25,295		23,354
93.053	Nutrition Services Incentive Program	7,149		7,149
93.705	ARRA - Aging Home-Delivered Nutrition Services for States	384		384
93.707	ARRA - Aging Congregate Nutrition Services for States	1,506		1,506
	Total Aging Cluster		58,109	
<i>Immunization Cluster:</i>				
93.268	Immunization Grants (Cash Assistance)	8,394		4,062
93.268	Immunization Grants (Vaccines)	77,486		
	Total Immunization Grants		85,880	
93.712	ARRA - Immunization (Cash Assistance)	881		262
	Total Immunization Cluster		86,761	
<i>TANF Cluster:</i>				
93.558	Temporary Assistance for Needy Families	545,733		286,020
93.714	ARRA - Emergency Contingency Fund for TANF State Programs	40,129		39,059
	Total TANF Cluster		585,862	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
<i>CSBG Cluster:</i>				
93.569	Community Services Block Grant		30,262	29,349
93.710	ARRA - Community Services Block Grant		14,454	14,454
	Total CSBG Cluster		<u>44,716</u>	
<i>CCDF Cluster:</i>				
93.575	Child Care and Development Block Grant		207,576	195,535
93.596	Child Care Mandatory and Matching Funds of the CCDF		129,274	128,906
93.713	ARRA - Child Care and Development Block Grant		28,170	28,170
	Total CCDF Cluster		<u>365,020</u>	
<i>Head Start Cluster:</i>				
93.600	Head Start		226	226
93.708	ARRA - Head Start		678	435
93.709	ARRA - Early Head Start		2,019	2,013
	Total Head Start Cluster		<u>2,923</u>	
<i>Medicaid Cluster:</i>				
93.720	ARRA - Survey & Certification Ambulatory Surgical Center		61	
93.775	State Medicaid Fraud Control Units		3,223	
93.777	State Survey and Cert of Health Care Providers and Suppliers		14,801	
93.778	Medical Assistance Program	12,364,677		1,231,620
93.778	ARRA - Medical Assistance Program	<u>1,879,631</u>		158,754
	Total Medical Assistance Program		<u>14,244,308</u>	
	Total Medicaid Cluster			14,262,393
93.041	Special Programs for the Aging - Title VII, Chapter 3		243	243
93.042	Special Programs for the Aging - Title VII, Chapter 2		939	706
93.043	Special Programs for the Aging - Title III, Part D		1,094	1,094
93.048	Special Programs for the Aging - Title IV and Title II		135	135
93.052	National Family Caregiver Support, Title III, Part E		8,655	8,655
93.069	Public Health Emergency Preparedness		29,106	5,426
93.070	Environmental Public Health and Emergency Response		418	121
93.071	Medicare Enrollment Assistance Program		345	344
93.072	Lifespan Respite Care Program		63	63

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.089	Emergency System for Advance Registration of Vol Health Prof		(8)
93.090	Guardianship Assistance	7,474	7,474
93.090	ARRA - Guardianship Assistance	780	780
	Total Guardianship Assistance		8,254
93.103	Food and Drug Administration - Research		362
93.104	Community Mental Health Services for Children with SED		533
93.110	Maternal and Child Health Federal Consolidated Programs		492
93.116	Project Grants and Coop Agreements for Tuberculosis Control		759
93.127	Emergency Medical Services for Children		125
93.130	Primary Care Offices Coordination and Dev Coop Agreements		257
93.136	Injury Prevention and Control Research		2,116
93.150	Projects for Asst in Transition from Homelessness (PATH)		2,478
93.165	Grants to States for Loan Repayment Program		191
93.197	Childhood Lead Poisoning Prevention Projects		729
93.234	Traumatic Brain Injury State Demonstration Grant Program		174
93.235	Abstinence Education Program		6
93.240	State Capacity Building		463
93.241	State Rural Hospital Flexibility Program		334
93.243	Substance Abuse and Mental Health Services - Projects		2,437
93.251	Universal Newborn Hearing Screening		149
93.275	Substance Abuse & Mental Health Serv. - Access to Recovery		339
93.283	Centers for Disease Control & Prevention - Investigations		8,756
93.296	State Partnership Grant Program to Improve Minority Health		119
93.402	ARRA - State Loan Repayment Program		52
93.414	ARRA - State Primary Care Offices		26
93.505	Affordable Care Act Maternal, Infant, Childhood Home Visit		145
93.507	Strengthening Health Infrastructure For Improved Outcomes		57
93.511	Affordable Care Act Grants for Health Insur Premium Review		76
93.520	Affordable Care Act - Communities Putting Prevention to Work		5
93.521	Affordable Care Act - Building Epi, Lab, & Health Info Sys.		11
93.556	Promoting Safe and Stable Families		11,178
93.563	Child Support Enforcement	141,199	105,647
93.563	ARRA - Child Support Enforcement	16,969	9,279
	Total Child Support Enforcement		158,168
93.566	Refugee and Entrant Assistance - State Administered Programs		10,868
93.568	Low-Income Home Energy Assistance		295,210

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.576	Refugee and Entrant Assistance - Discretionary Grants	510	416
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants	356	356
93.590	Community-Based Child Abuse Prevention Grants	1,276	1,276
93.597	Grants to States for Access and Visitation Programs	313	313
93.599	Chafee Education and Training Vouchers Program (ETV)	2,331	2,328
93.602	Assets for Independence Demonstration Program	(397)	(397)
93.603	Adoption Incentive Payments	1,184	883
93.617	Voting Access for Individuals with Disabilities - Gov Grants	333	320
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,085	2,249
93.645	Stephanie Tubbs Jones Child Welfare Services Program	10,477	9,438
93.658	Foster Care - Title IV-E	206,720	202,177
93.658	ARRA - Foster Care - Title IV-E	8,486	8,486
	Total Foster Care - Title IV-E	<u>215,206</u>	
93.659	Adoption Assistance	96,610	93,156
93.659	ARRA - Adoption Assistance	7,019	7,019
	Total Adoption Assistance	<u>103,629</u>	
93.667	Social Services Block Grant	98,816	78,913
93.669	Child Abuse and Neglect State Grants	729	260
93.671	Family Violence Prevention and Services	2,998	2,998
93.674	Chafee Foster Care Independence Program	4,615	4,615
93.717	ARRA - Preventing Healthcare-Associated Infections	463	237
93.719	ARRA - State Grants to Promote Health Information Technology	265	
93.723	ARRA - Prevention and Wellness - State, Territories	922	364
93.724	ARRA - Prevention & Wellness - Communities Funding Opp (FOA)	52	
93.725	ARRA - Communities: Chronic Disease Self-Management Program	471	471
93.767	Children's Health Insurance Program	279,889	274,910
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	2,398	1,328
93.779	CMS Research, Demonstrations and Evaluations	1,856	1,710
93.790	Alternate Non-Emergency Service Providers or Networks	803	
93.791	Money Follows the Person Rebalancing Demonstration	5,754	
93.889	National Bioterrorism Hospital Preparedness Program	12,164	7,373
93.917	HIV Care Formula Grants	41,785	12,797
93.938	Coop Agreements to Support School Health Programs	195	74
93.940	HIV Prevention Activities - Health Department Based	(3)	
93.943	Epidemiologic Research Studies of AIDS and HIV	4,435	910
93.944	HIV/AIDS Surveillance	726	

# COMMONWEALTH OF PENNSYLVANIA

## Schedule of Expenditures of Federal Awards - June 30, 2011

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	137	
93.958	Block Grants for Community Mental Health Services	14,334	14,092
93.959	Block Grants for Prevention and Treatment of Substance Abuse	59,262	50,960
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant	2,193	860
93.988	Coop Agreements for State-Based Diabetes Control Programs	(63)	
93.991	Preventive Health and Health Services Block Grant	4,564	2,904
93.994	Maternal and Child Health Services Block Grant to the States	23,227	12,118
<b>Total - U.S. Department of Health and Human Services</b>		<b>\$16,852,934</b>	<b>\$3,154,455</b>
94.003	State Commissions	252	1
94.004	Learn and Serve America - School & Community Based Programs	836	675
94.006	AmeriCorps	8,767	8,767
94.006	ARRA - AmeriCorps	321	321
	Total AmeriCorps	9,088	
94.007	Program Development and Innovation Grants	62	7
94.009	Training and Technical Assistance	156	53
<b>Total - Corporation for National and Community Service</b>		<b>\$10,394</b>	<b>\$9,824</b>
95.001	High Intensity Drug Trafficking Areas Program	2,944	
<b>Total - Executive Office of the President</b>		<b>\$2,944</b>	<b>\$0</b>
96.001	Social Security - Disability Insurance	111,750	
<b>Total - Social Security Administration</b>		<b>\$111,750</b>	<b>\$0</b>
97.001	Pilot Demonstration or Earmarked Projects	1,227	757
97.008	Non-Profit Security Program	219	219
97.012	Boating Safety Financial Assistance	2,456	
97.023	Community Assistance Program State Support Services Element	147	
97.029	Flood Mitigation Assistance	109	109
97.036	Disaster Grants - Public Assist (Presidentially Declared)	41,323	34,244
97.039	Hazard Mitigation Grant	51	(56)
97.041	National Dam Safety Program	83	



**COMMONWEALTH OF PENNSYLVANIA**

**Schedule of Expenditures of Federal Awards - June 30, 2011**

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>	<b>Passed Through to Subrecipients</b>
97.042	Emergency Management Performance Grants	10,440	4,238
97.043	State Fire Training Systems Grants	8	
97.045	Cooperating Technical Partners	66	
97.047	Pre-Disaster Mitigation	228	228
97.056	Port Security Grant Program	589	432
97.067	Homeland Security Grant Program	39,862	12,510
97.075	Rail and Transit Security Grant Program	5,491	5,093
97.078	Buffer Zone Protection Program (BZPP)	1,393	25
97.089	Driver's License Security Grant Program	837	
97.091	Homeland Security Biowatch Program	326	
97.092	Repetitive Flood Claims	2	2
97.110	Severe Repetitive Loss Program	1,095	1,095
97.111	Regional Catastrophic Preparedness Grant Program (RCPGP)	483	
97.116	ARRA - Port Security Grant Program	167	
<b>Total - U.S. Department of Homeland Security</b>		<b>\$106,602</b>	<b>\$58,896</b>
<b>GRAND TOTAL</b>		<b>\$34,389,733</b>	<b>\$7,611,160</b>

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Notes to Schedule of Expenditures of Federal Awards - June 30, 2011***

### **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 Philadelphia Regional Port Authority (PRPA), the Pennsylvania Convention Center Authority (PCCA), and the Philadelphia Shipyard Development Corporation (PSDC), which are discretely presented component units, elect to have their own single audits (when required) and their expenditures of federal awards are therefore excluded from the Commonwealth's SEFA. These six component units are required to submit their own single audit reports to the Federal Audit Clearinghouse. The PSDC and the PCCA were not required to submit a single audit for the year ended June 30, 2011 because their federal expenditures are below the requirement threshold. In addition, the Judicial Department of Pennsylvania, which is included in the Primary Government, elected to have its own single audit performed. Their federal expenditures are also excluded from the Commonwealth's SEFA.

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

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

Expenditures reported under CFDA #10.551, Supplemental Nutrition Assistance Program (SNAP), represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' purchases under the program during the fiscal year ended June 30, 2011.

The reported expenditures for benefits under SNAP (CFDA #10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

Expenditures reported under CFDA #10.555, National School Lunch Program, CFDA #10.558, Child and Adult Care Food Program, CFDA #10.559, Summer Food Service Program, CFDA #10.565, Commodity Supplemental Food Program, and CFDA #10.569, Emergency Food Assistance Program, include the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service commodity price list in effect as of November 15, 2009.

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 Shelter Grants Program, and CFDA #14.239, Home Investment Partnerships Program, represent funds drawn directly from the Housing and Urban Development (HUD) Integrated Disbursement and Information System (IDIS) by subrecipients of the Commonwealth.

Expenditures for CFDA #20.205, Highway Planning and Construction, CFDA #20.219, Recreational Trails Program, CFDA #20.515, State Planning and Research, CFDA #20.604, Safety Incentive Grants for Use of Seatbelts, CFDA #20.605, Incentives to Prevent Operation by Intoxicated Persons, CFDA #23.003, Appalachian Development Highway System, and CFDA #23.009, Appalachian Local Development District Assistance are presented on the basis that

# COMMONWEALTH OF PENNSYLVANIA

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## *Notes to Schedule of Expenditures of Federal Awards - June 30, 2011*

expenditures are reported to the U.S. Department of Transportation. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

Amounts reported as expenditures for CFDA #39.003, Donation of Federal Surplus Personal Property, represent the General Services Administration's average fair market value percentage of 23.3 percent of the federal government's original acquisition cost (OAC) of the federal property transferred to recipients by the Commonwealth through September 30, 2010. As of October 1, 2010, the fair market value percentage became 23.68 percent.

Expenditures for CFDA #84.410, Education Jobs Fund, are the result of Pennsylvania House Bill No. 915 (Session of 2011, Printers No. 978), which reduced Basic Education Funding and replaced it with Education Jobs Funding.

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

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

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

### **Note C: Categorization of Expenditures**

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants that were active during the fiscal year ended June 30, 2011. 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	\$3,299,903
Federal UC Benefits	4,353,823
Federal Admin.	236,301
Total Expenditures	<u>\$7,890,027</u>

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# Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2011

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### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

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

Noncompliance material to financial statements noted?   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   no

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

Disclaimer of opinion for the following major programs:

Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556 and #10.559)  
Child and Adult Care Food Program (CFDA #10.558)  
TANF Cluster (CFDA #93.558 and #93.714)  
CCDF Cluster (CFDA #93.575, #93.596 and #93.713)  
Social Services Block Grant (CFDA #93.667)

Qualified for noncompliance in the following major programs:

SNAP Cluster (CFDA #10.551 and #10.561)  
Special Supplemental Nutrition Program for WIC (CFDA #10.557)  
Community Development Block Grants/State Administered CDBG Cluster (CFDA #14.228 and 14.255)  
WIA Cluster (CFDA #17.258, #17.259, #17.260 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)  
Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)  
State Energy Program (CFDA #81.041)  
Weatherization Assistance for Low-Income Persons (CFDA #81.042)  
Title I, Part A Cluster (CFDA #84.010 and 84.389)  
Special Education Cluster (IDEA) (CFDA #84.027, #84.173, #84.391 and #84.392)  
Vocational Rehabilitation Cluster (CFDA #84.126 and #84.390)  
Improving Teacher Quality State Grants (CFDA #84.367)  
State Fiscal Stabilization Fund Cluster (CFDA #84.394 and #84.397)

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2011

Aging Cluster (CFDA #93.044, #93.045, #93.053, #93.705 and #93.707)  
 Child Support Enforcement (CFDA #93.563)  
 Low-Income Home Energy Assistance (CFDA #93.568)  
 Foster Care Title IV-E (CFDA #93.658)  
 Adoption Assistance (CFDA #93.659)  
 Children's Health Insurance Program (CFDA #93.767)  
 Medicaid Cluster (CFDA #93.720, #93.775, #93.777, and #93.778)  
 Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)

Unqualified for the following major programs:

National Guard Military Operations and Maintenance Projects (CFDA #12.401)  
 Unemployment Insurance (CFDA #17.225)  
 Education Jobs Fund (CFDA #84.410)  
 Immunization Cluster (CFDA #93.268 and #93.712)  
 Social Security – Disability Insurance (CFDA #96.001)

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

### Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.551 and 10.561	SNAP Cluster (A)	\$ 2,756,706
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	426,736
10.557	Special Supplemental Nutrition Program for WIC	208,174
10.558	Child and Adult Care Food Program	90,725
12.401	National Guard Military Operations and Maintenance Projects (A)	51,918
14.228 and 14.255	Community Development Block Grants/State Administered CDBG Cluster (A)	68,816
17.225	Unemployment Insurance (A)	7,890,027
17.258, 17.259, 17.260 and 17.278	WIA Cluster (A)	131,734
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster (A)	1,548,662
66.458	Capitalization Grants for Clean Water State Revolving Funds (A)	94,680
66.468	Capitalization Grants for Drinking Water State Revolving Funds (A)	64,048
81.041	State Energy Program (A)	51,943
81.042	Weatherization Assistance for Low-Income Persons (A)	87,179
84.010 and 84.389	Title I, Part A Cluster (A)	789,653
84.027, 84.173, 84.391 and 84.392	Special Education Cluster (IDEA) (A)	630,088
84.126 and 84.390	Vocational Rehabilitation Cluster (A)	137,514
84.367	Improving Teacher Quality State Grants	122,241

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2011

84.394 and 84.397	State Fiscal Stabilization Fund Cluster (A)	918,661
84.410	Education Jobs Fund	387,816
93.044, 93.045, 93.053, 93.705 and 93.707	Aging Cluster (A)	58,109
93.268 and 93.712	Immunization Cluster (A)	86,761
93.558 and 93.714	TANF Cluster (A)	585,862
93.563	Child Support Enforcement (A)	158,168
93.568	Low-Income Home Energy Assistance	295,210
93.575, 93.596 and 93.713	CCDF Cluster (A)	365,020
93.658	Foster Care Title IV-E (A)	215,206
93.659	Adoption Assistance (A)	103,629
93.667	Social Services Block Grant	98,816
93.767	Children's Health Insurance Program	279,889
93.720, 93.775, 93.777 and 93.778	Medicaid Cluster (A)	14,262,393
93.959	Block Grants for Prevention and Treatment of Substance Abuse	59,262
96.001	Social Security – Disability Insurance	<u>111,750</u>
	Total Federal Expenditures – Major Programs	<u><u>\$33,137,396</u></u>

(A) = ARRA Funds included

Dollar threshold used to distinguish between  
Type A and Type B programs (000s):

\$51,585

Auditee qualified as low-risk auditee?

    yes

  X  no



# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Findings - June 30, 2011

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
11-01*	Lack of Documentation to Support Contracting and Procurement (Prior Year Finding #10-14)	OB DGS	56	314
11-02*	Internal Control Weaknesses in Processing Property Tax/Rent Rebate Claims	DOR	58	314
11-03**	Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the Basic Financial Statements (Prior Year Finding #10-04)	OB PennDOT	61	315
11-04*	Internal Control Weaknesses Resulting in Overpayments of Unemployment Compensation Benefits	L&I	63	315
11-05*	Internal Control Deficiencies Over Financial Reporting in the Preparation of the Basic Financial Statements	OB	68	316
11-06*	General Computer Controls in the PA Department of Treasury Need Improvement (Prior Year Finding #10-13)	Treasury	71	317
11-07*	Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (Prior Year Findings #10-12 and #10-16)	OA – IES OB	74	318
11-08*	General Computer Controls in Various Commonwealth Agencies Need Improvement (Prior Year Finding #10-11)	OB OA	78	320
11-09*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (Prior Year Finding #10-15)	OB	98	336

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

### Finding 11 – 01:

#### Office of the Budget Department of General Services

#### Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Finding #10-14)

**Condition:** We acknowledge that over the years, management has improved its transparency and provided auditors with documentation that it previously would not have. Moreover, we are encouraged by the actions of management to correct certain deficiencies identified in past audit findings. However, auditors and management continue to be in disagreement with regard to the disclosure of names of proposal evaluation committee members involved in the awarding of Commonwealth procurement contracts. Specifically, management declined to provide the aforementioned names by redacting them from evaluation scoring sheets provided to the auditors. This on-going decision to withhold committee members' names precluded the auditors from determining whether proper controls are in place to prevent potential conflicts of interest, fraud, abuse or other inappropriate activity from occurring during the contract procurement process.

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

#### 12. Evaluation Committee.

- a. Performs final technical submittal evaluations after discussions/best and final offers have been completed/received (i.e. score sheets).

**Cause:** Management maintains that the identity of evaluation committee members is considered confidential information that auditors are not entitled to review. Management also maintains that these documents are not within the scope of a financial statement audit.

**Effect:** By declining to provide the requested documentation, management has hindered the Department of the Auditor General from performing duties required of it by Pennsylvania's Constitution and by Pennsylvania law. The Constitution provides that "all departments, boards, commissions, agencies, instrumentalities, authorities and institutions of the Commonwealth shall be subject to audits made in accordance with generally accepted auditing standards." (Article VIII, Section 10) The Fiscal Code directs the Department of the Auditor General "to make all audits of transactions after their occurrence, which may be necessary, in connection with the administration of the financial affairs of the government of this Commonwealth..." (72 P.S. § 402) We do not believe that the invocation of confidentiality supersedes these constitutional and statutory directives.

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts mentioned above. More specifically, we could not verify that management's controls in place to prevent conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process were operating effectively.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 01: (continued)**

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

**Agency Response:** The Commonwealth advocates that the policy to maintain strict confidentiality of evaluation committee member names serves as an internal control that reduces the risk of improper external influences on evaluation committee members and strengthens the overall procurement process.

The current Commonwealth policy enables the auditors to initiate requests to the Department of General Services to interview individual evaluation committee members if they identify compelling reasons to do so within the scope of their procurement audit testing. We believe our current policy specific to evaluation committee members is reasonable given the balance necessary to minimize the risk of external influences on evaluation committee members; ensure willing participation of evaluation committee members in the Commonwealth's procurement process; and also ensure the auditors have access to necessary documentation. The importance of evaluation committee member confidentiality is demonstrated in the Commonwealth's Right to Know Law. In accordance with Act 3 of 2008, §708 – Exceptions for public records, (b)(26), the "identity of members, notes and other records of agency proposal evaluation committees established under 62 Pa. §513 (relating to competitive sealed proposals)" are exempt from requestors access.

The Commonwealth also recognizes the importance of internal controls related to conflicts of interest within the procurement process and has a longstanding policy of requiring evaluation committee members to review/acknowledge and sign an RFP Evaluation Committee Certification of Confidentiality and No Conflict of Interest Form (Procurement Handbook 11/10, Pt. II, Chpt.7). These forms are reviewed by the agency coordinators and referred to the Department of General Services' Office of Chief Counsel Legal Purchasing Unit if there are any questions or disclosures by the evaluation committee members.

In an effort to facilitate a solution to the audit issue surrounding disclosure of evaluation committee member names, the Commonwealth initiated discussions with the auditors during the spring of 2011 and we plan to continue with an ongoing dialogue to discuss potential compromises to alleviate this audit issue. We recognize the importance of audit staff's ability to properly test our internal controls and want to work cooperatively to ensure audit staff understands our desire to provide each Commonwealth employee who agrees to serve as a committee member the opportunity to evaluate procurements candidly without the risk of external influences.

**Auditors' Conclusion:** The Office of the Auditor General has been provided with confidential information since the office's inception. We do not believe the Right to Know Law as cited by the agency response applies to records sought by the Commonwealth's Auditor General in the conduct of official audits. To selectively prohibit access to information in the course of an official audit prohibits the public from having an independent conclusion as to whether the Commonwealth is indeed operating according to the laws, regulations, and policies it is required to follow. Moreover, while we appreciate management's concerns relevant to improper external influences, our auditors are unable to confirm or deny the existence of improper external influences within the procurement process without committee members' names.

Nevertheless, we are encouraged by management's cooperation and willingness to continue ongoing dialogue to discuss potential compromises to alleviate this audit issue and look forward to an agreeable resolution.

**The 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, 2011

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### Finding 11 – 02:

#### Department of Revenue

##### Internal Control Weaknesses in Processing Property Tax/Rent Rebate Claims

**Condition:** The Department of Revenue’s Bureau of Individual Taxes (DOR) administers the Property Tax/Rent Rebate (PTRR) program which resulted in an accrued liability of \$284 million at the current fiscal year end. The PTRR program was developed to financially assist older Pennsylvanians, who meet certain income requirements, to pay their property taxes and/or rent expenses. The amount of PTRR paid is based on a combination of the claimant’s income and the amount of property taxes and/or rent paid during the preceding year. To request a rebate, claimants must submit to the DOR a PTRR claim form, known as a PA-1000, along with documentation to prove their eligibility, support income, and taxes and/or rent paid. DOR has various methods for validating claimant information, including utilizing tax examiners to review the information submitted by the claimant. DOR has procedures for reviewing claims to include ensuring claim information is fully supported and that the claim is accurate for payment.

We tested 35 PTRR claims reviewed by tax examiners for the calendar year 2010 and found that tax examiners inaccurately processed four claims. Of the four, three claims were processed using inaccurate income amounts and one claim had a mathematical error that was not detected. These four errors collectively resulted in over payments totaling \$320, out of the \$12,430 in payments tested.

**Criteria:** Strong internal controls should ensure that PTRR claims are fully supported, paid for the correct amount and paid to eligible claimants only.

Under Part C of the Property Tax Rent Rebate Procedures, related to total income of claimants, DOR requires personnel to ensure that all items of income are reported and documentation provided, even if not taxable or reported for Federal or Pennsylvania Income Tax Purposes. Examples of reportable income include, but are not limited to, salaries, wages, bonuses and commissions, value of an inheritance, self-employment or partnership income, gross Social Security including payment to Medicare, interest, dividends, etc.

The PA-1000 instructs homeowners that they must provide photocopies of certain real estate documents, as proof of property tax paid. Acceptable documentation includes real estate tax bills that have been marked “paid” by the tax collector, a year-end mortgage statement showing the amount of real estate taxes paid, a letter signed by the tax collector certifying that the homeowner paid real estate taxes, or a receipted copy of the homeowner’s tax billing from the owners’ association or corporation.

Renters submitting a PA-1000 must provide a Rent Certificate for each place rented during the year, which must be completed and signed by the respective landlord. In the absence of a landlord’s signature, a renter must complete and submit the Rent Certificate and a notarized Occupancy Affidavit that is below the Rent Certificate. Renters may also provide rent receipts signed by the renter’s landlord or his/her agent for each month for which the renter is claiming a rebate; receipts must show the renter’s name and rental address, the amount of rent paid, and the period for which the renter paid the rent.

Part D of the PA-1000 requires the claimant’s signature, attesting to the accuracy of the information contained on the form. A claimant’s signature also authorizes DOR to access specific state and federal records relevant to the claimant. The form states, “This access [by the Pennsylvania Department of Revenue] is for verifying the truth, correctness and completeness of the information reported in the claim.”

**Cause:** DOR’s tax examiners failed to follow established procedures for reviewing PTRR claims. Additionally, a lack of adequate supervisory review and oversight failed to detect these errors.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 02: (continued)

**Effect:** PTRR rebates were paid for incorrect amounts or to ineligible claimants. Inaccurate payments are drawn from the Lottery Fund, a fund designated to alleviate financial hardship and provide financial assistance to older Pennsylvanians through various programs. Consequently, the inaccurate payment of monies from the Lottery Fund has the potential to jeopardize the reliability of financial assistance intended to aid senior citizens.

**Recommendation:** We recommend that DOR ensure tax examiners are fully knowledgeable of claim review procedures. In addition, DOR needs to ensure that adequate supervision and oversight exists over the processing of PTRR claims.

**Agency Response:** All of the subject matters identified in the recently completed GAAP audit have been addressed with the staff responsible for the item. In addition, the subject matter of these items will be addressed in our future training sessions conducted for new tax examiners (TEs) and will also be included in our yearly Property Tax/Rent Rebate (PTRR) update training for all TEs.

Supervisory staff performed quality control (QC) reviews of 6 percent of randomly selected, suspended claims that were examined by our TE staff in 2011. The QC reviews are performed before the claim is in an approved for payment status. As part of the QC review process, identified errors are corrected and discussed with the applicable employee to help avoid their reoccurrence and to identify any areas for which additional training is needed. Through the above measures, the Department feels that adequate supervisory review and oversight of the PTRR claims review process is being provided.

The Department is considering additional testing procedures and documentation requirements that may further reduce the inaccurate payment of claims.

Our specific response to one of the conditions in the audit finding is shown below:

#### #3 – DLN# 10700055XXXX

**AG OPINION** --- The claimant's rebate was not issued upon initial review because DOR was waiting on the 2010 paid tax bills to be submitted by the claimant. During the initial review of the claim, the TE failed to include \$4,517 of additional income that was not reported by the claimant. While the rebate was not issued, the TE should have adjusted the claim at that time to include the additional income. Upon receipt of the paid tax bills, the rebate was processed for \$650, but was eligible for only \$500 based on the additional income that should have been reported on the claim. Therefore, the claim was incorrectly processed resulting in an overpayment of \$150.

**DOR Response:** The original PTRR claim was processed based on the information submitted with the claim and a rebate of \$650 was approved on August 16, 2011. (Please note the PTRR TEs do not review (manually cross match) all PTRR claims against PIT information. There is an automated cross match of PTRR and PIT information that is handled by our computer system. This is done on an ongoing basis (both before and after claims are paid) since the timing for submission of either PIT or PTRR information can vary.)

On August 20, 2011, the claim in question suspended for the 3030 suspension (automated cross match described above) and the \$650 rebate was removed from payment voucher pending status. On September 29, 2011, the application was re-reviewed, the TE adjusted (increased) the income and reduced the rebate to \$500.

After we received the AG audit sample in October, but before the rebate check was issued, DOR staff again reviewed the application to prepare the necessary information being requested for the audit. At that time, DOR staff noticed that the tax bills submitted by the claimant were for 2011, not for 2010. The check was immediately pulled from payment and re-deposited. Thereafter, we requested and received the correct (2010) year tax bills. The \$500 rebate was subsequently issued.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2011***

### **Finding 11 – 02: (continued)**

**Auditors' Conclusion:** We are pleased that DOR is considering additional testing procedures and documentation requirements that may reduce the inaccurate payments of claims and we acknowledge DOR's willingness to implement action to correct internal control weaknesses identified during the audit. We will evaluate the progress of any corrective actions in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 03:**

#### **Office of the Budget – Bureau of Financial Management Pennsylvania Department of Transportation**

##### **Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the Basic Financial Statements (A Similar Condition Was Noted in Prior Year Finding #10-04)**

**Condition:** We noted for the fifth year in a row that there were no established agency-wide procedures at PennDOT to properly monitor highway and bridge replacement activity and its impact on infrastructure amounts in the basic financial statements (BFS). Total highway and bridge construction activity for the year ended June 30, 2011 was \$22.8 billion and \$10.1 billion, respectively. Although our test work disclosed no material replacement activity, in the event material replacement activity would occur, the Commonwealth lacks adequate procedures to monitor, detect, and account for them.

**Criteria:** The GASB Statement No. 34 Implementation Guide, “Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” requires removed and replaced highway and bridge infrastructure assets to be subtracted from infrastructure balances in the basic financial statements (BFS). The GASB Statement No. 34 Implementation Guide, “Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” (Question 41) requires capitalization of projects that extend the useful life and serviceability of a capital asset such as infrastructure. In these cases, the cost of a replaced highway or bridge asset and its associated depreciation should be removed from the infrastructure balances in the BFS.

**Cause:** GASB Statement No. 34 required the retroactive capitalization of infrastructure assets back to 1980. In year one of the Commonwealth’s GASB 34 implementation (SFYE June 30, 2002), PennDOT’s Comptroller Office and the Office of the Budget’s Bureau of Financial Management made the determination that initially given the replacement cycle of highways and bridges in Pennsylvania, the impact of replacements would be insignificant to the BFS and decided not to implement procedures to review infrastructure assets that were removed and replaced. However, the risk of material replacement activity occurring and having an impact on the BFS increases as the asset balances of highways and bridges increase. We consider this lack of procedures an internal control weakness over financial reporting.

PennDOT Finance has been working with department engineers, BFM, and other states to develop an effective method to translate historical materials consumed data into a workable form to write off replaced assets. The process was not completed during our audit period, therefore, there continues to be no formal procedures in place to write off removed and replaced infrastructure assets.

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

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

**PennDOT’s and OB - BFM’s Response:** PennDOT and OB – BFM are continuing to work together to identify, estimate and quantify replacement activity since 1980 and are working on several schemas to estimate the historic cost of highway/bridge infrastructure assets which may have been replaced. Also, BFM is soliciting assistance from neighboring and other states to learn more about their capitalization policies and their methods used to identify and quantify the cost of highway/bridge infrastructure assets that have been replaced.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2011***

### **Finding 11 – 03: (continued)**

**Auditors' Conclusion:** We are encouraged that PennDOT and OB - BFM are working jointly to develop a system to monitor, assess and report the impact of highway and bridge replacement activity. We will review the status of corrective actions in the subsequent audit period.

**The 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, 2011

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### Finding 11 – 04:

#### Department of Labor and Industry

##### Internal Control Weaknesses Resulting in Overpayments of Unemployment Compensation Benefits

**Condition:** To apply for unemployment compensation (UC) benefits, a claimant fills out an application online, calls a UC Service Center or downloads a paper application and mails it to one of eight UC Service Centers. Staff at the UC Service Centers process the applications accordingly and determine claimant eligibility as needed for applications that have issues on them, such as a separation issue, pension, etc. The claimant's financial eligibility is also determined. If needed, staff investigate any issues where there are missing wages, etc. to arrive at a proper financial determination. A financial determination is generated to all claimants informing the claimant of their financial eligibility along with the amount of benefits that the claimant will receive and the number of weeks the benefits will be provided. Benefits are paid via debit card or direct deposit. To continue benefits, claimants are required to either file online or via the Departments IVR system on a bi-weekly basis. Any weeks, that the system determines there may be an issue, are flagged for review by UC Service Center staff. In all of the above situations, claimants are informed and instructed to certify that all the information they provided is correct and complete. They must acknowledge that false statements are punishable by law. A person who knowingly makes a false statement or knowingly withholds information to obtain UC benefits is committing a criminal offense and may be subject to fine, imprisonment, restitution and loss of future benefits.

To monitor UC claims processed by the service center, the Department of Labor and Industry (L&I) employs staff from various offices to determine the accuracy of the benefits paid. L&I has the Benefit Accuracy Measurement (BAM) Unit, which is charged with auditing a sample of UC claims in order to determine the accuracy of UC benefit payments. This internal control function is a requirement of each state unemployment agency by the United States Department of Labor and Industry (USDOL). BAM is a valuable program designed to identify the UI Program's processing trends that cause erroneous UI benefit payments or denials. L&I uses the BAM Unit findings on an ongoing basis to help identify problems, suggest corrective actions and monitor those corrective actions. The BAM Unit found internal control weaknesses in benefit payment processing resulting in an overpayment rate of 11.4 percent during our audit period. The results also indicated that in some instances the overpayments were the result of potential fraud. The UC benefit payment population tested by the BAM Unit during our audit totaled over \$3.3 billion of the \$7.4 billion in total payments. Based on the gross error rate of 11.4 percent, the projected overpayment during the audit period totaled approximately \$376 million. However, errors detected by the BAM Unit are subsequently investigated for follow-up and final determination. If the determination validates that a collectible overpayment exists, a receivable is recorded on the UC system which initiates collection procedures.

In addition to the BAM Unit, L&I also performs other post-payment audit monitoring procedures to identify overpayments, such as data matches. The data matches are performed to identify changes in claimant employment and/or income status. However, due to the time lag of this data, these match procedures are not performed until after the actual benefits have been paid. Collectible overpayments resulting from data matches were also properly recorded as a receivable in the UC system.

**Criteria:** A well-designed system of internal controls dictates that benefit payments are issued to eligible claimants for the correct amounts and overpayments would be prevented prior to payment. Additionally, adequate monitoring and oversight procedures are necessary to ensure overpayments, as well as potentially fraudulent and abusive activities, are detected.

**Cause:** According to the BAM Unit, the majority of the errors were related to either incorrect benefit year earning issues or separation issues (reason for leaving employment) resulting mainly from incorrect information being provided by the claimant.

Also, management indicated that the service centers process a large volume of transactions and are required to process them in a timely manner. As a result, management indicated that the service centers are limited with respect to their ability to monitor and evaluate ongoing claimant employment and income activity.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 04: (continued)**

Management indicated that L&I has been working with the USDOL on an ongoing basis to develop procedures to strengthen controls over benefit processing in order to reduce overpayment rates. L&I is currently in the process of developing controls to improve UC benefit payments, which are outlined annually in a report submitted to USDOL called State Quality Service Plan (SQSP) narrative.

**Effect:** L&I is overpaying claimants UC benefits. Additionally, there is the potential for misstatements in the Commonwealth's basic financial statements due to overpayments of UC benefits if the system of internal control is not functioning effectively.

**Recommendation:** L&I should strengthen controls over the service centers issuing UC benefit payments to ensure that payments are accurate and complete. Additionally, L&I should continue to enhance their monitoring techniques by maximizing various data matches, continued system enhancements and other initiatives being developed with the USDOL in the SQSP narrative.

**Agency Response:** Upon reviewing the Auditor General's Office Finding 11-04, June 30, 2011, the Office of UC Benefits (OUCB) has prepared the following response:

This Auditor General's Finding generally discusses that internal control weaknesses may have caused overpayments in Pennsylvania during this period, but does not specifically identify the many actions that the OUCB has been taking, and is continuing to take, to help prevent, detect and recover such improper benefit payments and ensure their accuracy.

Recognizing the increase in overpayments, OUCB has been taking the initiative to improve UC processes in PA, both on our own and in partnering with the U.S. Department of Labor (DOL). Benefit Accuracy Measurement (BAM) identifies the extent to which UC benefit payments are being made in accordance with law and policy, and also helps to detect both error and fraud in the UC program. The comprehensive data being provided by BAM during its detailed examinations of PA's UC processes and procedures is being used by OUCB to assess the accuracy of PA's UC payments, identify errors and their causes, and help correct and track solutions for these problems. Additionally, during 2011, in response to DOL's call for all states to join in bringing down the national 11.2 percent UI improper payment rate, OUCB established a State UI Integrity Task Force that has developed, and is continuing to implement, a tangible and measurable state action plan to address the root causes of improper payments, identify and recommend processes, procedure and other improvements to detect and prevent employer and claimant fraud, and reduce, establish and collect benefit overpayments. The State Strategic Plan developed by PA's UI Integrity Task Force has already identified approximately 40 new short, mid range, and long-term initiatives, and is continuing to engage all staff in the continuation of this effort, as well as work with DOL and other states to implement other best practices that may otherwise be identified.

The nature of the UC process dictates that OUCB take a UC claim based on the claimant's statement and process it accordingly. In addition, we must follow federal requirements regarding the timeliness of payments. OUCB currently has various processes in place to prevent and detect any overpayments due to claimants misrepresenting facts when they file their claims, and we continually strive to improve our system. However, there will be instances where payments will be issued due to incorrect or intentional misinformation being provided by claimants, employers, or internal errors. Information is provided below on processes in place to detect overpayments after benefits are paid.

As a matter of information, over the past several years, PA has seen a significant influx in the number of claims being filed and benefits being paid. Also, in addition to this, we have never had the three programs - UC, EUC, and EB - in effect at the same time. These programs have been up and running for several years now. EUC has had several tiers added to it over the years. Claimants have never been potentially able to receive as many benefit weeks as they have been while these programs have been in place. In order to help us manage this volume of claims, we have continually hired additional staff. We have also created Designated Overpayment Teams (DOTS) within the past few months to aid us in addressing the overpayments.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 04: (continued)

BAM is a valuable program for identifying the department's UI Program processing trends that cause erroneous UI benefit payments or denials. As such, BAM representatives have been included as part of Pennsylvania's UI Integrity Task Force team. OUCB currently uses the findings in Pennsylvania's BAM data on an ongoing basis to help identify problems, suggest corrective actions and monitor those corrective actions. Additionally, the outcome of specific cases reviewed by BAM are regularly being shared with field staff to improve their benefit payment control performance. However, OUCB is using many other methods to identify and control improper benefit payments. Other overpayment detection tools used by OUCB are:

- **SSA Crossmatch** - We crossmatch all initial claims through the Social Security Administration to verify the individuals' identities to aid in the prevention of fraudulently filed claims. In addition, we are working on replacing our current computer system. This project is referred to as our UC Management System (UCMS). As part of this project, we will be adding additional crossmatches to the initial claim process to further enhance our ability to detect improperly filed initial claims.
- **UC-756A (Intrastate)** - A quarterly crossmatch of claimants with Checkwriting and Pennsylvania Wage Record files using the Model Crossmatch system. The objective is to identify claimants living in Pennsylvania who have collected benefits and are working at the same time.
- **UC-756A (Interstate)** - A quarterly crossmatch of claimants with Checkwriting and out-of-state wage files using the Model Crossmatch system and ICON system. The objective is to identify claimants living in another state who have collected Pennsylvania benefits and are working at the same time.
- **UC-756A (Border)** - A quarterly crossmatch of claimants with Checkwriting and both Pennsylvania and out-of-state wage files using the Model Crossmatch system and ICON system. The objective is to identify claimants living on the borders of Pennsylvania who have collected Pennsylvania benefits and are working in a surrounding state and Pennsylvania at the same time.
- **State Directory of New Hires** - A daily crossmatch with the State Directory of New Hires and Checkwriting files to identify claimants who have continued to collect benefits after having been hired.
- **National Directory of New Hires (NDNH)** - A weekly crossmatch with the National Directory of New Hires and Checkwriting files to identify claimants who continued to collect benefits after having been hired by out-of-state or Federal employers.

NOTE: Based on recently enacted federal UI Integrity legislation, this review will be expanded in April 2012 to also address all re-hires.

- **State Department of Corrections** - A crossmatch with the State Department of Corrections to identify claimants or other individuals who have continued to file for benefits while the claimant was incarcerated in a state prison.
- **JNET** - A supplemental budget request was approved and computer programming has begun to develop a method to provide information on claimants who have been arrested. Manual follow-up would be needed to determine if the claimant was incarcerated in a county prison. Because of system compatibility issues, this is not yet in place.
- **PennDOT Address Updates** - A quarterly crossmatch with PennDOT files to obtain updated addresses for returned fault billing statements and nonfault reminder letters. Returned statements and letters are scanned by Department of Revenue to build a file, which is then used to match against PennDOT records. If PennDOT has a more recent address than OUCB, the address is changed on OUCB files. If not, the bad addresses are run against New Hire information. If good addresses are not obtained from New Hires, the file is then run against PA and out-of-state wage information to obtain recent employer addresses so that UC-348 letters can be sent to employers requesting updated claimants' addresses.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 04: (continued)**

- **Cancelled Claim Crossmatch** - A quarterly crossmatch with the Checkwriting file to identify claims where the claim has been cancelled, the weeks have not been transferred and an overpayment has not been established.
- **Multiple Claimants at a Single Address** - A quarterly crossmatch with OUCB payment files to identify claimants who have or had the same address and/or same employer and similar application for benefits dates. This is a result of a supplemental budget request, which modified an earlier program to identify multiple claimants.
- **Audit Alert Crossmatch** - A crossmatch between the Wage Record file and claims filed to identify claims filed for previously supplied Social Security numbers. Used by Benefit Payment Control to establish overpayments on the record for individuals involved in fraud/identity theft cases where the overpayment could not previously be established due to computer system limitations. Also used by the Continued Claims Unit to identify claimants for whom a Child Support or Bankruptcy attachment order has been received from the courts.
- **Alien Verification System** - Involves manual access to a database to verify the work authorization of aliens.
- **Decedent Crossmatch** - A monthly crossmatch conducted by the Internal Audits Division between the Checkwriting files and the Bureau of Vital Statistics History File. The purpose is to detect claims being filed under a deceased individual's Social Security number. If the deceased individual has an outstanding overpayment, procedures are initiated to recover the overpayment from the claimant's estate.

Additionally, all staff receives training on the accurate application of PA UC Law, Regulation and policy, and on methods for ensuring the review and correct and prompt processing of all UC claims.

If claimants do not provide accurate information when filing their claims, OUCB must rely on the post-payment crossmatches to detect any issues.

OUCB has strived to maintain a well-designed system of internal controls that always issues benefit payments to eligible claimants for the correct amounts and prevents overpayments prior to payment. However, it recognizes that such a system still cannot absolutely assure that this occurs in all circumstances. Pennsylvania's system is designed to ask all necessary questions to gather the needed information to determine eligibility and detect any potential issues. OUCB does inform claimants strongly that they must provide accurate and complete information when filing their claims. Based on information being provided by claimants when filing, OUCB's system will detect any issues IF the claimant does not misrepresent or omit information. If the claimant does not truthfully respond to our questions, we rely on information provided by the employer, fraud reports, crossmatches, etc. As previously mentioned, we are currently in the process of designing a new UC system (UCMS). This new system will allow us to detect any misrepresentation or the omission of information from claimants sooner to aid in reducing any incorrect payments.

USDOL has required OUCB to participate in a national UI Integrity task force initiative in order to prevent and reduce the improper overpayment rate in Pennsylvania and nationally. OUCB has been participating in this task force since June 2011. We have created a State Strategic Plan as part of this effort, and are continuing to meet regularly to identify and implement new and improved methods to prevent and reduce our overpayments.

Additionally, the Department of Labor & Industry has created a new Office of Integrity to address related issues and ensure adequate integrity department wide. The secretary of Labor & Industry has also directed all staff to concentrate our efforts on preventing, detecting and reducing overpayments, and has asked all staff to become involved in identifying new ideas to accomplish this.

Our department's UC system functions to detect any issues when the claim is filed. If the claimant misrepresents, omits or falsifies information, we follow up to detect these situations accordingly via crossmatches, employer mailings, etc. If such a situation is detected, we then establish an overpayment as needed. This triggers additional processes to correct accounting steps associated with UC benefit payments, such as employer charges, etc.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2011***

### **Finding 11 – 04: (continued)**

As previously mentioned above, OUCB has been making the prevention and detection of overpayments a top priority. Many process improvements have already been made. To name a few, we have enhanced our NDNH crossmatch, created DOTs in the UC Service Centers to concentrate on writing overpayments, and are participating in the federal Treasury Offset Program (TOP) to apply claimants' federal tax refunds towards their overpayments to aid in our overpayment recovery.

**Auditors' Conclusion:** We acknowledge L&I's previously communicated post-payment procedures that were put in place to identify and recoup UC overpayments. However, while L&I focused its response on actions undertaken after it issued inaccurate payments, our finding centered on the identified weaknesses with the prior-to-payment eligibility determination procedures, which allowed projected overpayments to claimants during the audit period. Therefore, we reiterate that L&I must strengthen certain controls and enhance its monitoring techniques. We will determine the extent of corrective action during a subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 05:

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

##### Internal Control Deficiencies Over Financial Reporting in the Preparation of the Basic Financial Statements

**Condition:** The preparation of the Commonwealth’s basic financial statements requires the selection and application of accounting principles that are in conformity with generally accepted accounting principles (GAAP). We identified several areas in the current year where the presentation of the financial information was not in accordance with GAAP (observations made in the prior year were all cleared by management in the current year Comprehensive Annual Financial Report), including the following:

- The Bureau of Financial Management (BFM) classified \$1,842 million of the Capital Facilities fund balance as committed which resulted in an unassigned deficit fund balance of \$1,862 million. The BFM revised the presentation in the issued basic financial statements but plans to perform additional research to determine if alternative reporting presentations are permissible should a similar situation arise in the future.
- BFM classified \$673 million and \$756 million of net assets as restricted for general government operation in the Government-Wide Statement of Net Assets and Governmental Funds Balance Sheet, respectively, related to federal programs within the General Fund. Based on auditor inquiry, management determined that there was not sufficient support to classify these amounts as restricted net assets and restricted fund balance and proposed an entry to reclassify the amounts to unrestricted net assets and unassigned fund balance. This reclassification entry was included on the auditors’ summary of uncorrected audit differences.
- The Unemployment Compensation Fund reported a liability of \$3,848 million as “Due to other governments” at June 30, 2011. This liability included \$73 million of interest accrued on the outstanding borrowing. BFM incorrectly reported the interest expense as a component of “Cost of sales and services” on the Statement of Revenues, Expenses and Changes in Fund Net Assets rather than as interest expense, a non-operating expense. The presentation was not corrected in the issued basic financial statements and a reclassification entry was included on the auditors’ summary of uncorrected audit differences.
- Assets acquired and constructed by the Commonwealth were reported by the Pennsylvania Convention Center Authority (PCCA) under a lease and operating agreement entered into in April 2010 for the period ended June 30, 2010. These assets were also reported on the financial statements of the Commonwealth at June 30, 2010. For the fiscal year ended June 30, 2010, PCCA was a component unit of the City of Philadelphia. Based on information obtained subsequent to the fiscal year ended June 30, 2010, the PCCA was reported as a component unit of the Commonwealth for the fiscal year ended June 30, 2011. Of the total of \$574 million in assets (assets under construction and land), the Commonwealth retired \$446 million related to assets under construction in the issued June 30, 2011 basic financial statements and the PCCA reported the building and improvement assets. The Commonwealth continued to report the land asset of \$128 million which has been included on the auditors’ summary of uncorrected audit differences.

##### **Criteria:**

- Paragraph #10 of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, notes that “Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.” However, the response to Question Z.54.11, which adds implementation guidance related to paragraph #10 states that, “Fund balance should be classified as committed only if the government commits existing resources, rather than future revenues, to satisfy the contractual obligation (to the extent the obligation is not recognized as a fund liability).”

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 05: (continued)

- Paragraph #8 of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, notes that “pursuant to the definition of *restricted* in paragraph #34 of Statement 34, as amended by Statement No. 46, *Net Assets Restricted by Enabling Legislation*, should be reported as *restricted fund balance*. Fund balance should be reported as restricted when constraints placed on the use of resources are either: (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) Imposed by law through constitutional provisions or enabling legislation.”
- Governmental Accounting Standards Board Codification Section 1800.122 states that “The proprietary fund statement of revenues, expenses, and changes in fund net assets should distinguish between operating and non-operating revenues and expenses, as discussed in Section P80, beginning in [paragraph .115](#). Proprietary fund revenues should be reported by major sources, and expenses should be classified in essentially the same manner as similar business organizations or activities, unless that classification conflicts with or contradicts GASB pronouncements, as discussed in Section P80. Such classification is appropriate in view of the nature of these funds, and facilitates comparison of their operating results with those of like organizations in both the public and private sectors. Further, widely accepted account classifications are available for several types of enterprise and other commercial-type activities.”
- Based upon the terms and conditions stated in the PCCA operating agreement, the risk and ownership of the Pennsylvania Convention Center has been effectively transferred through a lessor (Commonwealth)/lessee (the Authority) relationship and title transfers at the end of the lease to the City of Philadelphia. In accordance with GASB 34 Q&A, “Generally, holding title to an asset equates to ownership, and the entity that holds title should report the asset in its financial statements. However, the facts and circumstances of the situation should be considered. There may be instances in which title is held by one entity, yet some rights of ownership are held by another entity. For example, the lessee reports assets under a capital lease although the lessor holds title.”

**Cause:** BFM personnel responsible for the preparation and review of the Commonwealth’s GAAP templates that drive the completion of the Comprehensive Annual Financial Report (CAFR) had a different interpretation of accounting and reporting guidance, or the effect of newly implemented accounting policies, as noted above. The Commonwealth employs a conversion process to GAAP only at fiscal year end for certain accruals that are not part of the monthly closing, reconciliation and reporting cycle. Additionally, while the financial reporting team appropriately utilized legal counsel to interpret various agreements they did not fully document their analysis of the accounting impact of such legal interpretations and conclusions.

**Effect:** Future significant reclassifications or misstatements may occur if controls are not strengthened and significant improper classifications could impact the presentation of the financial statements.

**Recommendation:** We recommend that BFM enhance its review procedures when implementing new accounting policies/practices or changes to existing accounting policies/practices. Additionally, training of the template preparers should include more emphasis on the accounting principles behind what is being done in addition to the necessary steps to complete the templates.

**Office of the Budget, Bureau of Financial Management Response:** We believe that the two conditions related to GASB Statement No. 54, named above in **Criteria**, resulted from our interpretation and implementation of GASB Statement No. 54. One of our goals was to uniformly and consistently apply the standard to all 70 individual governmental funds as of June 30, 2011. We prepared a detailed GASB Statement No. 54 implementation plan which had been provided and reviewed by the auditors. While the auditors were in agreement with our overall implementation plan, the first observation resulted from a unique situation addressed in the GASB Implementation Guide which was not specifically addressed in our implementation plan. The second observation resulted from coding errors of revenues and expenses within our SAP “ledger” accounting which resulted in the misclassification noted and we will change the financial reporting treatment in the second condition as of and for the fiscal year ending June 30, 2012.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2011***

### **Finding 11 – 05: (continued)**

Historically, unless the Unemployment Compensation Fund owes interest to the Federal government, our Enterprise Funds do not report any interest expense. As the accrual of interest to the Federal government only commenced during the latter part of the fiscal year and the amount represented less than two percent of reported Cost of Sales Expense this reclassification was inadvertently overlooked by the template preparer and reviewer.

For the fourth condition, we agree that for the convention center facility expansion both the PA Convention Center Authority (PCCA) and the Commonwealth reported the assets under construction as of and through June 30, 2010. However, as provided in the **Condition** above, we did retire the convention center facility expansion during the fiscal year ended June 30, 2011 (amounting to \$446 million) upon discussion with the auditors for the Commonwealth and for the PCCA. Our financial reporting treatment of the convention center facility expansion land (\$128 million) as of June 30, 2011 was based on titled ownership of the land being held with the Commonwealth. The PCCA itself did not financially report the convention center facility expansion land as of its fiscal year ended June 30, 2011.

**Auditors' Conclusion:** We acknowledge and agree with management's response.

**The 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, 2011***

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### **Finding 11 – 06:**

#### **Department of Treasury**

##### **General Computer Controls in the PA Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding #10-13)**

**Condition:** Our review of general computer controls at the Department of Treasury (Treasury) during the fiscal year ended June 30, 2011 disclosed the following internal control deficiencies that need to be addressed by Treasury management:

The following deficiencies relate to the mainframe, which hosts the Treasury Automated Bookkeeping System (TABS) and Active Directory (network):

1. Mainframe passwords for the TABS system are automatically assigned when a new user is created, but users are not required to change them. Passwords are also retained by the IT department in a password spreadsheet. Additionally, the domain password settings for one domain are inadequate to provide sufficient protection. Passwords are required to have a minimum password length of six characters, but passwords are not required to meet any complexity requirements.
2. Prior to December 2010, Bureau of Human Resources and Training (HR) did not consistently notify network and application administrators via e-mail when a Treasury department employee was terminated.
3. A regular review of network users, including those with access to sensitive functions and application data, was performed; however, documentation to support the review was not retained.

The OnBase application is used for unemployment compensation card benefit payments. The system 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 following deficiencies relate to the OnBase application:

4. Prior to December 2010, HR did not consistently notify OnBase administrators when an OnBase user was terminated. Additionally, a regular review of OnBase users, including those with access to sensitive functions, was not performed prior to December 2010. Management removed inactive users in December 2010 and implemented a quarterly user access review process.
5. The manager account for the OnBase System was shared by multiple users. This reduces the ability to provide for individual accountability in the event of an error or unauthorized modification. Additionally, the default Administrator account was still active on the OnBase system, and access rights retained by the account appear excessive.
6. Written standards to establish control requirements for changes to OnBase application software were not documented prior to April 2011.
7. Documentation of successful testing results for OnBase application changes was not consistently applied for all changes. However, written standards were established in April 2011 to require testing documentation.
8. Prior to January 2011, Windows patches and updates for the OnBase server were not applied in a timely manner in accordance with the criticality of the updates.
9. The number of badges with access to the data center where the OnBase system is hosted appears to be excessive. The data center access list is being reviewed by management on a regular basis for appropriateness, and management has taken action to reduce the number of badges; however, a number of badges are issued to individuals who do not have daily responsibilities requiring data center access.
10. The password settings for the OnBase application are not required to comply with Commonwealth password policies. Passwords are required to have only a minimum password length of six characters. However, the risk is mitigated, as users must first authenticate to the network before accessing OnBase.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 06: (continued)

The following deficiency relates to all Commonwealth agencies, including the Department of Treasury:

11. We reviewed the IT controls over significant financial systems as part of our general computer controls reviews at various Commonwealth agencies for the fiscal year ended June 30, 2011. As part of our IT controls reviews, we inquired about policies and procedures relevant to end-user computing programs. End user computing programs are defined as spreadsheets, databases, and other customized programs developed to support existing applications in calculating data. We determined that in some agencies, including the Department of Treasury, financial data is processed in spreadsheets and may be used to support financial reporting. We determined that Commonwealth management has not implemented standardized policies to address IT controls related to access, change control, development, and backup of end user computing programs and supporting data. Although there are no standardized policies regarding end user computing, the auditors note that based on interviews, Treasury management asserts that access to significant spreadsheets is limited to authorized users.

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

**Cause:** Management is aware of deficiencies and system limitations related to inadequate password settings. The additional deficiencies related to mainframe and Active Directory are due to manual processes requiring HR to notify IT of employee terminations and manual review of system users. OnBase control weaknesses related to access and change control can be attributed to limited resources to implement adequate controls.

**Effect:** If general computer control areas are not improved in Treasury, computer and other department operations may not be conducted in accordance with management's intent.

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

**Agency Response:** Treasury is aware of the control weaknesses cited and has been working to resolve these issues as follows (Note: Agency response numbers correspond to the numbers in the condition of the finding.):

1. Treasury is aware of the finding related to expiration of mainframe passwords. This functionality was not intrinsic to our mainframe environment. Treasury transitioned to a server platform in September 2011 requiring password changes.
2. The Bureau of Human Resources (HR) will notify the IT Director via e-mail when a Treasury department employee is transferred or terminated. Effective December 2010.
3. Treasury's Bureau of Information Technology agrees detection controls to monitor user privileges are not employed. IT will periodically review user privileges and document these reviews.
4. The Bureau of Human Resources (HR) notifies the BUCD Director via a Personnel Transaction Form, which must be signed by the director when a Treasury department employee is transferred or terminated. A subsequent email usually follows. Effective December 2010.
5. A shared manager account exists, but is not the primary access point for the administrators. The vendor established this account for vendor upgrades and maintenance.
6. BUCD developed a change control schedule. Effective April 2011.
7. OnBase is an enterprise content management system with strong inherent internal controls. Treasury BUCD relies on the system generated documentation for successful testing changes. Effective April 2011.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 06: (continued)**

8. Windows patches and updates have been applied. Updates will occur consistent with the change control schedule. Effective January 2011.
9. 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 includes 145 Capitol Police and fire officials as required by Labor and Industry. These individuals have been established as a separate access group. This group will be reviewed and confirmed by the Department of General Services periodically. Effective December 2010.
10. Compensating password controls serve to protect the users in the OnBase application. Before accessing OnBase, a user must log on to the unique BUCD domain using both user name and an eight character alpha numeric password. The domain name must match the pre-established user account. This domain password is changed at sixty day intervals.
11. Although there are no standardized policies regarding end user computing, Treasury has a formal Information Technology Use and Security Policy included in our Policy and Procedure Manual issued December 2010. This includes policies concerning the general use and ownership of equipment, as well as the security and propriety of information. The auditors noted that based on interviews, Treasury management asserts that access to significant spreadsheets is limited to authorized users. To that end, Treasury implemented a strong password policy in August 2011 to enhance security of user information.

**Auditors' Conclusion:** We are pleased that Treasury is considering standards that ensure documentation and appropriate computer use and curtail potentially unauthorized user privileges. We acknowledge and are encouraged by Treasury's willingness to implement actions to correct computer control deficiencies identified during the audit and its actions to improve programs and operations. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 07:**

#### **Office of Administration – Integrated Enterprise System 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 Findings #10-12 and #10-16)**

**Condition:** As noted in similar findings for the past eight years since SAP was implemented, our review and testing of the Commonwealth’s automated internal controls over system access for transactions posted to the SAP accounting system again noted internal control weaknesses regarding segregation of duties in the overall SAP computer environment, as follows:

1. Multiple users with segregation of duties conflicts have the system access to develop and promote changes into the production SAP environment. There are no additional computer controls in place designed to provide effective monitoring to prevent or detect, on a timely basis, unauthorized program changes.
2. SAP functional users with potential segregation of duties conflicts were not identified by management and analyzed to comply with Management Directive 205.37, “Role Assignment, Security, and Internal Control Maintenance” dated June 13, 2005, which requires justification and additional monitoring of system activity for users with potential segregation of duties conflicts. Management Directive 205.37 recognizes that business purposes may exist to allow for SAP role conflicts. The Directive requires that appropriate documentation is maintained to justify the need for all conflicting role assignments, and requires certain levels of approval. This documentation must include safeguards developed to deter and detect errors or inappropriate transactions. This Directive also contains a critical monitoring component which was not performed during the period under audit. Management indicated in its agency response to prior year Finding #10-12 that the policy was under review, and that implementation of the SAP Governance, Risk and Compliance (GRC) tool was anticipated in 2011, which will provide comprehensive role-based access management and will facilitate the identification of users with segregation of duties conflicts.
3. Management has not conducted a complete review of individuals with access to SAP and the supporting Oracle databases to determine that access is appropriate according to job responsibilities.
4. Although management has initiated a long-term project to install and utilize SAP’s GRC tool to provide comprehensive role-based access management, the project has not yet mitigated the weaknesses noted above. Due to the current efforts underway to implement SAP GRC for access management, the auditors did not perform a full analysis of user roles in SAP to identify users with inappropriate roles or segregation of duties conflicts. However, based on our limited procedures, we determined that multiple users have user accounts that allow them to perform specific sensitive user functions that are inconsistent with their daily job responsibilities. Additionally, we determined that some users have accounts with functions that constitute a segregation of duties violation, with no compensating controls in the computer environment to prevent or detect unauthorized transactions. Specific examples include the following:

#### **Vendor Master Data Access:**

- a. Call center employees have access to add/change/delete vendor records and should not have the role based on their job responsibilities. SAP is not utilized to require a secondary review or approval for new vendors or significant changes to vendor records made by call center employees. Without system-enforced approvals, this role should be restricted to only the four Vendor Data Maintenance Unit (VDMU) manager and staff who are responsible for performing these functions on a regular and substantial basis according to Management Directive 310.26, "Vendor Data Management Unit (VDMU) for Agencies Using SAP".
- b. Three individuals retained access to maintain vendor master data following a change in job responsibilities and no longer required such access to perform their duties. Access was removed for all three individuals on June 29, 2011.

# COMMONWEALTH OF PENNSYLVANIA

## *Basic Financial Statement Findings - June 30, 2011*

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### **Finding 11 – 07: (continued)**

#### SAP GL Master Data Access:

- c. Seven of the 18 employees that had support roles for the Account Code Custodian role to maintain SAP GL master data should not have access based on their current job responsibilities. All seven were IT department employees. A load program is designed to be utilized for master data changes that require intervention from IT; therefore, IT department employees should not have individual access. We determined that 283 of the 2,929 changes to GL master data were made by IT department employees, and there is no formal monitoring in place for GL master data changes.
- d. One employee had access to maintain vendor master data (through the Vendor Custodian role) and also make changes to GL master data (through the Account Code Custodian role). This access is a violation of the role mapping rules established by the Commonwealth. The individual also had access to the BFM-Reviewer-Commonwealth-Wide Reporting role which is used to post, display, and report transactions for GL processes, generate audit reports, post audit adjustments, and other financial functions. Access was removed from the Vendor Custodian role on June 29, 2011.
- e. Fifteen IT department employees had support roles related to the BFM-Reviewer-Commonwealth-Wide-Reporting role and should not have access based on their job responsibilities.

#### Comptroller Role Access:

- f. For direct pay transactions (FB-60) entered by Comptroller's Office, an employee who enters the invoice for payment can also approve the payment resulting in a potential lack of segregation of duties in SAP. The auditors recognize that Comptroller's Office employees have this access because they receive paper invoices that are already approved from agencies, and the Comptroller's Office employees enter the payment into SAP with supporting documentation attached. However, the functionality in SAP does not prevent improper entries and does not require secondary review to ensure that the invoices were approved by the agencies.
- g. Comptroller roles were assigned to users who did not require this access based on their job responsibilities. These roles allow the users to approve invoices for payment, among other actions.
- h. There was a lack of system-enforced segregation of duties or monitoring for Advancement Account transactions. The same person can process the transaction, access the key for the check printer, and obtain the blank check stock; thereby printing the check without intervention from another individual. A compensating factor is that a supervisor is responsible for granting access to the key for the check printer. However, the supervisor does not witness the check printing process. Additionally, the department practices segregation of duties by instructing a second Bureau of Payable Services employee to print the check. However, there is no system-enforced secondary review or monitoring of the Advancement Account transactions, so the risk remains that a single individual is not systematically prohibited from processing a transaction and printing a check. We also noted that the Advancement Account Directives and Manual were not updated to reflect the current advancement account procedures.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 07: (continued)**

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

**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:

- GRC be fully implemented and utilized to restrict program migration through the use of a firefighter ID that is routinely monitored, and that programmers not be granted access to use the ID.
- GRC is completely implemented and regularly used to determine that all SAP users are granted appropriate access and to identify all users with segregation of duties violations.
- Access for all IT department employees who currently have access to perform sensitive user functions within SAP be revoked, or that a monitoring process to ensure no unauthorized transactions occurred be implemented.
- Management Directive 205.37 be followed, including the requirements to provide clear and specific documentation from management to justify all segregation of duties conflicts and to provide written evidence of regular review and monitoring of transaction activity by all users with segregation of duties conflicts.
- SAP be configured to require a secondary review of all changes by specified individuals outside of the business unit, or that a secondary review of all changes that are defined as critical or higher-impact changes be required due to the number of individuals with access to Vendor Master Data and SAP Master Data who should not have continual access to these functions.

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

Responses to Conditions 1 through 3:

1. This condition will be corrected with the full implementation of GRC.
2. This condition will be corrected with the full implementation of GRC and the re-publication and enforcement of Management Directive 205.37.
3. IES Technical Management has completed a review of individuals with access to SAP and the supporting Oracle databases and confirmed that the access is appropriate for the job responsibilities.

### **Office of the Budget Response:**

#### **Bureau of Payable Services (BPS) Response:**

Responses to specific items in Condition 4:

- a. BPS agrees with this item and is drafting a corrective action plan to address the issue. We are in the process of removing the role for the call center employees.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 07: (continued)**

- b. BPS agrees with this item and is drafting a corrective action plan to address the issue. Access was removed.
- d. BPS agrees with this item and is drafting a corrective action plan to address the issue. Access was removed.
- f. BPS disagrees with this item. Although SAP functionality allows an invoice to be entered by the Comptroller's Office our internal procedures require the invoice to be approved by the agency for those invoices outside of the Finance Transformation project.
- g. BPS agrees with this item. The Bureau of Quality Assurance is coordinating the GRC project to review all SAP roles.
- h. BPS disagrees with most of this item. Although there is not a system-enforced segregation of duties, our internal procedures provide for a separation of duties for processing a transaction and then printing the check. We are currently working on updating the Advancement Account Directive and Manual.

#### **Bureau of Financial Management (BFM)/Bureau of Quality Assurance (BOA) Response:**

BFM, BQA, and OA-Integrated Enterprise System (IES) are working together to implement role conflict software – SAP GRC Access Control. BFM agrees that the security of SAP roles and functions should be monitored in accordance with Management Directive 205.37. The Directive is currently under review.

**Auditors' Conclusion:** The deficiencies noted above are accurate as stated. Management's disagreements related to deficiencies 4f and 4h address the procedural instructions in place to compensate for the system-based weaknesses. In the auditors' finding, we also acknowledge these compensating factors that may reduce the risk associated with a lack of system-enforced segregation of duties; however, the intent of this finding is to address the weaknesses within the SAP accounting system related to potential segregation of duties conflicts and inappropriate user roles.

Regarding the items that management indicated agreement with, we will review any corrective actions in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08:**

#### **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 #10-11)**

##### **Condition:**

##### **General Computer Control Deficiencies related to SAP and multiple Commonwealth agencies:**

1. Although the objective of implementing SAP software in 2002 was to centralize all entity accounting functions, due to the size and complexity of Commonwealth agencies and operations, numerous feeder systems still exist outside of SAP that pass significant financial data to SAP. We determined that an interface listing has been created for operational purposes to identify the inputs from outside agencies into SAP; however, the interface listing is not comprehensive enough to provide an auditable listing of the applications that are transferring significant financial data into SAP, including the source application name, service providers that may be involved in processing the data, SAP transaction code (for some interfaces), or all of the SAP document types transferred through the interface. Additionally, multiple interfaces post to the same transaction code using the same document type, and the interface listing does not include details related to the SAP tables that are being populated through the interface; therefore, it is not possible to determine the source of all transactions based on SAP data. We noted improvements during this fiscal year in that most data input into SAP via interface now has an interface identifier to assist with tracking the interface through which the data was processed.
2. We also reviewed the IT controls over SAP and the significant financial systems that provide financial data to SAP as part of our general computer controls reviews at various Commonwealth agencies for the fiscal year ended June 30, 2011. As part of our IT controls reviews, we inquired about policies and procedures relevant to end-user computing programs. End-user computing programs are defined as spreadsheets, databases, and other customized programs developed to support existing applications in calculating data. We determined that in some agencies, financial data is processed in spreadsheets and other end-user computing programs and may be used to support financial reporting and ultimately enter into SAP. We determined that management has not implemented standardized policies to address IT controls related to access, change control, development, and backup of end-user computing programs and supporting data.
3. Additional control deficiencies related to AIX (the operating system for SAP production servers) were noted as follows:
  - Passwords for AIX servers do not follow guidelines outlined in Information Technology Bulletin (ITB), ITB-SEC007 and RFD-SEC007A.
  - There are no procedures in place for monitoring the access of AIX hosts utilizing root ids/passwords.
  - Policies and procedures are not in place to monitor and follow up on failed logon attempts for AIX. Reviews of failed logon attempts are performed on an ad-hoc basis.
4. The following control deficiencies relate to SAP, as well as multiple critical applications for the Department of Public Welfare, Department of Transportation, Department of Revenue, Department of Labor and Industry, and the Liquor Control Board, and were noted as a result of the SAS 70 examination of Unisys Corporation and International Business Machines Corporation, the service organization that provides managed services to the Commonwealth, including data hosting and programming support services:



# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

### Finding 11 – 08: (continued)

- The Unisys SAS 70 report covers the period December 1, 2010 through May 31, 2011. This six month period is inadequate to determine whether the controls over the data hosting and support for critical Commonwealth servers and applications were operating effectively throughout the entire audit period. Additionally, the SAP hosting and support services were migrated to Unisys during the period that was not covered (July 1, 2010 through November 30, 2010); therefore, the controls in place during this critical period were not covered by the Unisys report.
- The following operating effectiveness exceptions were also noted within the SAS 70 report. Management responses and follow-up testing performed by the service auditors are included within the SAS 70 report:

Control	Exception
When an employee needs to have their Data Center security badge renewed, they must pass a background check before their badge is renewed.	Inspected Data Center Access Card Request forms for a selection of employees with expired badges and determined that badge renewal documentation was not available for two out of three users selected.
Monthly Data Center access reviews are performed by the Unisys Security and Facility Managers to verify that individuals who have access to the Data Center require this level of access to perform their job function.	Inspected Data Center Access Reviews for a selection of months and inquired of the Project Security Manager and determined that a Data Center Access Review was not performed for one of the two months selected to verify that users with Data Center access required that level of access to perform their job function.
When an employee with badge access to the Data Center is terminated, Unisys sends a notification to the Commonwealth requesting that the badge be deactivated to remove Data Center access for the terminated employee.	Inspected termination notifications for a selection of employees that had Data Center badge access and inquired of the Project Security Manager and determined that evidence of notification to the Commonwealth was not available for five of the five employees selected.  Inspected the Data Powerhouse Access Roster and the list of terminated employees and determined that 1 of 21 terminated employees was not removed from the Data Powerhouse Access Roster after termination.
When an employee with logical access to agency systems has been terminated, the agency is notified via e-mail to deactivate employee system accounts and access on the next working day of departure.	Inspected termination notifications for a selection of terminated Unisys employees who possessed agency system access and determined termination was not communicated to the Commonwealth for one of the three users selected.

Our reviews also disclosed the following internal control deficiencies in individual agencies that need to be addressed by Commonwealth management:

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

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

#### **Bureau of Commonwealth Payroll Operations (BCPO)**

1. There were no system-based controls in place by BCPO, Bureau of Integrated Enterprise System, or Human Resources (HR), to routinely monitor employees who have access to sensitive information in the payroll system to ensure they are not performing sensitive functions (accessing or modifying sensitive payroll information) outside of their official duties.

#### **Pennsylvania Lottery (Lottery)**

1. The Back Office Application (which manages retailer licensing, and processes claims and fiscal accounting for retailers) lacks segregation of duties because two out of six administrators are also application developers. Further, one of these two developers also has the ability to promote application changes into production. Additionally, until March 2011, there were an excessive number of administrators for the Back Office application who did not require administrative access to perform their job functions. The number of administrators was reduced from 17 to six in March 2011.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
3. In the Advanced Entertainment Game Information System (AEGIS) (which manages games and retailer communications), the service auditors reported that 55 of 476 Windows domain accounts were members of the "domain administrators" group. The number of administrators was reduced to 30 in August 2011 after receipt of the report.
4. In AEGIS, the service auditors reported that passwords for two active Linux accounts out of 38 accounts had not been changed during the examination period. The password change deficiency was corrected in August 2011 after receipt of the report.

#### **Department of Labor and Industry (L&I)**

1. There is no written system development life cycle established to outline requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
3. Outside contractors have development responsibilities, as well as the ability to change the operations schedule, resulting in a lack of segregation of duties in the Unemployment Compensation (UC) System.
4. Periodic access reviews to determine the appropriateness of all users with privileged access have not been implemented in the UC mainframe environment and the Unemployment Compensation Modernization System (UCMS) client/server environment.
5. A lack of segregation of duties exists because developers (L&I personnel and contractors) can promote changes to production in UCMS.
6. A group ID is used for database administrator access to UCMS, and use of the group ID is not monitored.
7. There is no alarm system to alert of any type of physical intrusion or of any forced entry to the external steel door that accesses the first floor server room.

#### **State Workers' Insurance Fund (SWIF)**

1. A lack of segregation of duties exists because developers for the PowerComp application (workers compensation policy and claim software) also have the ability to promote a change into the production environment.
2. The implementation of program changes is not appropriately controlled or documented. Documentation of the movement of program changes to production is not maintained.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

3. Documentation is not maintained to evidence management authorization is requested and obtained prior to initiating all application changes.
4. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
5. There are no formal procedures in place if data migration is performed as a result of new/upgraded application software to perform reconciliations to ensure the data migrated successfully and accurately.
6. Hardware Against Software Piracy (HASP) security keys which allow administrative access to the Onbase application (imaging software) were unaccounted for, and the report documenting the inventory of all HASPs was inaccurate.
7. The Freedom Financial application (general ledger and financial reporting software) has an excessive number of administrators and privileged users. All users with access to the application have both administrative and privileged access.
8. Password requirements for the PowerComp, Freedom Financial, and Iworks (investment portfolio software) applications are not configured to enforce adequate complexity settings, i.e., inadequate settings for minimum length, password complexity, password expiration, and user lockout after multiple failed login attempts.
9. In order to access application functionality, users are not required to authenticate using a unique user ID and password for the PowerComp and Freedom Financial applications.
10. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented for the Freedom Financial and Onbase software.
11. Password requirements for the Simplex software (which controls door access in the Scranton State Office Building) are not configured to enforce adequate complexity settings. Furthermore, a unique user ID and password is not utilized to access the software, and an excessive number (8) of individuals have administrative access to the software.
12. There is no written system development life cycle established to outline requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software.

### **Department of Transportation (PennDOT)**

1. During the audit period, periodic access reviews to determine the appropriateness of users with privileged access were not implemented in the following applications: Engineering and Construction Management System (ECMS) - processes engineering and construction project activity, Driver License & Control (DL&C) - database and system of all licensed drivers and identification card holders, and Commonwealth Automated Registration and Titling System (CARATS) - records Motor License fund vehicle revenue and motor vehicle sales tax transactions. After the audit period, PennDOT implemented periodic access reviews for these applications.
2. During the audit period, user accounts for the dotGrants application (web product to release grant funds) were not required to comply with Commonwealth password policies. Passwords were not configured to require character complexity, and a minimum length was not set. Additionally, there was no lockout threshold for unsuccessful attempts. Management corrected the configuration after the audit period.
3. User accounts for the Multi-Modal Project Management System (MPMS) – used to code construction project activity, ECMS, DL&C and CARATS applications are not required to comply with Commonwealth password policies. Minimum length for password is six characters. Management could not provide an approved waiver to the IT Bulletin concerning why minimum password requirements for these applications are not implemented.
4. Documentation is not retained to show that terminated users are removed in a timely manner in the dotGrants application.

### **Department of Public Welfare (DPW)**

The following control deficiencies are related to DPW's internal IT general controls:

1. A regular review of user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access, was not performed by management to verify that access rights are

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

### Finding 11 – 08: (continued)

appropriate and segregation of duties conflicts do not exist. A new policy was issued in May 2011 to require an annual review of user IDs; however, a review was not completed prior to June 30, 2011.

2. A daily ADI and Server Error Report is used to track and monitor job failures involving DPW servers. A selected report included five job failures for which no follow-up resolution was documented. The job failure resolution process was remediated in December 2010. A subsequent selection of job failures from December 2010 through June 2011 was successfully tested for follow-up resolution.
3. Shared user IDs exist within OpCon (change management software) that could be used to move changes into production for DPW-maintained applications. Additionally, there were several users identified that have access to move a change into production; however, this access is not appropriate based on the users' job responsibilities.
4. Mainframe user accounts for the Client Information System (CIS) application are not required to comply with Commonwealth password policies. Passwords are not configured to require lockout after invalid attempts, character complexity, or to restrict the use of unauthorized passwords.

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

5. JP Morgan Treasury Services:

The following control deficiencies related to Electronic Benefits Transfer (EBT) were noted as a result of the Service Organization Controls (SOC 1/SSAE 16) examination of JP Morgan Treasury Services, the service organization that provides EBT services to DPW:

Control	Exception
Access to systems is amended or revoked after internal transfer, when appropriate, based on defined criteria and notifications.	For the period July 1, 2010 through June 30, 2011, one of 50 user accounts sampled inappropriately retained application access subsequent to the user's internal transfer.  <i>Operating System Access - TSS Transfers</i> For the period July 1, 2010 through June 30, 2011, automated notification and reporting of TSS transfers to appropriate management were in place and functioning; however, manual processes related to the review of these reports were not consistently performed to ensure access to operating systems was being amended or revoked, when appropriate.  <i>Operating System Access - GTI Transfers</i> For the period July 1, 2010 through June 30, 2011, one of 25 transferred GTI users sampled was not subsequently reviewed by management to determine whether their operating system access should be amended or revoked. The sampled user transferred on April 2, 2011, and was subsequently terminated on June 1, 2011, at which time the access was removed.

6. Hewlett Packard:

The following control deficiencies related to Title XIX, Medicaid, transaction processing were noted as a result of the Service Organization Controls (SOC 1/SSAE 16) examination of Hewlett Packard, the service organization that provides processing transactions on behalf of the Commonwealth for the Title XIX, Medicaid,

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

### Finding 11 – 08: (continued)

claims processing services for DPW. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
Users are required to enter a valid user ID and password when logging into Windows, Sun Solaris, and Oracle. Password settings are enabled and enforced in each environment.	Password complexity was not enabled for the Sun Solaris environment until June 30, 2011. Password history was not enabled for the period.
For a user to access the Root ID in the Sun Solaris environment, the user must switch user (SU). SU activity is logged and reviewed by System Administrators.	The SU logs were not sent to the System Administrator for review until May 18, 2011.
Oracle and UNIX access is reviewed periodically for appropriateness.	The Oracle and UNIX access reviews were not documented until the 2 <sup>nd</sup> quarter of 2011.

The last two deficiencies in the list above resulted in the following opinion qualification:

“HP states in its description that it has controls in place to monitor SU activity in the UNIX environment and to periodically review UNIX/Oracle users. However, as noted in Section IV; 1) the daily review of the SU log was not performed until May 18, 2011; and 2) the quarterly UNIX/Oracle user review was not performed until the 2<sup>nd</sup> quarter of 2011. As a result the controls were not operating effectively to achieve the control objective, “Controls provide reasonable assurance that logical access controls have been implemented and that appropriate personnel security practices have been implemented.”

7. Unisys Global Outsourcing and Infrastructure Services:

The following control deficiencies related to Title XIX, Medicaid, transaction processing were noted as a result of the Service Organization Controls (SOC 1/SSAE 16) examination of Unisys Global Outsourcing and Infrastructure Services, a subservice organization of Hewlett Packard that is contracted to provide transaction processing for Medicaid pharmacy rebates on behalf of the Commonwealth. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
Access to administrative functions is restricted to authorized individuals.	Local server administrators were granted database administration access through the default database configuration. Local server administrators do not require database administration access.
Application changes are tested in a testing environment prior to implementation into production.	A log of PRIMS changes was not maintained prior to December 2010; therefore, a population of changes could not be identified. <i>(Note: PRIMS is the Promise Drug Rebate application that is used for processing rebates.)</i>  Two (2) of the five (5) PRIMS changes reviewed, which occurred after December 2010, did not contain evidence of testing.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

### Finding 11 – 08: (continued)

Control	Exception
ClearQuest is used to track the progress of application and system software changes.	A log of PRIMS changes was not maintained prior to December 2010; therefore, a population of changes could not be identified.
Access to update production code is restricted to authorized individuals.	Local server administrators were granted production database update access through the default database configuration. Local server administrators do not require production database access.  A segregation of duties between PRIMS application developers and production controls is not maintained.  A process has not been implemented to monitor production code libraries for unauthorized changes.

The deficiencies in the list above, as well as the service auditor's opinion regarding Unisys' claim import/reconciliation process, resulted in the following opinion qualifications: "Unisys states in its description that it routinely imports pharmacy claim and encounter data processed and provided by Hewlett-Packard into the drug rebate system, PRIMS, for further processing. The procedures followed during the import process did not include reconciling the data imported to control reports. As a result, the controls were not suitably designed to achieve the control objective, "Controls provide reasonable assurance that rebate invoices to pharmaceutical companies are complete and accurate, and are calculated in accordance with contract terms."

Unisys states in its description that it makes changes in the application programs to correct deficiencies, to enhance capabilities, or to comply with amended regulation. Prior to December 2010, a process had not been implemented by Unisys to record and track implemented application programs changes. Beginning in December 2010 a system was implemented to record and track implementation program changes. As a result, the controls were not suitably designed for the period July 1, 2010 to December 1, 2010 to achieve the control objective, "Controls provide reasonable assurance that changes to application software are appropriately authorized, tested, approved, properly implemented, and documented."

Unisys states in its description that it makes changes in the application programs to correct deficiencies, to enhance capabilities, or to comply with amended regulations. Unisys did not consistently implement controls as follows: 1) a segregation of duties between the application program developers and application production control was not implemented; 2) no detailed production environment monitoring was performed; and 3) production approvals for changes were not documented and retained. As a result, the controls were not suitably designed to achieve the control objective, "Controls provide reasonable assurance that changes to application software are appropriately authorized, tested, approved, properly implemented, and documented."

Unisys states in its description that it makes changes in the application programs to correct deficiencies, to enhance capabilities, or to comply with amended regulations. Unisys did not consistently document and retain testing of changes from July 1, 2010 to June 30, 2011. As a result, the controls were not operating effectively to achieve the control objective, "Controls provide reasonable assurance that changes to application software are appropriately authorized, tested, approved, properly implemented, and documented."

### Department of Health (DOH)

1. Segregation of duties is not enforced between development and implementation into production for system software changes to CORE (central system).
2. The password settings for the CORE system are not required to comply with Commonwealth password policies. Passwords are not configured to enforce password history or invalid password lockout threshold.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

3. Requests for access to the Women Infants and Children (WIC) application are not required to be submitted in writing. Documentation related to new user access is not consistently applied. Additionally, access to the WIC application at the remote QuickWIC offices is managed at the remote office level by the QuickWIC security officers, and procedures for adding remote users and formally documenting requests for access are not consistently applied.
4. The number of badges with access to the data center appears to be excessive. The data center access list is being reviewed by management on a regular basis for appropriateness, and management has taken action to reduce the number of badges; however, a number of badges are issued to individuals who do not have daily responsibilities requiring data center access.

### **Department of Education (PDE)**

1. End-users in the Division of Subsidy and Data Administration use Microsoft Excel to calculate the allocation of the Basic Education Funding (BEF) Subsidy, as well as the bimonthly payment amounts made to each Local Educational Agency (LEA). Although certain spreadsheets in this process are password-protected, passwords are not changed and maintained in accordance with ITB-SEC007, and the payment files are not password-protected. Further, policies and procedures have not been established for IT general controls over access to programs and data, program changes, program development and computer operations for this significant end-user application.
2. Servers at PDE have machine-level administrator accounts which are accessed by several employees using a shared password. While use of these accounts is logged, the logs do not identify which employee used the account.
3. PDE contracted with the vendor, eScholar, to develop Pennsylvania Information Management System (PIMS). PIMS is designed to collect student data from the Local Educational Agencies and will eventually completely replace the Child Accounting Data (CAD) system. During our limited review of controls over this new system, PDE was unable to provide documentation that eScholar maintains segregation of duties between employees who can develop programs and employees who promote programs to production.

### **Department of Revenue (DOR)**

1. A lack of segregation of duties exists because programmers (18 in the client server environment and 10 in the mainframe environment) have been granted privileged access to promote changes to production, where various tax applications are managed. Programmers can also promote changes to production in the computing environment used to scan and transmit images of invoices received by the Commonwealth. Additionally, group user IDs have the ability to promote changes to production in the client/server environment.
2. Password requirements for the SoftTrac application (software used to scan invoices for the Commonwealth), are not configured to enforce adequate complexity settings or to comply with ITB-SEC007, as follows:
  - There is no minimum password length.
  - Passwords are not required to be alphanumeric or contain special characters.
  - Passwords do not expire.
  - Accounts are not locked out after five invalid attempts.
3. Password requirements for the Electronic Tax Information and Data Exchange System (E-Tides), an internet tax return filing system, are not configured to enforce adequate complexity settings or to comply with ITB-SEC007, as follows:
  - Minimum password length is five characters.
  - Passwords are not required to be alphanumeric or contain special characters.
  - Passwords do not expire.
  - Accounts are not locked out after five invalid attempts.

Additionally, passwords for the International Fuels Tax Agreement (IFTA) application (which processes fuel taxes) and the Cigarette Tax application are the same as the assigned user IDs which never change.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

4. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the client/server environment and the computing environment used to scan and transmit images of invoices received by the Commonwealth.
5. There is no documentation maintained to evidence timely resolution of processing failures and failed backups in the client/server environment and the computing environment used to scan and transmit invoice images.
6. All 487 employees with access to the Brookwood Street imaging facility also have access to the SoftTrac imaging equipment and the servers on which the Formware application (used to review and process the scanned images) resides. However, we recognize that the configuration of the building and location of the emergency exits requires all employees to have access to the room where the imaging equipment and servers are located.
7. The number of user IDs with privileged access (i.e., the ability to add, change, or delete user IDs, edit data directly, or make configuration changes) for the Cigarette Tax (153) and E-Tides (40) applications appears to be excessive. Additionally, both applications had privileged group IDs (1 for E-Tides, 2 for Cigarette Tax) that were not assigned to a specific individual.
8. Administrators access the SoftTrac invoice imaging application using a group userID that is not password-protected.
9. We noted an excessive amount (117) of group IDs with privileged access to the Formware application that is used to process images of invoices received by the Commonwealth.

### **Liquor Control Board (LCB)**

#### **Information Business Management System (IBMS) – formerly known as Oracle**

1. A lack of segregation of duties exists because database administrators with rights to promote changes into production also perform application technology support in IBMS.
2. LCB personnel identified that changes to IBMS are deployed using group userIDs that do not identify personnel performing tasks. Additionally, the password for these accounts cannot be changed and user activity is not tracked or logged.
3. A number of contractors have privileged access in IBMS (i.e., the ability to add, change or delete userIDs, edit data directly, or make configuration changes), and LCB has no policies or procedures in place to monitor the contractors' use of these powerful attributes.
4. Individuals accessing the IBMS Retail Management System (RMS) cannot change their own passwords.

#### **Warehouse Management System**

5. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process in the warehouse management system.

#### **Multiple Environments**

6. Although LCB has installed locked server cages in most of its stores and one of its warehouses, the project to install locked server cages at all locations was not completed as of June 30, 2011. Therefore, until corrective action is complete, physical access controls are lacking over the Warehouse Management System and the Legacy Point of Sale System.
7. User accounts for the warehouse management application, the legacy point of sale system and IBMS are not required to comply with Commonwealth password policies. Passwords were not configured to require adequate character complexity, minimum length, expiration, and lockout threshold for unsuccessful attempts in accordance with ITB-SEC007.
8. During the audit period, LCB did not perform periodic access reviews of privileged users of IBMS or the Legacy Point of Sale System. After the audit period, LCB implemented a periodic access review in IBMS.
9. Monitoring of user activity for access violations for the legacy point of sale and warehouse management systems is not conducted.
10. LCB was unable to produce system-generated evidence of a segregation of duties between application developers and those who can promote changes into production in the Legacy Point of Sale system.



# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 08: (continued)

11. LCB did not perform documented router and firewall configuration reviews periodically, documented internal scans, or internal penetration testing. Further, TELNET is enabled on certain servers.
12. LCB did not have formal configuration standards addressing insecure services, default accounts, common security parameters, or hardening requirements for all servers, firewalls, switches and database software.
13. LCB did not deploy secure encryption key management in all areas of the organization.
14. LCB did not retain evidence that security patches were applied, that all code changes were reviewed, tested and approved, and that segregations between development and production were maintained in all server environments.
15. Information security policies are not in place in the Legacy POS and eCommerce environments. There is no policy requiring a process to review and remove stored data that exceeds business retention requirements. In addition, there are no policies that prohibit the copying, moving, or storing of sensitive data onto local hard drives and removable electronic media.

**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.

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

Regarding the IT general control deficiencies at various agencies listed above, management has addressed some of the general computer control deficiencies noted in prior years; however, due to system limitations, upgrade needs, or limited staffing, some of the deficiencies persist. Regarding the segregation of duties deficiencies concerning personnel with the ability to develop programs and move programs to the production environments, there is no overall Commonwealth policy (i.e., IT Bulletin) to provide guidance in this area. 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. 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. Management's contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date; however, reliance on manual compensating internal controls becomes increasingly problematic as the Commonwealth experiences personnel changes and/or procedural changes that reduce the effectiveness or eliminate the manual controls. Also, the Commonwealth has demonstrated its intention to rely more on computer controls and less on manual controls as evidenced by the Finance Transformation initiative, which in part, automated the invoice approval process. Further, Commonwealth management has communicated its intentions to rely more on the capabilities and stability of the SAP Enterprise Resource Planning implementation.

**Recommendation:** We recommend that Commonwealth management update and maintain a current diagram of SAP and its interfaces that will assist the auditors in identifying the source applications that originate data flowing into SAP, and provide a clear view of the SAP data (document types and tables) that are populated through each interface. We also recommend that Commonwealth management continue to review the various general computer control deficiencies noted above and take the necessary actions to resolve them.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

#### **Office of Administration (OA) Response:**

1. The Office of Administration agrees with this finding listed under General Computer Control Deficiencies.
2. The Office of Administration agrees with the finding listed under General Computer Control Deficiencies.
3. The Office of Administration agrees with the finding listed under General Computer Control Deficiencies.
4. The Office of Administration agrees with the finding listed under General Computer Control Deficiencies.

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

#### **Bureau of Commonwealth Payroll Operations (BCPO) Response:**

1. We agree there are no system-based controls in place to monitor employees who have access to sensitive information in the payroll system to ensure they are not performing sensitive functions outside their official duties. However, we have implemented mitigating controls including quarterly review of payroll payments generated by BCPO staff, monthly review to identify discrepancies in travel payments, and quarterly review of staff payments made through FI.

#### **Pennsylvania Lottery (Lottery) Response:**

1. Lottery agrees with the finding. In March 2011, the additional excessive number of administrators was reduced from 17 to 6 but according to the auditors this was not sufficient since it was late during the GAAP audit period. The Lottery explained that we only received our findings late in the year so we couldn't address the problem before March. According to the AG office this should be resolved during the next GAAP Audit. December 20, 2011 – Per Auditor's recommendation WASADMN privilege was removed from KSARNOW user Profile on Past 6 and Past 7.
2. Lottery agrees with the finding. On 12 December 20, 2011, all servers had monitoring scripts installed on them. Work was completed. Per the December 20, 2011 GAAP audit exit conference, according to the Auditors, this finding has been resolved.
3. Lottery agrees with the finding. The number of administrators was reduced to 30 after receipt of the report.
4. Lottery agrees with the finding. The password change deficiency was corrected in August 2011 after receipt of the report.

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

1. At this time L&I does not have a standard policy/procedure defined for this weakness. It is expected that a team from the L&I OIT Bureaus of Architecture and Application Development will be coordinating the formalization of this document.
2. Due to the expected retiring of the legacy mainframe system for the UC application, and limitations of the current Change Control product utilized for it, this weakness will not be addressed for this system.
3. Due to staff shortages within the UC division with the ongoing development of the Modernization system, these are currently the only staff working with the legacy system. This weakness will also be remediated upon retirement of the legacy system.
4. Reviews were completed as requested in the previous year's audit, but there appears to have been confusion revolving around what specific roles were expected to be reviewed. After discussions with the Auditor General, we will be implementing a review of the additional user administration roles alongside the business areas access roles in the coming year.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 08: (continued)

5. This weakness is acknowledged.
6. This weakness is acknowledged.
7. Physical security of the building falls outside of OIT's overall control. The building is owned and maintained by DGS, and any alarm system and appropriate responses for them will require coordination with that Department. We can investigate potential solutions, but will be unable to remediate this weakness without their cooperation.

### **State Workers' Insurance Fund (SWIF) Response:**

1. The lack of segregation of duties currently exists due to the vacant Database Administrator position assigned to support the SWIF program area. In order to provide the appropriate database maintenance and production support, it was necessary for us to contract with the Vendor to allocate a portion of their resources to augment the L&I Bureau of Enterprise Architecture DBA staff. Due to intellectual property constraints with the PowerComp system, this work could not be done by any other vendor.

The other segregation of duties issue existed due to the vacant Data Analyst 2 position created with the promotion of this resource to an Application Developer 1. This position was filled in early December 2011 and we are currently completing training for the new resource and have initiated requests terminating the access for the AD1. In response to these findings, OIT will look at how to restrict access while still being able to provide the necessary support, such that should there be continuation or recurrence of a vacant position, procedures will be in place to segregate duties to the extent possible and provide for documented tracking of the work being performed.

2. In November of 2011, a procedure change was implemented in that the *Go/No-go* verbal approvals for implementation of a PowerComp release are now documented in the meeting minutes.
3. See response to item 2 above.
4. L&I OIT implemented changes to the Enterprise Tivoli Alert system in November 2011, which will notify L&I OIT if unauthorized changes have been made to the production environment.
5. A workgroup will be formed which will include the OIT Standards Committee so that the details of this item can be documented and a determination can be made as to how this should be appropriately addressed. The output of the workgroup will be documented procedures. OIT will work with the SWIF management as appropriate.
6. In December of 2011, a manual process was developed for control of these HASPS. This includes a quarterly physical inventory of each item. We are currently working to enter these physical assets into our Remedy system which is used for physical hardware asset tracking. This will relate a hardware asset with a specific user.
7. SWIF is planning on having the latest upgrade of the Freedom software installed sometime after they complete the 2011 Annual Statement (first quarter of 2012). This version of the software contains password security functionality that can be customized by the Administrator. As part of the upgrade process, SWIF will be assigning an Administrator and backup Administrator for this application.
8. In order to gain access to the PowerComp system, a user has to use their CWOPA account to log into a particular machine. This is the primary mode of authentication. As noted in #7, SWIF is planning on upgrading to the most current version of the Freedom Financial software during the first quarter of 2012. This

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

version of the software contains password security functionality which includes password complexity, length, expiration, and user lockout. These can all be configured by the Administrator. SWIF has already changed the configuration for the Iworks application to enable user lockout after 3 failed login attempts. There is also a minimum length configured in the application for the password.

9. The primary mode of authentication is the user logon to the hardware; their machine. The secondary mode of authentication for PowerComp is the PowerComp login. If a user is unable to authenticate to their machine using the primary mode of authentication, then they will not be able to access PowerComp. As noted in #7 above, SWIF is planning on upgrading to the most current version of the Freedom Financial software during the first quarter of 2012. As part of the upgrade process, SWIF will be assigning unique user IDs and passwords to staff who require access to this application.
10. SWIF will work on a procedure for periodic access reviews for the Freedom Financial application as part of the planned upgrade noted in #7 above. SWIF is currently working on drafting a procedure to address periodic access reviews for the Onbase application and anticipates this will be in place by end of the 1st quarter of 2012.
11. Password formats have been changed to follow the CWOPA rules; unique IDs and passwords have been instituted for all users; the 8 users that have administrative access are Operations staff who work different shifts and different days. This was set up this way to ensure that there is always a staff person onsite who can make updates and changes to the security database.
12. The system development life cycle for PowerComp is determined by the Vendor, the software intellectual property owner. The Vendor provides system development and support services and their staff follow the Vendor's processes. There is an ongoing effort to establish an enterprise wide policy/procedure for the SDLC.

### **Department of Transportation (PennDOT) Response:**

1. The department agrees with this finding and that actions have since been taken to correct this finding.
2. The department agrees with this finding. A sole source contract with the COTS vendor, AGATE has since been signed and coding changes implemented to correct this finding.
3. The department agrees with this finding. The department is seeking to receive the appropriate waiver documents from OA.
4. The department agrees with this finding. This item remains open as actions are in-progress to correct this finding.

### **Department of Public Welfare (DPW) Response:**

The following control deficiencies are related to DPW's internal IT general controls:

1. As stated in the finding, a new policy was instituted May 17, 2011. User applications are being reviewed to ensure that staff access to DPW systems is appropriate.
2. DPW completed the corrective action for the prior year deficiency. The testing stated above was successful; therefore we have no further comments.
3. DPW upgraded its OpCons application on March 4, 2011; therefore this deficiency should not be repeated in the FY 2012 audit.
4. DPW plans to migrate the CIS mainframe over to use CWOPA and Managed domain accounts which will comply with the password policies. The project is currently in process; however it has been slowed due to budgetary constraints.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 08: (continued)

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

5. JP Morgan:

- a) JP Morgan agreed with the finding. DPW will follow-up on the corrective action plan to ensure JP Morgan completes the actions.

6. Hewlett Packard:

- a) HP has taken appropriate action and has resolved this control finding as of June, 2011. HP PROMISE™ has enabled stronger password complexity. The rules for PROMISE™ password complexity mirrors what our corporate HP password requirements are for HP employee credential passwords. Passwords now require a combination of alphabetic, numeric, and special characters to meet the account password complexity standards. These criteria include:
  - Passwords contain minimum of 1 alphabetic character
  - Passwords contain minimum of 1 numeric character
  - Passwords contain minimum of 1 special character
  - Password not contain more than 2 repeating characters
- b) HP PROMISE™ has taken action to resolve this control finding as of May, 2011. The System Administrator(s) review the SU Logs and take appropriate action is required.
- c) HP PROMISE™ has taken action to resolve this control finding as of the 2nd quarter of 2011. These reviews are now being done on a quarterly basis. HP has performed reviews consistently for the past two quarters. These are being reviewed by the Systems Manager.

7. Unisys Global Outsourcing and Infrastructure Services:

- a) A change request was initiated to remove database administration access to local server administrators. Database administration access will now be granted on an individual case-by-case basis as determined by the Unisys Drug Rebate Program Manager in accordance with business requirements.
- b) Since December 2010, Unisys and Molina (our application support vendor) have used ClearCase software configuration management software to track changes to the PRIMS application.

Unisys performed testing on all application changes. Testing related to two (2) minor application changes was not documented correctly. Unisys has implemented a new procedure to ensure that all testing is documented properly and is approved by the Program Manager.
- c) Since December 2010, Unisys and Molina have used ClearCase software configuration management software to track changes to the PRIMS application. Changes prior to that time were tracked outside of that tool.
- d) A change request was initiated to remove database administration access to local server administrators. Database administration access will now be granted on an individual case-by-case basis as determined by the Unisys Drug Rebate Program Manager in accordance with business requirements.

PRIMS support is provided by a small number of application developers that work for Molina (formerly a division of Unisys). Unisys will continue to work with Molina to develop a process that allows for sufficient segregation of duties.

Unisys will continue to work with Molina and our in-house team to monitor production code libraries for unauthorized changes.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

In addition to the items called out in the table, the auditors provided their opinion regarding Unisys' claim import/reconciliation process. HP and Unisys have addressed this via a change to the Claims Extract File and Monthly Encounters Extract File that HP provides to Unisys each month. The new files will include a trailer record that indicates the type of file (i.e. FFS or MCO) and the record count of the transactions processed. This change is effective beginning with the February 2012 files (i.e. files containing data on paid claims and encounters processed in January 2012).

#### **Department of Health (DOH) Response:**

1. DOH agrees with this finding. DOH anticipates the corrective action plan to be complete by 2/2012.
2. DOH agrees with this finding. The corrective action plan was completed in 10/2011.
3. DOH agrees with this finding. The corrective action plan was completed in FY 2010-11.
4. DOH agrees with this finding. The corrective action plan was completed in FY 2010-11.

#### **Department of Education (PDE) Response:**

1. The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management (BBFM) disagrees in part with Finding #11-08, Item #1 regarding policies and procedures. Basic Education Funding (BEF) calculation files are initially developed to support the Governor's proposal for BEF. Proposed legislation is prepared based on the parameters in the Governor's proposal. As the Governor's Office and the General Assembly negotiate the formula that is enacted in legislation, the calculation file is adjusted to reflect changes. Various staff in the Governor's Office and the General Assembly independently create calculation files. If any of these files do not match PDE's file, PDE is contacted to determine if corrections need to be made. Therefore, regarding program development, policies and procedures currently exist.

As previously reported in GAAP Audit Finding #10-11, BBFM maintains BEF calculation files in a restricted-access network folder; only select staff in the Bureau can view the contents of this folder. In addition, calculation files are password-protected; only two Bureau staff members have knowledge of the password. A document is prepared each year before allocations are finalized at the end of the fiscal year. This document includes instructions for the staff creating the allocation file as well as a table on which the Division Chief or Bureau Director independently records state totals for each of the various data elements used in the creating the allocations. This document was first created for use starting with the revised BEF allocations for 2003-2004, prepared in May 2005, and was updated into a more detailed document for use beginning with the final calculation for the 2010-2011 payable year. Although payment files were not password-protected for the year in the audit scope, files have been protected beginning with the 2011-2012 payable year and continue to be maintained within the restricted-access network folder.

2. Item #2 is accepted as written.
3. The PDE disagrees with Item #3 as written. Item #3 is inconsistent with PDE's records of PDE staff statements in IT Audit Meetings, as well as the documents provided to the IT Audit Team. Specifically, we do not agree with the statement "...PDE explained...that there is a lack of segregation of duties because [eScholar] uses the same personnel to develop/change programs and promote changes in production."

The PDE has no record of providing the auditors with documentation that eScholar did not segregate development and deployment duties.

Rather, PDE was unable to provide documentation that eScholar does maintain segregation of duties, and stated that this issue would be raised with eScholar in response to a finding.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

The PDE requests that Item #3 be revised for clarification.

#### **Department of Revenue (DOR) Response:**

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

On 01/03/2010 DOR implemented an interim solution utilizing our System Implementation Document (SID). For each change implemented in production, we require the programmer to receive management approval prior to moving the change into production. The approval is documented on the internal DOR system approval document (SID) which is stored with the project request information in the Bureau of Information System's online project request system.

DOR has contracted with Accenture to implement a SAP-based tax system solution. This integrated tax system will provide role-based functionality and access, and will provide segregation of duties once implemented. Corporation Tax is the first tax system slated to be implemented in July 2012, with other systems following later as the project progresses, ending in July 2015 with Miscellaneous Tax.

2. DOR agrees with the finding. SoftTrac is third party software that is used to administer and run IBML scanners. DOR has added passwords to the Administrator account on SoftTrac, and we are investigating what we can do to reconfigure the software to provide improved password protection. It should be noted that SoftTrac is installed on specific DOR PCs, and any user must first login into the PC with an account that meets CWOPA login/password guidelines.
3. DOR agrees with the finding. DOR will look into creating new password parameters that meet requirements for IFTA and CigTax. The ETIDES Internet filing system has a large number of public users, many of whom only access the system one time each year. DOR will examine business requirements to determine how to implement password requirements while minimizing end-user disruption.
4. DOR agrees with the finding. However, DOR implemented an access review procedure in August 2011 and has piloted the procedure with selected client/server systems. DOR intends to continue to improve and expand the periodic access review procedure.
5. DOR agrees with the finding. However, most processing failures in the Client/Server and Scanning/Imaging environments are recorded in the enterprise Remedy system, and resolution times can be determined from Remedy reports.
6. DOR agrees with the finding. In October 2011, DOR commissioned a study of the Brookwood Street data center environment to determine the potential costs and feasibility of restructuring the building layout. The study reviewed the current data center environment, and provided recommendations on reducing and eliminating risks that currently exist. As mentioned in the finding, the current layout of the data center put the emergency exits in the room where the imaging equipment and servers are located. DOR has made employee safety our top priority by providing access to all employees in event of an emergency. Additionally, DOR does not own the building, so changes will need to be done in accordance with agreement(s) with building owner. Likewise, funding will need to be budgeted and secured to proceed with any changes decided upon by DOR executive management.
7. DOR agrees with the finding. Privileged users include employees of both DOR and the PA Dept of Labor and Industry (DLI). DLI is working to implement their Unemployment Compensation modernization project, and when it is implemented we will be able to remove about half of the current number of ETIDES privileged users.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 08: (continued)**

8. DOR agrees with the finding. Passwords have now been added to the SoftTrac Administrator account.
9. DOR disagrees with the finding. The Formware system software architecture and DOR's dependency on temporary tax-season employees make this a difficult issue to resolve. DOR employs a large number of tax-season temporary employees which results in a high employee turnover rate. Many roles are defined at a group ID level and based upon job function in order to reduce the administrative burden of security configuration for specific employees. All individuals must log into the CWOPA domain with user-specific credentials, before accessing functions through an assigned group ID.

### **Liquor Control Board (PLCB) Response:**

#### Information Business Management System (IBMS) – formerly known as Oracle

1. Only database administrators have the ability to promote changes to production in IBMS. (In an Oracle application, database administrators (DBAs) also perform application technology support.) However, the DBAs use service accounts (a.k.a. "generic" accounts) with a password stored in a spreadsheet. The PLCB is unable to provide evidence of who knows this password. That is why the PLCB is taking the steps identified in #2 below.
2. A project is underway with the DPH to correct this. The DPH change request is scheduled to complete on or before February 28<sup>th</sup>. This change is already in place in 2 of the 6 DPH environments.

Only database administrators have the ability to promote changes to production in IBMS. (In an Oracle application, database administrators (DBAs) also perform application technology support.) This change provides each database administrator with their own username and password. It also disables direct login to the application service accounts (a.k.a. "generic" accounts).

Usernames and passwords for all users of the IBMS servers, including the database administrators are tied to CWOPA. Username and password authentication is done through CWOPA and so follows CWOPA password requirements.

User activity, logins/logouts, have always been tracked, however, the use of a service account makes it difficult to tie the activity back to an individual. Providing individual user accounts should make that process easier.

3. Existing policy is to review access into IBMS systems semi-annually. The security team will run a report on who has privileged access into IBMS systems. The IBMS management will review these reports to ensure that only approved users will have this privileged access. The first review occurred on August 30, 2011 and found no one on the list that should not have been. The next review is due on February 28, 2012. This review process is contained in the policy document "Granting Access to PLCB systems".doc.
4. This is correct. RMS passwords meet OA ITB-SEC007 for password complexity. The ability for users to change their RMS passwords will be researched with future upgrades to the Oracle system.

#### Warehouse Management System

5. The WMS is a COTS (Commercial Off the Shelf) proprietary software product. Coding changes can be made only by the Software owners. Once the changes are complete they are sent to PLCB to test. When testing is complete, PLCB staff move the changes into production. The Software owners & programmers, do not have access to the PLCB production environment.

PLCB issued an RFP in July 2011, to consolidate its three warehouses to a selected Contractor. That contract has not yet been awarded. It includes outsourcing the warehouse management system to the selected Contractor.



# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 08: (continued)

#### Multiple Environments

6. New POS stores installations will be completed on February 26, 2012. Stores 2298 and 2299 (Internal SLO area stores) will have new server installed in the locked computer room on second floor in PLCB Central Office. Festival Stores (temporary stores) will have equipment stored in lockable cabinets.

As of January 11, 2012, all but 3 stores have been completed. They are 5103, 5133, and 1516. These stores are scheduled to be finished by mid-February.

The Pittsburgh warehouse has been completed. Philadelphia and Scranton warehouses are scheduled to be completed the spring of 2012.

7. New POS uses CWOPA Sign-on credentials. Old POS should be completely removed from stores by June 30, 2012 (It is only being used for time and attendance information).

Access into EBS, SIM, and BI (Oracle based systems) currently do not meet ITB-SEC007. Oracle is a COTS Proprietary System where only Oracle employees can change the core code (users can only build code around the core). Password functions are a part of the core code. Oracle doing a re-engineering of the core code or system upgrades to newer versions where the re-engineering has occurred are required for us to meet this requirement. An upgrade is planned FY 12/13.

RIMS is a COTS proprietary system where only RoboCom employees can change the core code. Password functions are a part of the core code. RoboCom would have to be contracted to customize the system to meet minimum requirements.

PLCB issued an RFP in July 2011, to consolidate its three warehouses to a selected Contractor. That contract has not yet been awarded. It includes outsourcing the warehouse management system to the selected Contractor.

8. Existing policy is to review access into IBMS systems semi-annually. The security team will run a report on who has privileged access into IBMS systems. The IBMS management will review these reports to ensure that only approved users will have this privileged access. The first review occurred on August 30, 2011 and found no one on the list that should not have been. The next review is due on February 28, 2012. This review process is contained in the policy document "Granting Access to PLCB systems".doc. Additionally we are developing a policy and review process for new POS.

9. We are establishing the policy, review process and documentation for new POS.

10. The WMS is a COTS proprietary software product. Coding changes can be made only by the Software owners. We do occasionally contract with them to make changes. Once RoboCom has completed the changes at their own facility, they are sent to PLCB. PLCB places the changes in the test environment. When testing is complete, PLCB staff move the changes into production. The RoboCom Software owners & programmers do not have access to the PLCB production environment. However, we are not sure how we can produce system-generated evidence of a segregation of duties in this circumstance, since the developers never touch our instance of the system.

PLCB issued an RFP in July 2011, to consolidate its three warehouses to a selected Contractor. That contract has not yet been awarded. It includes outsourcing the warehouse management system to the selected Contractor.

PLCB is not sure how we can have system-generated evidence for this process for new POS. The POS team will need to work with the server team to try to develop something.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 08: (continued)

11. Telnet is not enabled on PLCB servers. We believe that this is a reference to the PCI auditor's finding that Telnet was enabled on the store routers and switches. Even though access to Telnet was limited by firewall rules to the network management team, its presence alone on the network devices was unacceptable to the PCI auditor. Accordingly, Telnet was removed from all routers and switches on January 8, 2012.

The DPH has always performed quarterly scans and testing on the PLCB's IBMS servers in accordance with their written practices. The OA has always performed quarterly scans and testing on the PLCB's IBMS and eCommerce servers located in the Enterprise Data Center in accordance with their written practices. The PLCB has not yet performed scans and testing on its new point-of-sale systems that were deployed in 2011.

The security team is investigating scripts and frameworks to help audit firewall rules and router configurations. OA security runs PCI vulnerability scans on <http://www.finewineandgoodspirits.com> and <http://lcbapps.lcb.state.pa.us>. The PLCB also runs scans on these sites from a qualified ASV (Backbone Security) as per PCI guidelines found in section 11.2 of the current PCI standards. PLCB servers housed within the DPH are scanned utilizing DPW's Retina scanning platform. Internal vulnerability assessments of store environments are currently in a testing phase. A sampling of stores within our network has occurred. Testing is currently ongoing in a controlled environment to ensure system stability while scanning. The PLCB scans its stores with a mixture of Nessus Professional and Nmap.

Penetration testing will commence after the initial round of vulnerability assessments have been completed. Penetration testing will initially be limited to a test environment to reduce the potential harm to a live production system. This can be expanded in the future to a larger portion of the network. A penetration tester by nature will utilize technology in ways that are not normal to be able to obtain a desired result. This way of using technology can cause harm to a production system, so testing in an appropriate environment is generally the way to go. The scope of the test will need to be approved by management before testing would commence.

12. The PLCB is creating formal server, router and switch build guides which contain hardening information. Most of our servers, routers and switches are cloned from a master template.
13. For the new POS system, the creation of the policy and sign off documentation for the payment switch has been assigned. This is targeted to be completed and implemented by the end of Feb. The LCB is currently writing a policy and determining the strategy for key management. This is a PCI requirement.
14. Processes and policies are being developed so the new POS is kept up to date and documented. As per OA ITB, the PLCB is require to patch all of its Windows servers via the OA's standard patching and reporting tools, Microsoft SCCM. OA monitors the network to find where agencies are not patching.

The PLCB's outsourced IBMS servers are patched by the DPH in accordance with DPH policies and procedures.

The PLCB's eCommerce servers located in the OA's Managed Service Lite at the Enterprise Data Center, are patched by the OA in accordance with the OA's standard patching procedures and reporting tools.

The PLCB's Change Advisory Board retains documentation that code changes have been reviewed, tested and approved.

Deployment of code and patches to production IBMS are done by the PLCB's Database Administration Team.

Patches on store equipment will be checked for patch compliance and configuration with Nessus Professional when quarterly scans of the PCI network begin. Performing vulnerability assessments on the PCI network is a PCI requirement.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2011***

### **Finding 11 – 08: (continued)**

15. OA has a number of ITBs which state the policy for security and records retention. ITB-SEC019 mandates agencies to protect data that is classified as confidential. A policy named Information Classification Policy.doc has been written describing what information the PLCB deems confidential.

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

Regarding PDE's partial disagreement with Condition #1 concerning policies and procedures for program development for the BEF subsidy application in the end-user computing environment, the policies and procedures were not provided to the auditor. Regarding PDE's disagreement with Condition #3 concerning segregation of duties for vendor employees with an ability to develop programs and promote the programs to production, we revised the wording to indicate PDE did not provide the requested documentation to evidence segregation of duties.

With regard to DOR's disagreement with Condition #9 concerning the excessive number of group IDs, we reiterate our disclosure that an excessive number of employees, regardless if they are temporary, should not have privileged access to the Formware application.

Additionally, based on PLCB's management response and the additional information provided, we have revised Condition #1 and Condition #10 to clarify the deficiencies reported.

We will review corrective actions in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 09:

#### Office of the Budget – Bureau of Payable Services

##### Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding #10-15)

**Condition:** Our test work of SAP invoice processing during the fiscal year ended June 30, 2011 disclosed the following internal control deficiencies related to one-time vendor transactions (payments that are not associated with an established vendor within SAP) that need to be addressed by Commonwealth management:

1. The Office of Comptroller Operations and Bureau of Financial Management do not actively monitor the usage of one-time vendor payments in accordance with the requirements of Management Directive 310.28, which states that they 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),” and “perform a periodic analysis of the payments posted to one-time vendor records to determine if a permanent vendor master record should be established.” The policy also states that “One-time vendor records shall be used for all payments made to vendors that are paid on a one-time basis or very infrequently and that are not established in the SAP Vendor Master Database.” Based on our audit procedures, we determined the following:
  - a. One-time vendor payments are processed either directly in SAP or through interfaces. During the fiscal year, there were 81,867 manually-entered one-time vendor payments and 1,259,897 one-time vendor payments entered through interface from another system.
  - b. Of the manually-entered one-time vendor payments, there were 1,874 vendors/payees for which there were six or more transactions during the year. The top 20 payees had more than 170 transactions each.
  - c. Of the interfaced one-time vendor payments, there were 31,264 vendors/payees for which there were six or more transactions during the year. The top 40 payees had more than 2,216 transactions each.
2. SAP is not configured to match manually-entered one-time vendor payments to an established vendor in the SAP Vendor Master Database. As a result, numerous payments were entered manually using the one-time vendor process for which payees are already established vendors. For example:
  - a. 28 of the 60 most frequently paid one-time vendors that were paid through manual entry already had established vendor IDs in SAP.
3. SAP is not configured to match one-time vendor payments received through interfaces to an established vendor in the SAP Vendor Master Database. As a result, numerous payments are made through interfaces using the one-time vendor process for which payees are already established vendors. For example:
  - a. 28 of the 40 most frequently paid one-time vendors that were paid through interface transactions already had established vendor IDs in SAP.
  - b. The payee with the highest number of one-time vendor transactions had 43,200 transactions, and a vendor ID was already established in SAP.
4. SAP does not require the entry of an original document reference for one-time vendor refund payments. The functionality in SAP allows attachments in order to provide justification for the payment; however, no justification is required. Based on a selection of vendor refund transactions, some refund payments indicated "Refund per" as the person's name or department or program for the explanation, which does not provide adequate justification or explanation for the refund. The auditors recognize that many of these transactions are entered through an interface from another system (e.g., Low Income Home Energy Assistance Program and Third Party Liability payments from

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2011

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### Finding 11 – 09: (continued)

Department of Public Welfare), and the common practice implemented for these payments is to retain the original records in the source system without linking directly to the SAP transaction. However, for audit purposes, we note that the refunds in SAP that do not have identifying information, whether a single payment or multiple payments, cannot be traced back to the original program or an original document and therefore cannot be substantiated within SAP.

5. SAP is not configured to query employee records to determine whether a one-time vendor payment (interfaced or non-interfaced) is being made to a Commonwealth employee. Additionally, management does not have a monitoring process in place to analyze payments that are made to employees to verify appropriateness. We noted instances in which one-time vendor payments were being made to employees without linking the payment to the employee ID. Of the 20 most frequently paid one-time vendors (according to the Tax Number 1 field) that were manually entered into SAP, nine appeared to be associated with names of employees for which an employee ID existed. We were unable to determine the extent of one-time vendor payments made through interfaces that were paid to employees. We acknowledge that the payments we identified appeared to be reasonable in volume; however, without proper monitoring controls and a system-based process to associate payments with employees, inappropriate transactions may occur.
6. The Office of Comptroller Operations' supervisors, without adequate documented justification, have the ability to both enter and approve a one-time vendor invoice, and the system does not require additional approval.

The auditor acknowledges that items 2, 3, 4, 5, and 6 are a result of choices made in the configuration of SAP; however, the weaknesses that result from the configuration are notable to the audit due to the system's limitations in preventing misuse of the one-time vendor transaction.

The total costs charged to one-time vendor accounts on SAP during SFYE June 30, 2011 was approximately \$163,411,000 for manual payments and approximately \$348,204,000 for interfaced payments.

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

**Cause:** No policy exists for guidance on recording vendor names and documenting explanations for one-time vendor payments in SAP. Also, users are not following the policies in Management Directive 310.28. Further, inappropriate access role assignments exist because of the Financial Transformation initiative, which resulted in the changing of positions, shifting of responsibilities, and a need for training. The formal process for establishing/maintaining vendor accounts in SAP can be an extensive and cumbersome process. Therefore, there may be legitimate business needs to make timely payments to certain businesses and individuals without going through the process of setting them up as a vendor in the master file. Without a system-based configuration that requires justification for one-time vendor payments or a system-based verification to determine whether a vendor already exists in the system, the one-time vendor transaction can be overused or inappropriately used.

**Effect:** The lack of effective one-time vendor policies (and non-compliance with existing policy) and systematic prevention within SAP increases the risk of unauthorized activity. The control deficiencies noted above clearly increase the need for additional policies and procedures, and additional monitoring, review, and documented verification of one-time vendor activities and transactions. Further, the built-in SAP functionality (and that in Treasury) to identify duplicate payments is very limited for one-time vendor accounts, making the detection of duplicate or inappropriate payments to one-time vendors more difficult. The auditors noted that control weaknesses have also resulted in a population of vendor records that is not well-controlled, including vendors with multiple Vendor Master and Tax ID numbers, multiple unblocked vendor records with the same name and address, and vendor payments being entered without a Taxpayer Identification Number (TIN) or with multiple TIN numbers. Cleaning up these records requires a significant effort, and management has begun a process to correct errors in vendor records and eliminate duplicate records.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 09: (continued)**

**Recommendation:** We recommend that Commonwealth management review the various deficiencies noted above and take the necessary actions to resolve them. Specifically, for each item noted above, we recommend that management:

- Communicate the importance of and require Commonwealth staff to comply with Management Directive 310.28. Commonwealth management should provide applicable training to all employees involved in the processing and review of one-time vendor payments, and regular reviews of all one-time vendor payments should be conducted according to the Management Directive.
- Develop and implement a procedure that continually monitors and documents compliance with the Management Directive.
- Update SAP's configuration to systematically associate manually-entered or interfaced transactions with an established vendor, if one already exists. SAP does have this capability if it is properly configured. Management should also continue efforts to clean the vendor master records to eliminate duplicate and incorrect records.
- Update SAP's configuration to require some supporting documentation or reference to source documents for each one-time vendor transaction to provide justification for all payments.
- Update SAP's configuration to query employee records to flag any one-time vendor payment (interfaced or non-interfaced) that may be sent to a Commonwealth employee.
- Implement a process to analyze one-time vendor payments to verify the appropriateness of any payments being sent to employees.
- Require a secondary review of one-time vendor invoices that are entered by Comptroller Office supervisors.

**Office of the Budget Response:** After internal discussions, it was determined that BCA should respond to item number four rather than BPS.

### **Bureau of Payable Services (BPS) Response:**

1. BPS agrees with this item and is drafting a corrective action plan to address the issue. Interface payments were designed to use a one-time payment vendor number. As new interfaces are developed or changed we are encouraging the use of SAP vendor numbers.
2. BPS agrees with this item and is drafting a corrective action plan to address the issue.
3. BPS agrees with this item and is drafting a corrective action plan to address the issue.
5. BPS agrees with this item and is drafting a corrective action plan to address the issue.
6. BPS agrees with this item and is drafting a corrective action plan to address the issue. 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.

### **Bureau of Commonwealth Accounting (BCA) Response:**

4. The Office of Comptroller Operations (OCO) does not agree with this item in that it is not applicable or feasible for all refunds. There are a number of refunds that are processed by the Revenue and Cash Management unit that are for groups of checks. Examples include, but are not limited to, LIHEAP and TPL for the Department of Welfare. These can number from 2 to 500 checks per refund. These groups of checks are not input individually into SAP as

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2011***

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### **Finding 11 – 09: (continued)**

this would create an unnecessary inefficiency, but are posted as one item per code in SAP. These refunds are posted to one-time vendor accounts since they are refunds for programs that are processed by agency system applications rather than through SAP. As a result, the name identified on the one-time vendor account reflects the program that is being refunded rather than an individual name. For these transactions, an original SAP document is not applicable and non-SAP system payment cannot be easily matched to the SAP summary VT posting, nor would it provide the detail information behind it. Relative to all refunds processed, the OCO refunds to the code where the program expenses originally posted. Where the original document is known or supporting documentation is provided, it is either referenced on the SAP posted entry or is included in the attachments linked to the SAP posted entry via DocFinity.

**Auditors' Conclusion:** The deficiencies noted above are accurate as stated. Management's disagreement related to deficiency 4 addresses the feasibility of compensating for this system configuration weakness, and does not indicate disagreement with the accuracy of the auditors' statements. As noted by BCA, the refunds in SAP that do not have identifying information, whether a single payment or multiple payments, cannot be traced back to the original program or an original document and therefore cannot be substantiated within SAP to support audit procedures. Also as noted by BCA, it is possible to attach detailed information to the SAP entries to provide the level of detail required to link the payments to an original document; however, there is no procedure in place to require this.

Regarding the items that BPS indicated agreement with, we will review any 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.**

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-PDA-01 **	93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	Pennsylvania Department of Aging Monitoring of Area Agencies on Aging Subrecipients Needs Improvement (Prior Year Finding #10-73)	MNC	ND	PDA	117	337
	93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services						
	93.053	The Nutrition Services Incentive Program						
	93.705	ARRA – Aging Home – Delivered Nutrition Services for States						
	93.707	ARRA – Aging Congregate Nutrition Services for States						
11-PDA-02 *	93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	Pennsylvania Department of Aging’s Procedures for Calculating the Allocations Under the Nutrition Services Incentive Program Grant Awards to Areas on Aging Needs Improvement	NC	None	PDA	120	337
	93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services						
	93.053	The Nutrition Services Incentive Program						
	93.705	ARRA – Aging Home – Delivered Nutrition Services for States						
	93.707	ARRA – Aging Congregate Nutrition Services for States						
11-AGRI-01 *	10.555	National School Lunch Program	Internal Control Weaknesses and Noncompliance with Recordkeeping and Reporting to Verify Commodity Receipts and Distributions	NC	ND	AGRI	122	337
	10.559	Summer Food Service Program						

NCF - No control finding

\* - 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, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-DCED-01 **	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #10-38)	MNC	ND	DCED	125	338
	14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded) (State-Administered Small Cities Program)						
11-DCED-02 *	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)	Internal Control Deficiency Over Period of Availability Requirement (Prior Year Finding #10-36)	N/A	None	DCED	128	339
11-DCED-03 **	81.042	Weatherization Assistance for Low-Income Persons (including ARRA)	Noncompliance and Internal Control Deficiencies in the Department of Community and Economic Development's Program Monitoring of Weatherization Subrecipients (Prior Year Findings #10-54 and #10-55)	MNC	ND	DCED	130	339
	93.568	Low-Income Home Energy Assistance Program						
11-DCED-04 *	81.042	Weatherization Assistance for Low-Income Persons (including ARRA)	Deficiencies in Information Technology Controls at the Department of Community and Economic Development (Prior Year Finding #10-54)	N/A	None	DCED	133	340
	93.568	Low-Income Home Energy Assistance Program						
11-OCO-01 *	17.258	WIA Adult Program (including ARRA)	Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports (Prior Year Finding #10-42)	NC	ND	OCO	135	341
	17.259	WIA Youth Activities (including ARRA)						
	17.260	WIA Dislocated Workers (including ARRA)						
	17.278	WIA Dislocated Workers Formula Grants						

NCF - No control finding

\* - 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, 2011

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11-OCO-02 *	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Inaccurate Reporting on the SF-425 Report	NC	None	OCO	137	341
	66.468	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)						
11-DOC-01 **	84.397	ARRA – State Fiscal Stabilization Fund – Government Services	Noncompliance and Weak Internal Controls Over Department of Corrections’ Payroll Leads to \$11,317 in Questioned Costs (Prior Year Finding #10-71)	MNC	\$11,317	DOC	139	342
11-PDE-01 **	10.553	School Breakfast Program	Internal Control Deficiency in Pennsylvania Department of Education Monitoring of School Food Service Accounts	MNC	ND	PDE	141	342
	10.555	National School Lunch Program						
11-PDE-02 *	10.553	School Breakfast Program	Deficiencies in Information Technology Controls Over the Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding #10-22)	N/A	None	PDE	143	342
	10.555	National School Lunch Program						
	10.556	Special Milk Program for Children						
	10.558	Child and Adult Care Food Program						
	10.559	Summer Food Service Program for Children						
	84.027	Special Education – Grants to States						
	84.173	Special Education – Preschool Grants						
	84.391	ARRA – Special Education Grants to States						
84.392	ARRA – Special Education Preschool Grants							
11-PDE-03 **	10.558	Child and Adult Care Food Program	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding #10-28)	MNC	ND	PDE OB	147	343

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NCF - No control finding

\* - Significant Deficiency

\*\* - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

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## Index to Federal Award Findings and Questioned Costs - June 30, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-PDE-04 **	10.558	Child and Adult Care Food Program	Internal Control Deficiencies in Pennsylvania Department of Education Monitoring of Child and Adult Care Food Program Subrecipients (Prior Year Finding #10-29)	MNC	ND	PDE	149	343
11-PDE-05 *	10.558	Child and Adult Care Food Program	Pennsylvania Department of Education Approved an Institution to Participate in the Child and Adult Care Food Program That Did Not Meet Eligibility Requirements	NC	\$7,639	PDE	151	344
11-PDE-06 **	84.010 84.389	Title I Grants to Local Educational Agencies ARRA – Title I Grants to Local Educational Agencies	Noncompliance and Inadequate Controls Over Pennsylvania Department of Education’s Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #10-57)	MNC	None	PDE	153	344
11-PDE-07 **	84.010 84.367 84.389	Title I Grants to Local Educational Agencies Improving Teacher Quality State Grants ARRA – Title I Grants to Local Educational Agencies	A Material Weakness Exists in Pennsylvania Department of Education’s During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality Subrecipients (Prior Year Finding #10-60)	MNC	ND	PDE	157	345
11-PDE-08 **	84.367	Improving Teacher Quality State Grants	Noncompliance and Control Deficiencies in Pennsylvania Department of Education’s Review and Approval of Improving Teacher Quality Subrecipient Applications Resulting in Questioned Costs of \$6,501,601 (Prior Year Finding #10-67)	MNC	\$6,501,601	PDE	160	345

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NCF - No control finding

\* - Significant Deficiency

\*\* - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

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<b>11-PDE-09</b> *	84.389	ARRA – Title I Grants to Local Educational Agencies	Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education’s Monitoring of ARRA Funds (Prior Year Findings #10-60 and 10-68)	NC	ND	PDE	162	346
	84.391	ARRA – Special Education Grants to States						
	84.392	ARRA – Special Education Preschool Grants						
	84.394	ARRA – State Fiscal Stabilization Fund – Education Grants						
<b>11-DEP-01</b> *	81.041	ARRA–State Energy Program	Noncompliance and Internal Control Weakness Over ARRA-Funded Pennsylvania Sunshine Program Rebates at Department of Environmental Protection Results in Questioned Costs of \$29,920	NC	\$29,920	DEP	165	346
<b>11-DEP-02</b> **	81.041	ARRA–State Energy Program	Noncompliance and Internal Control Weakness Over Department of Environmental Protection’s System of Cash Management and Reporting of Expenditures	MNC	None	DEP	167	346
<b>11-DGS-01</b> *	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Lack of Documentation to Support Contracting and Procurement	NC	\$41,678	DGS	169	347
<b>11-DOH-01</b> *	10.557	Special Supplemental Nutrition Program For Women, Infants, and Children	Noncompliance and Internal Control Weaknesses Related to Erroneous Food Instruments (Prior Year Finding #10-25)	NC	None	DOH	172	348
<b>11-DOH-02</b> *	10.557	Special Supplemental Nutrition Program For Women, Infants, and Children	Noncompliance and Internal Control Weaknesses Related to Rebates (Prior Year Finding #10-24)	NC	ND	DOH	174	349
<b>11-DOH-03</b> *	93.268	Immunization Grants	Unsupported Payroll Costs (Prior Year Finding #10-74)	NC	\$1.2 million	DOH	176	349
	93.712	Immunization Grants (ARRA)						

NCF - No control finding

\* - Significant Deficiency

\*\* - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

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## Index to Federal Award Findings and Questioned Costs - June 30, 2011

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11-DOH-04 **	93.959	Substance Abuse Prevention and Treatment Block Grant	Inadequate Program Monitoring of Department of Health Substance Abuse Prevention and Treatment Subrecipients (Prior Year Finding #10-99)	MNC	ND	DOH	177	350
11-PID-01 *	93.767	State Children's Health Insurance Program	Internal Control Weakness in the Review of Subrecipient Monitoring Reports	N/A	None	PID	179	350
11-L&I-01 *	17.225 17.258 17.259 17.260 17.278 84.126 84.390	Unemployment Insurance (including ARRA) Workforce Investment Act Cluster (including ARRA) Vocational Rehabilitation Cluster (including ARRA)	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #10-40)	N/A	None	L&I	180	351
11-L&I-02 **	17.258 17.259 17.260 17.278	Workforce Investment Act Cluster (including ARRA)	Control Weaknesses Exist in Labor & Industry's Subrecipient Monitoring of Eligibility Determinations for Individuals (Prior Year Finding #10-41)	MNC	ND	L&I	184	352
11-L&I-03 **	17.258 17.259 17.260 17.278	Workforce Investment Act Cluster (including ARRA)	Control Weaknesses at Labor and Industry Regarding Subrecipient Expenditure Monitoring (Prior Year Finding #10-43)	MNC	ND	L&I	187	352
11-L&I-04 *	17.258 17.259 17.260 17.278	Workforce Investment Act Cluster (including ARRA)	Noncompliance Related to Period of Availability for Local Areas Resulting in Questioned Costs of \$155,590	NC	\$155,590	L&I	192	353

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NCF - No control finding

\* - Significant Deficiency

\*\* - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

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## Index to Federal Award Findings and Questioned Costs - June 30, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-L&I-05 *	17.259	Workforce Investment Act Youth Activities – ARRA	Inadequate Monitoring of the ETA-9149 entitled, “Youth Served With WIA Recovery Resources Monthly Report” (Prior Year Finding #10-44)	N/A	None	L&I	194	353
11-L&I-06 **	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	A Material Weakness Exists in Labor and Industry’s Procurement System Related to Debarment and Suspension (Prior Year Finding #10-62)	MNC	None	L&I	196	353
11-L&I-07 NCF	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Labor and Industry Did Not Comply With Maintenance of Effort Requirements Resulting in Questioned Costs of \$19,763	NC	\$19,763	L&I	199	354
11-DMVA-01 *	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of \$60,435 (Prior Year Finding #10-35)	NC	\$60,435	DMVA OCO	201	354
11-DMVA-02 *	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Equipment Management Internal Control Deficiencies and Noncompliance (Prior Year Finding #10-34)	NC	None	DMVA	204	355
11-PENNVEST-01 *	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Internal Control Weaknesses in the Preparation, Review, and Approval of the Capitalization Grants for Clean Water State Revolving Funds Annual Report Submitted to the Environmental Protection Agency (Prior Year Finding #10-50)	NC	None	PENNVEST	205	355
11-PENNVEST-02 *	66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds (including ARRA) Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding #10-53)	N/A	None	PENNVEST	207	356

NCF - No control finding  
\* - 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, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-PENNVEST-03*	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Internal Control Improvements Needed in Subrecipient Loan Monitoring System	NC	None	PENNVEST	209	357
	66.468	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)						
11-DPW-01***	10.551	Supplemental Nutrition Assistance Program	Weaknesses in Department of Public Welfare Information Technology Systems Used for Temporary Assistance for Needy Families, Child Support Enforcement, Foster Care and Adoption Assistance; Department of Public Welfare Monitoring of Child Support Enforcement County Subrecipient Information Technology User Controls, and Internal Control Deficiencies and Material Noncompliance Related to Supplemental Nutrition Assistance Program Information Technology Systems (Prior Year Finding #10-19)	MNC / N/A	None	DPW OIG	211	357
	10.561	State Administrative Matching Grants For The Supplemental Nutrition Assistance Program (including ARRA)						
	93.558	Temporary Assistance for Needy Families						
	93.563	Child Support Enforcement (including ARRA)						
	93.575	Child Care and Development Block Grant						
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund						
	93.713	ARRA – Child Care and Development Fund						
	93.658	Foster Care – Title IV-E (including ARRA)						
93.659	Adoption Assistance (including ARRA)							
11-DPW-02**	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiencies and Noncompliance at Department of Public Welfare Related to Returned Electronic Benefits Transfer Cards (Prior Year Finding #10-18)	MNC	ND	DPW	215	359
	93.558	Temporary Assistance for Needy Families						
	93.714	ARRA – Emergency Contingency Fund for TANF State Programs						

NCF - No control finding

\* - 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, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-DPW-03 *	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiency and Compliance Finding at Department of Public Welfare Related to Timely Filing of Monthly and Quarterly Reports	NC	None	DPW OB/OCO	217	359
	93.778	Medical Assistance Program (including ARRA)						
11-DPW-04 **	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiency and Compliance Finding at DPW Related to Electronic Benefit Transfer Daily Reconciliation	MNC	ND	DPW	219	360
11-DPW-05 *	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #10-30)	NC	ND	DPW	221	360
	93.558	Temporary Assistance for Needy Families						
11-DPW-06 **	93.558	Temporary Assistance for Needy Families	Weaknesses in Department of Public Welfare Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (Prior Year Finding #10-79)	MNC	ND	DPW	226	361
	93.658	Foster Care – Title IV-E (including ARRA)						
	93.659	Adoption Assistance (including ARRA)						
11-DPW-07 **	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the Temporary Assistance for Needy Families' ACF-199 Data Report (Prior Year Finding #10-78)	MNC	None	DPW	229	361

110

NCF - No control finding

\* - Significant Deficiency

\*\* - Material Weakness

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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, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-DPW-08 **	93.558	Temporary Assistance For Needy Families	Health and Human Services-Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Department of Public Welfare and Insurance Department Systems (Prior Year Findings #10-80 and #10-96)	MNC	None	DPW	233	362
	93.563	Child Support Enforcement (including ARRA)						
	93.568	Low Income Home Energy Assistance Program						
	93.575	Child Care and Development Block Grant						
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund						
	93.658	Foster Care (including ARRA)						
	93.659	Adoption Assistance Program (including ARRA)						
	93.667	Social Services Block Grant						
	93.713	ARRA – Child Care and Development Fund						
	93.714	ARRA – Emergency Contingency Fund for TANF State Programs						
	93.720	Medicaid Cluster (including ARRA)						
	93.775							
	93.777							
93.778								
93.767	State Children’s Health Insurance Fund							
11-DPW-09 NCF	93.568	Low-Income Home Energy Assistance Program	Unallowable Contract Expenditures Resulted in \$507,835 in Questioned Costs (Prior Year Finding #10-83)	NC	\$507,835	DPW	235	362

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NCF - No control finding

\* - Significant Deficiency

\*\* - Material Weakness

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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, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-DPW-10 **	93.568	Low-Income Home Energy Assistance Program	Noncompliance and Internal Control Deficiencies in Department of Public Welfare's Administration of Low-Income Home Energy Assistance Program Cash and Crisis Benefits Resulting in Questioned Costs of \$2,897 in Low-Income Home Energy Assistance Program (Prior Year Findings #10-82 and #10-84)	MNC	\$2,897	DPW	239	363
11-DPW-11 **	93.575 93.596 93.713	Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund ARRA-Child Care and Development Fund	Noncompliance and Internal Control Weakness Over Health and Safety Requirements	MNC	None	DPW	245	364
11-DPW-12 **	93.667 93.959	Social Services Block Grant Substance Abuse Prevention and Treatment Block Grant	Weaknesses in Department of Public Welfare Program Monitoring of Social Services Block Grant and Substance Abuse Prevention and Treatment Block Grant Subgrantees (Prior Year Finding #10-91)	MNC	ND	DPW	248	364
11-DPW-13 *	93.667	Social Services Block Grant	Inadequate Controls Related to the Charging of Youth Development Services Personnel Costs (Prior Year Finding #10-92)	NC	ND	DPW	251	364
11-DPW-14 **	93.778	Medical Assistance Program (including ARRA)	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses	MNC	ND	DPW	253	365
11-DPW-15 NCF	93.917	HIV Formula Care Grants (Not a Major Program)	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$21,366 (Prior Year Finding #10-98)	NC	\$21,366	DPW	256	365

112

NCF - No control finding  
\* - Significant Deficiency  
\*\* - Material Weakness

ND - The amount of questioned costs cannot be determined

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

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-DPW-16 ** *	Various	Various CFDA Numbers – See Finding	Inadequate Controls at Department of Public Welfare Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #10-101)	MNC / NC	ND	DPW	261	367
11-PennDOT-01 **	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System	Internal Control Deficiencies Related to Buy American ARRA Provisions (Prior Year Finding #10-46)	MNC	ND	PennDOT	264	368
11-PennDOT-02 *	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding #10-45)	N/A	None	PennDOT	266	369
11-PennDOT-03 **	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System	Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects (Prior Year Finding #10-47)	MNC	ND	PennDOT	269	370
11-OB-01 *	93.563 93.659 93.767 93.778	Child Support Enforcement (including ARRA) Adoption Assistance State Children’s Health Insurance Program Medical Assistance Program (including ARRA)	Lack of Documentation to Support Contracting and Procurement (Prior Year Findings #10-17 and 10-95)	NC	ND	OB/OCO	272	370

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NCF - No control finding

\* - 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, 2011

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
11-OB-02 *	Various	Various CFDA Numbers – See Finding	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Findings #10-43, 10-48, 10-49, 10-56, 10-58, 10-72, and 10-77)	NC	ND	OB/OCO	275	371
11-OB-03 *	Various	Various CFDA Numbers – See Finding	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$184,759 Known Understatement of the CMIA Interest Liability (Prior Year Finding #10-104)	NC	\$184,759	OB/OCO	280	371
11-OB-04 **	Various	Various CFDA Numbers – See Finding	Noncompliance and Control Deficiencies Exist in the Commonwealth’s Subrecipient Audit Resolution Process (Prior Year Finding #10-102)	MNC	ND	OB/OCO Various	287	372
11-OB-05 NCF	10.558 10.553 10.555 10.556 10.559 93.558 93.714 93.575 93.596 93.713 93.667	Child and Adult Care Food Program Child Nutrition Cluster  TANF Cluster CCDF Cluster  Social Services Block Grant	Insufficient Evidence Necessary to Opine on the Commonwealth’s Compliance With Requirements That Could Have a Direct and Material Effect on Certain Major Federal Programs	N/A	ND	PDE DPW	293	375

NCF - No control finding

\* - 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, 2011

Finding	USDA	DOD	HUD	DOL	DOT	ARC	EPA	DOE	ED	HHS	SSA
Prefix	10	12	14	17	20	23	66	81	84	93	96
11-PDA-01										X	
11-PDA-02										X	
11-AGRI-01	X										
11-DCED-01			X								
11-DCED-02			X								
11-DCED-03								X		X	
11-DCED-04								X		X	
11-OCO-01				X							
11-OCO-02							X				
11-DOC-01									X		
11-PDE-01	X										
11-PDE-02	X								X		
11-PDE-03	X										
11-PDE-04	X										
11-PDE-05	X										
11-PDE-06									X		
11-PDE-07									X		
11-PDE-08									X		
11-PDE-09									X		
11-DEP-01								X			
11-DEP-02								X			
11-DGS-01		X									
11-DOH-01	X										
11-DOH-02	X										
11-DOH-03										X	
11-DOH-04										X	
11-PID-01										X	
11-L&I-01				X					X		
11-L&I-02				X							
11-L&I-03				X							
11-L&I-04				X							
11-L&I-05				X							
11-L&I-06									X		
11-L&I-07									X		
11-DMVA-01		X									
11-DMVA-02		X									

# COMMONWEALTH OF PENNSYLVANIA

## Matrix of Findings by Federal Agency - June 30, 2011

<b>Finding</b>	<b>USDA</b>	<b>DOD</b>	<b>HUD</b>	<b>DOL</b>	<b>DOT</b>	<b>ARC</b>	<b>EPA</b>	<b>DOE</b>	<b>ED</b>	<b>HHS</b>	<b>SSA</b>
<b>Prefix</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>17</b>	<b>20</b>	<b>23</b>	<b>66</b>	<b>81</b>	<b>84</b>	<b>93</b>	<b>96</b>
11-PENNVEST-01							X				
11-PENNVEST-02							X				
11-PENNVEST-03							X				
11-DPW-01	X									X	
11-DPW-02	X									X	
11-DPW-03	X									X	
11-DPW-04	X										
11-DPW-05	X									X	
11-DPW-06										X	
11-DPW-07										X	
11-DPW-08										X	
11-DPW-09										X	
11-DPW-10										X	
11-DPW-11										X	
11-DPW-12										X	
11-DPW-13										X	
11-DPW-14										X	
11-DPW-15										X	
11-DPW-16	X									X	
11-PennDOT-01					X	X					
11-PennDOT-02					X	X					
11-PennDOT-03					X	X					
11-OB-01										X	
11-OB-02				X	X	X	X	X	X	X	
11-OB-03	X								X	X	X
11-OB-04	X		X	X	X	X	X	X	X	X	
11-OB-05	X									X	

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Department of Aging**

#### **Finding 11-PDA-01:**

**CFDA #93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers**

**CFDA #93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services**

**CFDA #93.053 – The Nutrition Services Incentive Program**

**CFDA #93.705 – ARRA – Aging Home – Delivered Nutrition Services for States**

**CFDA #93.707 – ARRA – Aging Congregate Nutrition Services for States**

**Pennsylvania Department of Aging Monitoring of Area Agencies on Aging Subrecipients Needs Improvement (A Similar Condition Was Noted in the Prior Year Finding #10-73)**

**Federal Grant Numbers: 11AAPAT3SP, 11AAPANSIP, 10AAPAT3SP, 10AAPANSIP, 09AAPAC1RR (ARRA) and 09AAPAC2RR (ARRA)**

**Condition:** As part of the Aging Cluster, PDA subgranted funding totaling \$56,167,927 to the 52 Area Agencies on Aging (AAAs) under federal grant numbers 11AAPAT3SP, 11AAPANSIP, 10AAPAT3SP, 10AAPANSIP, 09AAPAC1RR (ARRA), and 09AAPAC2RR (ARRA) during SFYE June 30, 2011. PDA is responsible for monitoring subrecipients (AAAs) with respect to the Special Programs for the Aging – Title III, Parts B and C, the Nutrition Services Incentive Program (NSIP), the ARRA - Aging Home – Delivered Nutrition Services for States, and the ARRA – Aging Congregate Nutrition Services for States. Over the past several years, the Aging Office of Long Term Living (OLTL) has developed and implemented a statewide automated system and process with its 52 AAAs (known as SAMS) for the assessment and care management of Long Term Living consumers. This process focuses on consumers from the point of a request for assistance to the receipt of services that fall under various programs at PDA and includes the Level of Care Assessment process and the completion of a Service Plan Worksheet process. Our inquiry of personnel within the PDA's OLTL disclosed that the focus of PDA's review of the Service Plans is based on documented need. For example, PDA evaluates the assistance required in order for the consumer to function in the community as opposed to a nursing home.

In order to test OLTL monitoring procedures, we selected one of the 52 AAAs and performed a walkthrough of one consumer that had a service plan review conducted and approved by OLTL during our current audit period. Our walkthrough and review of PDA's SAMS Service Plan Review procedures disclosed that this process was not adequate for meeting compliance related to the applicable federal regulations under the Aging Cluster. These procedures do not constitute a strong system of on-site documented program monitoring at the AAA level since they do not routinely document or cover areas such as AAA processes, operations, procedures, and internal controls in place over federal funds, federal program income, fiscal policies and procedures, and any AAA procedures regarding the receipt of ARRA funding to ensure the proper handling of funds at the AAA level. The majority of the monitoring performed by PDA's OLTL relates to the PDA Waiver Program, which is funded under the Medicaid Cluster, not the Aging Cluster, and this results in a very limited portion of the monitoring being performed for the Aging Cluster.

We noted that the Aging Office of Quality, Management Metrics and Analytics (QMMA) had performed programmatic monitoring over the AAAs during the current period under audit. However, no fiscal reviews pertaining to the subrecipients' financial activities were done in the current year. Our inquiry of personnel within the QMMA division disclosed that, in addition to the SAMS Service Plan Process, PDA performed monitoring procedures in other areas during the current period under audit, such as QMMA's review of the Pre-Admissions Program, the Consumer Protection Division's review of the Protective Services Program, and the Ombudsman Division's review of the Ombudsman Program. These monitoring procedures are primarily done using the SAMS System whereby these offices are reviewing the AAA data for significant/unusual items, trends, etc., and following up to ensure AAA compliance. For the current period under audit, the above-mentioned PDA divisions also performed on-site and remote case record sampling reviews for compliance with the applicable program requirements. The above PDA divisions promptly investigate and remediate any complaints they receive regarding the AAA activities in the operation of these programs.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-PDA-01: (continued)**

Regarding the Aging Block Grant Programs, the QMMA staff performed programmatic monitoring of the General Requirements for 4 out of the 52 AAAs during SFYE June 30, 2011. These procedures consisted of on-site reviews of AAA policies and procedures for compliance with the applicable state and federal regulations as listed in the Aging Block Grant Co-operative Agreements. The General Requirements include Confidentiality requirements, Liability and Insurance requirements, Nondiscrimination/Sexual Harassment requirements, OMB Circular A-133 Audit requirements, and Record Retention requirements, etc. Although the current year monitoring of the General Requirements pertained to the Aging Cluster Block Grant programs, there were no QMMA Fiscal Reviews pertaining to the AAAs' financial activities that were performed during the current year under audit. Our inquiry also disclosed that the Bureau of Program Integrity, PDA, performed on-line reviews for all 52 AAAs' budgeted and expended cost centers on a monthly, quarterly, and annual basis using data submitted by AAAs on PDA's Financial and Reporting Requirements System. However, these on-line reviews did not cover AAA processes, operations, procedures, and internal controls in place over Aging Cluster funds. Therefore, for the third year in a row, PDA's subrecipient monitoring procedures are not adequate for meeting compliance related to the applicable federal regulations under the Aging Cluster.

**Criteria:** 45 CFR 92.40(a) which applies to the Title III programs states the following regarding 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.*

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

*A pass-through entity is responsible for:*

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

**Cause:** PDA management stated that they are aware that they did not fully meet their monitoring responsibilities to ensure compliance with the Aging Cluster federal regulations during the SFYE June 30, 2011. Further, PDA personnel indicated that they intended to implement new AAA Fiscal Review monitoring procedures; however, these procedures were not in place until August 2011, subsequent to our current audit period ending June 30, 2011. PDA personnel also stated that they have increased their staffing levels (and provided the appropriate training) during the current year to ensure that the PDA can meet their goals under the new monitoring process; however, again this new process was implemented subsequent to June 30, 2011. Finally, PDA officials indicated that they rely on the OMB Circular A-133 Audits of the AAAs in order to achieve compliance at the AAA level, and they are made aware of any problems through this process.

**Effect:** There is limited assurance that PDA is making adequate progress toward meeting the goals of the Aging Cluster (including ARRA) and is in compliance with the federal monitoring requirements. Effective during-the-award monitoring of the AAAs should be performed on a regular basis. However, during SFYE June 30, 2011, the PDA is placing excessive reliance on the OMB Circular A-133 subrecipient audits, which are only done after-the-fact and on an annual basis.

**Recommendation:** We recommend that PDA implement more effective on-site monitoring, during-the-award monitoring and documentation procedures to ensure that all AAAs are properly and timely monitored to achieve compliance under the Aging Cluster (including ARRA). The current monitoring processes in place appear to over-rely



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-PDA-01: (continued)**

on the automated SAMS system and appear to only focus on AAA data reviews and complaints after-the-fact. We recommend they more specifically focus on the major fiscal and administrative operations, procedures, internal controls, etc. of the Aging Cluster at the AAA level. PDA should be more proactive in the identification of the types of risks as they relate to subrecipients in the Aging Cluster.

**Agency Response:** PDA agrees with this finding.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Aging

#### Finding 11-PDA-02:

**CFDA #93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers**

**CFDA #93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services**

**CFDA #93.053 – The Nutrition Services Incentive Program**

**CFDA #93.705 – ARRA – Aging Home – Delivered Nutrition Services for States**

**CFDA #93.707 – ARRA – Aging Congregate Nutrition Services for States**

**Pennsylvania Department of Aging’s Procedures for Calculating the Allocations Under the Nutrition Services Incentive Program Grant Awards to Areas on Aging Needs Improvement**

**Federal Grant Numbers: 11AAPAT3SP, 11AAPANSIP, 10AAPAT3SP, 10AAPANSIP, 09AAPAC1RR (ARRA) and 09AAPAC2RR (ARRA)**

**Condition:** Out of \$58,109,208 in expenditures reported on the Commonwealth’s SEFA for the Aging Cluster Programs during SFYE June 30, 2011, \$7,148,817 (or 12 percent) was expended by the Pennsylvania Department of Aging (PDA) for the Nutrition Services Incentive Program (NSIP). The \$7.1 million consisted of \$6 million of available funding for the 2010-2011 year plus two vendor adjustment invoices that were posted to the accounting records that totaled \$1.1 million.

NSIP funding provides resource incentives to encourage and reward effective and efficient performance in the delivery of nutritious meals to older individuals. PDA allocates and distributes this funding to each of the 52 Areas on Aging (AAAs) based on the number of NSIP eligible meals reported in the prior fiscal year in PDA’s statewide automated system (SAMS). In other words, PDA personnel indicated that the distribution of the \$6 million should be based on the most recent meal count data available in SAMS, which is eligible meals reported for the Fiscal Year 2008-2009.

We reviewed PDA’s formula allocation process and found that PDA did not calculate the allocations based on the most recent eligible meal count data available (FY 2008-2009). Instead, PDA used the original calculations from the original 2006 contracts with the AAAs. We recalculated the allocations to each AAA based on the most recent eligible meal count data available (FY 2008-2009) provided to us by PDA and compared these recalculated allocations to the allocations made by PDA in error. We found that 21 of the 52 AAAs received allocations in excess of the recalculated allocations by a total of \$355,115. Correspondingly, we found that 31 AAAs received allocations less than the recalculated allocations by a total of \$355,115. The differences, between the actual allocation and recalculated allocation for each AAA, ranged from \$100 to \$192,428 (less than 1 percent to 55 percent). Additionally, because the worksheet supporting the allocations included on the Aging Program Directive (APD) was not adequately reviewed by a supervisor, the error was not detected.

**Criteria:** In regard to the Nutrition Services Incentive Program, 42 USC 3030a(d)(4) states:

*Each State agency and title VI [subchapter X] grantee shall promptly and equitably disburse amounts received under this subsection to recipients of grants and contracts. Such disbursements shall only be used by such recipients of grants or contracts to purchase domestically produced foods for their nutrition projects.*

The Aging Program Directive: Area Agency on Aging (AAA) Program Requirements, Planning Allocations and Aging Services Block Grant Format for FY 2010-2011 (APD # 10-01-04, Supplement 1, Page 6 related to U.S Nutrition Services Incentive Program Cash states that:

*The allocation for each AAA is based on number of meals reported as provided in SAMS expressed as a percentage of the total statewide amount in fiscal year 2009-2010.*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PDA-02: (continued)**

However, since the FY 2009-2010 meal count data is not available at the time PDA needs to calculate the 2010-2011 NSIP allocations PDA's procedures are to base the NSIP allocations on the most recent eligible meal count data available in SAMS which would be from FY 2008-2009.

**Cause:** PDA personnel stated the NSIP allocation to the AAAs was incorrect due to a clerical error. Specifically, the formula for the 2010-11 allocation amounts was not entered properly into the NSIP allocation spreadsheet. While the APD showing the final NSIP funding allocations for FY2010-2011 was approved by the Acting Secretary, the level of review was not adequate to detect the error made on the supporting worksheet prepared to calculate the NSIP allocations. PDA management stated that since the APD Funding Allocations for FY 2010-2011 had already been issued to the AAAs, it is too late to correct the error. However, we believe a future year's allocation could be adjusted to correct this error.

**Effect:** PDA's failure to properly allocate NSIP funding, resulted in an inequitable distribution of funding to AAAs as required by Federal regulation. As a result, PDA collectively allocated \$355,115 to incorrect AAAs.

**Recommendation:** We recommend that PDA:

- ensure that their process for calculating the NSIP allocations in future periods is accurate and equitable to meet compliance;
- develop procedures for a supervisor to detail review and approve the NSIP funding allocations prior to PDA communicating and distributing the allocations to the AAAs; and
- correct this error by adjusting the AAAs' allocations in the next year's NSIP allocation calculation.

**Agency Response:** The agency agrees with this finding.

**Questioned Costs:** None

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Department of Agriculture**

#### **Finding 11-AGRI-01:**

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

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

#### **Internal Control Weaknesses and Noncompliance with Recordkeeping and Reporting to Verify Commodity Receipts and Distributions**

**Federal Grant Number: 2010-1PA300305**

**Condition:** The Food Distribution Division of the U. S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) coordinates the distribution of commodities to many of the public and private schools that provide meals to students. USDA provides these commodity foods through the National School Lunch Program (NSLP) and the Summer Food Service Program (SFP). The Pennsylvania Department of Agriculture's (PDA) Bureau of Food Distribution (BFD) administers this program throughout Pennsylvania and accounts for all donated food activity in PaMeals, a web-based application. Total distributions to all recipients for fiscal year end June 30, 2011 reported by BFD on the SEFA were \$37.67 million.

During state fiscal year end June 30, 2011, BFD contracted with four warehouses and approximately 65 processors, who convert donated commodities into end products, to deliver donated food items to schools. Distributions of commodities to schools consist of approximately 49 percent distributed directly from warehouses and approximately 49 percent distributed from processors. These distributions encompass \$37 million, or 98 percent, of SEFA expenditures related to the food donation program. These processors and warehouses submit monthly disbursement and distribution information to BFD for each commodity. This information is then electronically transferred by BFD personnel into PaMeals. According to BFD management, monthly reconciliations are performed to ensure that BFD's activity agrees to warehouse and processor activity prior to uploading it into PaMeals.

Our testing of two BFD's monthly warehouse reconciliations disclosed that the reconciliations contained no evidence of variance identification, investigation, or resolution. We identified one variance totaling approximately \$55,516 that was due to timing, but it was not identified or documented by management.

Our testing of two BFD's monthly processor reconciliations disclosed that the reconciliations contained no evidence of variance identification, investigation, or resolution. Each month BFD receives excel files that contain total disbursement and commodity distribution activity from the processor. Per discussion with BFD personnel, the reconciliation is performed by inserting totals into the excel worksheets and visually comparing these amounts to the monthly performance reports. We noted the following exceptions in our test work related to processor activity:

- For five of the 13 processor monthly performance reports tested, we identified commodity quantity differences totaling \$128,171 between the processor reported activity and BFD records.
- Of the 13 processor confirmations identifying a commodity shipped to a school, we found that two or 15 percent did not agree to BFD's records. These variances collectively totaled \$437.

Based on our review of various reconciliations, BFD needs to improve its documentation to evidence variances and follow-up procedures.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-AGRI-01: (continued)

**Criteria:** OMB A-133 Compliance Supplement, Part 4. Section N.a, Maintenance of Records states:

*Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7CFR sections 250.16(a)(6) and 250.15(c)).*

Federal Regulation 7 CFR 250.16 Maintenance of records states:

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

(2) *Distributing agencies shall require all subdistributing agencies to maintain accurate and complete records with respect to the receipt, distribution/disposal, and inventory of donated foods, including end products processed from donated foods. Subdistributing agencies and recipient agencies must document any funds that arise from the operation of the distribution program, including refunds made to recipient agencies by a processor in accordance with § 250.30(k). Further, these documents should allow an independent determination of the specific accounts that benefit from these funds.*

**Cause:** According to management, staffing issues are the primary cause of the noted deficiencies. During our audit BFD management was unable to provide detailed information about the program and was unfamiliar with various reports utilized for program administration. BFD acknowledged the disclosed exceptions and indicated that it would perform follow-up procedures and investigate the differences.

**Effect:** Inadequate documentation exists to evidence that BFD is adequately verifying USDA-donated foods activity throughout the year. Failure to maintain complete and accurate records could result in BFD being required to pay USDA the value of the food or replace it in kind.

**Recommendation:** BFD should improve its current procedures by ensuring that warehouse and processor activity is verified and adequately documented prior to uploading it to PaMeals. Monthly reconciliations between BFD and warehouse and processor activity should be performed timely and accurately. All variances should be timely investigated, documented, and resolved.

**Agency Response:** The preliminary finding discussed three conditions of note. Each will be addressed in turn.

- Perceived variance totaling approximately \$55,516 of two monthly warehouse reconciliations

We disagree that this condition exists as stated. There in fact was no contemporaneous variance of approximately \$55,516<sup>1</sup> at the time the information was submitted to the Bureau by the warehouses in question. It only appeared to be a variance at the time of the audit due to a subsequent change and update in commodity pricing in the PA Meals software utilized by the Bureau. This update was done to reflect increases in commodity pricing for periods of time subsequent to the update. However, the software also “reached back” and changed pricing of commodities predating the update and rendered previously accurate information inaccurate. That is the cause of the perception of a variance of \$55,516. As soon as this unintended result of the update was discovered, the Bureau’s software contractor was engaged to correct the problem. As of February 28, the software issue has been corrected and the perceived variance of \$55,516 no longer exists.

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<sup>1</sup> The Bureau was provided information by the Department of Auditor General on or about February 8 and February 10 that the perceived variance was \$47,795. The Bureau is not clear how the figure of \$55,516 was arrived upon.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-AGRI-01: (continued)**

- For five of the 13 processor monthly performance reports tested, we identified commodity quantity differences totaling \$128,171 between the processor reported activity and BFD records

We agree that there existed varying amounts of commodity quantity differences for five processors tested. We disagree that there was no identification of these issues. The Bureau's Assistant Director (Administrative Officer 3) supervises a Commodity Specialist (Administrative Officer 2), who performs the relevant functions of reconciling the processor monthly performance reports. In each of the five instances at issue, the AO2/Commodity Specialist had in fact identified the variance and will continue to work to achieve a resolution and complete reconciliation. Information exhibiting the awareness of all five instances was communicated to the auditors during the audit. It is correct that no resolution of these issues had occurred by the time of the audit. Due to the need to reconcile information from over 902 school food authorities and 65 processors, the time consumed between the end of the fiscal year and complete resolution of that year's discrepancies can be a number of months. It is recognized that this is not the timetable of the single audit.

- Of the 13 processor confirmations identifying a commodity shipped to a school, we found that two of 15 percent did not agree to BFD's records. These variances collectively totaled \$437.<sup>2</sup>

While the Bureau is not able to agree or disagree with the condition described without more information, such a variance rate (15 percent of all 65 processors, at \$219 per processor) equates to approximately \$2,000 over the \$18,500,000 handled by all processors. That would be 0.011 percent, or approximately one one-hundredth of one percent.

It is certainly acknowledged that more timely resolution needs to occur of any issues preventing full reconciliation at the close of a fiscal year. It should be noted that processors are provided a 90 day year-end closing window by federal regulation, so the Bureau cannot identify each and every outstanding issue requiring resolution until September 30 of each year.

**Auditors' Conclusion:** Our identified variance of \$55,516 was in fact real at the time of our audit and not "perceived" as indicated by the Pennsylvania Department of Agriculture. Moreover, while we acknowledge that the variance was resolved the following month, management could provide no documentation relevant to a reconciliation that identified the variance or explained the reason for the existence of the variance.

With regard to the commodity quantity differences between the processor reported activity and BFD records, we are encouraged by management's acknowledgment of the existence of this deficiency. However, despite management's assertion that it had knowledge of the problem, it did not undertake action to investigate or correct the deficiency at the time of our audit. Additionally, management again provided no documentation relevant to a reconciliation that identified the variance or explained the reason for the existence of the variance.

Management should document all variances and resolutions on all monthly warehouse and processor reconciliations to evidence management's identification of any discrepancies.

**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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<sup>2</sup> The Bureau is not specifically aware how this figure was arrived upon or of what it consists.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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

#### **Finding 11-DCED-01:**

**CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)**

**CFDA #14.255 – ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded) (State-Administered Small Cities 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 #10-38)**

**Federal Grant Numbers: B-03-DC-42-0001, B-04-DC-42-0001, B-05-DC-42-0001, B-06-DC-42-0001, B-07-DC-42-0001, B-08-DC-42-0001, B-09-DC-42-0001, B-09-DY-42-0001 and B-08-DN-42-0001**

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

Based on our examination of the DCED Monitoring Schedule, we noted that, for prior and current years, in total, there were 595 subrecipient contracts scheduled to be monitored with an on-site monitoring visit. There were 247 contracts monitored, resulting in a backlog of 348 contracts remaining. From our sample of 65 subrecipients’ expenditures, we noted that 26 (or 40 percent) were scheduled for visits in the current year and 20 visits were completed. The other 39 subrecipients were not scheduled for a visit in 2011 based on the three year monitoring cycle approved by HUD. The six visits that were not completed according to the DCED Monitoring Schedule, represent approximately one percent of the 65 subrecipient expenditures sampled for testing.

For the 20 completed visits, we noted that, if applicable, corrective action required by the subrecipient was outlined in correspondence subsequent to the on-site visit and DCED followed-up to ensure corrective action was taken by the subrecipient.

During the year ended June 30, 2011, DCED reported subrecipient expenditures for the CDBG Program of \$67,618,617, which represented approximately 98 percent of total CDBG cluster expenditures on the SEFA. There were a total of 197 subrecipients that received 2010 grant allocations from the CDBG Program.

DCED’s during-the-award monitoring of its subrecipients was not adequate to provide reasonable assurance the subrecipient administers the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements.

Within our testing of A-133 subrecipient audits, we found that a material number of subrecipient expenditures are expended by subrecipients that, individually, expended less than \$500,000 in total federal awards from the Commonwealth during SFYE June 30, 2010, and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2011. As a result, we consider inadequate during-the-award monitoring to be a material weakness in this program.

**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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DCED-01: (continued)

CDBG regulations (24 CFR 570.501(b)) state that:

*[the grantee] is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of . . . subrecipients . . . does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements . . . and for taking appropriate action when performance problems arise...*

The language in Subpart J of 24 CFR Part 85 “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,” which applies to CDBG grants, is even more explicit and states:

*Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor . . . 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. These federal awards greatly expanded the number of subrecipient applications that the DCED personnel needed to review and required additional training of applicants by DCED in order for these applicants to understand the new programs’ requirements. In addition, the program has experienced personnel vacancies. As a result, there was little or no time left for DCED personnel to conduct monitoring of the regular program activities.

**Effect:** DCED did not adequately perform during-the-award monitoring of the CDBG subrecipients to ensure the subrecipient administers the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements. Further, the CDBG Program subrecipients draw funds down directly from the Federal government through the Integrated Disbursement and Information System which does not require DCED approval, and, as a result, DCED’s subrecipient monitoring is the only mechanism to verify that the expenditures were in compliance with grant requirements.

Additionally, the program has a material amount of subrecipient expenditures each year that are not subject to the audit requirements of OMB Circular A-133. 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, including the new ARRA 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.

**Agency Response:** DCED agrees with this finding. Staffs are required to monitor approximately 150 Community Development Block Grant contracts each year. In addition, staffs are also responsible for on-site monitoring for other federal programs bringing the total number of contracts to be monitored in any given year to around 250.

With the addition of the stimulus programs starting in calendar year 2009, DCED received increased funding that totaled a little more than \$95 million and more than 280 additional applications. At the time, DCED was utilizing its existing complement of staff to undertake the reviews. Staffs have resigned and other staff re-assigned to the program during the past year. The learning curve for new staff is tremendous and therefore these additions have not yet had an impact on the monitoring.

In addition, staffs have been given additional responsibility to review invoices from an additional program, bring the invoice review to two of the six programs. DCED staffing for subrecipient monitoring is eight Grant Manager positions with one Associate Grant Manager position at this time. Two of the eight Grant Manager positions are new and thus have not had an impact.



# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DCED-01: (continued)**

The additional work that has been placed on staff has not allowed for sufficient out-of-office time for monitoring visits.

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, 2011

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### Department of Community and Economic Development

#### Finding 11-DCED-02:

#### CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)

#### Internal Control Deficiency Over Period of Availability Requirement (A Similar Condition Was Noted in Prior Year Finding #10-36)

**Federal Grant Numbers:** B-04-DC-42-001, B-05-DC-42-001, B-06-DC-42-001, B-07-DC-42-001, B-08-DC-42-001, B-09-DC-42-001 and B-10-42-001

**Condition:** DCED is required to maintain internal controls that ensure grant funds are utilized within the period of availability. This is accomplished by appropriate monitoring of grant status and by the timely closing of grants in the Department of Housing and Urban Development’s (HUD) Integrated Disbursement and Information System (IDIS) system.

Audit procedures revealed a total of 27 open subrecipient CDBG grants for the award years 2000-2005, which should have been closed and had unused grant balances which total \$215,653. Our audit procedures did not reveal any funds spent outside of the period of availability.

**Criteria:** According to A-102 Common Rule, §\_\_\_.23; OMB Circular A-110 (2 CFR section 215.71):

*Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period.*

In addition, (A-102 Common Rule, §\_\_\_.23; OMB Circular A-110 (2 CFR section 215.71)) states:

*Non-Federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline upon request.*

The Commonwealth has an eight-year contract with HUD for CDBG funds for each award year, and the Commonwealth contracts with subrecipients who are required to utilize funds within a five-year period.

CDBG-R (Recovery) grantees must expend their funds by September 30, 2012.

Neighborhood Stabilization Program (NSP1) grantees are required to expend an amount equal to or greater than the initial allocation of NSP1 funds within 4 years of receipt of those funds (Section II.M. of NSP3 Notice).

**Cause:** DCED grant managers perform periodic reviews of grant project status through use of system-generated reports from HUD’s IDIS system. Based on these reviews, which identify ending periods, final close-out procedures are initiated to close out the grants in the IDIS system to prevent utilization of funds after the established period of availability.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DCED-02: (continued)**

Due to increased demands on existing personnel related to grant awards received under new Federal stimulus programs in 2009 as well as personnel vacancies, the agency reports that regular, timely, documented reviews of the status of grants and the timely closing, thereof, did not occur.

**Effect:** As a result of grants not being closed timely within the IDIS system, grant funds have the potential to be utilized outside of their period of availability.

**Recommendation:** We recommend that DCED ensure the performance of regular, timely, documented reviews of grant status and that grants are closed timely to prevent use of grant awards outside of the period of availability.

**Agency Response:** DCED agrees with this finding. Due to increased demands on existing personnel related to grant awards received under new Federal stimulus programs in 2009, as well as personnel vacancies, regular, timely, documented reviews of the status of grants and the closing did not occur in a timely manner.

**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, 2011***

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

#### **Finding 11-DCED-03:**

#### **CFDA #81.042 – Weatherization Assistance for Low-Income Persons (including ARRA) CFDA #93.568 – Low-Income Home Energy Assistance Program**

**Noncompliance and Internal Control Deficiencies in the Department of Community and Economic Development’s Program Monitoring of Weatherization Subrecipients (Similar Conditions Were Noted in Prior Year Findings #10-54 and #10-55)**

**Federal Grant Numbers: G-11B1PALIEA, G-09B1PALIEA, G-08B1PALIEA, DE-EE0000135 and DE-EE0000290**

**Condition:** As noted in the prior year Single Audit of the Weatherization Assistance for Low-Income Persons program (WAP), which typically receives an annual U.S. Department of Energy (DOE) grant and a portion of the Low-Income Home Energy Assistance Program (LIHEAP) grant, received an infusion of ARRA funding that significantly increased the size of the program. This increase required the Department of Community and Economic Development (DCED) to overhaul numerous operational aspects of WAP. This overhaul continued during the current year. For the SFYE June 30, 2011, of the \$87 million in expenditures reported on the SEFA, \$85 million was sent to subrecipients. While certain corrective actions were implemented to resolve deficiencies in subrecipient monitoring reported in the prior year Single Audit, other changes were being developed, but were not able to be implemented before June 30, 2011. This finding reports the deficiencies noted in the prior year Findings #10-54 and #10-55, that still exist during the current audit year.

DCED management performed monitoring on all 44 subrecipients. Of the 44, we reviewed the monitor’s checklists, reports and written procedures for nine subrecipients. Based on our discussions with DCED management and the results of our test work, we noted that the following internal control deficiencies and instances of noncompliance with federal regulations still exist:

- DCED’s policy and procedures do not adequately ensure that local agencies verify an applicant’s identity prior to approving weatherization services. Prior year Finding #10-55 disclosed that weatherization services were provided for an individual that used a deceased person’s SSN to qualify for the program. DCED management agreed with our finding, stating that it plans to develop procedures for local agencies to verify client identity before approving services.
- DCED provided weatherization services to homeowners and renters, even if no rent is paid to the owner. We believe this weakness can lead to potential abuse of the program. Although DCED disagreed with this assertion and stated that a renter isn’t required to pay rent in order to be eligible for services, management stated that it will instruct the subrecipients to report to DCED all instances where no rent, or rent significantly below market value is being paid. DCED management intends to evaluate these situations on a case by case basis, because it believes there may be legitimate reasons for such arrangements. However, as of SFYE June 30, 2011, this weakness and the potential for abuse of the program still exist.
- A local agency inappropriately used a two-tiered billing structure to inflate subcontractor labor costs for services paid with ARRA funds vs. non-ARRA. During discussions, DCED management agreed that inflating prices for ARRA-funded projects would not be appropriate; however, it had not yet conducted its investigation, and thus, had not concluded that the situation was improper.
- Although DCED made strides to correct deficiencies related to the use of the Hancock Energy Software (HES) used by DCED primarily for oversight and reporting, a DOE On-Site Monitoring Report, dated June 2011, noted that DCED continued to have various control issues during SFYE June 30, 2011.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DCED-03: (continued)**

In response to the conflict of interest situations reported in prior year Finding #10-55, DCED added specific monitoring procedures to detect potential conflicts of interest during its on-site monitoring visits at the local agencies. DCED is also in the process of instituting policies and procedures in addition to the existing conflict of interest statement included in the local agency contracts.

**Criteria:** As part of administering WAP, DCED must have adequate controls to ensure it is adhering to federal and state law while satisfying program objectives. These controls should include procedures to ensure adequate monitoring of subrecipient activity, compliance with federal requirements (CFR 440 - Weatherization), American Recovery and Reinvestment Act, compliance with the state plans, applicable state laws and weatherization standards. For example, in order for the HES system to be an effective tool for monitoring and tracking subrecipient activity, it must be fully populated with accurate data.

Client eligibility is to be properly determined by the subrecipients and must be adequately monitored by DCED to ensure compliance with the WAP law. According to CFR-440, a rental dwelling is a dwelling unit occupied by a person who pays rent for the use of the dwelling unit. Thus, if no rent is paid, the client cannot be eligible as a renter.

Subcontractors receiving ARRA funds are required to comply with Davis-Bacon Act prevailing wage rates.

In each subrecipient contract, DCED requires the grantee to assert that “...the Grantee (including directors, officers, members, and employees of the Grantee) presently has no interest and shall not acquire any interest, directly or indirectly, which would conflict in any manner or degree with the performance of activities required to be performed under this Contract....” Additionally, the contracts state, “...the Contractor [Grantee] agrees to...not have a financial interest in any other contractor, subcontractor, or supplier providing services, labor, or material on this project, unless the financial interest is disclosed to the Commonwealth in writing....”

**Cause:** According to DCED management, the objective of the HES system will provide the ability to effectively monitor the WAP program. The system has been modified to permit the analysis of WAP data input by the subrecipients; however, more modifications are necessary as the WAP program continues to be overhauled. Once data is consistently and reliably entered, the capabilities of the system can be realized.

DCED’s procedures for the subrecipient’s determination of client eligibility do not include verification of the applicant’s identity. DCED management stated that it lacked the resources and expertise to implement a system for verifying the applicant’s identity. However, it plans to require local agencies to verify an applicant’s identity in addition to verifying income and household composition.

Although DCED’s new monitoring procedures analyze the proportion of homeowners that receive services to renters, they do not ensure that rent is actually paid. DCED disagrees with our belief that this is a weakness that could lead to potential abuse of the program. Regardless, DCED management stated that it plans to instruct subrecipients to be skeptical of renters who pay no rent and consult with DCED for guidance to ensure the client is eligible for services.

Regarding the subrecipient that inflated costs for its ARRA-funded projects, DCED management stated that it plans to visit the subrecipient to thoroughly investigate the issue and take appropriate actions to comply with WAP regulations.

**Effect:** The potential still exists during the current audit year for noncompliance with federal regulations related to the proper administration of the WAP program. If the above internal control deficiencies are not corrected by DCED, noncompliance with federal regulations and inappropriate spending of Weatherization funds, including ARRA funds, could occur in future periods.

**Recommendation:** We recommend that DCED management continue to review and improve its risk-based subrecipient monitoring policy and procedures in order to strengthen the internal controls of the WAP program, which should correct the significant deficiencies noted above.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DCED-03: (continued)**

**Agency Response:** DCED agrees with this finding. We realize that these past findings reflect operational and policy areas of the Weatherization Assistance Program that need to be addressed, specifically:

- verifying applicant's identity prior to weatherization service;
- clients who are renters must show proof of rent paid;
- one agency's possible inflated costs; and
- the deficiencies of the HES system.

**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, 2011*

### Department of Community and Economic Development

#### Finding 11-DCED-04:

#### **CFDA #81.042 – Weatherization Assistance for Low-Income Persons (including ARRA) CFDA #93.568 – Low-Income Home Energy Assistance Program**

#### **Deficiencies in Information Technology Controls at the Department of Community and Economic Development (A Similar Condition Was Noted in Prior Year Finding #10-54)**

**Federal Grant Numbers: G-11B1PALIEA, G-09B1PALIEA, G-08B1PALIEA, DE-EE0000135 and DE-EE0000290**

**Condition:** DCED's implementation of the Weatherization (Wx) application, an application from Hancock Energy Software (the vendor), was introduced during the SFYE June 30, 2009 to enhance the management and oversight of funding paid to sub-recipients for the Weatherization Assistance Portion (WAP) of the Low-Income Home Energy Assistance Program. In prior audits, we found weaknesses in logical access controls regarding passwords and user access violations. Additionally, we found that a standard change management process was not followed, a list of changes made to the application during the audit period was not maintained, and a monitoring process to detect unauthorized changes in the production environment was not in place. We found the following control weaknesses existed during the current audit period:

- User accounts for the Wx application are not configured to enforce adequate complexity settings or to comply with ITB-SEC007, as follows: Passwords are not required to be alphanumeric or contain special characters, and passwords are only set to expire every 90 days.
- User access violations and security events were not logged.
- The change management process for the Wx application did not include monitoring for evidence of a strict segregation of duties between vendor personnel with the ability to develop programs and personnel with the ability to move the programs into production.
- A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard change management process.

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

**Cause:** The prior audit found that password settings in the Wx application did not meet minimum standards published by the Office of Administration, Office for Information Technology. DCED corrected the user lockout weakness but did not enforce users to change their passwords every 60 days. Additionally, DCED and the vendor are currently upgrading the Wx application to log unsuccessful user access attempts (i.e., user access violations/security events). DCED also took corrective action during the audit period to implement a change management process over the Wx Application to mitigate prior year weaknesses. New policy included allowing the vendor to access the production servers only after authorization from DCED. However, DCED's corrective action did not include monitoring controls to ensure a segregation of duties exists at the vendor between personnel with the ability to develop programs and personnel with the ability to move the programs into production.

# COMMONWEALTH OF PENNSYLVANIA

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## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-DCED-04: (continued)**

**Effect:** Without adherence to minimum criteria set forth by OA regarding password parameters, an increased potential for unauthorized access to the Wx application exists. Additionally, DCED's failure to monitor the segregation of duties between personnel with the ability to develop programs and personnel with the ability to move programs into production could result in unauthorized changes to the Wx application.

**Recommendation:** We recommend that DCED management ensure that user accounts for the Wx application adhere to standard minimum criteria set forth by OA regarding password parameters and logging of user access violations.

We also recommend that DCED monitor all changes in the Wx application in a change deployment log by date and time to substantiate a segregation of duties between the program developer and the individual promoting the change to production. Further, DCED should implement software to monitor the production environment to ensure that only authorized and approved program development and program changes have been deployed to the production environment.

**Agency Response:** DCED agrees with this finding. We realize that these past issues reflect IT operational areas of the Weatherization Assistance Program that need to be addressed; and, in some cases, issues were already corrected recently. DCED is planning to request installation packages from the vendor that DCED personnel will put into production since this HES vendor does not provide deliverables for DCED to accomplish this. **However, please note that further information is needed on what other "security events" should be logged. The term "security events" is very broad and needs better defined.**

**Auditors' Conclusion:** Security events that need to be monitored can refer to various issues in an overall computer controls environment depending on the size and complexity of the environment. The events to be monitored should be determined by management based on an analysis of the risks, costs, and benefits of such monitoring. Management should consider monitoring repeated failed login attempts and privileged user access as security events in the context of this finding. We will review 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.**



# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Office of Comptroller Operations

#### Finding 11-OCO-01:

**CFDA #17.258 – WIA Adult Program (including ARRA)**

**CFDA #17.259 – WIA Youth Activities (including ARRA)**

**CFDA #17.260 – WIA Dislocated Workers (including ARRA)**

**CFDA #17.278 – WIA Dislocated Workers Formula Grants**

**Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports (A Similar Condition Was Noted in Prior Year Finding #10-42)**

**Federal Grant Numbers: AA-16051-07-55, AA-17144-08-55 (includes ARRA), EM-17478-08-60, AA-18664-09-55, AA-20216-10-55 and EM-20513-10-60 (includes ARRA)**

**Condition:** Our testing disclosed that the Office of Comptroller Operations (OCO) did not perform monthly expenditure reconciliations between the Department of Labor & Industry's (L&I) Commonwealth Workforce Development System (CWDS), which the Workforce Investment Act (WIA) subrecipients request payments, and the statewide SAP Accounting System during the SFYE June 30, 2011, as had been performed in previous years. Subsequent to June 30, 2011, OCO decided to perform these reconciliations in two six-month periods, one covering the period July 2010 through December 2010 and the other covering the period January 2011 through June 2011, instead of monthly in order to catch up and complete the reconciliations for the SFYE June 30, 2011. The two 6-month reconciliations were completed and provided to us on November 16, 2011; however, they had not been reviewed by a supervisor. Therefore, these systems were not reconciled on a timely basis. Additionally, OCO stated that the CWDS reports utilized in the reconciliations contained double accounting errors and/or omitted amounts. Based on our review of the reconciliations, we noted that OCO attempted to manually determine where the errors existed in order to reconcile the systems, resulting in OCO eventually reconciling these systems within \$5.3 million for the SFYE June 30, 2011.

Additionally, OCO prepares the final ETA-9130 closeout reports for each funding stream when each WIA grant closes. The program year 2008 grants closed during SFYE June 30, 2011. The ETA-9130 reports submitted to the U. S. Department of Labor (USDOL) for program year 2008 omitted the \$1,372,656 in transfers between the Adult and Dislocated Worker Programs. The transfer information on the report is additional required data and does not have an impact on the expenditures reported on the ETA-9130 for each funding stream. This omission affected five reports including the transfers from the Local Dislocated Worker 1<sup>st</sup> Increment of \$125,000, the Local Dislocated Worker 2<sup>nd</sup> Increment of \$240,000, the Local Adult 2<sup>nd</sup> Increment of \$375,000, the ARRA Local Dislocated Worker of \$462,805, and the ARRA Local Adult of \$169,851. Transfers are required to be included on the closeout reports because there are limitations to the amounts that can be transferred between funding streams. Our review of the total transfer amount revealed L&I was in compliance with federal cost limitations even though these amounts were not properly reported to USDOL.

**Criteria:** In regard to roles and responsibilities for recipients, 20 CFR Section 667.41 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.*

As part of administering WIA programs, good business practices dictate that OCO should have an adequate system of controls in place to ensure proper accountability and reporting of information on federal status reports.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-OCO-01: (continued)**

**Cause:** OCO management explained that when the CWDS system was implemented in July 2010, it was difficult to design the necessary queries to produce the reports needed to perform the reconciliations, and therefore, the reconciliations were not completed. OCO claims that adequate CWDS reports still do not exist, which results in OCO needing an extensive period of time to manually determine where errors exist in order to reconcile the systems.

In regard to the supervisor review, we obtained the reconciliations as soon as they were completed. The supervisor subsequently was going to review the reconciliations in detail to attempt to reduce the number of reconciling items. OCO management agrees that these reconciliations are important and should be done on a monthly basis to ensure the accuracy of the expenditures.

Regarding the transfers omitted from the ETA-9130 reports, OCO and L&I staff stated that these omissions were an oversight. During the SFYE June 30, 2011, there were several staffing changes within OCO that could have led to the oversight.

**Effect:** Failure to timely perform system reconciliations may result in ineffective detection and correction of errors. Therefore, future inaccurate financial information may be recorded on accounting systems and submitted to the federal government. Additionally, the omission of the transfers on the ETA-9130 results in noncompliance with federal reporting requirements.

**Recommendation:** We recommend OCO perform monthly system reconciliations on a timely basis. Additionally, OCO should ensure supervisory reviews are timely performed and adequately documented to ensure reconciliations are accurate. Furthermore, OCO should submit corrected ETA-9130 closeout reports to the USDOL for program year 2008 and ensure that all future ETA-9130 reports properly include transfer information.

**Agency Response:** The Office of Comptroller Operations agrees with the finding.

**Questioned Costs:** The impact of the \$5.3 million in unreconciled differences between the subsidiary system and general ledger is not known.

**The 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, 2011***

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### **Office of Comptroller Operations**

#### **Finding 11-OCO-02:**

**CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**

**CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)**

#### **Inaccurate Reporting on the SF-425 Report**

**Federal Grant Numbers: CS-420001-10 and FS-993577-10**

**Condition:** The Office of Comptroller Operations (OCO) is required to annually submit an SF-425 report to the Environmental Protection Agency (EPA) for each open grant for Clean Water State Revolving Funds (CWSRF) and Drinking Water State Revolving Funds (DWSRF). According to management, the EPA uses the SF-425 report to monitor grant expenditure activity by the Pennsylvania Infrastructure Investment Authority (PENNVEST). OCO submitted all required PENNVEST SF-425 reports for the FYE June 30, 2011. However, during our review of the SF-425 reports for CWSRF grant number CS-420001-10 and DWSRF grant number FS-993577-10, we noted that incorrect amounts for total federal funds were reported. Specifically, we found the following:

- The CWSRF SF-425 report's Federal Funds Authorized and Unobligated Balance of Federal Funds totals were overstated by \$21,532,786. The OCO incorrectly included in these totals the state match amount when preparing this report.
- The DWSRF SF-425 report's Federal Funds Authorized and Unobligated Balance of Federal Funds totals were understated by \$39,766,000. The OCO incorrectly excluded from these totals an increase to the grant award that was issued during FYE June 30, 2011 when preparing this report. Additionally, this understatement resulted in the Total Recipient Share Required total being understated by \$7,953,100 because this amount is a percentage of the total grant award.

**Criteria:** Federal grant recipients are required to use the SF 425 (Federal Financial Report) as a standardized format to report expenditures under Federal Awards, as well as, cash status, when applicable.

Good internal controls dictate that review and approval procedures for the SF-425 report should be adequate to prevent and detect errors, and ensure errors are corrected before the report is submitted.

**Cause:** According to OCO management, the SF-425 report is prepared based on information from the Financial Status Report Worksheet and is then reviewed by a supervisor to ensure the amounts are correct. OCO management stated that although the supervisor verified the expenditure information on the SF-425 report, the supervisor inadvertently failed to verify the grant award and state share amounts with the grant award documentation. As a result, OCO's internal controls designed to ensure the accuracy of the SF-425 reports did not prevent and detect the errors prior to submission.

**Effect:** Failure to accurately report grant amounts and expenditure activity could impact the EPA's review of PENNVEST's grant activities.

**Recommendation:** We recommend that OCO strengthen its internal controls over the preparation and review and approval of the SF-425 reports. OCO procedures must ensure a more diligent review of the SF-425 reports to ensure its accuracy prior to submission to the EPA. We also recommend that OCO submit corrected SF-425 reports for June 30, 2011 to the EPA.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-OCO-02: (continued)**

**Agency Response:** The Office of Comptroller Operations agrees with this finding.

**Questioned Costs:** Although OCO completed the SF-425 report incorrectly, it did not affect the funds expended under the grant. Therefore, there are no questioned costs.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Department of Corrections**

#### **Finding 11-DOC-01:**

#### **CFDA #84.397 – ARRA – State Fiscal Stabilization Fund – Government Services**

#### **Noncompliance and Weak Internal Controls Over Department of Corrections' Payroll Leads to \$11,317 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #10-71)**

**Federal Grant Number: S397A090039**

**Condition:** The State Fiscal Stabilization Fund (SFSF) Government Services Program included \$172,911,000 in payroll expenditures of the American Recovery and Reinvestment Act (ARRA) expenditures that were incurred by the Department of Corrections (DOC). We selected a sample of 65 individual DOC correctional officers from this population. However, based upon our testing of the first 5 individual DOC correctional officers, we determined the prior-year material weaknesses and material noncompliance still existed, resulting in questioned costs and therefore we discontinued testing. Discussions with DOC management confirmed that the control deficiencies identified in the prior SFYE testing still remained during SFYE June 30, 2011. Our procedures consisted of testing a random biweekly pay period from the SFYE June 30, 2011 for the five DOC employees mentioned above. The expenditures for these five DOC employees for this bi-weekly pay period totaled \$17,231. Each biweekly pay period consists of 14 days, which totaled 70 daily shift commander rosters and other supporting documentation.

Correctional officers are non-ESS (Employee Self Service) users, meaning their activity, exclusive of their regular assigned work shift information, is entered into SAP by a designated timekeeper. Every state correctional institution (SCI) accounts for their correctional officers time reporting via shift commander rosters. These rosters are the only documents required by DOC to properly support allowability as no timesheets or other support for allowability of DOC personnel costs are prepared/maintained. These rosters are required to be signed-off by respective shift commanders to ensure completeness and accuracy. Roster attendance is taken at the beginning of each shift and supervisors/shift commanders monitor all posts to ensure correctional officers are at their respective post throughout each scheduled shift. Also, absences are entered by the timekeeper into SAP based on approved leave slips (i.e., STD-330 forms).

Our testing of DOC's payroll procedures disclosed the following control deficiencies for the first five DOC employees in our sample:

- We found 46 of the 70 shift rosters were not signed/initialed by the shift commander, demonstrating lack of approval and verification of the correctional officer's attendance at each respective SCI on that date.
- We identified one STD-330 leave approval form that could not be located. DOC officials represented to us that it had not been completed by the employee.
- Per our discussion with DOC, Chief of Employee Services Division, there is no secondary/supervisory review of the data input from the shift commander roster into SAP by the timekeepers.

Based on these 47 instances of undocumented and unsupported costs, we calculated \$11,317 in payroll costs which we question as potentially unallowable.

Total SFSF Cluster expenditures reported on the current-year SEFA was \$918,661,189, of which \$173,438,966 was the total spent in the CFDA #84.397 Government Services Program.

**Criteria:** DOC should ensure that all SCI's are fully aware of existing policy and procedure in Section 16, 4.1.1, Human Resources and Labor Relations Procedures Manual, related to approval of source documentation used for payroll processing and attendance. This policy states, "Shift Commander shall schedule overtime work for corrections officers

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DOC-01: (continued)**

through the completion of the standard duty rosters (i.e., shift commander rosters) for their shifts, which shall be reviewed and approved by the Major of the Guard.” Also, an adequate system of controls would contain policies and procedures related to the retention of the shift commander rosters and other source documentation to allow for follow-up or review by DOC, internal and external auditors. In addition, an adequate system of controls would include a secondary/supervisory review of the data from the shift commander roster entered into SAP be conducted to ensure accuracy and completeness of information.

The Federal U. S. Department of Education (USDE) document entitled “Guidance for Grantees and Auditors, State Fiscal Stabilization Fund Program,” dated December 24, 2009, states that “entities must maintain contemporaneous documentation to show that individuals for whom salary is paid worked sufficient hours to justify the salary.”

**Cause:** DOC management acknowledged that the existing policy and procedure for the approval of source documentation, such as shift commander rosters, used for payroll processing was not followed by all SCIs. In addition, DOC agreed that a lack of control exists due to no secondary/supervisory review of related data being entered into SAP by the timekeepers.

**Effect:** Not adhering to existing DOC policy and procedure, relating to the approval of shift commander rosters and completion of STD-330 forms, and the lack of adequate controls for secondary/supervisory review of information input from source documentation into SAP, resulted in \$11,317 of unsupported and unallowable payroll expenditures as part of the ARRA payroll expenditures claimed.

**Recommendation:** We recommend that DOC adhere to existing policies and procedures related to the approval of all shift commander rosters and completion of appropriate leave documentation (i.e., STD-330) at the SCIs. Also, DOC should implement adequate controls for secondary/supervisory review of information entered into SAP by the timekeepers to ensure accuracy and completeness.

**Agency Response:** We are in the process of developing a mechanism in our overtime policy that will contain a requirement for electronic or physical approval of the institution daily roster and a maintenance schedule for the source documentation. This will address the deficiencies found in the source document authorization and retention processes currently used by the Department of Corrections.

**Auditors’ Conclusion:** We are encouraged by DOC’s proposed corrective actions to improve internal controls and will evaluate the new procedures in the subsequent audit period.

**Questioned Costs:** \$11,317

**The 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, 2011

### Department of Education

#### Finding 11-PDE-01:

##### CFDA #10.553 – School Breakfast Program

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

#### Internal Control Deficiency in Pennsylvania Department of Education Monitoring of School Food Service Accounts

Federal Grant Numbers: 2010-1PA300305, 2009-1PA300305 and 2008-1PA300305

**Condition:** During our current year audit of the National School Lunch and School Breakfast Programs administered by the Pennsylvania Department of Education (PDE), we found an internal control deficiency in PDE's monitoring of school food service accounts maintained by school food authorities.

School food authorities are required to annually complete and submit the Child Nutrition Financial Report (CNFR) electronically through the Child Nutrition Program Electronic Application and Reimbursement System (CNPEARS) to PDE. The CNFR reports the operating income and expenses of the school food authority and through calculations immediately informs the school food authority whether its net cash resources had exceeded its three month's average expenditures. If CNPEARS calculated that the net cash resources were excessive, CNPEARS prompts the school food authority, as part of completing the CNFR, to also complete the corrective action plan portion of the CNFR. The corrective action plan would explain how the school food authority would resolve the excessive amount of net cash resources.

Of the more than 900 school food authorities who received \$299 million for the national school lunch program and \$76.8 million for the school breakfast program, we selected 40 school food authorities, collectively receiving \$32.7 million from these programs, and obtained their CNFR report submitted during the SFYE June 30, 2011 for the 2010-11 school year. We found that PDE had not reviewed and approved any of the CNFRs as of January 26, 2012, which had been received by PDE more than a year ago. In addition, of the 40 CNFR's tested, one lacked mandatory financial information, and two others were determined to have net cash resources in excess of their three months' average expenditures. Although these two school food authorities submitted a corrective action plan, as part of their CNFR, these were not reviewed by PDE.

**Criteria:** National School Lunch Program: 7 CFR 210.19 (a) (2) states, in part:

*The State agency shall ensure compliance with the requirements to limit net cash resources and shall provide for approval of net cash resources in excess of three months' average expenditures. Each State agency shall monitor, through review or audit or by other means, the net cash resources of the nonprofit school food service in each school food authority participating in the Program. In the event that net cash resources exceed 3 months' average expenditures for the school food authority's nonprofit school food service or such other amount as may be approved in accordance with this paragraph, the State agency may require the school food authority to reduce the price children are charged for lunches, improve food quality or take other action designed to improve the nonprofit school food service. In the absence of any such action, the State agency shall make adjustments in the rate of reimbursement under the Program.*

School Breakfast Program: 7 CFR 220.13 (j) states:

*During audits, supervisory assistance reviews, or by other means, State agencies, or FNSROs where applicable, shall be responsible for monitoring the net cash resources of the nonprofit school food service of each School Food Authority participating in the Program. In the event that such resources exceed three months average expenditures for the School Food Authority's nonprofit school food service, or such amount as may be approved by the State agency or FNSRO where applicable, the State agency or FNSRO where applicable, may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. In the absence of any such action, adjustments in the rates of reimbursement under the Program shall be made.*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PDE-01: (continued)**

**Cause:** PDE management stated that there is no regulatory due date for reviewing the CNFR, thus the reason the reports have not been reviewed. In addition, limited staffing precluded PDE from monitoring the CNFRs.

**Effect:** PDE's failure to ensure that the school food authorities complied with school food service account federal requirements, could result in PDE not making adjustments in the rate of reimbursement under the program or PDE not requiring school food authorities to reduce prices charged, improving food quality, or improving school food service.

**Recommendation:** We recommend that PDE review and approve CNFRs, including corrective action plans, if applicable, and do so in a timely manner to ensure that school food authorities comply with federal regulations. Also, we recommend that PDE generate management exception reports from CNPEARS for internal tracking purposes to ensure that CNFR filings are complete and to identify applicable schools with exceptions and related corrective action plans.

**Agency Response:** PDE, Division of Food and Nutrition disagrees with this finding and maintains program monitoring of school food service accounts are in compliance with Federal Regulations.

Regulations do not specify a timeframe for monitoring of Net Cash Resources. The 7 CFR 210.19 states that the state agency may monitor Net Cash Resources through review or audit or by other means. Per Federal Regulations, each School Food Authority is monitored for compliance of Federal Regulations every five (5) years. Therefore, the auditors' position that the review of Net Cash Resources is untimely is unfounded since it is the State Agency's determination to establish the frequency of the review. The Division maintains that reviewing Net Cash Resources within the five (5) year review cycle is consistent with regulations pertaining to the review cycle.

**Auditors' Conclusion:** On-site monitoring of net cash resources in the five-year cycle is not considered timely for this compliance requirement. According to PDE's position, respective school food authorities could operate in a profit status for five years before detected by PDE through on-site monitoring. Therefore, the finding and recommendation remains 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.**



# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Department of Education**

#### **Finding 11-PDE-02:**

**CFDA #10.553 – School Breakfast Program**

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

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

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

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

**CFDA #84.027 – Special Education – Grants to States**

**CFDA #84.173 – Special Education – Preschool Grants**

**CFDA #84.391 – ARRA – Special Education Grants to States**

**CFDA #84.392 – ARRA – Special Education Preschool Grants**

**Deficiencies in Information Technology Controls Over the Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding #10-22)**

**Federal Grant Numbers: 1PA300305, H027A090093, H027A100093 and H391A090093**

**Condition:** The Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) is custom child nutrition program 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 SFYE June 30, 2011, 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 promotion of program changes into production, as well as a lack of a monitoring process to detect unauthorized changes in the production environment. Further, we noted that system parameter settings did not comply with the Commonwealth’s standards and that PDE program staff had the ability to change key electronic certifications on subrecipient documents. We found the following control weaknesses existed during the audit period:

- A lack of segregation of duties continued to exist because the outside vendor employee who promotes programs into production continues to have access rights in the development environment. Although the vendor represented that this employee refrained from performing development, the contactor did not remove the employee’s access rights to develop. Further, PDE did not have monitoring procedures in place to ensure the vendor maintained proper segregation of duties while making application changes.
- The vendor has been granted around-the-clock access to PDE’s production servers to promote changes without pre-approval by PDE.
- A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard change management process.
- PDE has not developed a formal program change methodology that outlines both PDE’s responsibilities and the vendor’s responsibilities for application development, program changes, system patching, configuration changes and emergency changes to the CN-PEARS application.
- PDE program staff has the ability to make unauthorized changes to key electronic certifications in the subrecipients’ applications for program funding, which should only be made by subrecipients.
- An excessive number (23) of Division of Food and Nutrition (DFN) program staff has administrator access rights in the CN-PEARS application, which allow them to grant administrator rights to other individuals. This access should be limited to only one or two individuals within the IT group.
- System parameter settings did not comply with the Commonwealth’s standards for user IDs and passwords.

**Criteria:** A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management’s intent. Also, Information Technology Bulletin (ITB) SEC007 – Minimum Standards for User IDs and Passwords, specifies detailed requirements for all network systems operating under the governor’s jurisdiction. The policy specifies the following

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PDE-02: (continued)**

requirements for passwords: 1) must be a minimum of eight characters, 2) must be composed of at least three of the following types of characters: upper case, lower case, letters, numbers, special characters, 3) may not reuse any of the last ten previously used passwords, 4) may neither contain the user ID, nor any part of the user's full name, 5) will expire after 60 days, requiring the creation of a new password, 6) may not be changed more than once every fifteen days. Further, ITB SEC007 specifies users are to be locked out after five consecutive failed log-on attempts and require administrator-level access to unlock them. In addition, once a user is logged in, the system will be locked after fifteen minutes of inactivity, requiring the user to re-enter the password to regain access to the system.

Logical access controls are essential to prevent PDE from altering subrecipient certifications of federal program requirements on subrecipient applications in the CN-PEARS system.

**Cause:** The vendor is now logging changes to the CN-PEARS system in a manual log. However, there was no evidence that PDE monitored the log to ensure the vendor has enforced the segregation of duties policy. Further, PDE has not implemented a manual or automated review of the production environment to ensure only properly authorized and approved changes have been deployed to the production environment.

PDE management has granted the vendor around-the-clock access to its servers because the vendor needs to implement changes during non-business hours, and PDE IT staff is not available to grant access at that time. PDE management contends that waiting to implement changes until normal business hours would interfere with DFN's ability to carry out business functions in a timely manner.

Neither PDE management nor the vendor provided written procedures outlining their respective responsibilities for application development, program changes, system patching, configuration changes, and emergency changes to the CN-PEARS application. PDE representatives were not available to discuss why these procedures have not been developed.

PDE management indicated that the security upgrade planned for March - April of 2012 will allow logging of all changes made to key compliance documents. PDE management has decided that DFN staff will still maintain the ability to access and change subrecipient documents. We disagree with this decision and believe the ability to change key certifications on subrecipient electronic documents is inappropriate for DFN staff and increases the potential for these certifications to be unreliable for audit. Further, PDE management indicated that all DFN staff will continue to have administrator rights in the CN-PEARS application because this level of access is required to change the subrecipient electronic documents.

PDE management indicated that the planned security upgrade would also ensure the CN-PEARS system parameter settings will comply with ITB SEC007.

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

**Recommendation:** We recommend that PDE management:

- review the manual log regularly and timely to ensure only authorized vendor personnel have implemented changes to the CN-PEARS application. The review should ensure that all changes were properly approved and that the vendor maintained proper segregation of duties. Evidence of the review should be documented.
- restrict the vendor's access to PDE's servers and grant only temporary access to implement pre-approved changes. If such restrictions are not possible, then compensating controls should be implemented such as actively monitoring the VPN connection and reviewing all vendor activity on the server in a timely manner.
- implement software to log any changes to the production environment. The automated log should be compared to the manual log, and any exceptions should be investigated, resolved, and documented. The automated log should also be reviewed to ensure only properly authorized and approved programs have been moved to production.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-PDE-02: (continued)

- develop a written program change management methodology that outlines both PDE's responsibilities and the vendor's responsibilities concerning application development, program changes, system patching, configuration changes, and emergency changes in the CN-PEARS system.
- require that the vendor implement logical access controls over key electronic fields in subrecipient applications and other key compliance electronic documents to prevent inappropriate changes to key certifications/fields.
- restrict administrator access rights in the CN-PEARS application to a small number of individuals in the IT group that require this level of access to perform their job function.
- ensure the system parameter settings in the planned upgrade comply with Commonwealth ITB SEC007.

**Agency Response:** The PDE, Division of Food and Nutrition (DFN) respectfully disagrees with the following bullet points:

- **Vendor Segregation of Duties**

The contractor has contracts with many other states. The individual responsible for deploying changes in Pennsylvania is responsible for development in other states. Therefore, those development rights cannot be removed. Based on the prior year Audit Finding, the vendor complied with prior audit requests and established a policy that disallowed the individual responsible for deployment to also conduct coding changes for the respective work order. The DFN was never notified that this procedure is not acceptable. The statement that PDE does not monitor deployment changes is not accurate. The PDE does monitor development and deployment through a deployment log to ensure that the individual responsible for deploying changes has not been involved in the development of the code. Again, based on the prior year audit, DFN is complying with the established procedure and was not notified that this procedure was unacceptable. At minimum, it should be noted that DFN is following the identified procedure.

- **An Excessive Number (23) of DFN Staff Has Administrator Rights to CN-PEARS**

The proper context of "administrator rights" has not been applied appropriately. While staff may fall under the broad category of having "administrator rights," they do not have unlimited access to the entire PEARS Program. Access is limited to the specific program area which the individual works. Otherwise, access is "view rights." Furthermore, the DFN does not have an IT Group, as proposed in the Finding; therefore, limiting access to two (2) IT individuals is not a viable proposition. There are situations when it is necessary for staff to update information on the Sponsor Application. Internal procedures dictate this is only to be done when necessary in order to conduct business. PEARS currently automatically documents the user (this is not a new feature specific to .NET upgrade), and also documents the specific change that was made (old value and new value). Therefore, changes are notably traceable. In addition, the PDE user must document the purpose of the change in the Comment Section on the Sponsor Application.

- **PDE Has Not Developed a Formal Program Change Methodology**

While not provided in written procedures, the DFN has a procedure for initiating and implementing changes. This process was described to the Auditors during a meeting with DFN, the Vendor and the Auditors. Documentation showing that the described steps were followed had been provided to the Auditors.

**Auditors' Conclusion:** Since PDE contends that segregation of duties is not possible because an outside vendor employee must have development and deployment rights, monitoring of that employee's actions is paramount to effective internal controls. PDE did not provide evidence of monitoring of the deployment log nor is software used which would ensure all of the vendor employee's actions were recorded.

The auditors viewed computer screen shots that identified 23 "administrators" in the CN-PEARS application. PDE contends that these 23 individuals need "administrator" capability to change key electronic certifications in the subrecipients' applications for program funding. We disagree with PDE's decision to allow its employees to change key

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-PDE-02: (continued)**

electronic certifications and believe those changes should only be permitted by the subrecipients who submit the certifications. Further, any administrator rights in the CN-PEARS application should be designated to IT staff, not to program staff.

PDE contends that they provided documentation that demonstrates a program change methodology; however, that documentation was not representative of formal procedures that address PDE and vendor responsibilities for program development, program changes, system patching, configuration changes, and emergency changes to the CN-PEARS application.

Regarding the other conditions and recommendations that PDE did not address in its management response, we continue to recommend those improvements to internal control.

We will review 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.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Department of Education**

#### **Finding 11-PDE-03:**

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

#### **For-Profit Subrecipients Are Not Being Audited in a Timely Manner (A Similar Condition Was Noted in Prior Year Finding #10-28)**

**Federal Grant Numbers: 2008 1PA300305 and 2009 1PA300305**

**Condition:** The Pennsylvania Department of Education (PDE) utilizes the Commonwealth Office of the Budget's Bureau of Audits (BOA) to conduct audits of the Child and Adult Care Food Program's (CACFP) for-profit subrecipients, which are not covered by OMB Circular A-133. For-profit subrecipients receive a material amount of CACFP funding each year. During the current state fiscal year ended June 30, 2011, payments were made to 519 for-profit subrecipients, totaling \$27 million, or 29.8 percent, of the CACFP expenditures totaling \$90.7 million listed on the current-year SEFA. According to federal CACFP regulations, PDE must develop its own state policy to audit its for-profit entities. PDE has adopted a federally-approved policy of auditing all for-profit subrecipients receiving \$100,000 or more in any federal fiscal year (October 1 to September 30). Out of the 519 for-profit subrecipients receiving CACFP funds during the state fiscal year ended June 30, 2011, 38 were each paid over \$100,000. Collectively, these 38 subrecipients received a total of \$12.1 million, or about 13.2 percent of the total CACFP program.

In addition to the Commonwealth's federally-approved CACFP audit policy, whereby all for-profit subrecipients that receive \$100,000 a year are to be audited, BOA implemented an undocumented policy of performing these audits on a two-year cycle. We obtained BOA's audit schedules of CACFP for-profit subrecipients for the 09-10 and 10-11 years and found that of the approximately 38 subrecipients receiving \$100,000 or more, BOA only scheduled audits for 23 subrecipients; therefore, 15 subrecipients were not scheduled to be audited during this two-year cycle. Additionally, we noted that of the 23 audits scheduled, we found that as of June 30, 2011, BOA started only 17, of which 12 were completed. As a result, over the two-year period, BOA did not start 21 audits, or 55 percent, and only completed 12 audits, or 32 percent.

**Criteria:** Regarding Audits, 7 CFR 226.8(a) states:

*Unless otherwise exempt, audits at the State and institution levels must be conducted in accordance with Office of Management and Budget circular A-133 and the Department's implementing regulations at part 3052 of this title. State agencies must establish audit policy for for-profit institutions. However, the audit policy established by the State agency must not conflict with the authority of the State agency or the Department to perform, or cause to be performed, audits, reviews, agreed-upon procedures engagements, or other monitoring activities.*

PDE's federally-approved Audit Policy for For-Profit Organizations is as follows:

*If the Child and Adult Care Food Program (CACFP) sponsor is a for-profit organization and receives \$100,000 or more of reimbursement during the CACFP program year of October 1 through September 30, from the Child and Adult Care Food Program, the Child and Adult Care Food Program sponsor is required to have a performance audit conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and in accordance with the laws and regulations governing the Child and Adult Care Food Program. The selected financial and program compliance requirements will consist of the following four compliance areas, Eligibility, Meal Counts, Financial Management and Meal Pattern/Planning. The Department may in addition to four compliance areas require, as circumstances warrant, other financial and/or program compliance requirements to be tested. For-Profit Child and Adult Care Food Program centers or sponsors participating in the Child and Adult Care Food Program that are required to have this performance audit performed will have the audits conducted by auditors retained by the state Child and Adult Care Food Program office at no cost to them.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-PDE-03: (continued)**

*If a For-Profit Child and Adult Care Food Program center or sponsor receives total federal awards of less than \$100,000 from the Child and Adult Care Food Program, during the CACFP program year of October 1 through September 30, it is exempt from these audit requirements. The sponsor is, however, required to maintain auditable records of expenditures, federal awards, and any state funds, which supplement such awards, and to provide access to such records by federal and state agencies or their designees.*

According to management, BOA's undocumented CACFP audit policy is to audit all required for-profit subrecipients on a two-year cycle.

**Cause:** According to management, BOA does not have sufficient staffing to adhere to its policy of auditing for-profit CACFP subrecipients on a two-year cycle. Management also stated that it implemented a new risk-based approach audit policy for identifying which entities to be audited in October 2011. However, this is after the current audit period and will be evaluated during the next Single Audit.

**Effect:** BOA's schedule for auditing CACFP for-profit subrecipients is inadequate to ensure that for-profit audits are properly and timely performed and subrecipient non-compliance is being detected and corrected in a timely manner. Instances of non-compliance at the for-profit subrecipient level can exist for multiple years without detection and corrective action being implemented.

**Recommendation:** We recommend that BOA and PDE jointly evaluate the status of backlogged audits of for-profit CACFP subrecipients to develop a mutually agreed upon plan of action to address the audits. Additionally, we encourage BOA and PDE to analyze staffing needs of the new audit policy that became effective in October 2011 to ensure compliance with the policy in the future.

**PDE and Comptroller Response:** The PDE's Audit Policy requires a Performance Audit for each for-profit CACFP sponsor receiving \$100,000 or more during the program year. When this policy was developed for Federal FYE September 30, 2006, only 12 sponsors met this criterion. During Federal FYE September 30, 2010, there were 37 sponsors that met the audit criteria. As mentioned in the finding, BOA does not have sufficient staffing to audit all 37 for-profit subrecipients receiving over \$100,000. The Audit Policy was changed effective for audits of Federal FYE September 30, 2011. The BOA will now perform a risk analysis of all sponsors receiving over \$75,000 during the Federal FY. Higher risk sponsors will be selected for audit. The PDE provides input on the selected subrecipients. The number of audits will be determined by available staff and resources from PDE and BOA. This risk based methodology has been approved by USDA.

Performing audits on a two-year cycle and only auditing a limited number of sponsors does not necessarily mean that instances of non-compliance go undetected. In addition to the audits, each sponsor must undergo a regulatory compliance review performed by PDE every two to three years.

The PDE and BOA continue to evaluate the current Audit Policy and refine as necessary to maximize resources while monitoring for accountability.

**Auditors' Conclusion:** We acknowledge the actions undertaken by management to correct deficiencies identified in the audit. Moreover, we are encouraged by management's implementation of a new risk-based approach audit policy for identifying which entities to audit. We will determine the extent of all corrective action during the subsequent Single Audit of the Commonwealth.

**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, 2011***

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### **Department of Education**

#### **Finding 11-PDE-04:**

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

##### **Internal Control Deficiencies in Pennsylvania Department of Education Monitoring of Child and Adult Care Food Program Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-29)**

**Federal Grant Numbers: 2008 1PA300305, 2009 1PA300305 and 2010 1PA300305**

**Condition:** During our audit of the Child and Adult Care Food Program (CACFP) administered by PA Department of Education (PDE), we again found, for the 2<sup>nd</sup> year in a row, internal control deficiencies in PDE's on-site monitoring of its subrecipients. Specifically, we found that PDE does not timely close corrective action plans (CAP), and, in one instance, PDE failed to communicate a deficiency to the subrecipient on the CAP. Total subrecipient expenditures on the SEFA were \$90 million out of total CACFP expenditures of \$90.7 million, or 99 percent.

PDE performs on-site monitoring of subrecipients to ensure compliance with federal program regulations. PDE uses standardized monitoring reports to document their review of each subrecipient, noting findings and areas for improvement. PDE communicates the deficiencies and recommendations on the CAP form and the subrecipients communicate their corrective action responses on the CAP form to address the deficiencies and forwards the CAP form to PDE. PDE then reviews all responses to CAPs submitted by subrecipients and evaluates them for adequacy. If the corrective action submitted by the subrecipient is inadequate, PDE will contact the subrecipient and request additional information. Based on a 2008 Management Evaluation, The US Department of Agriculture (USDA) agreed that 120 days was an appropriate period of time for PDE to approve subrecipients' responses to CAPs and close each monitoring review.

We sampled 65 of PDE's on-site reviews out of a population of 376 completed reviews conducted during Program Year 2010 (October 2010 – September 2011). We audited this period because that is the period used by PDE to track on-site monitoring. Of the 65 reviews tested, three did not require a CAP and subrecipients were timely notified of the monitoring results. Of the remaining 62 reviews, where deficiencies were cited and involved the need for a PDE on-site reviewer to prepare a CAP, 40 CAPs were prepared and closed timely. However, 22, or 35 percent, were not closed within the required 120 day period. Of these 22, 6 were closed between 7 and 63 days past due. The remaining 16 had not closed as of January 11, 2012, and were past due between 6 and 197 days.

During our testing we also found an instance where PDE did not list a deficiency related to the meal count system on the CAP that was detected by the PDE on-site reviewer during the monitoring visit and noted on the monitoring report. The PDE Regional Supervisor should have detected that the CAP did not address all deficiencies reported on the monitoring report.

**Criteria:** Federal Regulation 7 CFR 226.6(o) regarding child care standards for compliance states:

*The State agency shall, when conducting administrative reviews of child care centers, and day care homes approved by the State agency under paragraph (d)(3) of this section, determine compliance with the child care standards used to establish eligibility, and the institution shall ensure that all violations are corrected and the State shall ensure that the institution has corrected all violations. If violations are not corrected within the specified timeframe for corrective action, the State agency must issue a notice of serious deficiency. . . .*

As a result of a similar monitoring issue being disclosed in USDA's 2008 Management Evaluation, USDA agreed that PDE should be permitted 120 days to close corrective action plans.

**Cause:** According to PDE management, approval and final closure for CAPs can take a long time because PDE's policy that was in effect during the current audit period provided subrecipients up to three opportunities to provide requested information before seeking the next level of sanction. For example, if a subrecipient does not submit the requested

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PDE-04: (continued)**

information by PDE's deadline, the subrecipient is asked to submit the information again and the deadline is extended. Due to this repeated back and forth communication with subrecipients, PDE Regional Supervisors often take many months to review and approve responses to CAPs submitted by the subrecipients.

Additionally, according to management, the deficiency that was not incorporated into the CAP was due to an oversight by the PDE on-site reviewer and the respective PDE Regional Supervisor.

**Effect:** When CAPs are not reviewed, approved, and closed by PDE timely, subrecipients may continue to operate in non-compliance with program regulations. Permitting subrecipients to operate in violation of program requirements for extended periods of time increases the likelihood that funds may not be spent for intended purposes or in accordance with program requirements. Furthermore, untimely closure of CAPs by PDE increases the likelihood that individuals that are to be served by the program are not receiving the benefits that are paid for by taxpayer funds.

Also, if PDE Regional Supervisors, who are responsible for reviewing the documented reviews and the corresponding CAPs, do not detect deficiencies that were omitted from the CAPs, subrecipients will not formally communicate its planned corrective actions, which could result in the subrecipient not taking the necessary actions to correct the noted deficiencies allowing the non-compliance to continue.

**Recommendation:** We recommend that PDE consider modifying its procedures for resolving CAPs to ensure that they are received, approved, and closed within the required 120 day period.

Also, we recommend that PDE provide guidance and training to the on-site reviewers and Regional Supervisors to ensure that all deficiencies found are adequately addressed on the CAP forms.

**Agency Response:** Throughout the 2010-2011 Program Year, the Pennsylvania Department of Education, Division of Food and Nutrition (DFN) with the assistance of the United States Department of Agriculture, Mid-Atlantic Regional Office (MARO) developed a procedure with the intent to shorten the timeframe of 120 days for closing the reviews. The final procedure for closing reviews was approved by MARO in December, 2011.

Although this information was shared with the Auditors at the time of the Entrance Conference and also throughout the Audit Review, it was not included in the Finding.

The efforts by DFN to identify a procedure during this time should be acknowledged in the Finding.

**Auditors' Conclusion:** We acknowledge the positive action taken by PDE management to correct deficiencies identified in the audit. We are also encouraged by management's implementation of new procedures with the intent to shorten the timeframe for closing reviews. We will evaluate the new procedures in the subsequent audit.

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

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



# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Department of Education**

#### **Finding 11-PDE-05:**

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

#### **Pennsylvania Department of Education Approved an Institution to Participate in the Child and Adult Care Food Program That Did Not Meet Eligibility Requirements**

**Federal Grant Numbers: 2008 1PA300305, 2009 1PA300305 and 2010 1PA300305**

**Condition:** During our audit of the Child and Adult Care Food Program (CACFP) administered by PA Department of Education (PDE), we found a significant deficiency in PDE's review and approval of applications of non-profit participants in the CACFP program. Of total program expenditures totaling \$90 million, we selected a sample of 65 participants who received CACFP funds totaling \$7.6 million, and tested their applications to verify eligibility. Based on our testing of the 65 participants, we identified one participant that did not have evidence of non-profit status in their respective file maintained by PDE. We brought this matter to the attention of PDE, who confirmed to us that this sponsor did not possess the required non-profit status from the IRS and was not eligible to participate in the program. This ineligible subrecipient was paid \$7,639 during the state fiscal year ended June 30, 2011.

**Criteria:** Federal Regulation 7 CFR 226.17(b)(2) regarding child care center provisions specific to tax exempt status states:

*Except for for-profit centers child care centers shall be public, or have tax exempt status under the Internal Revenue Code of 1986.*

In order to satisfy this requirement, PDE requires applicants for the CACFP program to submit a letter issued by the IRS indicating that they have been granted nonprofit tax exempt status under Section 501(C)(3) of the IRS Code of 1986.

**Cause:** According to PDE management, the application for this participant was processed and approved as a non-profit entity. The applicant had completed the application on PDE's online PEARS system and entered the organization type as non-profit even though the applicant did not possess non-profit status granted by the IRS. Management acknowledged that the processing of this application without documented evidence of non-profit status and evidence that the applicant met the eligibility requirements was an oversight on PDE's part.

**Effect:** Unallowable CACFP costs of \$7,639 are questioned. In addition, without adequate controls in place to ensure that all non-profit entities approved actually possess non-profit status, there is a potential for additional CACFP subrecipients to be participating in the program when they do not meet the eligibility requirements.

**Recommendation:** We recommend PDE improve its procedures for approving applications and ensure proper documentation exists to verify the appropriate tax status of the subrecipient. We also recommend that PDE immediately terminate this subrecipient from the CACFP program. We further recommend that PDE review its files of all non-profit participants to ensure that there is adequate documentation to support their non-profit statuses.

**Agency Response:** PDE, Division of Food and Nutrition (DFN), does not agree with the finding.

The Child and Adult Care Food Program (CACFP) is required to verify the eligibility of an applying entity at the time of the initial Application in accordance with 7 CFR 226.6(b)(1)(vii). At the time of the initial Application, the sponsor in question, New Life Christian Child Care Center (Sponsor), was affiliated with the Methodist Church Ministries and was granted non-profit status. Therefore, at the time the Sponsor was originally approved, DFN is in full compliance with all federal regulations. The 7 CFR 226.6(b)(2) provides guidance regarding the documentation required for renewing institutions and does not reference non-profit status. Both of the applied aforementioned regulations were confirmed directly with USDA's Mid-Atlantic Regional Office.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-PDE-05: (continued)**

In June 2011, USDA published the Final Integrity Rule. As required in current regulations, all CACFP Sponsors must review and update any changes in their Application for participation when renewing the participation status (7 CFR 226.6(f)(3)(iv)). In 2005, the Sponsor's affiliation with the Methodist Church ended; however, the Sponsor failed to update the information at the time of its annual updates creating the exception noted in the finding. The DFN, acting on the most current information provided by the Sponsor, followed procedures in approving the current Application.

In accordance with CACFP 7 CFR 226.6(c) which outlines termination for cause procedures, the DFN will immediately notify the Sponsor of its serious deficiency in providing false information on their annual Application update and request repayment of the \$7,639 in questioned costs. Furthermore, the notice of serious deficiency will require the Sponsor to provide documentation that, as a for-profit entity, it meets eligibility requirements or DFN will terminate the Sponsor's participation in the CACFP.

**Auditors' Conclusion:** We acknowledge the action of the Pennsylvania Department of Education to recover the \$7,639 from the ineligible subrecipient. However, the aforementioned action does not negate the fact that management approved the payment even though the applicant did not possess non-profit status granted by the IRS. It is the Pennsylvania Department of Education's responsibility to have adequate controls in place to ensure all approved non-profit entities actually possess non-profit status in order to avoid improper payments.

**Questioned Costs:** The amount of questioned costs is calculated to be \$7,639.

**The 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, 2011***

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### **Department of Education**

#### **Finding 11-PDE-06:**

##### **CFDA #84.010 – Title I Grants to Local Educational Agencies**

##### **CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies**

#### **Noncompliance and Inadequate Controls Over Pennsylvania Department of Education’s Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #10-57)**

**Federal Grant Numbers: S010A100038A and S389A090038A**

**Condition:** Title I federal education grant monies are enacted under the Elementary and Secondary Education Act (ESEA), as amended, and by the No Child Left Behind (NCLB) federal legislation of 2002, as amended. Under ESEA and NCLB, Title I services are to be linked to state-determined performance standards that are expected of all children. In order to meet these requirements, assessment exams are given to students in an effort to identify and assist schools that do not make adequate yearly progress (AYP) toward meeting the standards.

The Pennsylvania Department of Education (PDE) ensures that Local Educational Agencies (LEAs) annually review the progress of each Title I school to determine whether the schools are making AYP. Under NCLB, the general rule is that LEAs and schools that do not make AYP are identified for improvement, and are classified under a status called School Improvement and/or Corrective Action. For schools in a school improvement classification, the LEAs must create school plans and work with PDE to implement the plans to ensure that students can make AYP.

As part of the AYP determination process, PDE must prepare and submit information to the U.S. Department of Education (USDE) on the Consolidated State Performance Report (CSPR). Furthermore, PDE must prepare and disseminate an annual State Report Card (SRC) that includes the number and name of each school and LEA identified for improvement.

Although PDE has contracted with a vendor to provide pertinent data for the CSPR and SRC, federal regulations require PDE to be responsible to collect, compile, and determine the accuracy of information about the number and names of schools in need of improvement and to report this information on the CSPR and SRC. While the majority of the information comes directly from the vendor, other reporting information comes from PDE.

To determine the accuracy of the CSPR and SRC, we selected 18 information fields from the CSPR and 17 information fields from the SRC out of more than a thousand fields of data. For each item selected, we traced the reported information to source documentation that included computer reports and other lists and supporting schedules, as applicable. In addition, we compared similarly reported data in the CSPR and SRC for completeness and accuracy. Based on the results, we noted that the CSPR and the SRC were incomplete, and PDE had inadequately documented its review procedures regarding the collection, compilation, and verification of the accuracy of the data reported. Specifically, we noted the following deficiencies:

- PDE did not report required information in three sections of the CSPR with data fields. For two of the data fields, Part 1.2.2 – *Participation of Students with Disabilities in Mathematics Assessment* and Part 1.2.4 – *Participation of Students with Disabilities in Reading/Language Arts Assessment*, no data or comment was reported. For one data field, Part 1.4.8.3. – *Effective School Improvement*, PDE inserted the comment “Pennsylvania did not collect this data.”
- PDE did not report the correct number of school districts on the CSPR. PDE reported 540 school districts. However, based on PDE’s criteria for including school districts on the CSPR, the correct number was 529. Eleven of the charter schools and career/technical schools included in the 540 should not have been.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-PDE-06: (continued)**

- PDE does not report the AYP status of a school on the individual school's report card, but it does report this information on the district's report card. Furthermore, PDE does not report the AYP status of a school district on the district's report card, but it does include this information in the summary count on the SRC. Therefore, we were unable to verify that the AYP status of the school was accurately reflected in the school district's report card, and we were unable to verify that the school district's AYP status was accurately reflected in the SRC.
- PDE's procedures were inadequate to ensure the accuracy of the vendor data reported in the CSPR and SRC. PDE indicated that it performs various automated data validation checks (i.e., record counts and control totals) and comparisons of year-to-year test score data received from its outside vendor. PDE appears to have taken steps to document these procedures. However, when asked to provide documented evidence that the procedures were performed, PDE did not produce adequate documentation. We selected three individual review procedures performed by PDE that were applicable to the CSPR and the SRC. One procedure could not be performed, and according to PDE, should have been removed from the procedures. The documentation provided to support the performance of the other two procedures lacked evidence as to what comparisons of data were completed, what variances were investigated, and what the results were.

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

*(h) Reports.*

*(1) Annual State Report Card.*

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

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

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

*(v) aggregate information on any other indicators used by the State to determine the adequate yearly progress of students in achieving State academic achievement standards;*

*(vii) information on the performance of local educational agencies in the State regarding making adequate yearly progress, including the number and names of each school identified for school improvement under section 1116; and*

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

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

*(E) the number and names of each school identified for school improvement under section 1116(c), the reason why each school was so identified, and the measures taken to address the achievement problems of such schools;*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-PDE-06: (continued)**

**Cause:** PDE depends heavily upon the outside vendor for the determination of schools making AYP and the identification and reporting of schools and districts in the improvement classification. Since the timeliness of the reports is viewed as most critical, the accuracy of the information is left to the vendor to ensure. Although PDE has made some improvements in the coordination and compilation of both reports, the reports continue to contain errors and omissions due to an inadequate review process.

**Effect:** The reports are to provide information on state activities and outcomes of ESEA programs. The reports are also supposed to provide valid evidence of program outcomes and results in meeting NCLB standards. Since portions of the CSPR and the SRC are missing, the reports are inaccurate and may be inappropriately used by USDE or the public to measure NCLB success.

Furthermore, all the parties involved with complying with NCLB (i.e., PDE, vendor, LEAs, and schools) have a vested interest in making AYP. The interests of the parties increase the risk of submission of inaccurate data because all parties have direct consequences if AYP decreases rather than increases. Therefore, adequate oversight of all parties and their reported information is most critical to evaluate the true success or failure of NCLB programs.

**Recommendation:** PDE management should institute reasonable, documented measures to ensure that data reported on the CSPR and the SRC is complete and accurate. Detail information needs to be provided to PDE in order for PDE to perform adequate procedures to ensure its accuracy before the reports are submitted.

Also, PDE needs to ensure recently implemented procedures are adequate and that reasonable documentation is maintained as evidence that these procedures have been completed. Procedures should include independent verification, supervisory review, and documented sign-offs. Audit trails should be improved to that show how the individual and school data rolls up into the summary data presented on the CSPR and the SRC.

**Agency Response:** PDE's response is keyed to the bulleted points in the finding:

- The PDE contests this portion of the Finding. The Bureau of Assessment and Accountability (BAA) submits participation data for Individuals with Disability to EdFacts. The tests scores that are administered are submitted by BAA. In Section 1.2.2, the BAA did not administer the Alternate Assessment Based on Grade Level Achievement Standards in Math; therefore it is blank. In Section 1.2.4, the BAA did not administer either the Alternate Assessment Based on Grade Level Achievement Standards or, for 2009-2010, an Alternate Assessment Based on Modified Achievement Standards in Reading. Since these Standards were not administered, the data were not reported on the EdFacts. The USDE produces this section of the CSPR from the submitted EdFacts. In Section 1.4.8.3, to gather data for these particular categories as required would necessitate a major revision to the USDE-approved school improvement plan framework. This section has now been removed from the CSPR therefore PDE did not invest time or resources into altering the framework.
- The number of Districts reported on the CSPR was due to the reporting of Title III data. In the 2012 CSPR, modifications will be implemented in the definition of Districts to coincide with the official definitions that are sent to USDE annually in the Pennsylvania's Accountability Workbook.
- The PDE contests this portion of the Finding. The Report Cards Title I, Part A Non-Regulatory Guidance dated September 12, 2003, Section C.C-1 states: "Similar to State Report Cards, LEA Report Cards must include information related to assessments, accountability, and teacher quality as that information applies to the LEA as a whole and as it applies to each school served by the LEA. Individual School Report Cards are not required, but information about each school must be included in the LEA Report Card." The BAA complies with this guidance. The document is available upon request.
- The BAA has developed a revised set of procedures and forms for the 2011 SRC and CSPR identifying the performed reviews, variance issues and the resolution of these issues.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PDE-06: (continued)**

**Auditors' Conclusion:** Based on the agency response regarding data fields in Part 1.2.2, Part 1.2.4, and Part 1.4.8.3, if PDE believes this information is not applicable, PDE should add comments to these sections of the CSPR to explain why the information is not applicable in order to justify leaving these sections of the CSPR blank.

Regarding the inaccurate reporting of the number of charter schools, PDE appears to be in agreement that this reporting was inaccurate, and PDE's reporting of this data needs improvement.

Regarding PDE's response regarding the reporting of the AYP status, PDE believes that the AYP status does not need to be reported in the School Report Cards since the USDE Non-Regulatory Guidance regarding Report Cards, dated September 12, 2003, states that Individual School Report Cards are not required. However, our review of the Non-Regulatory Guidance disclosed that PDE is required to report assessment, accountability, and teacher quality data at the individual school level, and we noted that PDE is using the School Report Cards to report this data in order to comply with the Non-Regulatory Guidance. During additional discussions, PDE personnel stated that there are legitimate reasons why the data reported for the individual schools on the School Report Cards does not roll up into the data reported for the school district on the LEA Report Cards, and the school district data does not roll up into the state level data reported on the State Report Card. However, we believe that PDE should be able to document a reconciliation of the individual school data to the district level data and to the state level data, possibly on a sample basis, with documented explanations regarding why the data does not exactly agree and the reasonableness of these reconciling items, in order to provide adequate evidence that the data on the School Report Cards, LEA Report Cards, and State Report Card is accurately reported.

Regarding the inadequacy of PDE's procedures to ensure the accuracy of the vendor data reported in the CSPR and SPC, PDE appears to be in agreement that these procedures need improvement.

Based on the above information, the finding and recommendation remain as previously stated. We will review 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.**

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### Department of Education

#### Finding 11-PDE-07:

**CFDA #84.010 – Title I Grants to Local Educational Agencies**

**CFDA #84.367 – Improving Teacher Quality State Grants**

**CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies**

**A Material Weakness Exists in Pennsylvania Department of Education’s During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-60)**

**Federal Grant Numbers: S010A100038A, S010A090038A , S367A100051A, S367A090051A and S389A090038A**

**Condition:** During our audit of the Title I, Part A Cluster and the Improving Teacher Quality State Grants Program administered by the Pennsylvania Department of Education (PDE), we noted that for 18 of the 40 Improving Teacher Quality and/or Title I LEAs in our sample, which were selected from 228 LEAs subject to program monitoring in SFYE June 30, 2011, PDE’s program monitoring was inadequate since the PDE monitoring instruments tested were incomplete or lacked evidence of supervisory review as follows (some monitoring instruments contained more than one of the exceptions listed below):

- Ten monitoring instruments identified one or more requirements as being not applicable, but no explanation was provided which would allow the reviewer to determine whether the requirement truly was not applicable for the respective LEAs.
- One monitoring instrument had two sections not completed because the monitor did not check the results of two sections of the Title I requirements even though the LEA received Title I funding.
- One monitoring instrument had its Improving Teacher Quality components not completed by the monitor even though the LEA received Improving Teacher Quality funding.
- Eight monitoring instruments’ routing sheet, which provides evidence of PDE’s supervisory review and approval, was not completed.

Additionally, the prior year finding cited PDE for inadequate oversight and monitoring of the Philadelphia School District (PSD), the largest Title I and Improving Teacher Quality subrecipient in the Commonwealth, as evidenced by PSD’s most recent audit report which disclosed noncompliance with federal regulations. Also a U.S. Department of Education (USDE) Office of Inspector General (OIG) audit report, issued in January 2010, disclosed inadequate fiscal controls in place to account for Federal grant funds, resulting in unallowable or inadequately supported expenditures. Based on documentation provided during our current year audit, we found that PDE’s Division of Federal Programs has been providing assistance to the PSD on implementing fiscal controls, procedures, and oversight. However, the documentation provided also indicated that PSD’s corrective action was not fully implemented during our SFYE June 30, 2011 audit period.

**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.*

USDE Regulation 34 CFR 76 and 34 CFR 80 address the SEA’s role in monitoring subrecipients and state in part:

*34 CFR Section 76.702 Fiscal control and fund accounting procedures.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-PDE-07: (continued)**

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

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:** PDE management stated that monitors and reviewers have the experience and knowledge to determine the adequacy of the monitoring results when additional documented comments are not provided. Also, PDE management believed that the incomplete sections and reviews were performed but were not documented due to reviewer oversight. PDE management believed that the “not applicable” responses on the Fedmonitor System required an explanation, otherwise the page could not be saved, nor could the report be finalized and submitted. Management indicated that it would need to look into this situation.

In response to USDE OIG's audit report, PDE management provided evidence to show that the Division of Federal Programs has been providing assistance to the PSD on implementing fiscal controls, procedures, and oversight, beginning with a meeting held in April 2010. A corrective action plan for PSD was subsequently developed in June 2010, and there is documentation of subsequent meetings and communication between PDE, PSD, and USDE regarding the status of corrective action from August 2010 through December 2011. However, our review of this documentation disclosed that new policies and procedures were still in the process of being implemented by PSD as of the date of our testing, with further assistance required from PDE.

**Effect:** Due to PDE's inadequate review and oversight, LEAs were not properly monitored to ensure compliance with Title I, Part A Cluster and Improving Teacher Quality regulations. Consistent and regular on-site monitoring is critical to ensure LEA compliance with the various complex and detailed federal regulations. Adequate review of monitoring instruments is required to ensure they are complete and in accordance with federal regulations.

For PSD, the largest subrecipient, noncompliance is occurring which is material to the Statewide Title I and Improving Teacher Quality grants as a whole, and inadequate fiscal controls exist at the subrecipient level which are not being prevented or corrected by PDE's during-the-award monitoring procedures.

**Recommendation:** We recommend that PDE personnel increase their review and oversight of PDE subrecipient monitoring to ensure that all Title I, Part A Cluster and Improving Teacher Quality subrecipients are properly monitored on-site, and monitoring instruments are complete, contain proper explanations for requirements deemed to be not applicable, contain evidence of supervisory review and approval, and contain evidence of proper follow up of deficiencies cited in the monitoring reports to ensure that LEAs are in compliance with federal regulations.

We also recommend that PDE continue to work closely with USDE program officials to ensure adequate during-the-award monitoring procedures, especially at PSD, which is PDE's largest subrecipient in the Title I, Part A Cluster and the Improving Teacher Quality State Grants program, in order to help ensure prevention, detection, and timely corrective action of any LEA noncompliance.

**Agency Response:** PDE, Division of Federal Programs (DFP) has implemented measures to assist Leader Services to ensure controls are in place on the Fedmonitor System that reduce the chance of a review instrument being locked without inputting comments. Additionally, DFP Monitors have been notified that their duties include verification of funding sources while onsite and completing the respective instruments. If these responsibilities are not completed, the DFP Monitors' salaries will be withheld.

While the review instruments did not have routing sheets, they were reviewed for accuracy by the Regional Coordinator responsible for conducting the onsite monitoring. Additionally, all necessary information, including corrective action was present.



# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-PDE-07: (continued)**

The DFP staff will continue to assist the School District of Philadelphia with the implementation of their Corrective Action Plan, as required by USDE. Currently, monthly site visits are conducted by DFP and will continue to ensure corrective action is occurring and deadlines are being met by the School District.

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, 2011

### Department of Education

#### Finding 11-PDE-08:

#### CFDA #84.367 – Improving Teacher Quality State Grants

**Noncompliance and Control Deficiencies in Pennsylvania Department of Education’s Review and Approval of Improving Teacher Quality Subrecipient Applications Resulting in Questioned Costs of \$6,501,601 (A Similar Condition Was Noted in Prior Year Finding #10-67)**

**Federal Grant Number: S367A100051A**

**Condition:** To participate in the Improving Teacher Quality State Grants Program, local educational agencies (LEA) are required to submit electronic applications annually by July 1 to the Pennsylvania Department of Education (PDE) via PDE’s grant application system (e-grants). Our testing of PDE’s review and approval process disclosed that LEA applications were approved even though they did not contain the information required to support compliance with Federal regulations. PDE subgranted \$119,235,559 to LEAs out of total federal expenditures of \$122,240,989 under the Improving Teacher Quality State Grants Program during SFYE June 30, 2011.

Our current year testing of the Improving Teacher Quality State Grants Program disclosed that for six out of 40 LEAs sampled, the submitted applications indicated that the LEAs did not conduct a Local Needs Assessment. A Local Needs Assessment must be conducted by an LEA in order to be eligible to receive a subgrant of Improving Teacher Quality State Grants Program funds. These six LEAs applications were improperly approved by PDE. In addition, based on our inquiry, PDE performed further follow up and informed us that an additional 40 LEA applications indicated that the LEAs did not conduct a Local Needs Assessment. These 46 ineligible LEAs were paid \$6,501,601 in Improving Teacher Quality State Grants Program funds during SFYE June 30, 2011.

**Criteria:** The Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001, Section 2122 states:

- (a) *In General – To be eligible to receive a subgrant under this subpart, a local educational agency shall submit an application to the State educational agency at such time, in such manner, and containing such information as the State educational agency may reasonably require.*
- (b) *Contents – Each application submitted under this section shall be based on the needs assessment required in subsection (c) and shall include the following:*
  - (4) *A description of how the local educational agency will coordinate professional development activities authorized under this subpart with professional development activities provided through other Federal, State, and local programs.*
  - (5) *A description of the professional development activities that will be made available to teachers and principals under this subpart and how the local educational agency will ensure that the professional development (which may include teacher mentoring) needs of teachers and principals will be met using funds under this subpart.*
  - (8) *A description of the results of the needs assessment described in subsection (c).*
- (c) *Needs Assessment-*
  - (1) *In General – To be eligible to receive a subgrant under this subpart, a local educational agency shall conduct an assessment of local needs for professional development and hiring, as identified by the local educational agency and school staff.*
  - (2) *Requirements – Such needs assessment shall be conducted with the involvement of teachers, including teachers participating in programs under Part A of Title I, and shall take into account the activities that need to be conducted in order to give teachers the means, including subject matter knowledge and teaching skills, and to give principals the instructional leadership skills to help teachers, to provide students with the opportunity to meet challenging State and local student academic achievement standards.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-PDE-08: (continued)**

**Cause:** PDE assumed that appropriate automated business rules were in place in e-grants which would not permit LEA applications to be submitted with incomplete data. PDE's review and approval process was not detailed enough to detect the missing information and the lack of a Local Needs Assessment. PDE personnel stated that there was not enough time to correct the process between the issuance of the prior year finding and PDE's review and approval of the current year LEA applications.

**Effect:** PDE's internal controls over the review and approval of the LEA application process were not adequate. Since PDE did not ensure that LEA applications were accurately completed, Improving Teacher Quality State Grants Program funds were improperly subgranted to ineligible LEAs resulting in questioned costs of \$6,501,601.

**Recommendation:** PDE should also improve its procedures to ensure that controls within PDE's LEA application processing system are working properly. Finally, PDE's review and approval process for LEA applications under the Improving Teacher Quality State Grants Program should be improved to ensure all required information is accurate and complete before applications are approved.

**Agency Response:** When Finding #10-67 was initially issued in the prior year Single Audit for year ended June 30, 2010, the Division of Federal Programs (DFP) implemented the necessary changes to the eGrant System to ensure that LEAs could not proceed with the 2011-2012 Application without indicating the completion of a needs assessment.

In addition, all LEAs that either did not answer the needs assessment question or answered, "No" were sent a follow-up e-mail and were required to submit needs assessment information. All responded and demonstrated that they had completed a needs assessment in order to determine the use of Title II-A Funds.

Because the 2010-2011 eGrant Application Process was already underway and nearly completed by the time of the issuance of the Finding, it was impossible to correct the system for the time frame now under review in the current year Single Audit for year ended June 30, 2011.

While DFP agrees with the Finding regarding the eGrant System, we do NOT agree with the Questioned Costs within this Finding. All of the expenditures in the Applications were allowable. All of the LEAs submitted Applications and Budgets that were appropriate for Title II-A Funds. A missing component within the Application does not automatically determine that funds were spent in a questionable or unallowable manner. The PDE requests that the Questioned Costs be removed from this Finding as the costs are NOT questionable and are clearly allowable under Title II-A requirements.

**Auditors' Conclusion:** Due to the audit exceptions noted in the finding, we concluded that the documents subsequently provided by PDE's subrecipients to resolve the questioned costs were not sufficient since we could not determine if the needs assessments were properly and timely performed. The federal regulations clearly state that in order to be determined eligible, each LEA must submit an application to the State educational agency (in this case, PDE) which contains a description of the results of the needs assessment. Therefore, these documents to which PDE is referring should be examined by USDE officials as part of the federal finding resolution process to determine whether the LEAs who received funding from PDE were actually eligible. We recommend that PDE should pursue appropriate settlement with USDE for the questioned costs related to these LEAs in the amount of \$6,501,601. The finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

**Questioned Costs:** \$6,501,601

**The 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, 2011***

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### **Department of Education**

#### **Finding 11-PDE-09:**

**CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies**

**CFDA #84.391 – ARRA – Special Education Grants to States**

**CFDA #84.392 – ARRA – Special Education Preschool Grants**

**CFDA #84.394 – ARRA – State Fiscal Stabilization Fund – Education Grants**

**Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of ARRA Funds (Similar Conditions Were Noted in Prior Year Findings #10-60 and 10-68)**

**Federal Grant Numbers: H391A090093, H392A090090 and S394A0039**

**Condition:** During our audit, we tested the adequacy of the Pennsylvania Department of Education's (PDE) procedures pertaining to the monitoring of the ARRA funding provided to 500 school districts and 29 Intermediate Units (IUs). PDE subgranted 92.6 percent of the \$745.2 million of the State Fiscal Stabilization Fund (SFSF) ARRA expenditures reported on the SEFA for CFDA #84.394 to LEAs during the SFYE June 30, 2011. For the Special Education grants, PDE subgranted 99 percent of the \$194 million ARRA expenditures reported on the SEFA.

PDE contracted with a consultant to perform ARRA specific monitoring of school districts and IU subrecipients. For the SFYE June 30, 2011, we reviewed 26 monitoring instruments of 98 completed by the consultant on the 500 school districts that received SFSF ARRA funds. We also reviewed 3 of 13 monitoring instruments completed by the consultant for the 29 IU's that received Special Education ARRA funds.

Although we are encouraged that PDE has monitoring procedures in place, management needs to continue to improve these operating procedures for enhanced effectiveness. Specifically, our testing disclosed the need for several areas of improvement relating to the consultant's monitoring and PDE's follow-up procedures on issues identified by the consultant as follows:

- Of the 29 monitoring reports we reviewed, the contractor identified eight subrecipient weaknesses in seven of these reports and recommended that PDE follow up and respond. However, PDE management indicated that no response was necessary because these issues were insignificant.
- In one instance, an on-site monitoring report prepared by the consultant had classified an issue as Critical (i.e. highest priority); however, the individual observation report (a summary report prepared by the consultant) had classified the issue as a finding, or non-critical.
- PDE could not provide documentation to show that deficiencies cited during the monitoring process performed by the consultant were properly followed up by PDE.

PDE management indicates that the instances noted above are discussed during bi-weekly meetings attended by Executive Stimulus Coordinator, program staff, and the consultant's staff. At these meetings, the results of the monitoring reviews are discussed. However, when asked to provide documentation on meeting minutes to substantiate the decision making, PDE indicated that no records exist.

On April 29, 2011, OB's Bureau of Audits issued a special audit of PDE's oversight of the SFSF ARRA program. That report cited PDE for internal control deficiencies related to lack of adequate PDE follow-up on deficiencies noted during on-site monitoring, lack of PDE SFSF ARRA monitoring at Philadelphia City School District (which received large dollars), and untimeliness of monitoring.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-PDE-09: (continued)**

We also reviewed the separate Title I ARRA monitoring conducted during SFYE June 30, 2011 by the PDE consultant. Of the 22 charter schools monitored, we selected and reviewed four and found that PDE could not provide documentation to show that the deficiencies cited during the monitoring process were properly followed up by PDE to ensure corrective action was taken by the charter schools. We also noted that three reports contained various classification inconsistencies, such as classifying one issue as a finding in one report while classifying the same issue in another report as an observation.

**Criteria:** The OMB circular A-133 Compliance Supplement Part 3 M. Subrecipient Monitoring states:

*A pass-through entity is responsible for:*

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

The Code of Federal Regulations (CFR) Parts 76 and 80 address the SEA’s role in monitoring subrecipients. According to 34 CFR Section 76.702, “A State and a subgrantee shall use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds.”

According to 34 CFR Section 80.40(a):

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

**Cause:** According to PDE management, its on-site monitoring was developed and put into place in June, 2010. In addition, PDE indicated that representatives from the U.S. Department of Education (USDE) noted that PDE’s monitoring is satisfactory and adequate. However, per our contact with the USDE’s Office of Chief Financial Officer, USDE has only agreed that PDE has put procedures in place but does not consider the findings in their reports to be resolved.

Regarding PDE’s lack of adequate follow-up procedures to subrecipient audit issues reported, PDE’s response to OB’s Bureau of Audits report stated that follow-up on deficiencies is limited by the PDE resources available.

**Effect:** Without documenting its discussion and conclusions regarding the deficiencies found through the monitoring review by the consultant, other PDE management as well as an independent entity, such as an auditor, cannot assess whether the decisions being made are proper and are done in a consistent manner. Additionally, failure by PDE to follow up on certain deficiencies could result in subrecipients expending ARRA funds inappropriately and in noncompliance with federal regulations.

**Recommendation:** We recommend that PDE document the discussions and conclusions reached during the bi-weekly meetings to review the on-site monitoring reports. Additionally, PDE must ensure that it contacts school districts, IUs and charter schools to verify that they are implementing corrective actions, when considered necessary.

**Agency Response:** The PDE disagrees with this finding. Any ‘inconsistencies’ the auditor noted is because monitoring is distinctly different than auditing. Monitoring is an ongoing process and all our work-papers reflect, as they should, that PDE staff reviewed and where necessary, updated the information. The auditor also correctly points out that the work reviewed was ‘supplemental’ monitoring, which by definition is in addition to the normal ongoing work of the Department where we review, and work toward resolution with Subrecipients. The PDE did in fact provide documentation of follow-up with our Subrecipients, and as the work is monitoring, and ongoing, subsequent reviews by PDE monitors and the Single Auditors will continue the work the supplemental monitoring augmented.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PDE-09: (continued)**

To substantiate PDE's position and as previously provided, the PDE is offering the following:

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p4) *"Based on our review of the above documents, we accept PDE's response that corrective actions are being taken on this recommendation."*

p4-5) *"Based on our review of the above information, we accept PDE's response that corrective actions are being taken on this recommendation."*

p5) *"Based on our review, we accept PDE's response that corrective actions are being taken on this recommendation."*

p5) *"Based on our review of the above documents, we accept PDE's response that corrective actions have been taken on this*

p7) *"Based on our review, we accept PDE's response that corrective actions are being taken."*

**Auditors' Conclusion:** As noted in our finding, we observed various areas that PDE needs to improve to increase program effectiveness. Our evidence is based on reviewing various monitoring reports, reviewing other reports that identified similar deficiencies, and contacting USDE and obtaining their conclusions that conditions in this finding remain relevant and are not resolved.

**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, 2011

### Department of Environmental Protection

#### Finding 11-DEP-01:

#### CFDA #81.041 – ARRA - State Energy Program

#### Noncompliance and Internal Control Weakness Over ARRA-Funded Pennsylvania Sunshine Program Rebates at Department of Environmental Protection Results in Questioned Costs of \$29,920

**Federal Grant Number:** DE-EE0000115

**Condition:** The Department of Environmental Protection (DEP) requires solar installers to complete and submit a “PA Sunshine Program ARRA Funding Compliance” form prior to approving the payment of a PA Sunshine Program rebate to a homeowner. Properties with a “Yes” response to any of three questions on the form do not qualify for an ARRA funded rebate. The ARRA Funding Compliance form is used by DEP to document compliance with Amendment 002 to the ARRA SEP Grant Award, which includes requirements under Section 106 of the National Historic Preservation Act (NHPA) and a Programmatic Agreement Among the U.S. Department of Energy, the PA Department of Environmental Protection, the PA Department of Community and Economic Development and the PA Historical and Museum Commission regarding Energy Efficiency and Conservation Block Grant Program, State Energy Program and Weatherization Assistance Program Undertakings. The purpose of the agreement is to clarify exempt undertakings from Section 106 review. Under the agreement, “undertakings that involve properties greater than fifty (50) years old and are not listed in either Appendices A or B shall be submitted to the State Historic Preservation Office (SHPO) for review.” In order to comply with the terms of the agreement, DEP determined that only properties meeting three criteria: properties less than 50 years old, properties not identified as a historical home, and properties not located in a historic district were eligible to receive an ARRA-funded PA Sunshine Rebate. This was done because of the limited term of the ARRA SEP grant and the time required for a SHPO review. Although properties 50 or more years old would not necessarily be ineligible, they would be required to have a State Office of Historical Preservation review to determine eligibility for ARRA funding; such properties would be eligible for non-ARRA rebates.

For two of the 40 ARRA-funded PA Sunshine Rebates tested, we noted that the “Yes” box indicating that the property was more than 50 years old was checked, however, the homeowners received ARRA-funded PA Sunshine Rebates. In one instance, the payment was correctly coded for payment out of non-ARRA funds when it was submitted to the DEP Grants Center for transmittal to the Bureau of Accounting for processing; however, the coding on the payment document was changed in the Grants Center. In the other instance, the payment was coded for payment from ARRA funds and this was not detected by the rebate file reviewer. The total amount of the two rebates which were incorrectly charged to the ARRA grant was \$29,920, total tested rebates were \$553,996, and total expended for the PA Sunshine Rebate program was \$7,988,042 in fiscal year ended June 30, 2011.

**Criteria:** Regarding the expenditures of ARRA funds, Amendment 002 to the ARRA SEP Grant states:

*Prior to the expenditures of Federal funds to alter any structure or site, the Recipient is required to comply with the requirements of Section 106 of the National Historic Preservation Act (NHPA)...Section 106 applies to historic properties that are listed in or eligible for listing in the National Register of Historic Places. In order to fulfill the requirements of Section 106, the recipient must contact the State Historic Preservation Officer (SHPO)...to coordinate the Section 106 review outlined in 36 CFR Part 110...Recipients should be aware that the DOE Contracting Officer will consider the recipient in compliance with Section 106 of the NHPA only after the recipient has submitted adequate background documentation to the SHPO/THPO for its review, and the SHPO/THPO has provided written concurrence to the recipient that it does not object to its Section 106 finding or determination.*

The Programmatic Agreement Among the United States Department of Energy, the Pennsylvania Department of Environmental Protection, the Pennsylvania Department of Community and Economic Development, and the Pennsylvania Historical and Museum Commission Regarding EECBG, SEP and WAP Undertakings states:

# COMMONWEALTH OF PENNSYLVANIA

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## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-DEP-01: (continued)**

*B. The Recipient shall be responsible for consulting with consulting parties and conducting Section 106 reviews in a timely manner, preparing documentation for the SHPO and DOE, and maintaining records on undertakings. Undertakings that involve properties greater than 50 years old and are not listed on either Appendices A or B shall be submitted to the SHPO for review in accordance with this agreement.*

**Cause:** DEP's internal controls were not adequate to ensure that ARRA-funded PA Sunshine rebates were paid only for solar installations at properties which were either less than 50 years old or which were reviewed for eligibility by the State Historic Preservation Office (SHPO).

**Effect:** ARRA SEP grant funds were used to pay rebates totaling \$29,920 for solar installations at two properties 50 or more years old which were not reviewed for eligibility by the SHPO.

**Recommendation:** DEP should strengthen and enforce its controls to ensure that ARRA-funded rebates are paid only for improvements to eligible properties. In addition, we recommend that procedures be developed and implemented to ensure that any changes to grant coding after the initial review are approved by the individual who initiated the payment request to provide an audit trail for any such changes.

**Agency Response:** The \$29,920 in PA Sunshine rebates, which at the time of audit were incorrectly paid from ARRA funds, were coded to the appropriate non-ARRA funding source in January 2012. As a result of the Single Audit, existing internal controls have been strengthened within the PA Sunshine Office and Grants Center in regards to payment coding and processing. However, as of this date all Reinvestment and Recovery Act funds for the PA Sunshine program have been disbursed and the Department will be issuing no further rebates.

Questioned Costs: \$29,920

**The 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, 2011

### Department of Environmental Protection

#### Finding 11-DEP-02:

#### CFDA #81.041 – ARRA - State Energy Program

#### Noncompliance and Internal Control Weakness Over Department of Environmental Protection's System of Cash Management and Reporting of Expenditures

Federal Grant Number: DE-EE0000115

**Condition:** In our testing of allowability for the \$10 million awarded to the Commonwealth Treasury by the Department of Environmental Protection (DEP) and reported on the preliminary SEFA as federal expenditures, we found that Treasury had expended only \$413,601 of the \$10 million as of June 30, 2011. Half of the \$10 million was drawn down from the Federal ASAP system in September 2010; the remainder was drawn down in December 2010. The funds were advanced to Treasury for use in a revolving loan program. In discussions, DEP indicated that the advances were allowable because Treasury was the “third-party administrator” of the revolving loan program. In addition, the SEP ARRA Grant Narrative Information Worksheet for the program, which was approved by the Department of Energy stated that the funds would be advanced to the third party administrator. However, SEP Program Notice 10-008C states that funds may be drawn down to fund a revolving loan fund at the time the fund is obligated. The Program Notice also states that funds are considered obligated once they have been used to capitalize a revolving loan fund and includes a list of circumstances under which a revolving loan fund may be capitalized. These circumstances are: “a) receipt of a loan application from potential borrowers; b) State or local requirements (regulatory, statutory, or constitutional) dictate that funds be available in advance; c) the distribution account is operated by a third party; or d) if the grantee establishes and operates the revolving loan fund, funds would be considered obligated by the grantee upon submitting a letter to the Project Officer and receiving a confirmation response from the Project Officer.” Based on our review of Program Notice 10-008C, the purposes for which the Commonwealth Treasury is using the funds do not meet the circumstances listed. In our review of the SEP ARRA Grant Narrative Information Worksheet for the revolving loan program, we also noted that Treasury is not identified as the third party administrator, but as the manager of the program. A financial corporation with whom Treasury is partnering on the program is identified as the third party administrator of the revolving loan fund. The financial corporation processes the loan applications and disburses the loans. Because Treasury is not a third party, but is in fact a part of the reporting entity, and because the use of the funds by Treasury does not meet the conditions defined for capitalization of a loan program, the advance of the \$10 million to Treasury does not meet the timing requirements for advances as stated in the SEP Program Notice, the grant agreement and 10 CFR 621.

In addition, because only \$413,601 of the \$10 million drawn down in advance was expended at June 30, 2011, the SF-425 Reports for the State Energy Program ARRA Grant were incorrect for each of the four quarters of the fiscal year ended June 30, 2011.

**Criteria:** Per terms of the grant agreement, Payment Procedures – Advances Through the Automated Standard Application for Payments (ASAP) System:

*b. Requesting Advances. Requests for advances must be made through the ASAP system. You may submit requests as frequently as required to meet your needs to disburse funds for the Federal share of project costs. If feasible, you should time each request so that you receive payment on the same day that you disburse funds for direct project costs and the proportionate share of any allowable indirect costs. If same-day transfers are not feasible, advance payments must be as close as is administratively feasible to actual disbursements.*

Additionally, 10 CFR 621 states:

*(b) Basic Standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DEP-02: (continued)**

(c) *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

**Cause:** Based on our discussions with DEP and Treasury, they did not understand the nature of a “third party” relationship under the single audit. Because both Treasury and DEP are part of the reporting entity, Treasury cannot be considered a third party.

**Effect:** Because the funds advanced to Treasury were not fully expended at June 30, 2011, the SF-425 reports submitted for all four quarters in June 30, 2011 materially overstated expenditures under the ARRA SEP Grant award. Further, the Commonwealth violated cash management standards because draws were not based on the program’s immediate needs. However, since the SEP program is not included in the CMIA Treasury-State Agreement, there is no interest liability with respect to these draws, with the exception that any interest earned on the advance must be rolled back into the revolving loan fund, loan loss reserve account, interest rate buy downs or third party loan insurance; used for an approved eligible activity; or returned to the federal government and is subject to the terms and conditions of its original grant.

**Recommendation:** DEP should pursue disposition of the \$9,586,399 in funds which were advanced, but not expended by Treasury, with the Department of Energy. Additionally, DEP should strengthen its procedures and controls to ensure compliance with Federal Cash Management requirements.

**Agency Response:** The Department believes that the previously submitted SF-425 reports were complete and accurate. They were based on the Department’s and Department of Energy’s mutual understanding that the Pennsylvania Department of Treasury is considered a third party, and as such upon transfer of funds to Treasury, the funds were considered expended.

Additionally, in the attached letter dated February 14, 2012, the Department of Energy further solidifies this interpretation stating that, “After a thorough review of the Interagency Agreement between PADEP and PA Department of Treasury, and PA State Regulation 71P.S. it has been determined that PADT has been accurately designated as a third party administrator of PA DEP’s ARRA RLF. Additionally, a prior history of similar third party relationships have existed between PADEP and PADT in the past thus setting a precedent for our determination in this case.”

**Auditors’ Conclusion:** We acknowledge that DEP based its accounting and reporting for this grant based on the legal interpretation that the Pennsylvania Department of Treasury is a third party administrator of the revolving loan fund. However, we disagree that the Pennsylvania Department of Treasury should be classified as an external third party since the Treasurer is an elected official of the Commonwealth of Pennsylvania and part of the primary government under governmental accounting standards. As a result, the unspent grant proceeds remain in the control and custody of the Commonwealth of Pennsylvania. Therefore, our finding and recommendations remain as previously stated.

**Questioned Costs:** None, as the \$9,586,399 drawn down in advance was not expended.

**The 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, 2011***

### **Department of General Services**

#### **Finding 11-DGS-01:**

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

##### **Lack of Documentation to Support Contracting and Procurement**

**Federal Grant Numbers:** DAHA360251005, DAHA360341002, DAHA360351021, DAHA360361002, DAHA360621001, DAHA3606H1001, DAHA360721001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360721041, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751005, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360761002, DAHA3607H1001, DAHA360821021, DAHA360825001, DAHA360851004, DAHA360921001, W912DY-08-2-0006, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-09-2-9025, W912KC-10-2-1001, W912KC-10-2-1002, W912KC-10-2-1003, W912KC-10-2-1004, W912KC-10-2-1005, W912KC-10-2-1007, W912KC-10-2-1010, W912KC-10-2-1021, W912KC-10-2-1023, W912KC-10-2-1024, W912KC-10-2-1041, W912KC-10-2-5001, W912KC-11-2-1004, W912KC-11-2-1005, W912KC-11-2-1021 and W912KC-11-2-1024

**Condition:** The procurement process for the National Guard Military Operations and Maintenance Projects is managed by the Department of Military and Veterans Affairs (agency). The agency is authorized to make purchases from statewide requirements contracts managed by the Department of General Services (DGS) when the agency determines a need for materials and/or services available from such contracts. Where DGS uses a request for proposal (RFP) process to establish a statewide requirements contract, an RFP solicitation document is developed, a technical submittal evaluation committee is appointed, and maximum point values for each major evaluation criterion is established prior to the issuance of the RFP. The DGS then requires each committee member to sign an RFP Evaluation Committee Certification of Confidentiality and No Conflict of Interest form and DGS reviews the signed forms for exceptions. For proposals that meet the mandatory requirements based upon the DGS's review, the DGS then provides the evaluation committee with the technical submittals for initial scoring. Based upon the results of the initial scoring, the DGS conducts discussions with the offerors who submit proposals determined to be reasonably susceptible of being selected for award, and obtains best and final offers (BAFO) which are provided to the evaluation committee to perform final technical submittal for final scoring. We selected for testing and evaluated DMVA purchases from two DGS statewide requirements contracts that had current year expenditures of \$41,678 to determine that DGS and the agency followed the appropriate procurement process and noted the following exceptions:

For one of the procurements we could not authenticate the signature on the Certification of Confidentiality and No Conflict of Interest form for one of the six evaluation team members. The remaining procurement was completed prior to the conflict form being in place; therefore, we were unable to obtain a signed form that the evaluators had no conflicts of interest with respect to the particular procurement they were evaluating. As such, we were unable to determine whether each team member had a conflict of interest with any of the contractors bidding on the project.

For one of the procurements we were unable to validate that each evaluation team member's detail score sheet totals agreed to the total on the summary score sheet. The pertinent records for these procurements were included in an electronic scanning effort that occurred approximately two years ago and should be readily accessible but were unable to be located by management. As such, we were unable to validate that each of the five evaluation team members detail score sheet agreed to the summary score sheet totals for the procurement.

For one of the procurements we noted that one of the five evaluation team members did not have initial score totals indicated on the summary score sheet for all of the contractors bidding on the project and for one of the two lots comprising this procurement, we noted three of the five evaluation team members did not have initial score totals indicated on the summary score sheet for two of the contractors bidding on that lot. However, we noted that each of the evaluation team members did have score totals in the BAFO section of the summary score sheet for all contractors for both lots. As such, we were unable to evaluate the accuracy of the summary score sheet totals by evaluation team member or review for scoring anomalies.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DGS-01: (continued)**

**Criteria:** Part 3 of the A-133 Compliance Supplement states, in part:

*(a) States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.*

The Commonwealth established procurement policy and procedures in the “Field Procurement Handbook” (M215.3 as Amended). Good internal controls require management to maintain sufficient documentation to demonstrate that proper purchasing procedures are reasonably followed to prevent conflicts of interest, etc., and contracts are properly awarded.

**Cause:** Management asserted that due to employee turnover and the historical time frame for which certain of the procurements selected for testing were procured; that certain supporting documentation had not been retained to provide for review.

**Effect:** Without the necessary documentation as noted above, we could not verify that management adhered to Commonwealth procurement standards, to prevent conflicts of interest or errors in the evaluation process from occurring during contract procurement.

**Recommendation:** We recommend that management implement policies and procedures to ensure that documentation of procurement records be maintained as required by the Commonwealth Procurement Code.

**Agency Response:** DGS agrees with the statements in and content of the finding, but also offers several points of clarification.

*For one of the procurements we could not authenticate the signature on the Certification of Confidentiality and No Conflict of Interest form for one of the six evaluation team members.*

DGS notes that the form for which the audit staff could not authenticate the signature was signed electronically by the evaluation committee member. DGS will follow-up with audit staff on whether or not electronic signatures are permissible, and if so, what additional documentation may be required in order for audit staff to properly authenticate electronic signatures.

*The remaining procurement was completed prior to the conflict form being in place, therefore we were unable to obtain a signed form that the evaluators had no conflicts of interest with respect to the particular procurement they were evaluating. As such, we were unable to determine whether each team member had a conflict of interest with any of the contractors bidding on the project.*

At the time of this procurement (early 2008), DGS only required signature from evaluation members noting their understanding of the confidentiality requirements associated with serving as part of an evaluation committee. That being noted, all commonwealth employees are and were subject to the State Adverse Interest Act (71 P.S. § 776.1), which prohibits them from influencing, or attempting to influence, the making of, or supervision, or in any manner dealing with any contract in which he or she has an adverse interest, at the time of the procurement.

*For one of the procurements we noted that one of the five evaluation team members did not have initial score totals indicated on the summary score sheet for all of the contractors bidding on the project and for one of the two lots comprising this procurement, we noted three of the five evaluation team members did not have initial score totals indicated on the summary score sheet for two of the contractors bidding on that lot. However, we noted that each of the evaluation team members did have score totals in the BAFO section of the summary score sheet for all contractors for both lots. As such, we were unable to evaluate the accuracy of the summary score sheet totals by evaluation team member or review for scoring anomalies.*

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DGS-01: (continued)**

DGS could not provide either additional documentation to explain the missing scores on the summary score sheet or a complete summary score sheet. As a result of staff attrition and retirements, DGS did not ensure proper internal controls were in place to properly retain procurement records from individuals separating from Commonwealth employment and will address this deficiency in our Corrective Action Plan.

Questioned Costs: \$41,678

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Health

#### Finding 11-DOH-01:

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

#### Noncompliance and Internal Control Weaknesses Related to Erroneous Food Instruments (A Similar Condition Was Noted in Prior Year Finding #10-25)

**Federal Grant Numbers: 11111PA705W1006 and 10101PA705W1006**

**Condition:** WIC food instrument (FI) expenditures were \$191.5 million for FYE June 30, 2011. DOH must have a process in place for reviewing FIs submitted by vendors for redemption. This process must ensure that FIs containing errors or other questionable FIs detected are followed-up and resolved within 120 days following detection. Our review and testing of DOH compliance with federal regulations related to erroneous WIC FIs disclosed a significant deficiency for the fifth year in a row in DOH's WIC database system (known as Quick WIC) and in DOH's procedures for reviewing erroneous FIs as follows:

As part of our review of erroneous or questionable FIs, we obtained DOH's report called the "10 Percent Random Sample of Voided FI's with Void Code Other than 'R' Monthly Reports" and DOH's report called the "Redeemed/Voided, Lost or Stolen FI Monthly Reports" for the three sampled months of December 2010, February 2011, and May 2011. These reports included a total of 177 redeemed FIs with void codes other than 'R' totaling \$5,585 for the three months reviewed. We selected a sample of 47 FIs totaling \$1,392 from these reports and found four FIs, or 8.5 percent, two from each type of report, totaling \$197 that were not resolved by DOH within the required 120-day timeframe. Also, these FIs were not resolved until after our audit request.

For FFY 2011, DOH implemented a tracking sheet to monitor the requests and receipts of the FI documentation sampled each month for the "10 Percent Random Sample of Voided FI's with Void Code Other than 'R' Monthly Reports." However, based on our findings above, the tracking sheets do not appear to be effective in timely resolving the FIs sampled. Additionally, there was no tracking sheet implemented for the "Redeemed/Voided, Lost or Stolen FI Monthly Reports."

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

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

In addition, 7 CFR 246.12 states:

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

**Cause:** In regard to DOH's follow-up of erroneous and questionable FIs not occurring within the required 120-day timeframe, DOH was not effectively utilizing the tracking sheets developed for the "10 Percent Random Sample of Voided FI's with Void Code Other than 'R' Monthly Reports." Also, DOH was not tracking the requests and receipts for the FIs needing resolved on the "Redeemed/Voided, Lost or Stolen FI Monthly Reports." DOH stated that they receive the two types of reports at the same time and they have never had an issue with resolving the items on the "Redeemed/Voided, Lost or Stolen FI Monthly Reports"; therefore, they do not have a separate tracking sheet for it. However, the local agencies on one report are not the same as the other report, which results in some local agencies'

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DOH-01: (continued)**

resolutions not being tracked. Consequently, we found dates on the review sheets and supporting documentation to be after the date the auditors initially requested the documentation and after the required 120-day timeframe for review and follow-up of questionable FIs.

**Effect:** No unallowable costs were noted in our testing of DOH's review, investigation, and follow up on questionable FIs. However, without adequate controls related to the WIC system and DOH review, investigation and follow-up on voided food instruments, DOH is not in compliance with WIC regulations and inappropriate redemption could occur without the DOH's knowledge, which could lead to unallowable costs being charged to the federal WIC grants in the future.

**Recommendation:** WIC should fully implement sufficient and effective controls over the FI redemption and disposition process. DOH should ensure that problems encountered with their WIC system are identified, timely followed-up on, properly investigated, and appropriate corrective action is taken. We also recommend that DOH ensure this process is adequately documented, including the date of the review and follow-up, and procedures effectively utilized to resolve the questionable FIs in a timely manner.

**Agency Response:** DOH agrees with this finding. However, it should be noted that USDA's Food and Nutrition Service accepted the corrective action taken by DOH for the similar condition in prior year finding 09-25 and resolved that finding via their letter to DOH dated March 3, 2011.

**Auditors' Conclusion:** While DOH agrees with this finding, it noted in its response that USDA's Food and Nutrition Service accepted corrective action taken by DOH to a similar condition in prior year Finding #09-25. The corrective action implemented included the use of tracking sheets to ensure that questionable FIs are followed-up within the required 120-day timeframe. The corrective action did not address the weakness of the tracking sheets not being utilized effectively and questionable FIs not being followed-up within the required 120-day timeframe. Therefore, the finding and recommendation remain as previously stated.

**Questioned Costs:** None

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Department of Health**

#### **Finding 11-DOH-02:**

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

#### **Noncompliance and Internal Control Weaknesses Related to Rebates (A Similar Condition Was Noted in Prior Year Finding #10-24)**

**Federal Grant Numbers: 1111PA705W1006 and 10101PA705W1006**

**Condition:** The Department of Health (DOH) contracts with food manufacturers to receive a rebate on each unit of the manufacturer's product purchased with Food Instruments (FIs) redeemed by the Women, Infants, and Children (WIC) program participants. Specifically, DOH has a contract with Nestle to receive rebates on infant formula and with Gerber to receive rebates on infant juice and cereal. Each month DOH prepares a rebate invoice which is submitted to each manufacturer in order to receive the rebate. Generally, the QuickWIC system generates the rebate invoice by identifying all FIs redeemed from the preceding month which included rebate items. The total number of rebate units from each FI redeemed is multiplied by the respective rebate rate and the total rebate amount to be received is calculated. These monthly rebate invoices are reviewed and signed by the DOH Division of WIC Director and then submitted to the respective food manufacturer to receive the rebate. Total WIC rebates received by DOH for SFYE June 30, 2011 were \$47,728,114.

We noted in prior year ended June 30, 2010, that the QuickWIC system was not including rebate amounts on its monthly rebate invoices for FIs received from the local financial institution processing the FIs after the rebate reports were run for the respective months. DOH indicated that it is in the process of fixing its rebate report queries so that all FIs are included on the rebate invoices; however, DOH stated that these fixes were not completed during SFYE June 30, 2011. Therefore, the potential existed during SFYE June 30, 2011 that FIs with similar conditions as found in the prior year would not be included and billed on rebate invoices. DOH management stated that they do not know if there were FIs redeemed during SFYE June 30, 2011 that were not properly billed on rebate invoices.

We reviewed rebate invoices for our three test months of August 2010 totaling \$4,426,253, December 2010 totaling \$4,531,838, and March 2011 totaling \$4,791,449. As part of our review we compared the number of units billed on the invoices to the number of units from FIs redeemed for the respective period included in the QuickWIC system. Our investigation disclosed differences between the data file from the QuickWIC system and the rebate invoices of \$23,898 for August 2010, \$66,838 for December 2010, and \$70,936 for March 2011. In doing this analysis we typically encounter small differences due to partial FI redemptions. A partial FI redemption occurs when a WIC participant redeems an FI for less than the full quantity of the item printed on the check. Partial FI redemptions are not billed on rebate invoices. We cannot determine the portion of the differences noted above which relate to partial redemptions; however, partial redemptions have historically been in the range of \$10,000 to \$20,000 in a given month. DOH management could not explain the reason for the differences that we noted.

Rebates are treated as credits against prior expenditures for food costs made during the month in which the rebate was earned, and therefore, and rebate amounts not properly billed are considered questioned costs. However, we could not determine what amount may not have been billed during SFYE June 30, 2011, including any amounts for our three test months. Therefore, the amount of questioned costs cannot be determined.

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

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



# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DOH-02: (continued)**

In addition, 7 CFR 246.16a states:

*(k) What are the requirements for infant formula rebate invoices? A State agency must have a system in place that ensures infant formula rebate invoices, under competitive bidding, provide a reasonable estimate or an actual count of the number of units purchased by participants in the program.*

**Cause:** DOH stated that it is in the process of making fixes to its rebate invoice queries in its QuickWIC system to ensure that all FIs redeemed are properly billed on rebate invoices; however, these fixes were not completed during SFYE June 30, 2011. DOH management acknowledged that the potential exists during our audit period that FIs may not have been properly billed on monthly rebate invoices; however, they are unsure if this situation actually occurred since they are still in the process of fixing the queries. Additionally, DOH could not explain the differences we noted for our three test months. Furthermore, the WIC Director's review of the monthly rebate invoices does not detect the exclusion of dates for the condition noted above.

**Effect:** Without an adequate system in place to ensure rebate invoices are properly prepared and without adequate management review and reconciliation controls in place to ensure the rebate invoices are complete and accurate, the rebate invoices could contain errors and exclusions. In addition, this condition is not in compliance with federal regulations resulting in potential questioned costs.

**Recommendation:** DOH should ensure that its system to prepare the rebate invoices includes all redeemed FIs not previously billed. Furthermore, we recommend that DOH implement adequate review and reconciliation controls to review the rebate invoices to ensure that the invoices are complete and accurate.

**Agency Response:** DOH agrees with the facts of this finding.

**Questioned Costs:** For the three months tested, the underbilling was \$161,672. The amount of questioned costs for uncollected credits against WIC expenses 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, 2011

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### Department of Health

#### Finding 11-DOH-03:

**CFDA #93.268 – Immunization Grants**

**CFDA #93.712 – Immunization Grants (ARRA)**

**Unsupported Payroll Costs (A Similar Condition Was Noted in Prior Year Finding #10-74)**

**Federal Grant Numbers: 5H23IP32259 and 3H23IP322559 (ARRA)**

**Condition:** Effort reporting to support the payroll costs charged to the program was not performed for the first half of the fiscal year. The program has approximately \$1.2 million (\$28 thousand for ARRA) in payroll costs that are not supported by effort reports (equal to approximately one half of payroll costs for the year).

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

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

**Cause:** In the prior year, program management indicated that they were not aware of the requirement to complete effort reports. We issued finding #10-74 in fiscal year 2010 and management implemented an effort reporting process in July 2011 to cover the period January 1, 2011 to June 30, 2011. However, no effort reports had been completed for the first half of the fiscal year.

**Effect:** The lack of semi-annual certifications to clearly support 100 percent of salary and fringe benefit charges to a Federal award is not in compliance with OMB Circular A-87. As a result, the program is not in compliance with the federal regulations related to Allowable Costs/Cost Principles for the first half of the fiscal year ending June 30, 2011.

**Recommendation:** No action is required.

**Agency Response:** DOH's Immunization Program agrees that this was not being done during the time frame indicated in the audit. An employee certification form was initiated January 1, 2011, and is utilized semi-annually for all employees funded by the Immunization and Vaccines for Children Grant.

**Questioned Costs:** Approximately \$1.2 million

**The 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, 2011***

### **Department of Health**

#### **Finding 11-DOH-04:**

#### **CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant**

#### **Inadequate Program Monitoring of Department of Health Substance Abuse Prevention and Treatment Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-99)**

**Federal Grant Numbers: TI010044-11 and TI010044-10**

**Condition:** DOH's program monitoring of SAPT subrecipients was inadequate for the prior two state fiscal years. During SFYE June 30, 2011, DOH entered into new five-year grant agreements with Single County Authorities (SCAs). DOH implemented new monitoring procedures, referred to by DOH as the Quality Assurance Assessment (QAA) process, in which desk reviews were completed for all SCAs by March 2011 followed by on-site reviews which were scheduled to be completed between March 2011 and November 2011. The purpose of the desk reviews is to monitor the SCAs' policies and procedures for compliance with Federal SAPT Block Grant requirements through document submission to DOH. The on-site reviews are then conducted including a detail review of the SCAs' service delivery, provider contracts, subgrants, fiscal requirements, program services, case management, and client files.

Due to the timing of implementing the new SCA monitoring procedures, DOH only performed on-site reviews for 18 of 47 SCAs during SFYE June 30, 2011. Therefore, DOH did not schedule or perform on-site reviews for the remaining 29 SCAs, or 62 percent, during SFYE June 30, 2011. Out of the total SAPT expenditures of \$59.3 million for SFYE June 30, 2011, DOH subrecipient expenditures totaled \$49.0 million, or about 83 percent of the program. The 29 subrecipients not monitored through the QAA on-site review process during SFYE June 30, 2011 received \$37.2 million, or 76 percent, of the total DOH SAPT subrecipient expenditures. Therefore, DOH's during-the-award monitoring of SAPT subrecipients is not considered adequate for SFYE June 30, 2011.

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

*A pass-through entity is responsible for:*

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

Additionally, 45 CFR 96.30(a) states in regard to fiscal control and accounting procedures that:

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

Furthermore, the Commonwealth's SAPT Block Grant Application for Federal Fiscal Year 2011 indicates that DOH's Bureau of Drug and Alcohol Program's Division of Program Monitoring will annually conduct on-site reviews to monitor compliance by SCAs to SAPT Block Grant requirements. DOH management stated that it is their policy that on-site visits be conducted each year for all SCAs as part of DOH's program monitoring procedures.

**Cause:** Regarding the lack of on-site monitoring, DOH management stated that it decided to wait to begin performing on-site monitoring of SCAs until after the new five-year grant agreements were executed. As a result, on-site monitoring did not commence until March 2011, and therefore, DOH did not conduct on-site reviews of 29 SCAs during SFYE June 30, 2011.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DOH-04: (continued)**

**Effect:** DOH's failure to perform during-the-award monitoring for 62 percent of its SAPT subrecipients, which comprised of 76 percent of the subrecipient expenditures, during SFYE June 30, 2011, results in DOH not ensuring that the subrecipients are administering their Federal awards in compliance with laws, regulations, and grant agreement provisions, and that performance goals are achieved.

**Recommendation:** DOH should perform adequate during-the-award monitoring procedures for all SAPT subrecipients during each grant year to ensure timely compliance with all applicable federal regulations.

**Agency Response:** The Department of Health, Bureau of Drug and Alcohol Programs maintains its disagreement with this finding, as outlined in the initial response provided to Finding #09-70 for the single audit period ending June 30, 2009, and subsequently reiterated for Finding #10-99 for the period ending June 30, 2010.

The basis of the initial finding was the result of verbiage contained in the Substance Abuse Prevention and Treatment Block Grant Application, which spoke to intention of monitoring on an annual basis. Subsequent events prevented this from becoming a reality and other mechanisms were enacted to collect information relative to block grant compliance, beyond reporting and review protocols already in place. The OMB Circular A-133 Supplement referenced in the criteria for this finding indicates that sub-recipient monitoring shall be conducted through site visits or other means. The Auditor's Conclusion for the prior years' audits states that the Department of Health did not provide a risk-based monitoring plan or adequate documentation of other during-the-award monitoring procedures performed to compensate for its lack of on-site monitoring. The audit review conducted focused solely on the on-site monitoring process, without seeking a comprehensive protocol of other means utilized to review activities, financial and otherwise, pertinent to sub-recipient compliance to block grant requirements. Additionally, it is not clear of what definition is being used for during-the-award monitoring, since the Bureau of Drug and Alcohol Programs engages in five-year grant agreements with the sub-recipients and block grant funds incorporated into those agreements cross state fiscal years. The current on-site schedule, while conducted within a twelve month period, crosses state fiscal years. This allows the Bureau of Drug and Alcohol Programs, specifically program monitoring, to incorporate the results of other means of reporting and review in the sub-recipient on-site review process.

**Auditors' Conclusion:** DOH's response to our current year finding predominately relates to similar prior year findings issued over the past two years, Findings #09-70 and #10-99. These findings noted that DOH was not adequately monitoring SAPT subrecipients. During SFYE June 30, 2009 only 34 of 51 SAPT subrecipients or 67 percent were monitored through on-site reviews. During SFYE June 30, 2010, DOH only monitored the remaining 17 of the 51 SAPT subrecipients through a desk review process which were not monitored in the previous year. According to DOH, the reasons for the lack of monitoring during these two prior fiscal years included budget and staffing issues.

DOH stated that beginning in current year SFYE June 30, 2011, new five-year grant agreements were entered with the subrecipients. Along with these new five-year agreements, DOH would institute new subrecipient monitoring procedures which would include a combination of a limited desk review and in-depth on-site program review. DOH stated in its block grant application that the on-site reviews would be conducted annually. Due to the timing of entering the new five-grant agreements with the subrecipients during SFYE June 30, 2011 and not beginning the on-site review process until March 2011, only 18 of 47 SCAs, or 38 percent, were fully monitored during SFYE June 30, 2011. For the remaining 29 SCAs, or 62 percent, no on-site reviews were completed during SFYE June 30, 2011. These 29 SCAs received \$37.2 million, or 76 percent, of the total DOH SAPT subrecipient expenditures during SFYE June 30, 2011.

In addition, DOH did not provide any documented comprehensive protocol addressing other means they utilized to review activities. Since a majority of the subrecipients and expenditures were not adequately monitored during SFYE June 30, 2011, our finding and recommendation remain as stated.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Department of Insurance**

#### **Finding 11-PID-01:**

#### **CFDA #93.767 – State Children’s Health Insurance Program**

#### **Internal Control Weakness in the Review of Subrecipient Monitoring Reports**

**Federal Grant Numbers: 05-1005PA5021 and 05-1105PA5021**

**Condition:** The PA Insurance Department (PID) administers the State Children’s Health Insurance Program (CHIP), which provides health insurance to uninsured children and teens who are not eligible for or enrolled in Medical Assistance. For the fiscal year ended June 30, 2011, \$280 million was expended per the SEFA, of which \$275 million (98 percent) was provided to nine subrecipients (insurance companies).

As part of subrecipient monitoring, PID conducted onsite monitoring visits at five of the nine subrecipients during May and June of SFYE June 30, 2011. We reviewed the five monitoring reports and found the following deficiencies:

- Four of the monitoring reports did not contain a signature by the PID supervisor.
- One of the monitoring reports was signed by the preparer and supervisor after it had been requested by the auditors.

**Criteria:** A strong internal control structure would include adequate and timely review and approval of monitoring documentation by a supervisor to ensure that the review was completed properly, conclusions reached reasonable, and whether any follow up or corrective action was needed.

According to management, PID uses a risk-based approach to determine which subrecipients to select to perform onsite monitoring each year.

**Cause:** Management indicated that the supervisor had received and reviewed all five reports soon after they were completed by the preparer, however, due to the supervisor performing reviews of various types of reports simultaneously the supervisor inadvertently forgot to sign these reports. With regard the preparer not signing one report, management indicated that the preparer inadvertently forgot to sign it.

**Effect:** Although PID conducted onsite monitoring in accordance with its methodology, failure to timely review onsite monitoring reports, may result in management not timely identifying subrecipient deficiencies that need to be addressed or timely ensuring that the onsite monitoring was performed adequately.

**Recommendation:** We recommend that PID management ensure that the onsite monitoring reports are reviewed and signed timely by the supervisor.

**Agency Response:** The Department has initiated steps to ensure that all reports are reviewed and signed within one week to ensure that subrecipient eligibility findings or operational deficiencies be identified and addressed on a timely basis.

**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, 2011***

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### **Department of Labor and Industry**

#### **Finding 11-L&I-01:**

**CFDA #17.225 – Unemployment Insurance (including ARRA)**

**CFDA #17.258 – WIA Adult Program (including ARRA)**

**CFDA #17.259 – WIA Youth Activities (including ARRA)**

**CFDA #17.260 – WIA Dislocated Workers (including ARRA)**

**CFDA #17.278 – WIA Dislocated Workers Formula Grants**

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

**Deficiencies in Information Technology Controls at the Department of Labor & Industry (A Similar Condition Was Noted in Prior Year Finding #10-40)**

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

**Condition:** As part of our audit of the L&I major programs for the year ended June 30, 2011, we performed certain procedures to review information technology (IT) general controls for the significant applications identified for these major programs, and noted the following deficiencies that need to be addressed by Commonwealth management:

**Commonwealth Workforce Development System (CWDS)** – In the prior audit, we noted 26 individuals with the Central Office Fiscal Administrator (COFA) role in the Office of Vocational Rehabilitation (OVR), which gives them the ability to approve invoices, as well as maintain the Service Catalogue (also known as the Fee Schedule), which resulted in a lack of segregation of duties. In the current audit, we noted the number of individuals with the COFA role has been reduced to 17 individuals; however, for some of those individuals the COFA role provides them with more capability than needed for them to perform their job responsibilities. There continues to be no separation of duties between approval of changes and data entry of changes into the Fee Schedule. Any one of these 17 individuals can change fees without supervisory approval. Further, periodic access reviews to determine the appropriateness of users with privileged access were not conducted during the audit period.

We also noted in the Bureau of Workforce Development Partnership (BWDP) - where the Workforce Investment Act (WIA) programs are administered - there continues to be inconsistent procedures (i.e., phone calls, electronic mail, or no notification of separation) for removing separated non-Commonwealth users' access, which may lead to untimely removal of terminated non-Commonwealth users from CWDS. Further, periodic access reviews to determine the appropriateness of users with privileged access have not been conducted.

**Unemployment Compensation (UC)** – Our current audit of UC included reviews of controls over the UC legacy mainframe system and the Unemployment Compensation Modernization System (UCMS), the system being designed and implemented in a client server environment to replace the legacy system. The employer portion of UCMS went live in April 2011.

As noted in our previous audits of the legacy mainframe system, four outside contractors have application development/maintenance responsibilities and the ability to change the computer operations job schedule, resulting in a lack of segregation of duties.

Our review of UCMS noted end users in L&I's Center for Workforce Information and Analysis (CWIA) used Microsoft Excel to prepare two required quarterly federal reports: the ETA-227 – Overpayment Detection / Recovery Report and the ETA-581 - Contribution Operations Report. In April 2011, UCMS became the sole source of employer data to be reported on the ETA-581. UCMS was to be designed to output data in a format that would directly interface with the federally provided and approved Sun Microsystems for edit checks prior to federal submission. However, data output from UCMS were incomplete and unreliable. We learned that CWIA received USDOL approval to use estimates and manual calculations to prepare the ETA-581 report as of June 30, 2011, because the data output from UCMS was

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-01: (continued)**

unreliable. Further, policies and procedures were not developed for access to programs and data, program development, program changes, and computer operations for the end-user application(s) in Microsoft Excel used to produce these federal reports.

In the audit of the Commonwealth's Basic Financial Statements (BFS) for FYE June 30, 2011, certain general computer control weaknesses were reported for L&I in Finding #11-08. These general controls weaknesses included: no written systems development life cycle; lack of segregation of duties between developers and those who can promote changes into production (including contractors with the ability to develop and promote changes); lack of monitoring of the production environment; lack of periodic access reviews for privileged users, unmonitored use of group userIDs for database administration; and physical access weaknesses. Also, internal control weaknesses regarding segregation of duties in the overall SAP computer environment were reported in Finding #11-07. These weaknesses significantly impact L&I's controls over federal programs.

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

**Cause:** The Office of Vocational Rehabilitation has not addressed the segregation of duties weakness related to the COFA role that enables individuals to approve changes in fees paid to providers, change the Fee Schedule, and approve invoices for payment. Currently, the COFA role is assigned to some individuals who only need to monitor the Fee Schedule and review activity in CWDS because additional roles for read-only access have not been established. Additional roles need to be created to ensure CWDS employees have roles which enable them to perform only their job responsibilities and to ensure proper segregation of duties. Further, OVR management began periodic reviews of users with privileged access to CWDS in July 2011; however, the reviews were subsequent to the end of the audit period.

Concerning the inconsistent procedures for removing non-Commonwealth users' access related to the WIA programs, policies and procedures for removing separated non-Commonwealth users have not been established. Also, although IT personnel have informed BWDP management of users with privileged access to CWDS, periodic access reviews have not been conducted by management to determine whether the access is appropriate.

Concerning the segregation of duties related to the UC legacy mainframe system, L&I management stated that due to staff shortages and the ongoing development of UCMS, the four outside contractors are currently the only staff working with the legacy system. This weakness will not be remediated until the UC legacy system is retired.

Concerning the end-user computing that was used to prepare the ETA-581 and ETA-227 reports, L&I management stated that they rely on edit checks performed by the federally-developed Sun Microsystem prior to submission to USDOL. Further, the reports will be generated directly from UCMS when the system is functioning properly, and Microsoft Excel will not be used. When that occurs, corrected reports will be submitted to USDOL from UCMS.

**Effect:** The deficiencies noted above in IT general controls could result in inappropriate system access, unauthorized changes to the applications, fraudulent payments, and noncompliance with federal regulations (including ARRA). The lack of segregation of duties over the OVR Fee Schedule and invoice approval could allow the same individual to change the Fee Schedule and then authorize a payment using the changed amount. Further, since documentation of OVR client eligibility determinations is a computer-dependent process in CWDS, and there are IT general controls deficiencies, eligibility determinations may not be reliable.

The lack of controls over systems development and insufficient testing in UCMS appear to have resulted in accumulation of unreliable employer data, which resulted in both the use of Microsoft Excel to produce estimates and manual calculations to prepare the June 30, 2011, ETA-581 report. The lack of policies and procedures for end-user computing could result in unauthorized changes and errors in the ETA-227 and ETA-581 reports, which may not be detected by the federal-system edits.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-01: (continued)**

**Recommendation:** (CWDS) We recommend that OVR management develop a strategy and written procedures for addressing the segregation of duties issues related to the COFA role. The strategy and procedures should include creating the additional role(s) necessary to restrict the COFA role to only those individuals that need the role to perform their job responsibilities. At a minimum, role assignments should not allow the same person to change the Fee Schedule and approve invoices for payment. We also recommend OVR management periodically review individuals with the COFA role (and other powerful roles) to ensure that continued access is consistent with management intent. Further, we recommend that management develop procedures to ensure timely removal of separated non-Commonwealth users from the system. Finally, OVR management should continue the periodic access reviews of privileged users.

We recommend BWDP management implement procedures for removing non-Commonwealth users' access related to the WIA programs. Also, we recommend BWDP management begin periodic access reviews of users with privileged access to determine whether the access is appropriate.

(UC) We recommend that management monitor the activity of the four outside contractors with the application development/maintenance responsibilities and the ability to change the computer operations schedule until the legacy mainframe system is retired.

We also recommend that management identify and correct the unreliable data in the UCMS system. Further, management should investigate why inaccurate data was posted to or produced from UCMS and make appropriate changes to the application to ensure it is functioning as intended.

Finally, we recommend that management address the control deficiencies noted in the BFS Finding #11-08. As a priority, management should address the weaknesses in controls over system development to ensure critical systems are not producing unreliable data.

**Agency Response:** In regard to the portion of the finding listed as the Commonwealth Workforce Development System (CWDS), the Office of Vocational Rehabilitation (OVR) is in the process of developing two additional roles within the CWDS system to address the segregation of duties issue. OVR anticipates that by spring of 2012 the two new roles will be in place. OVR will remove the ability from the COFA role that permits staff to edit individual service code fees. A new role will be created that will allow staff to edit the service code fees. This role will only be given to select staff who are responsible for managing the OVR fee schedule. A second role will be created that is a COFA read only role. This role will be given to staff who may need to view high level fiscal information in CWDS, but not actually perform functions in the system. Between the addition of these two roles the number of staff with the COFA role will be reduced and the COFA role will no longer be able to edit the fee schedule without the addition of the new secondary role.

OVR has also developed a practice where the BVRS Fiscal Technician must request approval from their supervisor via email to edit a fee amount. Once approval is received, the Fiscal Technician will store those emails. CWDS was also modified last spring to show that a fee was edited, when and by whom within the manage fee schedule process.

OVR did implement a review of roles starting July of 2011 of all powerful roles (COFA, Super-User, and CO Admin). This process will continue twice per year. L&I OIT will provide a list of users with these roles and CWDS Project staff will be responsible for the coordination of the review.

OVR feels that these measures will resolve the audit findings.

In regard to the Unemployment Compensation Modernization System (UCMS) portion of the finding, the Department, in cooperation with the UCMS contractors, are working to address the incomplete data within the system by loading the backlog of files, increasing system processing, and monitoring the process for efficiency. When processing is caught up it is still expected to revise the estimated federal reports using the complete data within the UCMS system.



# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-01: (continued)**

In relation to the citing of the Bureau of the Workforce Development Partnership (BWDP), BWDP has begun work with IT staff to get periodic (quarterly) listings of privileged (superuser) CWDS users. BWDP Central Office staff will review the listing to determine if the users identified should have such access. Anyone identified as “questionable” will be contacted (along with their supervisor) to review the need for such access. Access will then be continued or removed as each situation warrants.

BWDP is drafting an e-mail to go to all field staff (including business partner staff) to remind everyone of the proper procedure to observe when someone no longer needs access to CWDS (retirement, leave current job, etc.) The reminder will point out that staff access to CWDS should be removed on the individual’s last day of work or the first business day after they no longer need access. In addition, BWDP is in the initial stages of planning a webinar for field Local System Admins to review policy and procedure related to staff access and security.

**Auditors’ Conclusion:** We will review 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.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Labor and Industry

#### Finding 11-L&I-02:

**CFDA #17.258 – WIA Adult Program (including ARRA)**

**CFDA #17.259 – WIA Youth Activities (including ARRA)**

**CFDA #17.260 – WIA Dislocated Workers (including ARRA)**

**CFDA #17.278 – WIA Dislocated Workers Formula Grants**

**Control Weaknesses Exist in Labor & Industry’s Subrecipient Monitoring of Eligibility Determinations for Individuals (A Similar Condition Was Noted in Prior Year Finding #10-41)**

**Federal Grant Numbers: AA-16051-07-55, AA-17144-08-55 (includes ARRA), EM-17478-08-60, AA-18664-09-55, AA-20216-10-55 and EM-20513-10-60 (includes ARRA)**

**Condition:** Eligibility determinations of individuals for the WIA Program Cluster are performed at the local workforce level through Career Link offices, which are subrecipients, not state-level facilities. Either a local case counselor or data entry clerk will enter WIA participant information into L&I’s statewide Commonwealth Workforce Development System (CWDS). The participants’ physical case files including source documentation supporting the eligibility determinations is maintained at the local level. During our prior year audit, we reviewed participant case files at the local level and found that local supervisor review of eligibility determinations were not routinely being performed and/or documented. Additionally, we found that L&I did not monitor participant eligibility determinations at the local level. Furthermore, we did not identify any other compensating controls at L&I related to ensuring that eligibility determinations were appropriate, and therefore, we consider this to be a material weakness.

Our follow-up to prior year finding 10-41 revealed that while L&I stated that it has implemented additional monitoring procedures related to review of participant eligibility, including revising its on-site monitoring tool, these procedures were not implemented until July 2011, subsequent to our audit period ending June 30, 2011. Therefore, for SFYE June 30, 2011, the weakness continues to exist and L&I’s monitoring procedures as they relate to participant eligibility determinations is not considered adequate. L&I’s procedures implemented after June 30, 2011 will be evaluated during our subsequent audit.

WIA Program Cluster expenditures totaled \$131.7 million during SFYE June 30, 2011, of which \$122.0 million was paid to local workforces as subrecipients.

**Criteria:** Eligibility criteria of the adult and dislocated worker programs for core services include age and U.S. citizenship requirements and are found in 20 CFR Sections 663.110 and 663.115 and for intensive and training services are found in Sections 663.220 and 663.310. Eligibility criteria for youth services are found in 20 CFR Section 664.200. Additionally, age eligibility for youth services funded by the American Recovery and Reinvestment Act (ARRA) is increased from 21 to 24 years of age as per ARRA Title VIII(2), 123 Stat 173.

Additionally, in regard to the oversight roles and responsibilities of recipients and subrecipients, 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.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-L&I-02: (continued)**

Furthermore, as part of administering WIA programs, good business practices dictate that L&I should have adequate controls in place, including proper reviews/approvals, to ensure applicants requesting WIA services are eligible. Adequate written procedures, training, and documented supervisory review and approval are essential to ensure that applicant information and documentation are sufficient and maintained to determine eligibility in compliance with applicable regulations.

**Cause:** According to L&I management, L&I does not dictate how local workforces enter WIA participant data into CWDS and L&I does not require a supervisor to document their reviews of the participant eligibility determinations. Each local workforce has unique policies and procedures regarding WIA activities. Also, L&I stated that it did not specifically monitor participant eligibility determinations during SFYE June 30, 2011. L&I did state that it implemented additional monitoring procedures related to participant eligibility during its on-site reviews of the local workforce investment areas starting in July 2011.

**Effect:** Without an adequate subrecipient review process over eligibility determinations, it is possible that WIA services would be provided to individuals who are ineligible according to federal regulations, resulting in misuse of WIA funds and unallowable costs.

**Recommendation:** We recommend that L&I perform monitoring and oversight to ensure that eligibility is properly determined by local workforce investment areas and subrecipients and this determination is adequately documented.

**Agency Response:** BWDP would like to point out that under the Workforce Investment Act (WIA), states are required to monitor subrecipients. In Pennsylvania, L&I conducts annual Compliance and Oversight monitoring of the Local Workforce Investment Boards (LWIB) as the subrecipients of WIA formula funds. LWIBs in turn contract with subrecipients (Title 1 providers and youth service providers) to determine eligibility and provide services to WIA eligible participants. LWIBs are required to monitor their subrecipients. Under WIA Title I, SEC. 121. (a) and (a)(3) it states that:

(a) IN GENERAL.—Consistent with the State plan, the local board for a local area, with the agreement of the chief elected official for the local area, shall—

(3) conduct oversight with respect to the one-stop delivery system in the local area.

L&I's monitoring of LWIBs would include, but not be limited to, questions of how the LWIB administers the WIA funds it receives as well as how the LWIB monitors its subrecipients. LWIBs are responsible for monitoring that ensures "*eligibility is properly determined.... and this determination is adequately documented*" by the subrecipients (Title 1 providers and youth service providers). In other words, while it is NOT L&I's responsibility to monitor participant eligibility, it is L&I's responsibility to ensure that the LWIBs are monitoring this with their subrecipients. To that end, L&I monitoring includes questions about and reviews of LWIB monitoring procedures to verify that participant eligibility, data entry, and participant files have been reviewed. We continually review our monitoring tools to improve the process. As such, we will look at whether additional questions can improve the monitoring of the LWIB's monitoring procedures as they relate to participant eligibility.

With respect to the recommendation that eligibility determinations be adequately documented, L&I believes that LWIBs are ensuring that their subrecipients are documenting and verifying participant eligibility. A majority of LWIBs currently employ a secondary review of WIA applications for eligibility/documentation verification. This was confirmed via phone call with each LWIB. As such, L&I does not believe that a formal policy to implement such a requirement is necessary at this time.

**Auditors' Conclusion:** In its agency response, L&I states that it is not L&I's responsibility to monitor participant eligibility, but instead it is L&I's responsibility to ensure that the LWIBs are monitoring this area with their subrecipients. However, our review revealed that L&I's monitoring of the LWIBs related to participant eligibility was limited to ensuring that the LWIBs have procedures to monitor participant eligibility determined by their subrecipients.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-L&I-02: (continued)**

L&I did not review the LWIAs actual monitoring of their subrecipients to ensure that their monitoring of eligibility determinations was adequate. L&I only confirmed informally with the LWIAs after it received our audit finding that the majority of the LWIAs do actually employ a secondary review of the eligibility determinations performed by their subrecipients. Therefore, we believe that L&I should strengthen its monitoring and oversight of LWIAs to ensure that eligibility is properly determined and documented. Therefore, the finding and recommendation remains as stated above.

Questioned Costs: The amount of questioned costs cannot be determined from the population of \$122.0 million of subrecipient payments.

**The 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, 2011

### Department of Labor & Industry

#### Finding 11-L&I-03:

**CFDA #17.258 – WIA Adult Program (Including ARRA)**

**CFDA #17.259 – WIA Youth Activities (Including ARRA)**

**CFDA #17.260 – WIA Dislocated Workers (Including ARRA)**

**CFDA #17.278 – WIA Dislocated Workers Formula Grants**

**Control Weaknesses at Labor and Industry Regarding Subrecipient Expenditure Monitoring (A Similar Condition Was Noted in Prior Year Finding #10-43)**

**Federal Grant Numbers: AA-16051-07-55, AA-17144-08-55 (includes ARRA), EM-17478-08-60, AA-18664-09-55, AA-20216-10-55 and EM-20513-10-60 (includes ARRA)**

**Condition:** Local Workforce Investment Boards (LWIB) submit requests for funding to the Department of Labor and Industry (L&I) in order to be reimbursed for their Workforce Investment Act (WIA) expenditures. Each request for funding contains the amount of the request and identifies the funding stream. There is no other detailed documentation provided to L&I to support the expenditure request. L&I ensures that funding is available for the LWIB and approves the request for payment. L&I stated that it ensures funds spent by LWIBs are allowable during its annual on-site monitoring of the LWIBs. However, our review and testing of L&I's annual on-site monitoring of the LWIBs disclosed weaknesses in L&I's monitoring of LWIB expenditures and cost allocations.

Prior year Finding #10-43 reported questioned costs of at least \$80,924 and control weaknesses in the documentation supporting LWIB expenditures and cost allocations for which request for payments were made to L&I. This finding cited instances in which the LWIB request for payments could not fully be supported. Our testing of eight subrecipients for the L&I's on-site monitoring of LWIB expenditures and costs for SFYE June 30, 2011 revealed that while L&I reviews a sample of checks and supporting documentation for allowability during each LWIB on-site visit, L&I does not match these expenditures to the actual amounts requested for payment from L&I. Additionally, L&I does not review the LWIB cost allocations plans to ensure costs are properly being charged to the WIA programs and are ultimately correct on the request for payment to L&I. Furthermore, L&I did not follow-up with the LWIBs regarding any of the unsupported costs questioned in prior year Finding #10-43.

L&I payments to WIA subrecipients totaled \$122.0 million during SFYE June 30, 2011, including \$29.3 million in ARRA funds.

**Criteria:** In regard to fiscal controls, the Workforce Investment Act of 1998 Section 184 states:

*(a) Establishment of Fiscal Controls by States.—*

*(1) In general.--Each State shall establish such fiscal control and fund accounting procedures as may be necessary to assure the proper disbursement of, and accounting for, Federal funds allocated to local areas under subtitle B. Such procedures shall ensure that all financial transactions carried out under subtitle B are conducted and records maintained in accordance with generally accepted accounting principles applicable in each State.*

*(2) Cost principles.—*

*(A) In general.--Each State (including the Governor of the State), local area (including the chief elected official for the area), and provider receiving funds under this title shall comply with the applicable uniform cost principles included in the appropriate circulars of the Office of Management and Budget for the type of entity receiving the funds.*

Additionally, in regard to record keeping the Workforce Investment Act of 1998 Section 185 states:

*(a) Reports.—*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-L&I-03: (continued)

*(1) In general.--Recipients of funds under this title shall keep records that are sufficient to permit the preparation of reports required by this title and to permit the tracing of funds to a level of expenditure adequate to ensure that the funds have not been spent unlawfully.*

In regard to oversight roles and responsibilities of recipients and subrecipients, 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*

In regard to cost principles for non-profit organizations, 2 CFR 230 (OMB Circular A-122) Appendix A states:

*2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:*

*g. Be adequately documented.*

**Cause:** With regard to its on-site monitoring of the LWIBs, management stated, that it has not considered whether procedures should be added to match the LWIB expenditures and support to the actual request for payments submitted to L&I. As a result, no procedures have been added to date. With regard to the lack of monitoring the LWIB cost allocation plans, L&I stated that confusion exists between L&I, the Office of Comptroller Operations, and USDOL as to who is responsible for reviewing and approving the cost allocation plans and indirect cost rates of the LWIBs. L&I agreed that its monitoring procedures need improved to include a more detailed review to ensure the plans are being properly followed. L&I plans improvements to its on-site monitoring of LWIB costs and cost allocation plans after June 30, 2011. With respect L&I not following up on the unsupported LWIB costs cited in prior year finding #10-43, management stated that it does not agree with the finding, and therefore, L&I will wait for USDOL to contact them for finding resolution.

**Effect:** Without adequately reviewing and monitoring LWIB expenditures and cost allocations, LWIBs could be requesting reimbursement for services that were not performed, were for unallowable costs, or were not in compliance with approved cost allocation plans. This could lead to noncompliance with federal regulations and questioned costs.

**Recommendation:** L&I should improve its LWIB monitoring process to ensure expenditures are allowable, adequately supported, and in agreement with the requests for payment submitted to L&I. Additionally, L&I's monitoring process should also ensure that LWIB cost allocation plans are properly approved and adhered to.

**Agency Response:** The Bureau has formulated its response using the guidelines for preparing agency responses to initial audit findings with the objective to eliminate, or at least minimize, the effects of the finding(s) as outlined in Management Directive 325.7 Amended.

As in our prior and most recent responses to the auditors, L&I disagrees with this finding on multiple points regarding the \$80,913 in questioned costs. But before digressing, it should be noted that L&I has made several attempts to provide the supporting documentation to allow the auditors to address the questioned costs all within the timeframes permitted. The auditors chose not to review, due to time constraints, the additional supporting documentation provided. L&I believe this information would have mitigated \$80,913 in questioned costs prior to issuing a final report. To date, the auditors have not responded back to the supplemental documentation L&I collected from the local Fiscal Agents to support these questioned costs. There should be no assumption that L&I is requesting the questioned costs be returned prior to USDOL's review and Final Determination as a means of a corrective action plan.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-03: (continued)**

Well aware, the auditors would resurface this finding, L&I proactively engaged our USDOL counterparts. Under USDOL's advisement, L&I reissued a statement to the Fiscal Agents involved with the questioned costs to send any additional documents to support the costs or refund the amount in question. L&I has, once again, collected and compiled this supporting documentation that is ready, if requested, to be forwarded to USDOL for consideration as their review of the statewide single audit of last year is underway.

Regardless though, L&I stands by its initial response that these costs were reasonable and necessary and allowable under the Workforce Investment Act of 1998 and can be traced back to a level of detail to ensure funds have not been spent unlawfully. We will await a formal response by USDOL before implementing a corrective action plan regarding this finding.

It should be noted, that several attempts to seek clarification from the auditors were unresponsive. This is most evident in the auditor's response of this finding where L&I waited 12 days (March 3 to March 15, 2011) before the auditors provided clarification regarding the follow-up of unsupported expenditures. Not understanding the time it takes to collect this data, the auditors did not allow for ample time to review the supplemental documentation before issuing the final report.

It should also be noted that the auditor's expectation to request supporting documentation for 67 single SAP transactions within 3-5 days is unrealistic. Each single SAP transaction tested includes numerous invoices from vendors and sub-recipients that then get rolled-up into a single SAP transaction. In other words, this is not a one-to-one ratio, but, rather, multiple invoices collectively represent one single SAP transaction.

To the recommendation made by the auditors that each request for funds should be supported with backup documentation at the time of the draw request, L&I find that it would be financially unfeasible and counter-productive to review every single invoice submitted to L&I for approval. Therefore, according to the Workforce Investment Information Notice 2-04, the Bureau Grant Procedures, grants awarded by the Bureau, to carry out PA Workforce Development System activities will be issued under an agreement between the Department of Labor & Industry and the grant recipient. All grantees are required to sign an agreement that will be fully executed before any funds are made available for draw down. Within the grant agreement contains Grant Provisions that state "Funds provided under this grant agreement must be expended in accordance with the applicable statutes, regulations and policies and procedures of the State and Federal government and any applicable Local Plan" as well as Assurances and Certifications that state grantees will, "comply with all applicable fiscal laws, regulations, policies and procedures required of any entity administering a federal program including, but not limited to, OMB Circular A-110, OMB Circular A-122, and OMB Circular A-133."

All grant agreements make mention and are covered under Bureau's Workforce Information Investment Notices (WIINs). Of particular interest is WIIN 2.00 Change 2: This Financial Management Technical Assistance Guide has been designed for the Commonwealth's workforce development system to provide operational guidance, strengthen fiscal accountability and provide necessary information for analysis, monitoring, and evaluation as it pertains to the Workforce Investment Act (WIA) and WIIN 3.00 Change 2: intended to provide guidance to Local Workforce Investment Boards (LWIBs) and their Youth Councils regarding the minimum requirements for monitoring, oversight and evaluation necessary to ensure compliance with the Workforce Investment Act of 1998, federal regulations, and state policies. Continuous improvement and the provision of technical assistance, as needed, will result from instituting the policy in this WIIN.

L&I continues to make improvements to our operations to enhance internal controls and accountability under federally funded programs. The Bureau has now requested Fiscal Agents to enter expenditures into cost categories when drawing funds. Please note that USDOL does not require any supporting documentation in the form of invoices when L&I requests funds via the Federal Payment Management System. Additionally, the Bureau has also made changes to the Monitoring Tool to enhance our oversight of Fiscal Agents and Grantees. Both of these improvements have not been required by federal law or regulation at this time, but a means of L&I's continually review and dedication of improving our operations.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-03: (continued)**

It should also be noted that L&I is not required to approve an organizations Indirect Cost Rates and Cost Allocations Plans. OMB states that the organizations federal cognizant agency is designated for that. However, L&I, will review and offer our approval on an organization's Cost Allocation Plan when necessary. In general, several federal cognizant agencies have deferred their approval of an Indirect Cost Rate and Cost Allocation Plan back onto the state. In those instances, L&I, working in collaboration with the Commonwealth's Comptroller's Office works with the organization to negotiate and approve such indirect cost rates. This process is currently under review.

Additional responses are as follows:

- 1) The Bureau respectfully refutes the finding of the audit as it pertains to the lack of invoice review by the Bureau. In Pennsylvania, there are 23 Local Workforce Investment Areas (LWIAs) with 22 Workforce Investment Boards (WIB) that set policy and provide oversight to the LWIAs. Each LWIA has a Fiscal Agent and a Title I Operator(s). It should be noted that the WIB can also function as the Fiscal Agent. The Fiscal Agents are responsible for the LWIA funds. The Title I Operator(s) are responsible for providing training to the programs within the LWIA. The Fiscal Agent determines a need for funds in a particular funding stream. Based on the Bureau review of the request, Fiscal Agents may be required to submit additional information. If the Bureau approves the request, a Notice of Obligation (NOO) will be issued. Issuance of the NOO will serve as the official notification that the Request for Funds (RFF) has been approved.
- 2) The Commonwealth adheres to cash management regulations at 31 CFR Part 205 in addition to the requirements of 29 CFR 97.21.
- 3) Furthermore, Fiscal Agents and sub recipients, including local governments, non-profit, and commercial-for-profit organizations receiving Federal financial assistance during their fiscal year, either directly from the Federal government or indirectly from a recipient of Federal funds, must have an audit conducted. Entities that expend \$500,000 or more in Federal awards, received either directly from the Federal government or indirectly through a recipient of Federal funds, shall have an audit conducted in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations and 29 CFR 99.105. Each recipient and sub recipient must conduct regular oversight and monitoring of its WIA activities and those of its sub recipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).
- 4) As a requirement by OMB Circular A-133, the Bureau conducts an annual on-site monitoring review of each local area's compliance with the Department Of Labor uniform administrative requirements, including the appropriate administrative requirements and cost principles for sub recipients and other entities receiving WIA funds. The Bureau ensures that prompt corrective action be taken if any substantial violations are identified and impose the sanctions provided in WIA section 184(b) and (c) if a sub-recipient fails to take required corrective action.
- 5) Detailed invoices from the LWIAs and/or their sub-recipients/vendors were provided during this audit to validate the expenditures as an allowable cost within the period of availability for the grant. Additional cost allocations were requested by the Auditor and provided, displaying the amount from the invoices that tied to a particular RFF amount, in order to show how the amount for the RFF was obtained.

**Auditors' Conclusion:** It should be noted that the majority of L&I's response relates to our prior SFYE June 30, 2010 Finding #10-43 and does not specifically address the conditions we disclosed in our current audit of SFYE June 30, 2011. The questioned costs that L&I refers to in its response were questioned in the prior year audit. During the prior year audit, we reviewed all the documents provided by L&I and subsequently made changes to the finding prior to issuance. We still noted, as reported in the prior year finding, \$80,924 of questioned costs remained unsupported after reviewing all documentation provided by L&I from its subrecipients. The final auditors' conclusion and audit finding was provided to L&I and included in the SFYE June 30, 2010 audit report. We are disappointed in L&I management's response this year; we consider such inaction to be unresponsive to the necessary improvements needed in the program. Moreover, improvements continue to be delayed while L&I awaits the USDOL's finding resolution process to conclude before investigating the prior year audit exceptions any further.

With regard to the current year audit, L&I appears to indicate that we requested that they provide detailed invoices from subrecipients and recommended that every request for funds be accompanied with support documentation. We did not request any such action. Our testwork and conclusions addressed weaknesses with L&I's annual on-site monitoring of



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-L&I-03: (continued)**

the LWIBs, thus we recommended that L&I should improve its monitoring process over subrecipient expenditures and cost allocation plans. We noted during our review of L&I's annual on-site monitoring of LWIBs, while L&I reviews a sample of checks and supporting invoices for allowability, L&I does not match these expenditures to the actual amounts requested for payment from L&I. Additionally, L&I is not reviewing the cost allocation plans to ensure that costs are being properly charged to the WIA programs and ultimately correct and allowable on the request for payment to L&I. Therefore, the finding and recommendation remains as stated above.

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, 2011

### Department of Labor & Industry

#### Finding 11-L&I-04:

**CFDA #17.258 – WIA Adult Program (including ARRA)**

**CFDA #17.259 – WIA Youth Activities (including ARRA)**

**CFDA #17.260 – WIA Dislocated Workers (including ARRA)**

**CFDA #17.278 – WIA Dislocated Workers Formula Grants**

#### Noncompliance Related to Period of Availability for Local Areas Resulting in Questioned Costs of \$155,590

**Federal Grant Number: AA-18664-09-55**

**Condition:** L&I allocates WIA funds to the 23 Local Workforce Investment Areas (LWIAs) for each program year. The funds are available for expenditure during that program year and the succeeding program year. At the end of the second year, any remaining funds must be returned to the L&I. According to federal regulations, L&I may choose to expend the returned funds on statewide projects or redistribute the funds to the other LWIAs which had fully expended their allocation of the funds for the same program year within the two-year period. The reallocated funds are available for expenditure during the third program year of availability period.

According to federal regulations, Program year 2009 funds allocated to the LWIAs were available for expenditure until June 30, 2011, at which point any remaining funds should have been returned to the state. However, L&I made the decision that rather than closeout the LWIAs' program year 2009 funding, L&I would allow the LWIAs to retain their funding until the end of the third program year of availability ending June 30, 2012. L&I did not obtain approval from USDOL to substantiate not complying with federal regulations. Per our review of LWIA accrued expenditures as of June 30, 2011, there was one of twenty-three LWIAs which had unexpended program year 2009 funds totaling \$155,590 which were not returned. Therefore, we question costs for these unreturned funds of \$155,590.

**Criteria:** 20 CFR 667.107 states in part:

(b) *Grant funds expended by local areas.*

(1) *Funds allocated by a State to a local area under WIA sections 128(b) and 133(b), for any program year are available for expenditure only during that program year and the succeeding program year.*

(2) *Funds which are not expended by a local area in the two-year period described in paragraph (b)(1) of this section, must be returned to the State. Funds so returned are available for expenditure by State and local recipients and subrecipients only during the third program year of availability. These funds may:*

(i) *Be used for Statewide projects, or*

(ii) *Be distributed to other local areas which had fully expended their allocation of funds for the same program year within the two-year period.*

If the State chooses to reallocate returned funds to other local areas which had fully expended their allocations, it should do so in accordance with Sections 128(c) and 133(c) of the Workforce Investment Act of 1998 and provisions in 20 CFR 667.160 (b) and (c).

**Cause:** L&I management stated they chose not to recapture LWIA funds after the second year of availability due to program year 2010 allocations being delayed by USDOL and there was a \$6.8 million funding cut from program year 2010 to program year 2011. L&I granted an additional year for LWIAs to fully exhaust funds. L&I does not believe it is noncompliance with federal regulations. Instead, L&I believes that since the regulations state that funds "may" be reallocated funds do not need to be returned to the state at the end of the second year if L&I chooses to not reallocate.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-L&I-04: (continued)**

We disagree. According to 20 CFR 667.107 (b)(2), funds which are not expended by a local area by the end of the second year “must” be returned to the state. The state then has options how to expend these returned funds, one of which is to reallocate the funds to the LWIAs which had fully expended its funds by the end of the second year.

**Effect:** By not recapturing the LWIA funds at the end of the second year, L&I is in noncompliance with federal period of availability regulations which results in questioned costs. Also, the recaptured funds are meant to be reallocated to LWIAs who fully expended their allocation of funds. By allowing the LWIA who did not fully expend its allocation of funds, the funds are not being expended by the LWIAs that demonstrate the most need for the funds.

**Recommendation:** We recommend L&I adhere to federal regulations by recapturing the program year funds from the LWIAs at the end of the second year of availability and reallocating the funds to statewide projects or to LWIAs who fully expended its program year funds.

**Agency Response:** The Bureau has formulated its response using the guidelines for preparing agency responses to initial audit findings with the objective to eliminate, or at least minimize, the effects of the finding(s) as outlined in Management Directive 325.7.

The Bureau refutes the questioned cost claim that federal regulations were not adhered to regarding the involuntary recapturing and reallocation of PY09 funds from the LWIAs.

The Bureau believes that the ambiguity regarding what procedures must be used, or may be used, in the involuntary recapture and reallocation of the funds in question drives the impetus behind this finding. It is apparent that 20 CFR § 667.107 states the funds in question must be recaptured. It is also apparent that CFR 20 § 667.160 states what reallocation procedures must be used in the involuntary recapture of funds.

Specifically, CFR 20 § 667.160 addresses the Governor’s reallocation procedures. This reference states that the Governor may reallocate youth, adult, and dislocated worker funds among local areas within the state in accordance with the provisions of sections 128(c) and 133(c) of the Act. If the Governor chooses to reallocate funds, the provisions in paragraphs 667.160 (b) and (c) apply.

Given this vagueness in the CFR at different sections, the \$6.8M funding cut from PY10 to PY11, and the delay in our PY11 allotment, the Bureau chose not to recapture LWIA funds after the 2nd year of Program Year 2009 thereby granting an additional year (i.e., July 1, 2011 to June 30, 2012) for LWIAs to fully exhaust funds. This decision amounted to one LWIA retaining \$155,590 beyond the 2<sup>nd</sup> year of PY09. It should also be noted that these expenses were allowable, reasonable, and necessary costs.

**Auditors’ Conclusion:** L&I states in its response that it believes the federal regulations are vague in respective sections, and because there was a funding cut and a delay in its program year 2011 allotment, it choose to not recapture LWIA funds unexpended by the end of the second year of program year 2009. However, we disagree and believe that 20 CFR667.107 cited in the finding criteria is clear that funds which are not expended by the LWIA in the two-year period must be returned to the state. Additionally, the OMB Compliance Supplement Part 4 for the WIA Program Cluster page 4-17.258-14 reiterates that “funds allocated by a state to a local area for any program year are available for expenditure only during that program year and the succeeding program year. Funds which are not expended by a local area in this two-year period must be returned to the State.” Furthermore, in spite of L&I believing the federal regulations are vague, it should have seeked guidance and approval from USDOL to substantiate not complying with federal regulations. Therefore, the finding and recommendation remains as stated above.

**Questioned Costs:** We question the amount of program year 2009 LWIA funds that were unexpended as of June 30, 2011 and not returned to the Commonwealth totaling \$155,590.

**The 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, 2011***

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### **Department of Labor & Industry**

#### **Finding 11-L&I-05:**

##### **CFDA#17.259 – Workforce Investment Act Youth Activities – ARRA**

##### **Inadequate Monitoring of the ETA-9149 entitled, “Youth Served With WIA Recovery Resources Monthly Report” (A Similar Condition Was Noted in Prior Year Finding #10-44)**

##### **Federal Grant: AA-17144-08-55 (ARRA)**

**Condition:** Within the Workforce Investment Act (WIA) program, the PA Department of Labor and Industry (L&I) is required to submit the supplemental ETA-9149 report entitled, “Youth Served with WIA Recovery Act Resources Monthly Report” to the U.S. Department of Labor (USDOL) on a monthly basis. The ETA-9149 report specifically provides information regarding the youth served with WIA Recovery Act resources, including the number of participants in summer employment, services received, attainment of a work readiness skill, and completion of summer youth employment. Local Workforce Investment Boards (LWIB) enter the data regarding youth participants served into L&I’s Commonwealth Workforce Development System (CWDS). The LWIBs maintain the source documentation in participants’ physical case files. Since the ARRA funding for WIA youth activities ended on June 30, 2011, the June 2011 ETA-9149 report was the final report submitted.

Each month L&I compiles the respective data from the CWDS system to prepare the ETA-9149 report and submits the report electronically to USDOL. L&I acknowledged that it did not verify the accuracy of the CWDS data used to prepare the ETA-9149 each month during SFYE June 30, 2011. L&I also does not verify this data as part of its annual on-site monitoring of the LWIBs. However, in an attempt to ensure that the final ETA-9149 Report submitted for June 2011 was accurate, L&I prepared a list of participants by LWIB from the data in the CWDS system that indicated which participants had not completed the ARRA youth program or had not been transitioned into another WIA program for which they were eligible even though the ARRA program had ended. L&I e-mailed these lists to the LWIBs in the beginning of July 2011 and asked that the LWIBs update CWDS based on whether the participant completed and properly exited the program or transitioned into other WIA program areas. However, L&I still did not verify the accuracy of any data updates by the LWIBs. Additionally, L&I performed no follow-up as to the status of these exit/transitions’ activities.

A total of \$11,645,023 was paid out for WIA Youth Activities under ARRA during our current fiscal year ended June 30, 2011.

**Criteria:** USDOL Training and Employment Guidance Letter No. 24-08 states, in part:

*States will be required to distinguish youth served with Recovery Act funds from youth served with regular WIA funds and report “Recovery Act” youth separately in a supplemental monthly youth report. In this supplemental report, states will report aggregate counts of all Recovery Act youth participants, including the characteristics of participants, the numbers of participants in summer employment, services received, attainment of a work readiness skill, which is required in the Recovery Act, and completion of summer youth employment.*

**Cause:** Since the summer youth program funded by ARRA was ending on June 30, 2011 and the ETA-9149 reports are cumulative, L&I management felt it was unnecessary to verify the data for each month reported during SFYE June 30, 2011. Instead, L&I attempted to have the LWIBs review and update the data for participants who were still shown to be in the program in July 2011 even though the ARRA youth program ended on June 30, 2011. However, L&I still did not follow-up or verify the status of these participants after the LWIB review to ensure that the participants were properly exited out of the ARRA youth program.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-05: (continued)**

**Effect:** The accuracy of the ETA-9149 report is essential because it provides data for the use of Recovery Act funds for summer employment, which is currently not collected in the WIA quarterly or annual report. If the accuracy of this report is compromised, L&I will not achieve adequate accountability on the impact of the WIA Recovery Act funds used to serve youth, and erroneous Recovery Act data will be reported to USDOL in noncompliance with reporting requirements.

Additionally, if participants are not properly exited out of the youth program the potential exists that participants could receive future benefits that they are not eligible to receive or not be transitioned into programs for which they are eligible.

**Recommendation:** L&I should strengthen its monitoring procedures over LWIB data collection and entry procedures to ensure that all reported information on the ETA-9149 report, or any future reports, is accurate and complete. Additionally, L&I should ensure that all participants are properly exited out of the ARRA youth program or transitioned into other WIA program areas.

**Agency Response:** L&I agrees with the auditors that all participants should be “properly exited out of the ARRA youth program or transitioned into other WIA program areas.” As such, we are in the process of following up with the LWIAs that still show youth ARRA participants who have not been exited or transitioned into other WIA programs. A follow up report has been run and there are eight youth cases (involving five LWIAs) that still need to be corrected. A Corrective Action Plan (CAP) will be provided under separate cover.

With regards to strengthening L&I’s monitoring procedures over LWIB data collection and entry procedures to ensure that all reported information on the ETA-9149 report, or any future reports, is accurate and complete, L&I agrees that any and all data reported by L&I to various stakeholders, including but not limited to the USDOL, state, LWIBs and the public must be as correct as possible. L&I’s main reports stakeholder (USDOL) has determined that the best way to validate data accuracy is for states to conduct annual Data Element Validation. In Pennsylvania this includes in-person site visits to review random sample records identified by ETA software. L&I annually reviews approximately 1,300 records statewide during these site visits. L&I follows all prescribed ETA guidelines for Data Element Validation and has never been cited for failing to meet these requirements.

**Auditors’ Conclusion:** We acknowledge that L&I is in the process of implementing corrective action to ensure that all participants are properly exited out of the ARRA youth program or transitioned into other WIA program areas. Therefore, we will evaluate the new procedures in the subsequent audit period. Additionally, we acknowledge that L&I’s annual Data Element Validation (DEV) as prescribed by USDOL is a good control to ensure data entered into CWDS is accurate; however, due to the timing of the validation, it is not adequate to address the weakness noted in the finding and to ensure the accuracy of the information reported on the ETA-9149 reports.

**Questioned Costs:** None

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Labor and Industry

#### Finding 11-L&I-06:

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

#### A Material Weakness Exists in Labor and Industry's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #10-62)

**Federal Grant Numbers:** H126A090056, H126A100056, H126A110056 and H390A090056 (ARRA)

**Condition:** As a result of federal resolution of multiple prior Single Audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, Office of Vocational Rehabilitation (OVR) is required to check all vendors receiving \$25,000 or more of Vocational Rehabilitation (VR) Cluster funding during the fiscal year for suspension/debarment.

We tested a sample of 40 vendors receiving VR Cluster payments under federal grant numbers H126A110056, H126A100056, and H390A090056 in SFYE June 30, 2011 to verify whether OVR checked the respective vendor against the debarment list prior to paying that vendor. For all 40 items tested, OVR provided us with a screen from the CWDS payment system which indicated that the vendors were verified against the Federal Excluded Parties List System (EPLS). However, our testing disclosed that 38 out of 40 vendors tested had not been verified against the EPLS by OVR prior to the VR Cluster payments being made as required by federal regulations. Additionally, of the two remaining vendors that were verified prior to payment, one was performed over 2.5 years prior to the date of the payment being tested, which indicated that the EPLS had not been checked annually for this vendor as required. In addition, OVR did not have procedures in place to identify those vendors who receive VR Cluster funds of \$25,000 or more (the federal contract threshold) in which case OVR is required to check the EPLS website to ensure that such vendors are not debarred or suspended.

**Criteria:** USDE Regulation 34 CFR 85 regarding government-wide debarment and suspension, states in part:

*Section 85.220 Are any procurement contracts included as covered transactions?*

*(a) Covered transactions under this part –*

- (1) Do not include any procurement contracts awarded directly by a Federal agency, but*
- (2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions (see appendix to this part).*

*(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:*

- (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §85.210, and the amount of the contract is expected to equal or exceed \$25,000.*

*Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?*

*When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:*

- (a) Checking the Excluded Parties List System; or*
- (b) Collecting a certification from that person if allowed by this rule; or*
- (c) Adding a clause or condition to the covered transaction with that person.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-L&I-06: (continued)

34 CFR 80.35 states the following regarding subawards to debarred and suspended parties:

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

34 CFR 80.36(a) states:

*When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.*

Commonwealth Management Directive 215.9, Section 7.a.(4), dated October 25, 2010, states:

*...the agency shall document the determination of contractor responsibility and attach such documentation to the contract for the entire approval process.*

**Cause:** OVR personnel indicated that as a result of the prior year findings related to this matter they attempted an interface to check the debarment more timely and more frequently for existing vendors, but due to technology limitations, they were not able to implement the feature into OVR's CWDS payment system during SFYE June 30, 2011. Regarding the 38 vendors for whom debarment was checked after the date of the payment and the one vendor for whom debarment was checked over 2.5 years prior to the payment, OVR's procedures were to check the vendors for debarment when they were new or when there was a change in vendor contact information, which was not adequate because it was not performed annually and not performed prior to the payment being made. In addition, the majority of OVR vendors are paid out of OVR's general ledger account 6600900 (Payments to Third Parties) and do not have contracts with OVR but instead are paid according to OVR's Fee Schedule. Therefore, the majority of these vendors, payments to whom historically make up approximately 38 percent of OVR's annual VR Cluster expenditures of \$137,513,706, do not have contracts which contain debarment certifications or clauses, so these vendors would require a separate check of the EPLS system for debarment/suspension. There were no other compensating controls in place during SFYE June 30, 2011 to ensure that these vendors were not debarred or suspended on an annual basis and prior to payment.

**Effect:** Since OVR personnel are not ensuring, on an ongoing basis, that all vendors which receive payments of \$25,000 or more during a fiscal year are not suspended or debarred before entering into a covered transaction, they are not complying with federal regulations and a material weakness exists. Also, there is limited assurance that VR Cluster funds (including ARRA) are not paid to service providers who have been excluded or disqualified from participating in federal programs. Since the auditor's review of the EPLS system for the 40 vendors did not disclose that any vendors were debarred or suspended, no costs are questioned for this finding.

**Recommendation:** We recommend that OVR personnel establish procedures to identify all vendors in the VR Cluster which receive, or are expected to receive, payments of \$25,000 or more during a fiscal year and to check the Federal Excluded Parties List System prior to authorizing a payment to these VR Cluster service providers in order to ensure that the service provider is not debarred or suspended. Additionally, OVR should retain documentation of all EPLS verifications so they are available for auditor review.

**Agency Response:** While the original test sampling that occurred might have indicated that 38 out of the 40 vendors selected receiving VR Cluster payments had not been verified against the Federal Excluded Parties List System (EPLS) during the audit period of June 30, 2011, OVR disagrees with this finding and several subsequent statements that were included within it.

In a meeting requested by the Office of the Auditor General held on October 26, 2011 for the purpose to discuss any corrective action implemented to prior year findings to discern if any are still pertinent and need to be re-issued, several processes that were implemented regarding OVR's provider's list and the debarment list were discussed. They are as follows:

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-L&I-06: (continued)**

1. Provider purges have been implemented that will inactivate a provider after there has been two years of inactivity (no invoices or claims).
2. During the summer of 2011 all active providers whose debarment was not checked for over two years were reviewed and updated. Changes to the CWDS system were also implemented that will show on the screen when the last debarment check occurred and who completed the check.
3. As of October 1, 2011, OIT has created a report that they run monthly that will pull a list of vendors where OVR has spent over \$25,000 in the past 12 month period. This list is submitted to the BCO Fiscal Technician who then reviews the file within CWDS, checking the debarment, and updating CWDS as appropriate.
4. OVR will continue to check the debarment of all new providers as they are entered and will check the debarment of any existing vendors if the file is updated by OVR Central Office staff.

Given that these actions were discussed with the auditors, it is felt that the statement under the Effect paragraph, which states: "Since OVR personnel are not ensuring on an ongoing basis that all vendors which receive payments of \$25,000 or more during a fiscal year are not suspended or debarred before entering into a covered transaction, they are not complying with federal regulations and a material weakness exist." does not credit these actions and is just based on the testing and is thus misstated. The second sentence in that paragraph is also in error.

Since procedures are already in place, we feel the point of the Auditor General making a recommendation to do so is pointless thus rendering the actual reissuing of this finding also null. Based on the above steps taken in response to previous audit finding, we respectfully request that this finding be rescinded.

**Auditors' Conclusion:** Based on the meeting held on October 26, 2011, between OVR personnel and Auditor General personnel, OVR personnel stated that the processes listed in their Agency Response above were not implemented until after the SFYE June 30, 2011, audit period. During the meeting, OVR personnel and Auditor General personnel agreed that because OVR did not implement corrective action until after the SFYE June 30, 2011, audit period, the material weakness still existed during SFYE June 30, 2011, and the finding would need to be re-issued for SFYE June 30, 2011. The finding recommendation addresses the material weakness which existed as of June 30, 2011. We will review any corrective action which was implemented after June 30, 2011, during the subsequent audit period. The finding remains as stated.

**Questioned Costs:** None

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



# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Labor and Industry

#### Finding 11-L&I-07:

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

#### Labor and Industry Did Not Comply With Maintenance of Effort Requirements Resulting in Questioned Costs of \$19,763

Federal Grant Number: H126A090056

**Condition:** As part of our audit of the Vocational Rehabilitation Cluster, we examined OVR’s system for ensuring compliance with the federal maintenance of effort (MOE) requirement. Our testing disclosed that for the federal grant #H126A090056 which closed during the SFYE June 30, 2011 audit period, OVR did not comply with the federal maintenance of effort requirement as follows:

Current Federal Fiscal Year 2009 Expenditures:	\$33,627,936
Base Federal Fiscal Year 2007 Expenditures:	<u>33,839,340</u>
Maintenance of Effort Deficit:	<u>(\$ 211,404)</u>

As the result of an on-site review of OVR, USDE-RSA became aware of a potential MOE deficit at OVR of \$191,641 in June 2010, which was prior to the September 2010 end of the grant award in question. USDE-RSA reduced OVR’s subsequent federal grant award #H126A100056 by the \$191,641 identified. However, the MOE calculation performed by the Commonwealth as of June 30, 2011 disclosed that the total MOE deficit was the \$211,404 cited above, of which \$19,763 is considered to be questioned costs, since this amount has not been recovered by USDE. Total VR Cluster federal expenditures were \$137,513,706 during SFYE June 30, 2011.

**Criteria:** USDE Regulation 34 CFR Part 361 regarding the State Vocational Rehabilitation Services Program states in part:

*Section 361.62 Maintenance of effort requirements.*

*(a) General requirements. (1) The Secretary reduces the amount otherwise payable to a State for a fiscal year by the amount by which the total expenditures from non-Federal sources under the State plan for the previous fiscal year were less than the total of those expenditures for the fiscal year 2 years prior to the previous fiscal year.*

*Example: For fiscal year 2001, a State's maintenance of effort level is based on the amount of its expenditures from non-Federal sources for fiscal year 1999. Thus, if the State's non-Federal expenditures in 2001 are less than they were in 1999, the State has a maintenance of effort deficit, and the Secretary reduces the State's allotment in 2002 by the amount of that deficit.*

*(2) If, at the time the Secretary makes a determination that a State has failed to meet its maintenance of effort requirements, it is too late for the Secretary to make a reduction in accordance with paragraph (a)(1) of this section, then the Secretary recovers the amount of the maintenance of effort deficit through audit disallowance.*

**Cause:** OVR personnel indicated that the noncompliance with the MOE requirements was exacerbated by general decreases in available state funding, and also the fact that the FFY 2007 Federal grant award was slightly greater than the FFY 2009 Federal grant award.

**Effect:** Since OVR personnel did not ensure compliance with the MOE requirement, costs in the amount of \$19,763 are questioned.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-L&I-07: (continued)**

**Recommendation:** We recommend that OVR personnel pursue appropriate settlement with USDE-RSA regarding the \$19,763 in questioned costs.

**Agency Response:** OVR agrees with the finding. Following submission of the FFY 2010 RSA-2, OVR discovered an error resulting in the report being opened by RSA and an amended report was filed. The error occurred due to unclear instructions in the internal manual. The procedural error in our records has been corrected. We have initiated dialogue with RSA and are awaiting their instructions as the process we need to follow to resolve the funds in question.

Questioned Costs: \$19,763

**The 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, 2011

### Department of Military and Veterans Affairs

#### Finding 11-DMVA-01:

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

**Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of \$60,435 (A Similar Condition Was Noted in Prior Year Finding #10-35)**

**Federal Grant Numbers:** DAHA360251005, DAHA360341002, DAHA360351021, DAHA360361002, DAHA360621001, DAHA3606H1001, DAHA360721001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360721041, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751005, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360761002, DAHA3607H1001, DAHA360821021, DAHA360825001, DAHA360851004, DAHA360921001, W912DY-08-2-0006, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-09-2-9025, W912KC-10-2-1001, W912KC-10-2-1002, W912KC-10-2-1003, W912KC-10-2-1004, W912KC-10-2-1005, W912KC-10-2-1007, W912KC-10-2-1010, W912KC-10-2-1021, W912KC-10-2-1023, W912KC-10-2-1024, W912KC-10-2-1041, W912KC-10-2-5001, W912KC-11-2-1004, W912KC-11-2-1005, W912KC-11-2-1021 and W912KC-11-2-1024

**Condition:** The Department of Military and Veterans Affairs (DMVA) has a Master Cooperative Agreement with the National Guard Bureau to provide support to the Army and Air National Guard in minor construction, maintenance, repair or operation of facilities. Costs for each appendix under the Master Cooperative Agreement are initially paid and recorded in SAP with state funds since the Commonwealth is using the reimbursement method for this program as described in the NGR 5-1, Chapter 11. Each month Federal Accounting in the Comptroller Operations prepares a SF270 Form for the applicable federal share of the incurred costs for each of the grants under the Master Cooperative Agreement. The DMVA had 46 grants for which costs were incurred during the period under audit. For all 40 out of 40 SF-270s sampled we were unable to review documentation to support any control procedures performed to ensure that cash payments were made to vendors prior to the request for reimbursement being submitted.

Each appendix (grant) under the Master Cooperative Agreement covers a one year period (10/1/XX through 9/30/XX). For monthly services, the month of service determines which grant should be charged. For 6 of the 80 items, which totaled \$47,323.23 out of a total of \$1,111,523.68 tested, we noted the incorrect grant year was charged and the costs were outside the period of availability.

Within 90 days after the end of the Federal fiscal year, DMVA must provide to the USPFO a Master Cooperative Agreement closing figures report for each appendix. This report should include all un-disbursed obligations under the Master Cooperative Agreement at December 31. For 4 of the 80 items, which totaled \$13,111.53 out of a total of \$1,111,523.68 tested, we noted the costs were un-liquidated by the State Treasury within 90 days after the Federal fiscal year, and were not included on the listing provided to the USPFO as required.

**Criteria:** 31 CFR Part 205, Subpart B, *Rules Applicable to Federal Assistance Program Not Included in a Treasury-State Agreement*, states:

- a. *A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing must be as close as administratively feasible to a State's actual cash outlay for direct program costs.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-DMVA-01: (continued)

2 CFR section 215.28, *Period of Availability of Funds*, states:

- b. *Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.*

NGR 5-1, Chapter 11-10, *Final Accounting and Settlement*, states:

- c. *If un-liquidated claims and un-disbursed obligations arising from the grantee's performance of the agreement appendix will remain 90 days or more after the close of the fiscal year, the grantee shall provide to the USPFO (NLT 31 Dec) a written request to keep the agreement appendix funding open. The request will include a consolidated, detailed listing of all un-cleared obligations and a projected timetable (date) for their liquidation and disbursement. The USPFO shall then set an appropriate new timetable for the grantee to submit final accounting and settlement. Subsequent requests will be submitted by the grantee every 90 days or so thereafter as long as there are un-liquidated claims or un-disbursed obligations. The USPFO, with proper justification, can choose to not extend the timetable and require that the remaining agreement appendix funding be de-obligated.*

**Cause:** The Bureau of Federal Accounting, Comptroller Operations prepares the SF-270 Forms using a report pulled by posting date rather than State Treasury pay date. By using this report all expenditures that are incurred for this program are captured on the SF-270 report whether or not the vendor was paid by the State Treasury. There are no procedures in place to ensure the cash is paid to the vendor prior to submitting the SF-270 to the USPFO for reimbursement.

Invoices for monthly expenditures are set up in SAP to be charged against a particular grant year. The change in federal fiscal years requires the coding in SAP to be changed so the expenditure is charged against the current grant year. In the case of the items described above, the coding was not changed timely and therefore, the expenditure was charged to a previous year's grant. DMVA does have controls in place regarding the review of period of availability to ensure the correct grant is charged based on the dates of service; however, the control was not adequate.

DMVA prepares the detailed listing of un-disbursed obligations using an "Open Commitments by Document Number" report from SAP. Based on this report as soon as an invoice receipt is entered into SAP, the expenditure shows as being liquidated in SAP and does not appear on the report regardless of whether or not the State Treasury paid the vendor. This caused four of the 80 items tested to be omitted from the listing.

**Effect:** The Bureau of Federal Accounting, Comptroller Operations and DMVA did not have procedures in place to ensure that expenditures were paid prior to the request for reimbursement (SF-270) being submitted for payment. No questioned costs were identified through our substantive procedures.

Questioned costs of \$47,323.23 related to the incorrect grant being charged and \$13,111.53 related to the omission of items on the detailed listing of un-cleared obligations could result in these expenditures not being eligible for reimbursement from the federal government.

**Recommendation:** We recommend that the Bureau of Federal Accounting, Comptroller Operations prepare the SF-270 Forms using a report which captures expenditures actually paid by the State Treasury during the month for which reimbursement is being requested rather than using a report which is pulled by posting date. This would ensure that all expenditures for which reimbursement is being requested were actually paid prior to forwarding the request for payment to the USPFO. We further recommend when preparing the listing of un-cleared obligations at December 31, a separate procedure be put in place to ensure all items are included if cash payments have not been made to the vendor by the State Treasury. The DMVA should strengthen its internal control procedures to ensure that the correct period of availability is being charged based on the service dates.

**DMVA Response:** DMVA is in agreement with the 2<sup>nd</sup> portion of this finding. DMVA will include in a corrective action plan the requirement to clear all blocked and rejected invoices for the prior federal fiscal year before the December 31 pre-closing memo is issued. In addition, as part of a corrective action plan, DMVA will review the findings with regard to period of availability and investigate the cause.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DMVA-01: (continued)**

**Comptroller Response:** We disagree with this finding. The Bureau of Federal Accounting, Comptroller Operations prepares SF-270 Requests for Reimbursement as close as administratively feasible to the State's actual cash outlay for the program costs. All SF-270 Requests for Reimbursement are prepared on an accrual basis. Per the SF-270 Request for Reimbursement Instructions it states "for requests prepared on an accrued expenditure basis, outlays are the sum of the actual cash disbursements, the amount of indirect expenses incurred, and the net increase (or decrease) in the amounts owed by the recipient for goods and other property received and for services performed by employees, contracts, subgrantees and other payees." Since the SF-270 outlays, when prepared on an accrual basis, can include amounts owed by the recipient for goods and other property it is a reasonable expectation that a submitted SF-270 could include an owed amount that has yet to be paid by the State Treasury.

**Auditors' Conclusion:** We acknowledge that the SF-270 form provides an option to use the accrual basis of accounting, however, if the accrual basis of accounting is utilized the timing of the draw downs still needs to comply with 31 CFR Part 205, Subpart B(a). Management has not provided documentation to support that controls are appropriately designed and in place to prevent draw downs from occurring prior to program expenditures being paid by the State. Therefore, our finding and recommendations remain as previously stated.

Questioned Costs: \$60,435

**The 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, 2011***

### **Department of Military and Veterans Affairs**

#### **Finding 11-DMVA-02:**

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

#### **Equipment Management Internal Control Deficiencies and Noncompliance (A Similar Condition Was Noted in Prior Year Finding #10-34)**

**Federal Grant Numbers:** Federal Grant Numbers: DAHA360251005, DAHA360341002, DAHA360351021, DAHA360361002, DAHA360621001, DAHA3606H1001, DAHA360721001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360721041, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751005, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360761002, DAHA3607H1001, DAHA360821021, DAHA360825001, DAHA360851004, DAHA360921001, W912DY-08-2-0006, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-09-2-9025, W912KC-10-2-1001, W912KC-10-2-1002, W912KC-10-2-1003, W912KC-10-2-1004, W912KC-10-2-1005, W912KC-10-2-1007, W912KC-10-2-1010, W912KC-10-2-1021, W912KC-10-2-1023, W912KC-10-2-1024, W912KC-10-2-1041, W912KC-10-2-5001, W912KC-11-2-1004, W912KC-11-2-1005, W912KC-11-2-1021 and W912KC-11-2-1024

**Condition:** The Department of Military and Veterans Affairs (DMVA) purchases equipment using National Guard Military Operations and Maintenance (NGMO) federal funding for use in maintaining and operating facilities for the program. Under the program regulations in the NGR 5-1, title for such equipment is vested with the Commonwealth. The regulations state that equipment property records will be maintained and reported to the USPFO. Our testing disclosed that the DMVA did not provide a report to the USPFO in the current year, of property acquired in full or in part using NGMO funds as required by NGR 5-1. There was \$708,596 in equipment acquired in the year ended June 30, 2011.

**Criteria:** The NGR 5-1, Chapter 8, section 2, c states:

*(1) Equipment property records will be maintained and reported to the USPFO. Reports will include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property and any ultimate disposition data including the date of disposal and sale price of the property.*

**Cause:** The DMVA was recording equipment purchases using Asset Tracker, a commercial software system. This system has \$2,710,209 in equipment recorded; however, does not provide sufficient flexibility to enable the DMVA to separately identify the source of funds used to acquire the equipment.

**Effect:** The DMVA has not provided the USPFO with property reports related to equipment for the year ended June 30, 2011, in noncompliance with federal regulations.

**Recommendation:** The DMVA should establish systems and procedures to ensure that the required reports are provided to the USPFO as required.

**Agency Response:** We are in agreement with this finding. The correction action plan has been implemented.

**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, 2011

### Pennsylvania Infrastructure Investment Authority

#### Finding 11-PENNVEST-01:

#### CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)

**Internal Control Weaknesses in the Preparation, Review, and Approval of the Capitalization Grants for Clean Water State Revolving Funds Annual Report Submitted to the Environmental Protection Agency (A Similar Condition Was Noted in Prior Year Finding #10-50)**

**Federal Grant Numbers: CS-42-0001-10 and 2W-42000209 (ARRA)**

**Condition:** The Pennsylvania Infrastructure Investment Authority (PENNVEST) is required to submit an Annual Report to the Environmental Protection Agency (EPA) for Clean Water State Revolving Funds (CWSRF). The Annual Report details many aspects of the PENNVEST program including various charts depicting pertinent information to include state match obligations, binding commitment requirements, etc. PENNVEST submitted the FYE June 30, 2011 Annual Report as required. However, during our review of the Annual Report, numerous errors were identified. PENNVEST's internal controls designed to ensure the accuracy of the Annual Report did not prevent and detect the errors prior to submission. We noted the following errors:

- Chart 3 represents the binding commitment schedule. This chart excluded the ARRA portion (totaling \$176,912,530) in the cumulative binding commitments amounts.
- Chart 11 represents the Intended Use Plan and Chart 12 depicts the Intended Use Plan Summary. We found that the administrative funds reported on Chart 11 and Chart 12 as \$48,470,021 was overstated by \$2.5 million.
- The *Addendum to Narrative for the CWSRF Annual Report* summarizes the report's information for use in the Narrative Section. We reviewed the Addendum for accuracy by comparing it to the loans awarded information in Chart 1 and found the following inaccuracies:

Item	Chart 1	Addendum	Difference
Closed Construction Projects - ARRA Only	\$ 302,777,808	\$ 302,785,035	\$ (7,227)
Construction Projects Amortized Number of Projects	\$1,760,693,092 584	\$1,944,047,799 703	\$(183,354,707) (119)
Paid in Full (Loans repaid) Number of Projects	\$ 207,419,032 117	\$ 200,757,379 114	\$ 6,661,653 3
Risk Code - Non-Speculative ARRA Outstanding Principal Loan Balance as of 6/30/11	\$ 57,787,413	\$ 41,813,619	\$ 15,973,794

- The Annual Report Narrative section provides background information, program overview, success stories, goals, and narrative summaries of the charts. We found that the Narrative section contained numerous typographical errors, numbers that were not updated from the prior year, and incorrect data carried from the addendum as noted above.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-PENNVEST-01: (continued)

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

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

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

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

**Cause:** According to PENNVEST management, the reason that there were mistakes on the Annual Report for 2011 was a high degree of activity due to preparations for a Board of Directors Meeting, the Budget was due, as well as the Annual Reports. All of those activities take a large amount of number generations. Too many numbers caused human errors in the Annual Report. In addition, management stated that an incorrect file was transmitted when trying to send all the information files required for the Annual Report via email.

**Effect:** When information reported in the required Annual Report contains errors, PENNVEST is not in compliance with federal regulations. Also, data is being provided to the EPA that incorrectly represents the fiscal and program status for the CWSRF.

**Recommendation:** We recommend that PENNVEST strengthen its internal controls over the preparation, review and approval of the Annual Report. PENNVEST procedures must ensure a more diligent review of the Annual Report to ensure its accuracy prior to submission to the EPA. We also recommend that PENNVEST submit a revised Annual Report for June 30, 2011 to the EPA to correct the errors as noted in the finding.

**Agency Response:** PENNVEST is in agreement with this finding.

**Questioned Costs:** None

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



# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Pennsylvania Infrastructure Investment Authority**

#### **Finding 11-PENNVEST-02:**

**CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**

**CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)**

**Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding #10-53)**

**Federal Grant Numbers: FS-993577-10, 2F-093577-09 (ARRA), CS-42000110-1 and 2W-42000209-3 (ARRA)**

**Condition:** As part of our audit of the PENNVEST major programs for the year ended June 30, 2011, we performed certain information technology (IT) general controls review procedures for the significant applications (Online Funding Request [OFR] and Funds Disbursement [FD]). In prior audits, we found a lack of segregation of duties between application development and promotion of program changes into production, as well as a lack of monitoring of changes to the production environment. During our current procedures, we found the following control weaknesses existed during the audit period:

- Two individuals with the ability to develop and maintain programs continue to have the ability to promote programs into production. These two individuals also have administrative rights to both the OFR and FD applications, as well as the ability to change job schedules in the FD application.
- One of these two individuals with the ability to maintain programs also is an administrator in SharePoint, the software used to control the program change process.
- PENNVEST implemented RSA Envision in December 2010 to monitor changes to the production environment. However, there was no evidence of review of the RSA Envision reports.
- There are no policies and procedures in place over adding new users to the applications, including employees, contractors, and non-Commonwealth partners.
- There are no policies and procedures to ensure timely removal of access for terminated users, including employees, contractors, and non-Commonwealth partners.
- Servers located in PENNVEST offices house the development environment and the SharePoint software. We found that an excessive number (23) of employees have access to the server room; the server racks were not locked; and two lost key cards were not deactivated.

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

**Cause:** PENNVEST develops and maintains its applications with a very small IT staff, making strict segregation of duties difficult to achieve. The implementation of RSA Envision software to monitor changes to the production environment could be used as a compensating control, but evidence of timely monitoring of change reports must be maintained for audit.

Regarding the lack of policies for adding and removing users, we learned that PENNVEST IT staff has delegated user administration to the business process owners in the various user organizations. No formal policies apply to all users.

Regarding the physical access weaknesses, certain non-IT personnel need access to a safe that is housed in the server room. The two lost key cards were deactivated immediately after our audit procedures.

**Effect:** The deficiencies noted above in IT general controls could have resulted in unauthorized changes to computer applications and noncompliance with federal regulations, including any future funds paid out by PENNVEST from EPA grants awarded under ARRA. Since this is a web-based application/system, IT general controls are paramount to effective internal controls.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PENNVEST-02: (continued)**

**Recommendation:** We recommend that PENNVEST segregate the development function from the administrative functions as much as possible. Those with development responsibilities should not have the ability to promote changes into production. Those with development responsibilities should not have access to change the operations schedule. However, if strict segregation of duties cannot be maintained, then timely monitoring of the RSA Envision reports should be documented and evidence should be maintained for audit.

We recommend PENNVEST develop policies that ensure access requests for new users (employees/contractors/non-Commonwealth partners) are documented and communicated to system administrators who then grant access based upon job responsibilities. Further, PENNVEST should develop a control that allows system administrators 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.

We recommend that PENNVEST strengthen physical access controls over the development servers located in their server room by restricting access to the server room to as few people as possible, locking the server cabinets, and maintaining strict controls over the key card access system.

**Agency Response:** PENNVEST is in agreement with the findings for the stated audit period. PENNVEST continues to evaluate the outstanding issues caused by the lack of segregation of duties that exists with IT personnel. PENNVEST has taken a number of steps as a result of the previous audit period finding to address this particularly challenging issue with the need to have segregation of duties and at the same time allow for organization depth with a very small number of IT staff. PENNVEST has previously implemented changes for stricter segregation of job duties, tighter policies and procedures, and implementation of production monitoring reports. While a complete segregation of duties is still not possible for IT personnel who have broad job responsibilities with cross-over permissions, additional controls will be implemented to further strengthen the review and monitoring of these employees as well as better enforcement of policies and procedures. It is anticipated that the provided recommendations from the audit report will be implemented through the following activities:

1. A log will be implemented immediately to establish evidence of production monitoring reports by management.
2. The PENNVEST SharePoint environment will be (planned in the previous audit period) moved into the Commonwealth Technology Center, Enterprise Server Farm to segregate both physical access and to further segregate administrative controls from PENNVEST IT personnel.
3. Policies and procedures will be formalized for management of adding and terminating various types of roles and permissions for the Funds Disbursement system and the Online Application System.
4. Immediate measures will be implemented to ensure more tightly enforced policies for locking of server cages and stricter controls for physical accesses.

PENNVEST expects to complete these new controls and measures by June 2012. In addition, continued efforts will be taken to further review existing controls to ensure compliancy by:

1. Re-evaluation the current structure of job responsibilities to identify any further opportunities for job duty segregation.
2. Evaluate additional software for more advanced monitoring of user activities and enforced security.
3. Conduct a self-audit for compliancy upon completion of the controls.

**Auditors' Conclusion:** We will review 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.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Pennsylvania Infrastructure Investment Authority**

#### **Finding 11-PENNVEST-03:**

**CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**

**CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)**

#### **Internal Control Improvements Needed in Subrecipient Loan Monitoring System**

**Federal Grant Numbers: FS-993577-10, 2F-093577-09 (ARRA), CS-42000110-1 and 2W-42000209-3 (ARRA)**

**Condition:** PENNVEST requires Clean Water State Revolving Funds (CWSRF) and Drinking Water State Revolving Funds (DWSRF) 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 back to PENNVEST. PENNVEST sends the recipient's financial statements to an independent accounting firm who reviews them in detail to determine if there are any adverse conditions indicating potential problems with the recipient's ability to repay the loan. The accounting firm then provides PENNVEST a written financial analysis for each loan recipient, which PENNVEST uses to determine if it needs to follow up with that recipient.

PENNVEST compiles a listing of all loans in repayment status to track the financial statements to be submitted by the recipients, as well as tracking the progress of the accounting firm's review. The listing includes the date the financial statements are received, the date the financial statements are sent to the accounting firm, and the date the accounting firm submits its written analysis. We found that the tracking list is significantly incomplete. According to documentation received by the auditors, there are 232 DWSRF loans in repayment for which annual financial statements should be submitted. PENNVEST's tracking list contained only 139 loans, incorrectly omitting 93 loans. For the CWSRF, there are 617 loans in repayment. PENNVEST's tracking list contained just 341 loans, incorrectly omitting 276 loans. Loans omitted from the tracking list represented both state and federal loans.

Additionally, we found that the financial statements are not being reviewed timely. In our test of 25 CWSRF and 24 DWSRF financial statement submissions, we found that one loan recipient's financial statements for 2006, 2007, 2008 and 2009 were all reviewed in November 2010. We also identified three additional loan recipients that had more than one year of financial statements reviewed at one time.

**Criteria:** According to OMB Circular A-133, pass through entities must perform program monitoring of subrecipient activity. Monitoring is necessary to ensure the program is functioning as designed.

In addition, according to PENNVEST management, the tracking lists are used to track the status financial statement submission from loan recipients, as well as the status of the accounting firm's review. PENNVEST uses this information to ensure corrective action is taken if a loan recipient fails to submit financial statements, the accounting firm did not review the statements, and to determine if any other communication with loan recipients is necessary.

**Cause:** According to management, PENNVEST became aware of this situation recently and are taking action to improve accountability. PENNVEST recently transitioned to a new system to track financial statement submission by loan recipients and during that transition, loans were incorrectly omitted from the lists. Additionally, PENNVEST management stated that it has no written procedures concerning the tracking list compilation or for procedures addressing corrective action for those loan recipients that do not submit financial statements.

**Effect:** Without a complete tracking list of loan recipients required to submit annual financial statements, PENNVEST cannot be assured that all loan recipients submitted financial statements for review. If financial statements are not submitted for review, PENNVEST does not have the ability to timely detect loan recipients that encounter adverse conditions resulting in the inability to repay loans.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PENNVEST-03: (continued)**

Based on the loan accounting system, as of June 30, 2011, PENNVEST had four loans that are more than 60 days delinquent in payments totaling \$70,553 out of the population of 849 loans, three of which did not have adequate follow-up as described above. This results in less resources to originate new loans for needed projects.

It is essential that PENNVEST take all measures possible to require loans be repaid to ensure the DWSRF and CWSRF continue to achieve their objectives.

**Recommendation:** We recommend that PENNVEST review their controls to ensure applicable loan-tracking lists are complete and accurate.

**Agency Response:** PENNVEST converted its tracking system from an Access database to OnBase, a document tracking system. We subsequently realized that the data was not tracking correctly. In some cases the system did not show we were missing financial statements and in other cases we had received the financial statements but the Reporting system did not show that to be the case.

PENNVEST does, however, separately track delinquent loan repayments and every month makes a concerted effort to contact the borrowers and address the reasons for the delinquencies. The three loans that had missing financial statements were being tracked in our delinquency system and are currently in loan work out.

**Questioned Costs:** None, although the amount of lost resources is unknown.

**The 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, 2011***

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### **Department of Public Welfare**

#### **Finding 11-DPW-01:**

- CFDA #10.551 – Supplemental Nutrition Assistance Program**
- CFDA #10.561 – State Administrative Matching Grants For The Supplemental Nutrition Assistance Program (including ARRA)**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.713 – ARRA – Child Care and Development Fund**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**

**Weaknesses in Department of Public Welfare Information Technology Systems Used for Temporary Assistance for Needy Families, Child Support Enforcement, Foster Care and Adoption Assistance; Department of Public Welfare Monitoring of Child Support Enforcement County Subrecipient Information Technology User Controls, and Internal Control Deficiencies and Material Noncompliance Related to Supplemental Nutrition Assistance Program Information Technology Systems (A Similar Condition Was Noted in Prior Year Finding #10-19)**

**Federal Grant Numbers: Commodities, 1102PATANF, 1002PATANF, 1104PA4004, 1104PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 1101PA1401, 1101PA1402 (ARRA), 1001PA1401, 1001PA1402 (ARRA), 1101PA1407, 1101PA1403 (ARRA), 1001PA1407 and 1001PA1403 (ARRA)**

**Condition:** The following general IT control weaknesses at DPW exist (as noted in Basic Financial Statements (BFS) Audit Finding #11-08):

1. A regular review of user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access, was not performed by management to verify that access rights are appropriate and segregation of duties conflicts do not exist. A new policy was issued in May 2011 to require an annual review of user IDs; however, a review was not completed prior to June 30, 2011.
2. A daily ADI and Server Error Report is used to track and monitor job failures involving DPW servers. A selected report included five job failures for which no follow-up resolution was documented. The job failure resolution process was remediated in December 2010. A subsequent selection of job failures from December 2010 through June 2011 was successfully tested for follow-up resolution.
3. Shared user IDs exist within OpCon (change management software) that could be used to move changes into production for DPW-maintained applications. Additionally, there were several users identified that have access to move a change into production; however, this access is not appropriate based on the users' job responsibilities.
4. Mainframe user accounts for the Client Information System (CIS) application are not required to comply with Commonwealth password policies. Passwords are not configured to require lockout after invalid attempts, character complexity, or to restrict the use of unauthorized passwords.

We also identified IT control weaknesses as they relate to specific programs detailed in the following paragraphs:

1. A regular review of user IDs with access to the ARRCs (Automated Restitution Referral and Computation System) system that is used for SNAP overpayment identification is not performed by DPW management to verify that access rights are appropriate and segregation of duties conflicts do not exist.
2. Programmers have access to make changes to production code in the OIG's Overpayment Avoidance and Recovery System (OARS) that is used for SNAP overpayment processing, which is a conflict of duties that can result in unauthorized programming changes.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-01: (continued)**

Due to the IT control deficiencies noted in the Department of Public Welfare (DPW) general controls environment and IT service providers' environments, we were unable to conclude that the automatic data processing (ADP) systems used by DPW to process transactions related to eligibility and overpayments for the SNAP program have adequate general IT controls in place to ensure that the ADP systems are meeting the requirements of the Compliance Supplement to:

1. accurately and completely process and store all case file information for eligibility determination and benefit calculation;
2. automatically cut off households at the end of their certification period unless recertified; and
3. provide data necessary to meet Federal issuance and reconciliation reporting requirements.

While we have not identified instances in which the systems failed to meet the above criteria, we cannot provide reasonable assurance that IT controls would enable the system to consistently prevent errors related to the criteria listed above.

DPW's inadequate general IT controls also impact the Foster Care, Child Care, Adoption Assistance and TANF programs which provide funds to the 67 counties in the Commonwealth to run child welfare programs in County Children and Youth Agencies. To obtain reimbursement for services provided counties are required to submit invoices to DPW through the Title IV-E Validation System. The Title IV-E Validation System is an automated system designed to ensure that Foster Care and Adoption Assistance claims invoiced by counties are valid, claimed at the correct rate, and are not duplicate claims, etc. Other key systems used within the validation process are the Case Worker Visitation System used to compile information from counties regarding child welfare visits; PELICAN (Pennsylvania's Enterprise to Link Information for Children Across Networks) used to automate subsidized child care; AFCARS (Adoption & Foster Care Analysis Reporting System) used to collect case level information on all children in foster care for whom State child welfare agencies have responsibility for placement, care or supervision and on children who are adopted; and the DPW Client Information System (iCIS).

The DPW Pennsylvania Child Support Enforcement System (PACSES) is an outsourced IT system utilized by the 67 counties in the state to run the CSE programs at the subrecipient level, and by DPW to monitor subrecipient activity. While DPW obtained a SAS #70 Report for PACSES, we noted that the SAS #70 did not cover, and DPW did not perform adequate monitoring of, IT user controls at county subrecipients. Examples of IT controls at the subrecipient level not reviewed or monitored include authorization of user's access and security level, password controls, physical access controls, termination of accounts, and accuracy of data entered into the system.

DPW's inadequate general IT controls also impact the Statewide Collections and Disbursement Unit (SCDU) system utilized to process the collection and disbursement of child support payments, and iCIS, the Client Information System which interfaces with PACSES and is utilized to track the disbursement of child support payments to TANF recipients and assist in determining the amount of collections to be returned to the Federal government related to TANF recipients. Also, PACSES is utilized to report collections amounts on the OCSE-34A Report submitted to HHS and to monitor County subrecipient activities.

IT control deficiencies were also noted for various service organizations that are integral to DPW's data processing environment. These control deficiencies were noted in the service organizations' SAS 70 and SOC 1 examination reports. Deficiencies were noted for the following service providers:

- Unisys Corporation - Provider of managed services for most of DPW's major business applications
- JP Morgan Treasury Services – Provider of EBT processing services for major DPW programs
- Hewlett Packard – Provider of Medicaid transaction processing services
- Unisys Global Outsourcing and Infrastructure Services – Provider of Medicaid rebate processing services

Additional details and management responses related to the control deficiencies in DPW's and the service organizations' control environment listed above are included in [Basic Financial Statements \(BFS\) Audit Finding #11-08](#).

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-DPW-01: (continued)**

**Criteria:** According to 7 CFR sections 272.10 and 277.18, State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

In order to support a conclusion that the audit objective is achieved, adequate IT general controls should be in place to prevent unauthorized access and programming changes.

Additional criteria related to all programs include:

1. The Government Accountability Office (GAO), Federal Information System Controls Audit Manual (FISCAM). Publication No. GAO-09-232G. February 2, 2009.
2. The National Institute of Standards and Technology (NIST). Recommended Security Controls for Federal Information Systems and Organizations. Special Publication SP 800-53. Revision 3. August 2009.
3. The Information Systems Audit Control Association (ISACA) Control Objectives for Information and related Technology (COBIT) 4.1, 2007.

**Cause:** This finding was caused by weaknesses in the IT general controls environment related to the SNAP systems utilized to process eligibility and overpayment processing transactions, and TANF, Child Support, Child Care, Foster Care, and Adoption Assistance systems utilized in the payment process, subrecipient monitoring, collections and the reporting of collections.

**Effect:** We noted no errors resulting from IT controls weaknesses in our current year audit of the above major programs. However, the IT general controls weaknesses could result in inaccurate processing of data and unauthorized access to the systems. As a result of the control weaknesses related to access and change control for the eligibility and overpayment processing systems, the systems may not accurately process and store all case file information necessary for eligibility determination and benefit calculation; may not consistently identify specific elements that affect eligibility; and may not accurately provide notification to the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration. Additionally, individuals with inappropriate access to make programming changes can intentionally or unintentionally introduce programming errors that prevent the system from automatically functioning as expected, including providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period. Inappropriate access to make programming changes and inappropriate users with access to enter data into the systems can also result in inaccuracies in the data being reported to meet Federal issuance and reconciliation reporting requirements.

Without adequate IT general controls, the systems utilized for the SNAP, TANF, Child Support, Child Care, Foster Care, and Adoption Assistance could be inappropriately accessed by DPW personnel which could allow unauthorized or erroneous entries into systems without DPW knowledge or oversight. Also, without adequate IT general controls, and without proper DPW monitoring of IT controls at CSE county subrecipients, the Child Support and Program Eligibility systems could be inappropriately accessed by DPW or county subrecipient personnel which could allow unauthorized or erroneous entries into systems without DPW knowledge or oversight.

**Recommendation:** We recommend that DPW and agencies supporting the systems that are used for the SNAP, TANF, Child Support, Child Care, Foster Care, and Adoption Assistance programs implement adequate general IT controls to address the system weaknesses noted. Management should implement controls to:

1. Regularly review user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access.
2. Track and monitor job failures involving DPW servers.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-01: (continued)**

3. Implement a process to segregate the ability to promote changes into production from the individuals with programming responsibilities and provide individualized tracking of the actions by individuals implementing code into production.
4. Implement a regular review of programming code by management to determine that no unauthorized programming changes were made to production code without prior authorization and adequate documentation of testing .
5. Ensure that all DPW systems meet Commonwealth password policies.
6. Perform a risk analysis and system security review of all major DPW applications to ensure that IT risks are documented and analyzed for compliance with applicable regulations and general best practices.

**Agency Response:** The DPW agrees with the finding.

1. As stated in the finding, policy was instated May 17, 2011. User applications are being reviewed for user requirements.
2. DPW completed the corrective action for the prior year deficiency. The testing stated in the finding shows corrective action was put in place; therefore we have no further comments.
3. DPW upgraded its OpCons application on March 4, 2011; therefore, this deficiency should not be repeated in the FY 2012 audit.
4. DPW plans to migrate the CIS mainframe over to use CWOPA and Managed domain accounts which will comply with the password policies. The project is currently in process; however it has been slowed due to budgetary issues.

**Deficiencies are related to service providers that support DPW's critical applications:**

1. As stated in the finding, policy was instated on May 17, 2011. The user applications have been reviewed in the state FY2012.
2. The Office of Inspector General (OIG) implemented new procedures as a corrective action within the audit period. The OIG will maintain a log of changes that a developer programs. Then another designated OIG staff (who is not a developer), or backup person in the developer's absence, will implement the changes on the production server.

**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, 2011

### Department of Public Welfare

#### Finding 11-DPW-02:

**CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)**  
**CFDA #93.558 – Temporary Assistance for Needy Families**  
**CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs**

**Internal Control Deficiencies and Noncompliance at Department of Public Welfare Related to Returned Electronic Benefits Transfer Cards (A Similar Condition Was Noted in Prior Year Finding #10-18)**

**Federal Grant Numbers: 0902PATANF, 1002PATANF and 1102PATANF**

**Condition:** EBT cards are the method by which the Commonwealth distributed over \$2.5 billion worth of SNAP benefits for the year ended June 30, 2011.

As part of our audit of 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 returned that have been lost or stolen.

Undeliverable, lost or stolen EBT cards are returned directly to DPW's central office in Harrisburg, PA. For our sample of 65 days, we noted there were not adequate records or documentation of the processing and destruction of returned cards.

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

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

*(1) Authorizing household benefits.*

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

*(x) Inventorying and securing accountable documents;*

In addition, OMB Circular A-133 – Part 4, N.3 EBT Security, states:

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

**Cause:** Due to personnel changes, although there were formal, documented policies and procedures related to the processing and destruction of returned EBT cards, the related documentation thereof was not performed on a consistent basis.

**Effect:** There was not adequate security over EBT cards returned to DPW's central location. Without adequate security controls over EBT cards, there exists the possibility of misappropriation and/or abuse.

**Recommendation:** We recommend that policies and procedures related to the handling of returned EBT cards be followed on a consistent basis and that appropriate documentation of processing and destruction of EBT cards be maintained.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-02: (continued)**

**Agency Response:** The Department of Public Welfare (DPW) agrees with this finding.

The daily EBT returned card policy and procedures in question were not performed due to personnel turnover in the EBT section. During this time frame, the transfer of the EBT Program Officer and the resignation of the EBT Program Assistant exacerbated the issue of maintaining documentation of the processing and destruction of returned EBT cards. However, because the cards cannot be used without the client's PIN, and the central office staff responsible for this function has no access to client/card information or the ability to change the PIN number, the possibility of misappropriation and/or abuse is minimized. Additional staff has been assigned as backup for this process, and updated central office procedures instituted to improve accountability of returned cards.

**Questioned Costs:** The amount of questioned costs cannot be determined for cards not adequately handled.

**The 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, 2011

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### Department of Public Welfare

#### Finding 11-DPW-03:

**CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)**

**CFDA #93.778 – Medical Assistance Program (including ARRA)**

#### Internal Control Deficiency and Compliance Finding at Department of Public Welfare Related to Timely Filing of Monthly and Quarterly Reports

**Federal Grant Numbers: 1105PA5028 and 5-1105PAARRA**

**Condition:** As part of our audit, we determined that Federal Reports were not filed in a timely manner.

Based on our SNAP testwork within our sample of two monthly FNS-46, *SNAP Issuance Reconciliation Report*, we noted that the October 2010 report was filed on February 9, 2011, which was due on January 31, 2011. This report was not filed timely.

Based on our MA, testwork within our sample of two quarterly CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*, we noted that the March 2011 Quarter End report was filed on May 6, 2011 which was due on April 30, 2011, and the June 30, 2011 Quarter End report was filed on August 2, 2011 which was due on July 30, 2011. Both reports were not filed timely.

**Criteria:** Federal Regulations 7 CFR 274.4 (c) states:

*(c) Required reports. The State agency shall review and submit the following reports to FNS on a monthly basis:*

*(1) Form FNS-46, Issuance Reconciliation Report, shall be submitted by each State agency operating an issuance system. The report shall be prepared at the level of the State agency where the actual reconciliation of posted benefits and the master issuance file occurs.*

*(i) The State agency shall identify and report the number and value of all issuances which do not reconcile with the master issuance file. All unreconciled issuances shall be identified as specified on this reporting document.*

*(ii) The report shall be received by FNS no later than 90 days following the end of the report month.*

Federal Regulations 42 CFR 430.30 (c) states:

*(c) Expenditure reports. (1) The State must submit Form CMS-64 (Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program) to the central office (with a copy to the regional office) not later than 30 days after the end of each quarter.*

**Cause:** The FNS-46 report was not filed in a timely manner due to changes in personnel. The CMS-64 reports were not being filed in a timely manner due to office closings.

**Effect:** SNAP and MA reports were not filed timely resulting in noncompliance with requirements of the Federal programs.

**Recommendation:** We recommend that all Federal reports be submitted within the required timeframes and certain staff are cross-trained so that when personnel changes, vacancies arise or offices close, compliance with Federal programs remains consistent.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-03: (continued)**

**Agency Response:** The Department of Public Welfare (DPW) agrees with this finding.

The Supplemental Nutrition Assistance Program (SNAP) FNS-46 report for October 2010 was filed on February 9, 2011 with the US Department of Agriculture (USDA)/ Food and Nutrition Service (FNS), nine days past the required submission date. The late submission was due primarily to changes in personnel. The Electronic Benefits Transfer (EBT) section is responsible for submitting the report monthly, no later than 90 days following the end of the report month. The report is submitted by the EBT staff and certified by the EBT Program Officer. As a result of this finding, additional staff has been assigned as backup to submit and certify the report. In addition, outlook reminders are used to insure timely submission.

**OCO – BCA Response:** The Office of Comptroller agrees that the CMS-64 reports were filed late. As it relates to the March 2011 CMS-64 report, it was filed late due to unforeseen office closings in the Harrisburg area. CMS was notified in advance of the issues and that the report would be late. In regard to the June 2011 quarter, the OCO had notified CMS in advance that the report would be delayed due to reorganization, transition of new personnel, and a vacancy within the Medical Assistance Federal Accounting Unit. In all instances the OCO works closely with CMS to ensure they are aware of any potential delays in filing the reports.

**Questioned Costs:** None

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Public Welfare

#### Finding 11-DPW-04:

#### CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)

#### Internal Control Deficiency and Compliance Finding at DPW Related to Electronic Benefit Transfer Daily Reconciliation

**Federal Grant Numbers:** N/A

**Condition:** A daily reconciliation between the EBT contractor (JP Morgan), Commonwealth benefit records, and the Commonwealth's benefit account with the US Treasury is required to be performed to insure the accuracy of benefit payments and the related cash. Total benefit expenditures for SNAP for the year ended June 30, 2011 totaled over \$2.5 billion.

As part of our audit of SNAP, we determined if the EBT activity was reconciled on a daily basis. For our sample of 40 days, we noted the daily EBT reconciliation was not performed for 23 of these days, with all exceptions falling within the period of December 1, 2010 through June 30, 2011, the period during which the client reports no daily reconciliations were performed.

**Criteria:** Federal Regulations 7 CFR sections 274.12(a) and 274.12(j)(1) state:

*(a) General. This section establishes rules for the approval, implementation and operation of Electronic Benefit Transfer (EBT) systems for the Food Stamp Program as an alternative to issuing food stamp coupons. By October 1, 2002, State agencies must have EBT systems implemented statewide, unless the Secretary provides a waiver for a State agency that faces unusual barriers to implementing an EBT system. In general, these rules apply to both on-line and off-line EBT systems, unless stated otherwise herein, or unless FNS determines otherwise for offline systems during the system planning and development process.*

*(j) Reconciliation, management reporting, examinations and audits. The EBT system shall provide reports and documentation pertaining to the following: (1) Reconciliation. Reconciliation shall be conducted and records kept as follows:*

*(i) Reconciliation of benefits posted to household accounts on the central computer against benefits on the Issuance Authorization File;*

*(ii) Reconciliation of individual household account balances against account activities on a daily basis;*

*(iii) Reconciliation of each individual retail store's food stamp transactions per POS terminal and in total to deposits on a daily basis;*

*(iv) Verification of retailer's credits against deposit information entered into the ACH network;*

*(v) Reconciliation of total funds entered into, exiting from, and remaining in the system each day;*

*(vi) Maintenance of audit trails that document the full cycle of issuance from benefit allotment posting to the State issuance authorization file through posting to point-of-sale transactions at retailers through settlement of retailer credits.*

**Cause:** EBT reconciliations were not performed daily due to changes in personnel.

**Effect:** The required daily EBT reconciliation was not performed on a consistent basis resulting in the lack of verification of total funds entered into, exiting from, and remaining in the system each day.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-04: (continued)**

**Recommendation:** We recommend that EBT reconciliations be performed on a daily basis. Cross-training of certain staff should occur so that when personnel changes and vacancies arise, compliance with Federal programs remains consistent.

**Agency Response:** The Department of Public Welfare (DPW) agrees with this finding.

The daily Electronic Benefits Transfer (EBT) reconciliation reports in question were not performed due to personnel turnover in the EBT section. During the time frame, new staff was assigned and did not have immediate access to reports necessary to perform the reconciliation. The transfer of the EBT Program Officer and the resignation of the EBT Program Assistant exacerbated the issue of EBT reconciliation reports being accomplished. As the staffing issue continues within the EBT section, additional staff has been assigned as backup to insure the reports are done timely.

**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, 2011***

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### **Department of Public Welfare**

#### **Finding 11-DPW-05:**

#### **CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

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

#### **Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #10-30)**

**Federal Grant Numbers: 0902PATANF, 1002PATANF and 1102PATANF**

**Condition:** Within the Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP) Admin programs, the Department of Public Welfare (DPW) pays participants special allowances for clothing, books/supplies, emergency shelter, transportation, equipment, automobile related expenses, childcare, etc. to assist the participant in their employment and training activities. We noted that \$22.2 million in federal funds were posted to SAP for special allowance SFYE June 30, 2011 (\$5.6 million for SNAP and \$16.6 million for TANF).

Additionally, special allowance payments were paid to TANF and SNAP participants by employment and training (E&T) entities under contract with 23 Local Workforce Investment Authorities (LWIA) that DPW funds through the Pennsylvania Department of Labor and Industry (L&I). The LWIA subrecipients were paid \$149.5 million in total TANF and SNAP Admin funding, respectively, through L&I during SFYE June 30, 2011; however, the Commonwealth (DPW and L&I) did not break out and record on SAP or CIS how much represents special allowance payments to TANF and SNAP participants. While the Commonwealth performed on-site monitoring of LWIAs during SFYE June 30, 2011, such monitoring did not include testing of special allowances issued by LWIAs.

As part of our SFYE June 30, 2011 Single Audit, we reviewed four performance audit reports of several CAOs issued between December 2010 and August 2011 that were conducted by DPW's Bureau of Financial Operations (BFO) related to special allowance payments that reported various weaknesses, including:

1. Several case files did not contain the Special Allowance Verification Form used to support the issuance of special allowance payments;
2. Several case files did not contain the actual receipts for books, equipment, motor vehicle repairs, and other special allowance purchases. Receipts are required to be provided to DPW to ensure the special allowance payment was used appropriately;
3. Overpayments were not processed timely or at all for several special allowance payments that were either improperly processed or the client did not conform to program requirements, such as failing to provide receipts for several case files and when clients did not submit receipts to support the proper use of the special allowance many of the payments were not recovered;
4. The existence of duplicate payments or payments over the established limits;
5. The Special Allowance Verification Forms did not contain all the required signatures; and
6. Supervisors at a CAO did not review the number of transactions performed by their caseworkers that are required to be completed each month, therefore, their monitoring is inadequate.

We also reviewed a special report issued by the Department of the Auditor General in September 2011 regarding the Electronic Benefits Transfer (EBT) cards, which is used to deliver public assistance benefits, including many of the special allowance payments. The report indicates that DPW management lacked leadership in overseeing and

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DPW-05: (continued)**

monitoring EBT card activity. Limited information provided by DPW indicated that Pennsylvania EBT cards were used to withdraw cash or make purchases outside of Pennsylvania. Out-of-state transactions necessitate scrutiny from senior management through improved oversight. However, DPW senior management did not believe that it is the responsibility of DPW to monitor and control how recipients spend money.

**Criteria:** 45 CFR Part 92.20(b) (2) states:

*Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.*

In addition, 45 CFR Part 92.42(b) (1) states:

*(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years. . .*

To carry out a program's objectives and ensure compliance, management must develop policies and procedures and a system of controls for ensuring that the program functions efficiently and effectively. Sufficient documentation must be maintained in the case file in order to support or account for the payment, as well as the decision to authorize and approve the payment. Adequate checks and balances, such as obtaining receipts when payments are authorized based on estimates, reconciliations, supervisory review, and monitoring techniques, must be included in management's policies and controls to provide a level of assurance that fraud, waste, and abuse are not occurring or are detected and to ensure that the program is functioning as designed.

According to DPW's Supplemental Handbook Section 810.1, DPW is required by federal regulations to maintain procedures for providing security, accuracy, and accountability of controlled documents, such as EBT cards.

As part of administering special allowance payments, a strong system of management controls, including sufficient policies, written procedures, and adequate supervisory oversight, must exist to ensure that the CAOs issue special allowances that are necessary and appropriate to recipients who are eligible and participating in training or work activities.

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

DPW's special allowances monitoring procedures should provide reasonable assurance that only eligible recipients who have a valid need for a specific item or service relating to their employment or training activity are receiving the appropriate amount of funds within the established timeframes. Sampling is an effective monitoring tool that can produce reliable results while saving resources and time. However, sampling methods must be properly designed to ensure the reliability and representation of the monitoring results. Additionally, data analysis should be used to monitor special allowance payments to assess whether any patterns or trends of suspicious, questionable, or abusive transactions are occurring. If the data analysis reveals a concern, DPW should request and review the appropriate information to determine if the condition is valid and to assess the magnitude of the issue. Furthermore, timely review, compilation, and distribution of the monitoring results are critical to ensure that inappropriate conditions are identified and corrective actions taken to maximize program efficiency and effectiveness.

**Cause:** As noted in the prior year audit, management's emphasis is in getting the special allowances processed timely rather than clearly determining whether the payment should be made in the first place. While DPW management had issued new Operations Memorandums and policy changes to strengthen the verification process, DPW BFO audits have discovered that controls over the issuance of special allowances were not functioning. In addition, DPW failed to document the actions to correct the weaknesses noted in the BFO audits during SFYE June 30, 2011.



# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-05: (continued)**

Regarding the oversight with respect to the safeguarding and accountability of EBT cards, while DPW management issued an Operations Memorandum on EBT card accountability, it provided no support to validate the correction or resolution of the weaknesses disclosed in the prior year audit. Additionally, DPW management believes that it does not have the responsibility to monitor and control how recipients spend money.

Management previously acknowledged that written standard operating procedures for authorizing and processing special allowance payments do not exist for each CAO. CAOs rely on program policies that outline recipient eligibility and program parameters in DPW's Cash Assistance Handbook and Food Stamp Handbook. However, these handbooks do not provide daily operational procedures such as document flow and supervisory review requirements to ensure that special allowances are appropriately and accurately processed. While management indicated they issued Operations Memorandums and policy changes to strengthen the special allowance verification process, as noted above, BFO stated that the DPW Special Allowance guidelines are complex, require frequent clarifications, and are subject to misinterpretation.

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

**Effect:** While DPW's management has issued policies and procedures in an effort to implement proper controls, the latest DPW BFO internal audits disclosed that a significant percentage of recipients are receiving special allowance payments that they do not need or for which they are not eligible. In addition, the current audit work disclosed that corrective action was not fully implemented during SFYE June 30, 2011. As a result, there is limited assurance that special allowances have been appropriately authorized and approved, and have been spent for their intended purpose in accordance with regulations.

Failing to properly control and secure EBT cards increases the risk that EBT cards could be stolen, or used in a fraudulent manner to benefit from special allowance payments. In addition, the risk of employee fraud increases with regard to individuals circumventing and taking advantage of weak EBT and special allowance controls.

As a result, there is an unknown amount of questioned costs for inappropriate EBT payments made by DPW CAOs during SFYE June 30, 2011. There may also be an undetermined amount of additional questioned costs for special allowances administered and paid out by L&I's subrecipient LWIAs.

**Recommendation:** We recommend that DPW:

- Ensure that CAOs have adequately taken corrective action to resolve the deficiencies noted in the DPW BFO special allowance reports;
- Continue to improve its oversight and monitoring of special allowance payments;
- Strengthen its system of internal controls over maintaining case file documentation to support allowability of TANF and SNAP Admin special allowance payments, including receipts;
- Provide training to CAOs to ensure that the CAOs are effectively operating the program; and
- Oversee and monitor all aspects of EBT card issuance at CAOs to include the potential for employee circumvention and use by recipients.

**Agency Response:** The basis for this finding is four audits performed by the Department of Public Welfare's (DPW) Bureau of Financial Operations (BFO) and a Special Report issued by the AG regarding Electronic Benefit Transfer (EBT) cards. In this finding, the AG claims that DPW places an emphasis on paying Special Allowances (SPALs)

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-05: (continued)**

timely at the expense of properly determining client eligibility, and that our controls over the issuance of SPALs are not functioning. The AG also claims that DPW management lacks leadership in overseeing and monitoring EBT card activity. While DPW agrees with some of the errors cited, we disagree with the overall finding.

#### **CAO SPAL Audits**

In response to the Special Performance Audit of the SPAL Program published by the AG in August 2009, DPW's Deputy Secretary for the Office of Income Maintenance (OIM) requested the Bureau of Financial Operations (BFO), Division of Audit and Review (DAR), perform a series of state-wide audits of SPALs for supportive payments processed through the County Assistance Offices (CAOs). Separate audits were requested to be performed for each of the six DPW Operational areas. The request was a proactive effort to gain an understanding and examine the application of the policies and procedures used at the CAOs to process SPALs.

These audits covered the time period October 2009 through December 2009, which is before the time period this finding encompasses. As such, the results of these audits are not reflective of the procedures in place during the fiscal year ended June 30, 2011. Changes to SPAL policy and procedures were issued and implemented in August 2009. Each CAO was responsible to submit a SPAL Management Plan in August of 2009 to identify local procedures and to establish clear internal protocols to meet the new SPAL requirements. These were reviewed by BETP staff who visited CAOs to discuss concerns, issues and questions with the individual plans.

Since that time, OIM has taken additional actions to strengthen policies and procedures to further increase controls and eliminate waste, such as:

- Provide additional training to clarify the need and requirement for the SPAL verification form; processing overpayments in cases where clients failed to provide receipts for SPALs that were issued by the CAO; the relevance of the time limits for processing SPALs in relation to the requirement for verification; and limits and coding for SPALs.
- Require supervisors and managers to review special allowance requests using a checklist to ensure SPALs are verified and documented prior to issuance.
- Implemented revised SPAL regulations in July 2011 that significantly improve accountability and integrity.
- Instituted a monthly SPAL review that focuses on the accuracy of SPAL issuances and procedures. A review of specific SPALs is completed by Quality Control (QC).
- Conduct monthly calls with CAO staff to review the results of the SPAL reviews.
- Require corrective action plans from CAOs when SPAL errors are found.

In addition to DPW staff's on-site monitoring of LWIAs that has always included a review of SPALs, DPW requested DAR perform several audits of the contracted Employment Advancement and Retention Network (EARN) centers that issue SPAL payments. These audits were primarily directed to assess the centers' compliance with the DPW Bureau of Employment and Training Programs (BETP) Master and Program Guidelines related to the issuances of SPALs. As a result of these audits, DPW has implemented policy and procedural changes to continue to strengthen the administration of, and control over, contractor SPAL payments. After much review and several programmatic and policy changes, the SPAL payments made by LWIAs were discontinued on September 12, 2011.

#### **EBT Special Report**

While EBT cards are separate from SPALs, the AG includes EBT cards in this finding as they are the vehicle to provide client benefits, including SPALs. In September of 2011, the AG issued a Special Report on EBT cards and the delivery of public assistance benefits. In this report, the AG claims that "DPW management exhibited an attitude of indifference and demonstrated lax oversight in its role as an administrator of substantial taxpayer monies," and that "failed leadership fostered an environment that encourages potential fraud and abuse relevant to the use of EBT cards for the delivery of public assistance benefits." The AG is also critical of DPW's efforts to monitor out-of-state EBT card usage. DPW disagrees with these claims.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-05: (continued)**

In addition to existing internal controls already in place (Quality Control reviews, security procedures training and manuals, segregation of duties and responsibilities, policies and procedures, etc.), in 2011 OIM initiated efforts to develop and implement an internal process to monitor EBT card usage to help identify potential fraud and abuse, which includes a review of out-of-state transactions. We have hired additional staff to assist with monitoring EBT card usage and are continuing to develop a strategic plan that will include policies and procedures for reviewing EBT-related reports on a consistent basis and utilizing trend analysis to identify high risk areas that require further review and/or referrals to the Office of the Inspector General (OIG). We met with the OIG to discuss potential areas to focus on and ways in which various reports and information can further be used to identify potential fraud and abuse.

DPW is proactive in rooting out waste, abuse and fraud. DPW takes very seriously its responsibility to taxpayers to ensure that funds are spent appropriately and benefits are only provided to those eligible. We continue to work in close concert with the Office of Inspector General on these and other matters. Because of the ongoing actions taken to strengthen policies and procedures to further increase controls and eliminate waste, we disagree with this finding.

**Auditors' Conclusion:** We acknowledge that DPW has made improvements since our special performance audit in August 2009; however, the conditions disclosed in the various reports indicate that corrective action must continue.

Regarding DPW's position that the said audit reports do not reflect applicable conditions during the audit period, these reports were released during FYE June 30, 2011. As such, we made inquiry and determined that corrective action addressing the related conditions was not fully implemented.

We will continue to review any corrective action and resolutions in the subsequent audit. Therefore, the finding and recommendation remains as stated above.

**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, 2011***

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### **Department of Public Welfare**

#### **Finding 11-DPW-06:**

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

**CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**

**CFDA #93.659 – Adoption Assistance (including ARRA)**

**Weaknesses in Department of Public Welfare Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-79)**

**Federal Grant Numbers: G1002PATANF, G1102PATANF, G1001PA1401, G1001PA1402 (ARRA), G1101PA1401, G1001PA1407, G1001PA1403 (ARRA) and G1101PA1407**

**Condition:** The Department of Public Welfare's (DPW) Office of Children, Youth and Families (OCYF) performs two types of during-the-award monitoring of its 67 subrecipient County Children and Youth Agencies. Prior to the expiration of each yearly license term, one group within OCYF performs on-site inspections to support its reissuance of licenses for all 67 County Children and Youth Agencies to whom DPW subgrants funds to perform Foster Care and Adoption Assistance services. These inspections primarily focus on health, safety and performance issues, and each on-site inspection is documented on a Licensing Approval/Registration Inspection Summary. In addition, a separate group within DPW'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 DPW's licensing/inspections and Quality Assurance Compliance Reviews in the current year, we selected 19 of the 67 County Agencies receiving Foster Care, Adoption Assistance and TANF funds.

Our current-year testing of the on-site licensing inspections disclosed internal control weaknesses in DPW's during-the-award monitoring. Written monitoring procedures provided by DPW (CYF Bulletin #00-95-08 issued April 26, 1995) were outdated, but DPW personnel acknowledged that the Bulletin was not rescinded. While DPW provided a set of worksheets disclosing monitoring procedures, DPW personnel stated that all regions do not use the same worksheets and the date the worksheets were last revised was not known. As a result, we could not determine if DPW consistently applied the appropriate procedures while performing on-site reviews. Also, we noted no monitoring of TANF Child Welfare funding.

Regarding our testing of DPW Quality Assurance Compliance Reviews, we noted that these reviews are only performed for Foster Care and do not include Adoption Assistance and TANF. In addition, while we acknowledge the adequacy of the Quality Assurance Compliance Reviews for Foster Care, we noted that appropriate documentation to support what procedures were performed during licensing inspections was not available.

As a result, for the seventh year in a row, internal control weaknesses exist over DPW monitoring of Foster Care, Adoption Assistance and TANF subrecipients.

Total Foster Care program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2011 were \$199.9 million, \$8.5 million of which was ARRA funding, (or 92.9 percent) of total Foster Care expenditures of \$215.2 million reported on the June 30, 2011 SEFA. Total Adoption Assistance program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2011 were \$85.7 million, \$7.0 million of which was ARRA funding, (or 82.7 percent) of total Adoption Assistance expenditures of \$103.6 million reported on the June 30, 2011 SEFA. Total TANF Child Welfare program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2011 were \$91.8 million (or 15.7 percent) of total TANF expenditures of \$585.9 million reported on the June 30, 2011 SEFA.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DPW-06: (continued)**

**Criteria:** 42 U.S.C., Section 671(a)(7) pertaining to the state agency responsibilities states in part:

*. . . the State agency will monitor and conduct periodic evaluations of activities carried out under this part. . . .*

Further, 42 U.S.C., Section 672 applies to Foster Care Maintenance Payment Program and Section 673 applies to Adoption Assistance Program.

In addition, PA Code, Title 55, Chapter 20, Section 20.51 states:

*A certificate of compliance (License) will be issued to the legal entity by the Department if, after an inspection by an authorized agent of the Department, it is determined that requirements for a certificate of compliance are met.*

PA Code, Title 55, Chapter 3130 relates to Administration of County Children and Youth Social Services Programs.

PA Code, Title 55, Chapter 3140, Subchapter B relates to Foster Care eligibility requirements and allowable costs. Subchapter C relates to Adoption Assistance eligibility requirements and allowable costs.

PA Code, Title 55, Chapter 3170 relates to the overall fiscal management of County Children and Youth Agencies, such as personnel and operating expenditure guidelines.

**Cause:** As indicated in the prior year response, the OCYF acknowledges that checklists and procedures for monitoring programs and facilities can vary from Region to Region, based on local resources and practices. However, all regions follow the same checklist for the 3,800 Regulations that cover Residential Facilities. Also, DPW did not provide a reason for not updating the monitoring procedures contained in CYF Bulletin #00-95-08.

With regard to the Quality Assurance Compliance Reviews that only include Foster Care expenditures, DPW personnel indicated that Adoption Assistance and TANF expenditures would be added to the Quality Assurance Compliance Reviews in the future.

**Effect:** Internal controls over during-the-award on-site monitoring of Foster Care, Adoption Assistance, and TANF subrecipients need improved and are not adequately documented. As a result, county agencies could be operating in noncompliance with federal regulations without the timely detection and correction by DPW management. These internal control weaknesses could also impact the expenditures of ARRA monies under these federal programs.

**Recommendation:** DPW's OCYF should strengthen its controls to ensure monitoring of Foster Care, Adoption Assistance and TANF Child Welfare agencies is more timely and better documented. In addition, greater documented assurance is needed to ensure subrecipients are operating their programs in compliance with federal regulations.

**Agency Response:** Portions of OCYF Bulletin #00-95-08, Distribution of OCYF Children and Youth Survey and Evaluation Manual, are utilized by regional licensing staff to complete licensing inspections. In addition, regional office staff developed checklists for consistent monitoring of county children and youth agencies' compliance with Title 55 PA Code regulatory requirements. Regional staff also license/inspect placement facilities, agency's foster care and adoption programs, kinship care programs, etc. to ensure compliance with regulatory requirements. While each agency's inspections are handled differently, based on the type of programs they operate, all inspections include reviews of case records, personnel records and reviews of current policies and procedures. In addition, and based on specific program type, there are interviews with staff and residents, physical site inspections of licensed facilities and visits to approved foster homes.

In October 2007, the Division of Fiscal Compliance created revised Title IV-E QA review procedures and protocol which replaced outdated Title IV-E compliance procedures outlined in OCYF Bulletin #00-95-08. This protocol was used in the field to review Title IV-E placement maintenance claims. Protocol has expanded multiple times since 2007 as the scope of the Quality Assurance (QA) review has grown to include a review of cases ineligible for Title IV-E,

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-06: (continued)**

Title IV-E cases related to children age 18 or older, and Title IV-E administrative claiming. Evolving protocol allows OCYF to continuously improve and strengthen the QA review process. A current version of QA review protocol was provided to the auditors for their review and determined to be adequate.

The auditors requested 19 county agency licensing inspection reports for testing. The findings related to on-site licensing inspections state that OCYF Bulletin #00-95-08 is outdated and that there is a lack of detailed supporting documentation demonstrating the scope and methodology of the licensing/inspections. OCYF concurs with the finding that the OCYF Bulletin is outdated and needs to be revised to focus on the on-site licensing inspections, as QA has developed a separate protocol for their reviews. However, OCYF disagrees with the finding that the licensing/inspections lack detail supporting documentation. OCYF provided the auditors with hard copies of regional licensing work papers (checklists, etc.) to demonstrate the scope and methodology of on-site licensing inspections. The auditors have determined these work papers to be inadequate because they are not in a standard format. OCYF concurs that the work papers, primarily the checklists, are not standardized; however, we contest that the work papers **do** support that the regional offices inspect for compliance with Chapters 3130, 3490, 3700 (in counties that maintain their own foster care program) and 3350 during the licensing evaluations of county children and youth agencies. Although there is not a standard format for the checklist used by each region, the regulations are applied, where applicable, in total. Thorough review of the work papers submitted will verify the consistency of licensing inspections across all 67 county children and youth agencies.

OCYF concurs with the findings regarding QA reviews for Adoption Assistance and TANF Child Welfare programs for the period audited. However, the scope of QA reviews was expanded to include Adoption Assistance and TANF as of October 2011. The Division of Fiscal Compliance provided an electronic version of the existing protocol for these two programs, which was accepted by the auditors as adequate.

OCYF, once again, extends an invitation to the auditors to join a review and/or licensing inspection with our staff to make recommendations for improving our internal controls within our procedures.

**Auditors' Conclusion:** We are encouraged that the Pennsylvania Department of Public Welfare (DPW) expanded its scope of Quality Assurance Reviews to include Adoption Assistance and TANF. We will review these new procedures in the subsequent audit.

With regard to licensing reviews, we did not disclose that DPW failed to inspect subrecipients for compliance; we reported that improvement is necessary in addressing the consistency or developing standard operating procedures for documenting and conducting these inspections. In addition, we noted that respective checklists and worksheets need to be updated. For instance, we noted that the worksheets provided to us did not include any procedures to test whether the C&Y Agencies were requiring prospective foster and adoptive parents to undergo fingerprint-based criminal records checks, a requirement that became effective in 2008.

Finally, regarding DPW's comments concerning Title IV-E QA Review procedures, we acknowledge that these procedures are adequate, thus conclude no issues.

**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, 2011

### Department of Public Welfare

#### Finding 11-DPW-07:

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

#### Inaccurate Reporting on the Temporary Assistance for Needy Families' ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #10-78)

#### Federal Grant Numbers: 1002PATANF and 1102PATANF

**Condition:** Within the Temporary Assistance for Needy Families (TANF) program, the Department of Public Welfare (DPW) 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, DPW electronically submits a file to HHS that contains the aforementioned data. This file consisted of a stratified random monthly sample of 250-300 cases (one for each month in the quarter) for submission to HHS.

In order to test the data on the file submitted to HHS, we obtained the file for the sample month of September 2010. We selected a sample of 65 out of the 306 total cases in the data file, and attempted to trace the key line items to support documentation in the participant's case file. Although we saw evidence of DPW's review of these cases, the files did not always have the necessary documentation. Our testing disclosed reporting errors and/or documentation discrepancies for 5 of the 65 cases, or 8 percent, as follows:

- Four of the 23 cases that contained work activity, or 17 percent, reported unsubsidized weekly employment hours that were not properly calculated as follows:

Case	Hours Reported On ACF-199	Hours Worked Per Documentation	Difference
A	60	42	18
B	42	36	6
C	59	55	4
D	8	27	19

For example, for Case A, DPW included six weeks of employment hours instead of four weeks to calculate the hours reported on ACF-199.

- One of the 65 cases, reported the wrong amount of Subsidized Child Care received, as follows:

Case	Amount of Child Care Received	Amount of Child Care Reported	Difference
E	\$6,261	\$2,979	\$3,282

For Case E, DPW reported the amount of child care paid in November 2010 rather than the amount paid in September 2010.

**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:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-07: (continued)

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

- (III) *Unsubsidized employment.*
- (V) *Job Search*
- (VI) *Job skills training or on-the-job training.*
- (VII) *Vocational Education*

(xii) *Information necessary to calculate participation rates under section 407.*

In addition, 45 CFR Part 265.3 states:

(b) *TANF Data Report. The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.*

- (1) *Disaggregated Data on Families Receiving TANF Assistance – Section one. Each State must file disaggregated information... such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.*

Also, DPWs federally approved TANF Work Verification Plan states:

#### **I. Countable Work Activities**

##### **A. Unsubsidized Employment**

###### **1. Definition**

*The Commonwealth of Pennsylvania (Commonwealth) identifies unsubsidized employment as full- or part-time employment in the public or private sector, including self-employment, apprenticeships, internships, work study and employment resulting in income-in-kind compensation, in which neither the employer nor employee receives a subsidy from TANF or other public funds.*

###### **2. Countable Hours of Participation**

###### Unsubsidized Employment

*The number of countable hours of Unsubsidized Employment counted towards participation is determined based on the hours of work, including any paid breaks built into the schedule and any paid leave time, including personal, vacation and holiday time, granted by the employer.*

###### **3. Verification of Actual Hours of Participation**

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

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



# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-DPW-07: (continued)**

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

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

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

**Cause:** Regarding the current-year discrepancies in work hours reported, DPW management indicated that hours were reported in accordance with its federally-approved TANF Work Verification Plan. However, management's explanation as to how hours were calculated does not match what is stated in its TANF Work Verification Plan. Based on our test results, we disagree with management as evidenced by the exceptions noted.

In regard to reporting the cost of child care services, DPW management indicated that child care services were properly reported. Based on our test results, we disagree with management as evidenced by the exception noted.

**Effect:** Based on the error rates and the nature of the errors disclosed, DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan. Although we noted improvement in the accuracy of the current year ACF-199 Report vs. prior years, the overall information submitted to HHS on the ACF-199 Report is not accurate or properly supported as required by federal regulations. As a result, HHS may not be accurately calculating and evaluating Pennsylvania's work participation rates within the TANF program. This could result in DPW's future funding being reduced.

**Recommendation:** DPW should strengthen its existing procedures over their review of the monthly sample of cases to ensure that all reported work activities are properly documented, supported, and classified, and that all participants included in the TANF Data Report have been properly determined eligible for TANF benefits. Also, DPW should review and evaluate its procedures and controls to accumulate, review, and report its TANF information on the ACF-199 Report and make the necessary revisions to ensure that future information reported is complete, accurate, and properly supported by the participants' case files.

**Agency Response:** In its review of the sample cases, the AG reports that sixty-five cases were sampled and five disclosed reporting errors and/or documentation discrepancies. DPW's responses to the errors cited in this finding are detailed below.

In Cases A, B, C, and D, the AG claims that DPW reported unsubsidized employment hours that were not properly calculated. DPW concurs that these cases were calculated inaccurately due to worker error. Remedial review of calculation of hours was held in November 2011 and monthly calls are held with the supervisory units to ensure that there is consistency in calculation and evaluation of cases reported to ACF (Administration for Children and Families). Pay periods for reporting to ACF are frequently not aligned with pay periods reviewed for unsubsidized employment since ACF uses Saturdays to determine the number of pay periods each month. Many unsubsidized employers use a pay period other than Saturday which requires precise calculation in different situations and makes this type of calculation more error prone.

In Case E, the AG states that the incorrect amount of child care was paid in September 2010 and was included in the TANF Data Report. In Pennsylvania, child care benefits are paid after the month received but are dependent upon when the benefit documentation is submitted to be paid. Again, DPW concurs that child care amount was submitted inaccurately. Remedial review of reporting child care payments was held in November 2011 and monthly calls are held with the supervisory units to ensure that there is consistency in reporting and evaluation of cases reported to ACF.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-07: (continued)**

Additionally, DPW has advised the AG several times that HHS permits all states to resubmit quarterly data throughout the federal fiscal year. There is no limit to the number of times data can be submitted, and although federal regulations state the final data is due to HHS by December 31<sup>st</sup>, for the past several years HHS has extended that deadline by several months (for FFY2010 the deadline was April 30, 2011 and we resubmitted FFY2011 on February 10, 2012 and the file was accepted). DPW submits quarterly data throughout the FFY repeatedly for each quarter. It appears the AG does not use the final data submitted to HHS to perform their audit.

DPW strives to provide outstanding service to an increasing number of clients by providing the tools to get clients the services they need. Improvements for clients and DPW include instituting Customer Service Centers, Call Centers, expanding COMPASS (our on-line client self-service system), updates to our Client Information System with the addition of programming CIS IV-B being phased into our County Assistance Offices, and providing simplified notices to clients informing them of the status of their benefits. We have instituted improved scanning of client documentation and are now using electronic case files that make required verification readily available to staff. We are also reviewing our Employment and Training policies and procedures to promote a “work first” goal to prevent ongoing dependence on public assistance benefits. All these improvements allow greater analysis of trends to better anticipate the needs of the residents of the Commonwealth and to provide tools for our staff to make it easier for them to meet these needs and ensure that resources are managed effectively.

**Auditors’ Conclusion:** We acknowledge that DPW has concurred with the discrepancies noted in the finding. With regard to management’s comments regarding DPW’s ability to resubmit data, although DPW is allowed to resubmit data, due to time limitations in completing the Single Audit, it is necessary for us to audit data that was initially submitted. Furthermore, DPW being allowed to resubmit data does not mean that these exceptions would have been detected by DPW and properly reported in the resubmission.

**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, 2011*

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### Department of Public Welfare

#### Finding 11-DPW-08:

- CFDA #93.558 – Temporary Assistance For Needy Families
- CFDA #93.563 – Child Support Enforcement (including ARRA)
- CFDA #93.568 – Low Income Home Energy Assistance Program
- CFDA #93.575 – Child Care and Development Block Grant
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
- CFDA #93.658 – Foster Care (including ARRA)
- CFDA #93.659 – Adoption Assistance Program (including ARRA)
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.713 – ARRA – Child Care and Development Fund
- CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs
- CFDA #93.720, 93.775, 93.777 and 93.778 – Medicaid Cluster (including ARRA)
- CFDA #93.767 – State Children’s Health Insurance Fund

**Health and Human Services-Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Department of Public Welfare and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Findings #10-80 and #10-96)**

**Federal Grant Numbers: 0902PATANF, 1002PATANF, 0904PA4004, 0904PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 0901PACCDF, 1001PACCDF, 0901PA1401, 1001PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 1001PA1407, 1001PASOSR, 0901PASOSR, 0901PACCD7 (ARRA), 0901PATAN2 (ARRA), 001PATAN2 (ARRA), 0905PA5028, 5-0905PAARRA, 1005PA5028, 5-1005PAARRA, TI010044-09 and TI010044-10**

**Condition:** The Commonwealth of Pennsylvania’s Department of Public Welfare did not conduct an Automatic Data Processing (ADP) risk analysis and system security review for the Temporary Assistance for Needy Families (CFDA #93.558), Child Support Enforcement (CFDA #93.563), Low Income Home Energy Assistance (CFDA #93.568), Child Care and Development Block Grant (CFDA #93.575), Foster Care (CFDA #93.658), Adoption Assistance Program (CFDA #93.659), Social Services Block Grant (CFDA #93.667), and Medical Assistance Program (CFDA #93.778); and the Insurance Department did not conduct an ADP risk analysis and system security review for the State Children’s Health Insurance Program (CFDA #93.767). According to the provisions of 45 CFR Part 95, Subpart F, a biennial ADP risk analysis and system security review is required for existing systems that received Federal Financial Participation (FFP) funding to support, maintain, or develop their information systems.

Additionally, specifically related to Medicaid systems, DPW relies on external service providers to process Medicaid transactions and rebates. These service providers (Hewlett Packard and their subservice provider Unisys Global Outsourcing and Infrastructure Services) are integral to DPW’s data processing environment and overall risk profile. IT control deficiencies were noted in these service organizations’ SOC 1 examination reports. The control deficiencies resulted in opinion qualifications for both service providers. Additional details and management responses related to the results of the service provider examination are included in Basic Financial Statements (BFS) Audit Finding #11 - 08. Since DPW did not conduct a risk analysis of Medical Assistance systems, as noted above, the overall impact and risk associated with these deficiencies is undetermined and was not formally documented by DPW as part of an overall risk assessment program.

**Criteria:** DPW is required to conduct an Automatic Data Processing (ADP) risk assessment and system security review for the Temporary Assistance for Needy Families (CFDA #93.558), Child Support Enforcement (CFDA #93.563), Low Income Home Energy Assistance (CFDA #93.568), Child Care and Development Block Grant (CFDA #93.575), Foster Care (CFDA #93.658), Adoption Assistance Program (CFDA #93.659), Social Services Block Grant (CFDA #93.667)

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-08: (continued)

and Medical Assistance Program (CFDA #93.778); and the Insurance Department is required to conduct an ADP risk assessment and system security review for the State Children's Insurance Fund (CFDA #93.767) programs according to the provisions of 45 CFR Part 95.621, Subpart F which requires a biennial review for existing systems that received Federal Financial Participation (FFP) funding to support, maintain, or develop their information systems. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR Section 95.621).

As part of complying with the above requirement, a State may obtain a Statement on Auditing Standards No. 70, Service Organizations (SAS 70), or Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization (SSAE 16) Type II report from its service organization (if the State has a service organization). A SAS 70 or SSAE 16 Type I report does not address the effectiveness of a service organization's controls and would need to be supplemented by additional testing of controls at the service organization.

**Cause:** This condition was caused by an initial lack of understanding regarding the requirements of 45 CFR 95.621 in prior years, and a delay in implementing a process after the requirements were clarified.

**Effect:** The Agencies noted did not perform an ADP Risk Assessment during the prior 24 months; therefore, they are not in compliance with 45 CFR 95.621 to ensure appropriate, cost-effective safeguards are incorporated into new and existing systems. Failure to adequately document and understand the risks associated with data processing and to conduct a regular security review can result in inappropriate access or changes to the applications. The effect can include loss of data, intentional or unintentional undocumented modifications to the functionality of systems, inability to rely on systems to function in accordance with applicable standards and regulations, breach of personal information, loss or interruption of services for recipients, and inability to provide adequate reporting.

**Recommendation:** We recommend that DPW and the Insurance Department develop an ADP Risk Assessment process to meet the requirements of 45 CFR 95.621. Agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. Agencies must also perform risk analyses whenever significant system changes occur. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agencies shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews.

**Agency Response:** DPW has stood up RSAs Archer GRC tool which will be used to perform Risk/Security assessments for the applications listed in this finding. Now that the tool is completely stood up, DPW will begin the assessments on the applications and plans for DPW and Insurance to complete the assessments before June 30, 2012. DPW will also be performing these assessments at least every two years unless there are major functionality changes within the applications. If there are major functionality changes, DPW will perform the risk assessment before those changes are put into production to ensure that we mitigate any potential risk.

**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, 2011***

### **Department of Public Welfare**

#### **Finding 11-DPW-09:**

##### **CFDA #93.568 – Low Income Home Energy Assistance Program**

**Unallowable Contract Expenditures Resulted in \$507,835 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #10-83)**

**Federal Grant Numbers: G-11BPALIEA, G-10B1PALIEA, G-09B1PALIEA and G-08B1PALIEA**

**Condition:** As part of our prior audit of the Department of Public Welfare (DPW)-Low Income Home Energy Assistance Program (LIHEAP) for the SFYE June 30, 2010 we noted deficiencies with an outside sole-source contract awarded to a law firm to conduct on-site LIHEAP monitoring of various County Assistance Offices (CAOs) and Crisis Contractors. Additionally, we noted the law firm subcontracted the monitoring of LIHEAP to an outside forensic accounting firm (outside firm) in February 2009 one month after the sole-source contract was awarded. The deficiencies included the following: DPW could not adequately justify that the LIHEAP program contract was necessary and reasonable, invoices submitted by the contractor lacked a sufficient level of detail, and DPW failed to demonstrate that all contract/agreement services were properly rendered. During the fiscal year ended June 30, 2011, we noted the contract, in which DPW paid \$507,835, continued to exist with similar deficiencies.

As part of our discussion with management regarding whether DPW had performed a cost-benefit analysis to justify the continued use of the sole source contractor during fiscal year ended June 30, 2011, management acknowledged that DPW did not perform such an analysis.

During the fiscal year ended June 30, 2011, DPW used one employee to conduct 10 reviews of CAOs and used the outside firm to conduct one review and 25 on-site visits of CAOs and crisis contractors. LIHEAP monitoring consists of a systematic predetermined review of the processing of LIHEAP applications and the same methodology is used by both DPW and the outside firm. According to DPW management, each review completed by DPW and each on-site monitoring review completed by the outside firm were forwarded and reviewed/approved by DPW's Bureau of Program Evaluation Director. Based on DPW and the outside firm performing identical monitoring procedures, DPW has failed to properly document and justify the necessity of paying a contractor to perform services that DPW employees could perform internally.

Beginning July 2010, DPW began paying the contractor a flat monthly fee totaling \$41,250 based on an amended contract signed in June 2010. The monthly fee was based on an approximate number of hours to perform certain deliverables at an average hourly rate and included expenses (i.e., salaries, benefits, travel, lodging, duplicating, computer research, messenger, and telephone charges). We reviewed each monthly invoice submitted to DPW by the law firm for payments made during SFYE June 30, 2011 which totaled \$507,835 and determined that every invoice submitted lacked sufficient detail to support the payments. Each summary invoice only noted "outside professional services" with no further detail of the costs of these services. When we asked DPW whether there was any additional supporting documentation, management indicated that we were provided everything available. Additionally, DPW stated that it periodically evaluated the appropriateness of the monthly invoices, based on the reasonableness of the services delivered; however, DPW was unable to provide documentation to substantiate this conclusion.

Since DPW did not properly document the contractor services charged to the LIHEAP program and failed to document why the services of a law firm/outside firm was necessary and reasonable, including documenting the justification for the billing rates noted above, we consider the \$507,835 paid to the contractor during the fiscal year ended June 30, 2011 as questioned costs.

**Criteria:** Federal regulation 45 CFR Part 96.30 under "Subpart C – Financial Management" and applicable to LIHEAP, States, in part:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-09: (continued)

#### *Section 96.30 Fiscal and administrative requirements.*

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

To justify the necessity and reasonableness of outside contractor costs, a cost vs. benefit analysis should be performed when considering the need to contract with an entity to perform services normally performed in-house.

To justify costs submitted on invoices, contractors should submit detailed supporting documentation.

**Cause:** Management stated that DPW staff could not adequately monitor LIHEAP for the entire Commonwealth, and, as a result, opted to use an outside sole source contractor. Additionally, DPW indicated that the existing summary invoices for these contract costs along with an undocumented evaluation by management of the results of the contractor work is considered adequate support. We do not agree. Failure to document management's evaluation precludes an auditor from verifying that the evaluation was completed and adequate, and the conclusion reached was reasonable.

**Effect:** DPW's failure to document the reasonableness and necessity of this LIHEAP monitoring contract as well as its failure to obtain adequate documentation to support the contractor's costs brings into question unallowable LIHEAP charges totaling \$507,835 paid during the current fiscal year ended June 30, 2011.

**Recommendation:** We recommend that management perform and document a proper evaluation on the necessity and reasonableness of this outside LIHEAP contract to justify its continuance in the future, as well as work with U.S. Department of Health and Human Services program officials to obtain appropriate guidance on this matter. Also, DPW should ensure that all future contractor costs are adequately documented and reasonably supported to ensure the costs are accurate and proper.

**Agency Response:** DPW respectfully disagrees with this finding. The overall administration of the LIHEAP program has improved, in part, as a result of the expertise provided by the outside independent monitor, LECG, LLP (later Elko & Associates, Ltd.). It is our hope that this response will initiate a high level discussion between our organizations to fully apprise the AG of the measureable contributions that our outside monitor has made to our ongoing improvement in LIHEAP.

The outside monitor utilized by DPW to assist in our monitoring program was hired, in part, in response to the AG's Special Audit of LIHEAP in 2007 in which the AG raised concerns critical of DPW's monitoring efforts.

During the period in question, the outside monitor performed services for the law firm as an independent subcontractor. The outside monitor is a forensic accounting firm that assisted DPW in putting together and implementing systems and controls to prevent internal or external fraud and to help improve program performance. LECG, LLC/Elko & Associates, Ltd. provided independent ideas, perspective and experiences during the course of their work that continues to contribute to the overall improvement of the LIHEAP program. Between SFYE 2010 and SFYE 2011, for example, the payment error rate due to incorrect income determinations decreased 86 percent (from 5.5 percent to 0.76 percent). The estimated amount saved for the program as a result of this increase in accuracy was in excess of \$4.35 million, which is significantly greater than fees paid to the outside monitor.

Our monitoring program has shown continued improvement, due in part to the efforts and input that had been provided by the outside monitor. The outside monitor was utilized responsibly, and the estimated cost-savings benefit warranted their level of participation. The Administration for Children and Families, the federal agency responsible for LIHEAP, recently performed a review of our LIHEAP monitoring system and praised our process, suggesting that it be a model for other states to follow.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-09: (continued)**

The following points illustrate how the outside contractor was utilized and monitored:

- The outside monitor worked according to a very detailed annual work plan which was closely monitored by the Bureau of Program Evaluation. This work plan included considerable consulting unrelated to specific CAO visits.
  - This work plan included a detailed monitoring schedule.
  - This work plan incorporated detailed CAO-level procedures and targeting techniques to identify applications for review that yielded and will yield DPW the greatest opportunity for learning and improvement based on the results of these reviews.
  - The outside monitor was a vital part of our feedback loop on performance and was present in the CAOs during the LIHEAP processing season. Regular reports and feedback from the monitoring program were reviewed by DPW executive management during the year and have affected policy, processing, training, supervisor review and technology changes in the program, all aimed at improving accuracy.
- The outside monitor performed activities intended to improve the accuracy of the program on a year-round basis while performing specific LIHEAP in-season CAO field monitoring in the fall and winter months. Beginning in October 2009, the contract was billed in equal monthly installments against an annual contract amount. Accordingly, correlating the fees billed by the outside monitor with specific LIHEAP in-season CAO field monitoring is not an appropriate approach to evaluate the contribution and effort of the outside monitor. Specific examples of why it is inappropriate to attempt to correlate fees paid to LIHEAP in-season CAO field monitoring visits include:
  - The outside monitor assisted in the development and delivery of training to LIHEAP staff based on error prone areas identified from monitoring completed in the previous season.
  - The outside monitor assisted in the development of the LIHEAP Case Review System used by CAO supervisors to identify error trends and develop error prevention activities specific to each CAO. This system also allows CAO and Headquarters' managers to evaluate the case review results, identify statewide error trends and implement corrective action.
  - The outside monitor helped to design the weekly Knowledge Reinforcement Sessions (KRS), and assisted in the development of the weekly set of questions used in the KRS. CAO staff members determining LIHEAP eligibility are mandated to participate in the weekly KRS.
- Beginning in October 2009, in an effort to ensure cost certainty relating to the contract with the outside monitor, the contract was converted to a monthly fixed fee. At the time of the conversion in billing arrangements, it was agreed that detailed itemized statements relating to the work performed by the contractor would be evaluated by DPW management on a regular basis but would not be required as part of the monthly invoice. Accordingly, DPW management periodically met with the contractor to evaluate the status of the contract versus billings to ensure that on an annual basis the work plan was met and the Commonwealth received their annual agreed-upon allotment of services.
- For DPW to be solely responsible for all the LIHEAP monitoring, additional staff would be needed. The estimated additional cost (salaries and benefits) would exceed \$650,000 annually. Travel expenses for on-site monitoring would be an additional cost. This would exceed the cost incurred to use the outside monitor. A partnership that effectively combines the program and system knowledge of DPW staff with the forensic auditing experience and insight of a private sector, independent outside monitor would result in improved program administration and utilization of funds.
- The services provided by the law firm and outside monitor ended on October 31, 2011. In December 2011, DPW issued a Request for Quotations for LIHEAP Monitoring Services using the Department of General Services Invitation-To-Quote (ITQ) contract for Consulting Services. Payments in the new purchase order will be tied to deliverables. The award of the purchase order is pending.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-09: (continued)**

It is our hope that after the AG reviews this response, they will reconsider his finding relating to the LIHEAP program monitoring. DPW believes it has received valuable assistance from the outside monitor and has managed the cost of such monitoring activities properly. The overall program accuracy improvements, for which the outside monitor is in part responsible, are significantly more than the cost of that contract and do not indicate inappropriate management of funds.

**Auditors' Conclusion:** We are encouraged by the actions undertaken by the Department of Public Welfare (DPW) to issue a Request for Quotations (RFQ) for LIHEAP Monitoring Services rather than repeat the use of a sole source contract. Nevertheless, because of the continued existence of certain weaknesses relevant to monitoring, our finding must remain as stated.

Management stressed that the federal agency responsible for LIHEAP performed a review of the LIHEAP monitoring system in Pennsylvania and praised the process, suggesting that it be a model for other states to follow. However, when we asked management if it discussed or presented the findings of our audit to the aforementioned federal agency, management indicated that it did not.

With regard to the fixed monthly fee of the outside contractor, management indicated that it would evaluate on a regular basis detailed itemized statements relating to the work performed by the contractor. However, while management claimed that it periodically evaluated the appropriateness of the contractor's monthly invoices, management did not provide the auditors with documentation to substantiate this evaluation or conclusion.

Additionally, management mentioned the valuable assistance it received from the outside monitor. However, management did not provide any cost benefit analysis during the course of our audit - or when we made the request in the prior year - to corroborate the cost effectiveness of the outside monitor. Management acknowledged that it never performed a cost benefit analysis during our audit period, demonstrating a disregard for our prior year recommendation, which would have provided some indication of the true worth of the outside monitor and whether it was more prudent to perform such monitoring in-house.

Finally, we will consider any newly created documentation referenced by management, especially the justification and cost analysis for the RFQ, in the subsequent Single Audit of the Commonwealth.

Questioned Costs: \$507,835

**The 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, 2011***

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### **Department of Public Welfare**

#### **Finding 11-DPW-10:**

##### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

**Noncompliance and Internal Control Deficiencies in Department of Public Welfare’s Administration of Low-Income Home Energy Assistance Program Cash and Crisis Benefits Resulting in Questioned Costs of \$2,897 in Low-Income Home Energy Assistance Program (Similar Conditions Were Noted in Prior Year Findings #10-82 and #10-84)**

**Federal Grant Numbers: G-11B1PALIEA, G-10B1PALIEA, G-09B1PALIEA and G-08B1PALIEA**

**Condition:** Our prior audit disclosed material deficiencies in the Department of Public Welfare’s (DPW) internal controls designed to prevent and/or detect potential fraud and abuse in the LIHEAP program to include instances of noncompliance with federal regulations, questioned costs, and internal control weaknesses within DPW as a whole in overseeing cash and crisis benefits.

To follow-up on these prior year deficiencies, we interviewed several DPW management and performed test work of various areas in LIHEAP, such as management’s monitoring process, LIHEAP payments, and utilization of the data exchanges in eCIS. Based on the results of our test work, although DPW has improved controls in certain areas we determined that a number of the prior year deficiencies were not entirely resolved.

DPW administered LIHEAP cash and crisis payments through its 67 CAOs and four crisis contractors for SFYE June 30, 2011. DPW utilized eCIS to process cash and crisis applications and to determine the benefit amounts to be paid. DPW tracked LIHEAP applicant information in eCIS by application numbers and client LIHEAP record numbers. Additionally, eCIS identified and tracked household members claimed by applicants when applying for LIHEAP benefits. Total cash and crisis benefits paid during SFYE June 30, 2011 were \$260,349,697 out of total LIHEAP expenditures of \$295,210,378 reported on the current year SEFA.

We randomly selected 65 LIHEAP cash or crisis benefit transactions totaling \$26,374 and found noncompliance, unallowable payments, and questioned costs. In addition, we reviewed the results of DPW’s own on-site monitoring reports of its CAOs and crisis contractors which reported errors in LIHEAP benefits ranging up to 49 percent of items tested. The results of DPW monitoring corroborate the results of our detailed test work that internal control deficiencies continued to exist during the SFYE June 30, 2011.

Our sample of 65 transactions disclosed exceptions for seven totaling \$2,897 of unallowable payments out of a sample population of \$26,374 or 11 percent of benefit payments sampled. These exceptions included:

- Two applicants underreported income on their applications;
- One applicant’s case file lacked support/proof of a crisis situation;
- Two applications and supporting documentation could not be located by the DPW/CAOs;
- One household was approved for duplicate payment; two applicants residing in the same household inappropriately received benefits by claiming on each application to have rented from the other party; and
- One applicant was not LIHEAP eligible due to household income exceeding maximum allowed for household composition total.

We also found that DPW is not imaging LIHEAP applications in a timely manner. One of the 15 sampled crisis transactions information including application and support was not imaged until after the auditors identified that the documents could not be located on the imaging system.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-10: (continued)

In addition, DPW was in noncompliance with 2011 LIHEAP State Plan requiring a referral to the Office of Inspector General (OIG) for overpayments due to administrative errors. According to management administrative errors were not referred to OIG during our audit period as required by the 2011 state plan which was a new policy in 2011. Management stated that only overpayments, resulting from fraud, client error or client misrepresentation, were being forwarded to OIG which was a continuation of the policy from the 2010 state plan. DPW management acknowledged that the new policy was not in practice during our audit period and that DPW would begin reporting administrative errors to the OIG to comply with its state plan.

**Criteria:** The LIHEAP State Plan Section 601.21 applicable to application completion states:

*A member of the applicant household shall complete an application within the established time frames for the program year. To complete an application for a LIHEAP benefit, the LIHEAP applicant, on behalf of the household, shall meet the following conditions. The applicant shall:*

- (1) Answer all questions on DPW's LIHEAP application form.*
- (2) Sign and date the application form.*
- (3) File the application form with the LIHEAP administering agency or any other agency designated by the LIHEAP administering agency to accept applications in the county where the applicant lives. Agencies other than the LIHEAP administering agency that are designated by the LIHEAP administering agency to accept applications are responsible for submitting such filed applications to the appropriate LIHEAP administering agency within three workdays after the applicant files the application. The date of application is the date the application is received by the LIHEAP administering agency.*
- (4) Provide income documentation.*
- (5) Provide documentation of responsibility for the payment of home heat.*
- (6) Provide additional verification, as needed and requested by the LIHEAP administering agency, to determine eligibility for LIHEAP and the amount of the benefit.*

*The original approved LIHEAP application and supporting documentation will be valid for eligibility and benefit determination for the duration of the program year. Updated supporting documentation may be required if a household changes vendor or residence.*

The LIHEAP State Plan Section 601.144 applicable to treatment of overpayments states:

*(c) If an overpayment occurs that was not caused by fraud, error or misrepresentation, by either the client or the vendor, the overpayment will be considered an administrative error. No restitution is required by the client or the vendor, but a referral shall be made to the Office of Inspector General.*

CAOs and Crisis Contractors must ensure the proper accountability and accuracy of processed LIHEAP applications. eCIS features to validate applicant information and make correct eligibility determinations must be used to reduce the risk of fraud and abuse by individuals applying for LIHEAP benefits. In addition, manual controls at each CAO and crisis contractor must be in place and functioning to ensure the propriety and accuracy of LIHEAP benefits processed and paid. These controls should include written standard operating procedures, supervisory review and approval of application processing, verification of income, and proper reconciliations.

**Cause:** Contrary to the results of our test work, DPW management indicated that adequate internal controls are in place to ensure that applicant information and supporting documentation are sufficient to determine eligibility in accordance with state and federal regulations. Therefore, DPW believes no corrective action is necessary. DPW did acknowledge to the auditors that the deficiencies noted in this finding are true exceptions. With a random sample error rate of 11 percent, we do not agree with management's assertion that adequate internal controls are operating effectively.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-10: (continued)

**Effect:** Failure to accurately determine eligibility results in LIHEAP cash and crisis benefits being paid inappropriately and in violation of federal regulations and the LIHEAP State Plan. If these control deficiencies are not corrected, such noncompliance and the potential for fraud and abuse will continue to exist in future periods.

**Recommendation:** We recommend that DPW:

- Continue to reinforce policy through annual LIHEAP training and monitoring;
- Ensure that CAOs and crisis contractors are fully utilizing data exchanges when processing applications to detect irregularities or potential fraud and abuse as well as DPW should monitor the data exchanges to ensure LIHEAP applicant eligibility is being determined properly;
- Require CAOs and crisis contractors to independently verify outside income prior to application approval;
- Ensure adequate supervisory reviews exist at CAOs and crisis contractors during application processing; and
- Ensure all identified errors including those considered administrative errors be referred to the OIG for investigation as required by the 2011 state plan.

#### **Agency Response:**

**1. Deficiency:** Two applicants underreported income on their applications.

**DPW Response:** Per DPW policy, all applicants must verify and provide documentation of their income as a condition of eligibility. Failure to verify and document income will result in application rejection. Additionally, CAOs are required to check CIS for income verification for LIHEAP applicants. In all LIHEAP cases, potential sources of income such as Social Security, SSI, and unemployment compensation are verified via data exchanges with Social Security and the Department of Labor and Industry. Income information on the application is compared with information from Labor and Industry to determine if there are any inconsistencies. In cases where the LIHEAP applicant is known to CIS and receiving other welfare benefits, income is also verified by referencing what has recently been reported in that case. In the two cases referenced, DPW authorized benefits based upon known information and it appears the client misled or withheld income information. The caseworker made the proper determination based on the known information. Both cases will be referred to the Office of Inspector General (OIG) for their review to determine whether an overpayment exists.

**2. Deficiency:** One applicant's case file lacked support/proof of a crisis situation.

**DPW Response:** Per DPW policy, all requests for LIHEAP Crisis must be verified with either a written termination notice, verification the utility service has already been terminated or a statement from the client that their deliverable fuel supply will last less than 15 days. This policy is stressed throughout the LIHEAP training all workers participate in and reinforced through weekly Knowledge Checks throughout the LIHEAP season. DPW will be reinforcing the policy that all requests for LIHEAP Crisis need to have supporting documentation and/or a clear narrative explaining the reason the Crisis authorization was approved.

**3. Deficiency:** Two applications and supporting documentation could not be located by the DPW/CAOs.

**DPW Response:** DPW acknowledges that two applications and their supporting documentation could not be located within their respective CAO's at the time of this response. However, one case can be verified to have been processed correctly. In that case, the client's Cash Assistance income can be verified by reviewing their case in CIS and the employment income in the case was already known and verified in CIS for other benefits being received. Also, the

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-10: (continued)**

LIHEAP household matches with the household known in CIS for other DPW benefits. Even though DPW does not currently have that application in its possession, based on what information is known in CIS and the narrative written by the worker, we believe that the case was processed correctly.

**4. Deficiency:** One household was approved for duplicate payment; two applicants residing in the same household inappropriately received benefits by claiming on each application to have rented from the other party.

**DPW Response:** DPW has made changes in the eCIS to prevent this issue from happening in the future. As of the beginning of the 2011-2012 LIHEAP season, the eCIS system will give workers a warning message informing them that other cases exist with this same address and they need to do further investigation to ensure information provided by the client is accurate. In the cases mentioned, DPW will make a referral to the OIG for their review to determine whether an overpayment exists.

These cases were processed individually and approved based on the information received from each client; however the DPW policy does not allow two people in the same household to receive the LIHEAP benefit.

**5. Deficiency:** One applicant was not eligible due to household income exceeding maximum allowed for household composition total.

**DPW Response:** Per DPW policy, all applicants must verify and provide documentation of their income as a condition of eligibility. In this instance, the client did provide all information, however an administrative error was made and not all the income was data entered into eCIS. Since this was an administrative error, no overpayment will be processed, which is consistent with current regulations and the LIHEAP State Plan. However, the case and information will be forwarded to OIG.

**Other Comment:** We also found that DPW is not imaging LIHEAP applications in a timely manner. One of the 15 sampled crisis transactions information including application and support was not imaged until after the auditors identified that the documents could not be located on the imaging system.

**DPW Response:** The LIHEAP User manual clearly instructs workers to image all documents as soon as possible, but no later than 30 days after the application is processed in eCIS. Scanning and imaging applications is not in the LIHEAP State Plan or regulations, it is an instrument to make reviewing cases easier and more efficient than having to request paper copies. An individual instance of a case not being imaged in a timely manner does not constitute DPW having an issue with imaging applications in a timely manner. As noted by the AG, the CAO located the necessary paperwork and scanned it into imaging instantaneously.

### **CRITERIA**

**1. Deficiency:** Controls should include written standard operating procedures, supervisory review and approval of application processing, independent review of application data entry, verification of income, and proper reconciliations.

**DPW Response:** DPW disagrees that this is a current deficiency. Workers are trained and must utilize their knowledge when making determinations of eligibility. The supervisor is required to review a valid sample of cases for each worker to ensure the correct understanding of the policy and to intercede if further training is required. DPW has concluded that a supervisor reviewing every case is duplicate work and not efficient stewardship of tax dollars.

### **CAUSE**

**1. Deficiency:** Contrary to the results of our test work, DPW management indicated that adequate internal controls are in place to ensure that applicant information and supporting documentation are sufficient to determine eligibility in accordance with state and federal regulations. Therefore, DPW believes no corrective action is necessary. DPW did acknowledge to the auditors that the deficiencies noted in this finding are true exceptions. With a random sample error rate of 11 percent, we do not agree with management's assertion that adequate internal controls are operating effectively.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DPW-10: (continued)**

**DPW Response:** DPW disagrees that we do not have adequate internal controls in place to operate effectively; however, based on the deficiencies noted, DPW has taken action to strengthen the process. Of the 7 cases mentioned in this finding, 2 cases were the result of clients withholding income information from the worker and the information used to determine the client had additional income wasn't available to the worker at the time of case processing. As mentioned earlier, in the 1 instance where 2 cases received benefits while living together at the same address, eCIS was enhanced at the beginning of the 2011-2012 LIHEAP season to alert workers if there is another case using the same address as the current case they are processing. The LIHEAP User Manual and LIHEAP training received by all LIHEAP workers instructs them to make sure the Crisis cases have support/documentation, to make sure all applications and supporting documentation is imaged in a timely manner and they also emphasize that workers have accurate data entry of income to ensure clients receive accurate benefits.

### **EFFECT**

**1. Deficiency:** Failure to accurately determine eligibility results in LIHEAP cash and crisis benefits being paid inappropriately and in violation of federal regulations and the LIHEAP State Plan. If these control deficiencies are not corrected, such noncompliance and the potential for fraud and abuse will continue to exist in future periods.

**DPW Response:** DPW strives to improve programs each year and remains committed to administering the LIHEAP program with the highest possible degree of accuracy and efficiency. DPW has not violated federal regulations and the LIHEAP State Plan, nor has the federal oversight agency (The Department of Health and Human Services) made this allegation.

To achieve this goal, DPW conducts thorough training of LIHEAP staff to ensure:

- LIHEAP policy is applied correctly on all applications
- Verification provided by applicants is interpreted and inputted into eCIS properly
- Information known to CIS and available through data exchanges is reviewed and used properly
- Applications and verification is stored in restricted areas and until they are able to be scanned into imaging in a timely manner.

DPW is continuously making system enhancements to eCIS that are helping us to reduce fraud and abuse in the system such as alerting workers when an address is used in more than one LIHEAP case for the LIHEAP season. Also new this year is an address GIS validation that cross-references the address given by the client to verify it is an actual physical street address.

Finally, we would like to note that this review did not find deficiencies noted in previous reviews, which we believe indicates DPW's effort in trying to improve our accuracy and efficiency.

**Auditors' Conclusion:** We are encouraged that management will be forwarding identified audit exceptions to the Office of Inspector General for review. In addition, we acknowledge the efforts on the part of DPW to improve its accuracy and efficiency with regard to the way in which it administers LIHEAP. However, our finding remains as stated because of the continued existence of certain identified weaknesses relevant to internal controls.

The audit exceptions noted in the audit finding pertaining to applications, documentation, and imaging resulted from a sample of 65 transactions; therefore, these audit exceptions reflect the likelihood of additional deficiencies within the greater population. Consequently, we can conclude that management lacks adequate internal controls and management should not disregard these weaknesses because they consider the numbers noted in the sample as nominal.

Additionally, management asserts that it has adequate internal controls in place to operate effectively. Conversely, our audit demonstrated that 11 percent of errors went undetected by management, thus we do not agree with management's conclusion that adequate internal controls are operating effectively.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-10: (continued)**

We will evaluate any corrective action in the subsequent Single Audit.

Questioned Costs: \$2,897

**The 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, 2011***

### **Department of Public Welfare**

#### **Finding 11-DPW-11:**

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

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

**CFDA #93.713 – ARRA Child Care and Development Fund**

#### **Noncompliance and Internal Control Weakness Over Health and Safety Requirements**

**Federal Grant Numbers: 0901PACCDF, 1001PACCDF and 1101PACCDF**

**Condition:** The Department of Public Welfare (DPW) 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 will be issued by DPW 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 DPW 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 at least once every 24 months.

For 10 of the 40 child care providers tested, the on-site inspection occurred subsequent to the effective date of the issued certificate of compliance. The approximate time period that elapsed from the effective date of the certificate of compliance to the date of inspection ranged between 15 and 210 days for these 10 providers.

Based upon our review of a schedule used to monitor the number of child care certificates that are past due maintained by the Office of Child Development and Early Learning (OCDEL), during the year there was a high of 25 percent in November 2010 and a low of seven percent in June 2011 of child care certificates which were classified as past due.

**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).*

*(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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-11: (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Effect:** OCDEL did not perform timely on-site investigations 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.

**Recommendation:** We recommend that OCDEL ensure that all on-site inspections are conducted prior to the expiration of a child care provider’s certificate of compliance/registration.



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-11: (continued)**

**Agency Response:** DPW concurs with this finding. In April 2011, the DPW added two recruitment positions to OCDEL's compliment to help address the high turn-over rate and long-term leave issues in the Certification Bureau. This strategy of having two temporary staff hired and ready to be placed into a permanent position, helped to reduce the 25 percent rate in November 2010 to the seven percent rate noted in June 2011. As of January 2012, the rate was five percent. DPW's long term plan is to add permanent compliment positions in Certification if PA's CCDF allocation is increased in Federal Fiscal Year 2013.

**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, 2011

### Department of Public Welfare

#### Finding 11-DPW-12:

##### CFDA #93.667 – Social Services Block Grant

##### CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant

#### Weaknesses in Department of Public Welfare Program Monitoring of Social Services Block Grant and Substance Abuse Prevention and Treatment Block Grant Subgrantees (A Similar Condition Was Noted in Prior Year Finding #10-91)

Federal Grant Numbers: 1101PASOSR, 1001PASOSR, T1010044-09 and T1010044-11

**Condition:** For the nineteenth year in a row, our examination of the Department of Public Welfare's (DPW) procedures for monitoring Social Services Block Grant (SSBG) subgrantees revealed that, other than Subsidized Child Day Care Program and Mental Retardation subgrantees, DPW did not adequately monitor SSBG subgrantees, which comprised \$41 million (or approximately 41 percent) of total SSBG program expenditures of \$99 million on the current SEFA, for compliance with applicable federal regulations during the award since on-site visits by state officials did not occur. Included within the aforementioned expenditures is the Mental Health subgrantees. During our audit period, DPW started to perform on-site monitoring of the 48 Mental Health subgrantees; however, on-site monitoring was only performed for five subgrantees. In addition, we determined that the same Homeless Services program subgrantees that received SSBG funding, and were not adequately monitored by DPW personnel, also received \$1,983,000 in CFDA #93.959-Substance Abuse Prevention and Treatment (SAPT) Block Grant funding during SFYE June 30, 2011. Total SAPT expenditures on the current SEFA were \$59.3 million.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advanced funds to SSBG subgrantees in five of nine program areas, representing \$38 million (or approximately 39 percent) of SSBG program expenditures, without adequately monitoring the reasonableness of the subgrantee cash balances. In particular, for the Legal and Homeless Services components of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Mental Retardation, and Child Welfare, DPW advanced funds to subgrantees on a quarterly basis. Our inquiries with applicable DPW program administrators disclosed that DPW did not adequately monitor any of its SSBG subrecipients for cash management compliance either at the time of payment or at any other time during the current state fiscal year.

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

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

*A pass-through entity is responsible for:*

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

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

45 CFR 92.37, Subgrants, states:

(a) *States. 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:*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-DPW-12: (continued)

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

In addition:

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

**Cause:** As corrective action to the prior year finding, DPW hired an SSBG program monitor to perform on-site monitoring within the program areas for which on-site monitoring has not been performed in the past. However, program officials stated that after performing the on-site monitoring of five Mental Health subgrantees, the SSBG program monitor resigned. Program officials further stated that the program monitor was not replaced as of June 30, 2011, and that no additional on-site monitoring was performed. In addition, except for the Subsidized Child Day Care and the Community Mental Retardation programs, DPW places reliance primarily on A-133 subgrantee audits to ensure after the fact that its SSBG and SAPT subgrantees administer their programs in compliance with federal regulations. Therefore, during-the-award and on-site program monitoring did not occur during the audit period.

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

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

**Recommendation:** DPW should perform on-site during-the-award monitoring procedures for all SSBG and SAPT subgrantees to ensure timely compliance with all applicable federal regulations. On-site monitoring visits by state officials should be supported by documentation showing the monitoring performed, areas examined, conclusions reached, and performed in compliance with applicable regulations.

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

**Agency Response:** The Department of Public Welfare (DPW) 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 DPW has a SSBG 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 SSBG Monitor started November 20, 2010 but resigned from the position on June 16, 2011. The position is still open within BFO and we are awaiting approval from DPW Human Resources to fill this vacancy.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-12: (continued)**

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

The programmatic monitoring tool is used to monitor general areas related to compliance with Federal laws, Eligibility, Personnel, Civil Rights Laws, and the Health Insurance Portability and Accountability Act (HIPAA).

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

Currently, the SSBG Administrator in BFO is in the process of completing the pending monitoring reports for the Mental Health Program. The SSBG Monitor will also review the funding for Legal Services, the Homeless Assistance Program (HAP), Domestic Violence, Rape Crisis, County Assistance Office Case Management, Child Welfare, and Family Planning services. Community Mental Retardation services will also be monitored, if our risk assessment process indicates that it is necessary.

**Auditors' Conclusion:** We acknowledge the steps DPW is taking to improve the monitoring of subrecipients within the SSBG program and we will review and test any additional monitoring completed in future Single Audits. Also, as part of DPW's improvements, we suggest that DPW consider coordinating its monitoring of SSBG subgrantees with other programs already performing monitoring.

**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, 2011***

### **Department of Public Welfare**

#### **Finding 11-DPW-13:**

##### **CFDA #93.667 – Social Services Block Grant**

##### **Inadequate Controls Related to the Charging of Youth Development Services Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #10-92)**

**Federal Grant Number: 1101PASOSR**

**Condition:** Our examination of DPW's Youth Development Services (YDS) funding stream for the Social Services Block Grant (SSBG) noted that expenditures charged to DPW's state-owned Youth Development Centers (YDCs) and Youth Forestry Camps (YFCs) were not supported by adequately approved documentation. YDC employees' salaries/wages and benefits were charged 100 percent to the SSBG program up to the full federally authorized amount of \$10 million for the SFYE June 30, 2011, representing 10.1 percent of total SSBG program expenditures reported on the SEFA.

Weekly timesheets containing employees' daily signatures attesting to their time and attendance for each day worked and job descriptions signed by the employees and employee supervisors/reviewing officers are required to be maintained for YDC staff in order to document the time and activities charged. These employee timesheets and job descriptions are used to substantiate YDC personnel activities as were allowable under the SSBG program. For our test work, we selected 25 YDC employees and reviewed two respective timesheets and job descriptions for evidence of allowability. We disclosed two employees' job descriptions were not appropriately signed and the two timesheets for the same two employees were not properly signed by the employee to acknowledge all hours worked. Both of these signature authorizations are specifically required per DPW's Bureau of Juvenile Justice Services (BJJS) policy and procedure manual.

**Criteria:** 45 CFR 96.30(a), Subpart C – Financial Management, applicable to SSBG states:

*Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds.*

*The DPW BJJS Policy and Procedure Manual Number 8.19, section 1.F. pertaining to timesheets states:*

*The employee's signature must be entered for all hours worked and leave hours approved.*

*In addition, DPW BJJS Policy and Procedure Manual Number 8.14A, section C pertaining to job titles states:*

*Agency Directors will ensure that active job descriptions are available for all eligible positions and that the position descriptions for eligible job titles have been acknowledged by both the employee and his/her supervisor.*

**Cause:** According to management, inadvertent oversight was the reason for the exceptions. Also, management indicated that they will continue their monthly review process to ensure that all timesheets are signed by both the employee and the employee's supervisor as required in the BJJS policies and procedures. In addition, quarterly random job position description reviews will continue to be conducted to ensure properly approved position descriptions are on file.

**Effect:** Although our audit determined SSBG personnel costs to be allowable, the lack of proper approvals for job descriptions and timesheets represent internal control weaknesses regarding required documentation which substantiates the allowability of costs. These deficiencies have the potential to result in unallowable costs being charged to the SSBG program.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-13: (continued)**

**Recommendation:** DPW management should ensure that job descriptions and timesheets are properly signed and authorized through SSBG's internal control structure.

**Agency Response:** The Office of Children, Youth and Families (OCYF) agrees with facts of the preliminary finding.

OCYF will work to strengthen SSBG internal controls to ensure properly approved job descriptions are on file for all staff and to ensure that all timesheets are signed by both the employee and the employee's supervisor in accordance with Bureau of Juvenile Justice Services (BJJS) policy.

It should be noted that quarterly random position description audits have been conducted during the last three state fiscal years in order to ensure properly approved position descriptions are on file for all YDC/YFC staff.

In addition, a monthly timesheet auditing process was implemented in July 2011 to ensure that all timesheets are signed by both the employee and the employee's supervisor or the shift supervisor as required in the Bureau of Juvenile Justice Service's Timekeeping Policy 8.19. The monthly audit was part of the Corrective Action Plan in response to Prior Year Audit Finding #10-92.

**Auditors' Conclusion:** We are encouraged by DPW's implementation of a new timesheet auditing process and will review it in the subsequent audit.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Department of Public Welfare

#### Finding 11-DPW-14:

#### CFDA #93.778 – Medical Assistance Program (including ARRA)

#### Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses

#### Federal Grant Numbers: 1005PA5028, 1105PA5028, 5-1005PAARRA and 5-1105PAARRA

**Condition:** The objective of the Medical Assistance (MA) Program is to provide payments for medical assistance to low-income persons who are age 65 or older, blind, disabled, or members of families with dependent children or qualified pregnant women or children. For the SFYE June 30, 2011, of the \$14.262 billion expended per the SEFA, \$13.627 billion (96 percent) was provided to individuals.

We selected one payment each from 40 individuals collectively totaling \$65,847, and performed procedures to ensure that the individuals were eligible for MA at the time the service(s) were rendered. Of the 40, five case files, or 13 percent, totaling \$11,239 in benefit payments contained exceptions as follows:

- Three cases did not have the reapplication document in the case record that was due prior to the date of services. Therefore, documentation did not exist to substantiate that the individuals were eligible for medical assistance at the time these services were rendered.
- One case did not contain the medical assessment documentation to verify that the individual was medically eligible to receive these benefits.
- One case did not contain documentation to verify the individual was a qualified alien to receive these benefits.

**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.*

The DPW Medical Assistance Eligibility Handbook Chapter 322.2 Citizenship states in part:

The County Assistance Office (CAO) will copy documentation used to establish citizenship, which becomes a permanent part of the case record.

55 PA Code Section 140.311 states in part:

(b) *Under the Healthy Horizons Categorically Needy Program, the following verification is also required:*

(2) *Verification of disability.*

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

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

(A) *Medical verification of a disability which meets the SSI disability criteria.*

(B) *Proof that the person has applied for disability benefits and is awaiting a decision.*

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

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### Finding 11-DPW-14: (continued)

(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).

(2) At least every 6 months for other categories.

(3) Within 30 days following the receipt of the case record of a person who has made a permanent move into the county.

(4) When a person is added to an existing family unit.

**Cause:** With regard to the lack of documents, DPW management at the respective CAOs indicated that the one reapplication was in archives and the other missing documents were inadvertently not retained, but had existed at the time of eligibility determination.

**Effect:** Failure to ensure reapplications are completed may result in medical assistance being paid for individuals who are no longer eligible. Additionally, failure to retain documentation to support eligibility determination, does not allow an external party to independently ensure that the correct eligibility determination was made.

**Recommendation:** We recommend that DPW:

- Ensure that all eligibility documentation is retained in the individual's case record; and
- Ensure that if reapplications are not submitted, the medical assistance benefits are stopped.

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

**1. Deficiency:** Three cases did not have the reapplication document in the case record that was due prior to the date of services. Therefore, documentation did not exist to substantiate that the individuals were eligible for medical assistance at the time these services were rendered.

**DPW Response:** DPW disagrees, in part, with this deficiency. Regarding the two Philadelphia cases, for case record number 51-2583504, a renewal packet was provided and the renewal processed. The renewal packet has been scanned into the Client Information System (CIS) and forwarded to the AG on March 1, 2012. For case record 51-2709944, the documentation was located and has already been received by the AG's office. For the Allegheny case, case record 02-0970592, the record was requested from offsite storage and someone from the AG's office reviewed it on February 29, 2012. DPW acknowledges that the documentation for this renewal is not in the record.

**2. Deficiency:** One case did not contain the medical assessment documentation to verify that the individual was medically eligible to receive these benefits.

**DPW Response:** DPW disagrees with this deficiency. The verification for case record 65-0451621 was located in the client's physical case record and has been scanned into CIS. The documentation verifies that the child suffers from multiple disability-level conditions. As such, the CAO was correct in evaluating the child for the PH95 level of medical assistance. The documentation was forwarded to the AG's office on February 28, 2012.

**3. Deficiency:** One case did not contain the documentation to verify the individual was a qualified alien to receive these benefits.

**DPW Response:** DPW disagrees with this deficiency. As stated in the case record 51-3644941 case narrative, permanent resident cards were provided and the clients' eligibility status was verified through the Systematic Alien Verification for Entitlements (SAVE) program. The SAVE reports were printed out and scanned into CIS and forwarded to the AG's office on February 29, 2012.

All 40 case records subjected to the audit were reviewed by DPW. The necessary documentation was found in 39 of the 40 cases and all documentation has been scanned into the CIS imaging repository. DPW therefore disagrees with this finding.



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-14: (continued)**

**Auditors' Conclusion:** We acknowledge that DPW provided additional documentation with respect to four of the five exceptions noted in the finding after the draft finding was provided to DPW. However, the documentation provided was inadequate, such as the reapplication affidavit was not signed by the recipient; the documentation was signed and dated after the service period we were testing, therefore, not applicable; or the documentation was obtained by DPW after the date we visited the CAO. Additionally, we confirmed with CAO management at the time we reviewed the recipient's file on-site at each CAO, that there was no other documentation available. As a result, the information provided by DPW after we physically reviewed the files at DPW does not substantiate that this information was available at the time that eligibility was determined. Therefore, the finding remains as stated.

**Questioned Costs:** Unable to be determined since multiple payments related to the eligibility determination may have occurred during the year.

**The 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, 2011***

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### **Department of Public Welfare**

#### **Finding 11-DPW-15:**

##### **CFDA #93.917 – HIV Formula Care Grants**

##### **Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$21,366 (A Similar Condition Was Noted in Prior Year Finding #10-98)**

**Federal Grant Number: 2X07HA00021-20**

**Condition:** Within the HIV Formula Care Grants program, federal regulations established an AIDS Drug Assistance Program (ADAP) earmark, in which funds are to be used to provide therapeutics to treat HIV disease or prevent the deterioration of health arising from HIV disease in eligible individuals. The amount of the ADAP earmark is provided within the annual grant award. Each year the DOH, as lead agency for the program, enters into an interagency agreement with DPW to administer the ADAP portion of the grant, and this administration is the responsibility of DPW's Special Pharmaceutical Benefits Program (SPBP). During the current fiscal year ended June 30, 2011, the SPBP charged \$26,558,148 in drug costs to the HIV Program.

Whenever a person applies for ADAP assistance, they are required to submit to the SPBP a completed application and supporting documentation, which includes proof of PA residence, verification of income and copies of their HIV-related and other prescriptions for SPBP reimbursable drugs. Starting in February of 2006 applications were revised to include an Attestation Statement which must be signed and dated by a Licensed Physician that an HIV diagnosis is supported by an HIV-positive lab test. The SPBP reviews all of the documents to determine if the applicant is eligible to receive benefits.

In a prior-year Single Audit for SFYE June 30, 2006, we audited the HIV program as a major Type A program in accordance with OMB Circular A-133 and we reported material noncompliance, questioned costs, and multiple internal control weaknesses in DPW's administration of HIV. Because of the reduction in HIV program expenditures subsequent to June 30, 2006 and a higher Type A threshold since then, we no longer audited the program as a major Type A program, but we conducted limited follow-up on the prior year finding referred to above. The results of our current year follow up in June 30, 2011 on these prior year issues are noted below.

Also, as noted in the prior year, DPW uses a third party contractor to administer all pharmacy benefit claims, the annual re-certification process, the third party liability process, and beginning in February of 2011, all eligibility determinations for the HIV Formula Care grant. The primary oversight of the third party contractor is performed by the PA Department of Aging (PDA) since the same contractor administers the Pharmaceutical Assistance Contract for the Elderly (PACE) program, a state funded program at PDA. As part of our inquiry of the controls in place over this third party contractor, we found that while PDA obtained a financial and compliance Yellow Book audit of the third party contractor covering the SFYE June 30, 2011, the opinion is rendered on the receipts and disbursements taken as a whole and not on a program basis. Since the HIV Formula Care grant funds only about 21 percent of the total receipts and disbursements processed by the third party contractor, DPW cannot rely on the audit for reasonable and proper coverage of HIV program pharmacy benefit claims administration and eligibility determinations.

As a result of the above noted lack of audit coverage of HIV Formula Care grant pharmacy benefit claims, the annual re-certification process, and the third party liability process, the propriety of reimbursements to the third party contractor, and in turn to the pharmacies, cannot be assured. Also, eligibility determinations from February 2011 to June 30, 2011, cannot be assured.

In prior year audits, we noted sampled case files containing documents which indicated possible residency in other states (New Jersey, New York, and Ohio) and, therefore, possible ineligibility to receive benefits in Pennsylvania. In response to our follow-up for SFYE June 30, 2010, DPW personnel stated they still maintain a policy of not following-up with the other states where residency was indicated to ensure applicants were not already receiving benefits in other states due to confidentiality issues.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-DPW-15: (continued)**

Further, during our current Single Audit, since HIV is no longer a Type A program as explained above, we performed limited follow-up testing of the one case that was previously approved by DPW for HIV ADAP assistance with payments in SFYE June 30, 2010 that had significant discrepancies to determine the amount of questioned costs for SFYE June 30, 2011, if any, as follows:

Case file SPxxxxx42 dated June 22, 2009: Participant had no income. The only identification provided was an Ecuadorian passport dated August 2, 2008. Further, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Also, no Client Information Systems (CIS) check was completed, and there was no indication in the case file that Medical Assistance was applied for by the participant. Since no income was reported, the participant may have been eligible for Medical Assistance instead of HIV ADAP assistance. Further, the participant lived with his sister but her income and information was not included in the application, even though SPBP procedures require family members of the applicant's household to report income for eligibility purposes.

As part of our follow-up for SFYE June 30, 2011, we obtained the Recertification Form dated October 5, 2010 with the employment pay stub for this case which disclosed the following discrepancies: The line item for Social Security Number had written in a "Tax ID #" of 9 digits ending with the last four digits of 8926, while the pay stub provided had a SSN ending with the last four digits of 2327. The line item for Total Annual Gross Income had written in \$34,000; however, our calculation of Annual Gross Income from the pay stub provided revealed annual income in excess of \$40,000. The income limit for eligibility is gross income per year of \$35,000. Based on the re-certification documentation, the participant is not eligible for SPBP assistance and given the differing SSNs noted, and lack of proper recalculation of income by the contractor, there is a possibility of fraud. As a result, SPBP claims of \$32,049, federal share of \$21,366, paid during SFYE June 30, 2011 for this participant are unallowable. Also, due to the lack of adequate auditing or monitoring of the contractor re-certifications and eligibility determinations, possible participant fraud or errors are present without proper follow-up by DPW.

Also, on November 15, 2010 HHS OIG released an audit of the ADAP portion of the HIV Formula Care Grants program covering the period April 1, 2004 to March 31, 2007. The HHS OIG disclosed 12 of 133 payments sampled were made in error, five payments were for participants who did not meet eligibility requirements and seven payments were for participants who had private health insurance that would have covered the drugs. The HHS OIG also tested all payments to participants aged 65 or older and disclosed most participants were enrolled in the PACE program and most claims should have been paid by PACE rather than the HIV Formula Care Grant. As a result, HHS OIG questioned over \$2.1 million in federal share of drug payments. DPW responded that changes to SPBP were made prior to the start of SFYE June 30, 2010 to resolve all the issues in the HHS OIG report such as implementing an annual re-certification process, the initiation of a monthly insurance match, and changing the claims processing to make SPBP the payer of last resort when participants are enrolled in both PACE and SPBP. However, since all these procedures that DPW implemented are performed by the third party contractor, the effectiveness of these procedures cannot be determined due to the lack of audit coverage of the third party contractor for the HIV program.

Due to the lack of audit coverage of the third party contractor in the HIV program, and the lack of documentation in the HIV participant case files supporting eligibility, for the eighth year in a row DPW did not adequately document the eligibility and allowability of the drug portion of the HIV program as a whole in accordance with OMB Circular A-87. Also, as a result of the errors in our follow-up above, we question \$21,366 in drug costs charged to HIV during the fiscal year June 30, 2011. In addition, it is likely that further questioned costs are present due to the above noted weaknesses.

**Criteria:** Section 2616(a) and (b) of the Ryan White Comprehensive AIDS Resource Emergency Act of 1990 states:

*SEC. 2616. Provision of Treatments.*

(a) *In General.* – A State may use amounts provided under a grant awarded under this part to establish a program under section 2612(a)(4) to provide treatments that have been determined to prolong life or prevent the serious deterioration of health arising from HIV disease in eligible individuals.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-DPW-15: (continued)

(b) *Eligible Individual.* – To be eligible to receive assistance from a State under this section an individual shall—

- (1) *Have a medical diagnosis of HIV disease; and*
- (2) *Be a low-income individual, as defined by the State.*

The Special Pharmaceutical Benefits application contains an Attestation Statement that states:

*MUST BE SIGNED AND DATED BY A LICENSED PHYSICIAN*

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as identification and residency documents, be maintained within the participant's case file.

In addition, Section 6.2 of DDS Program Policy Guidance No. 6, issued by HHS, regarding eligibility for the ADAP portion of the HIV Care Formula Grants program states:

#### 6.2 Eligibility

- (a) *The CARE Act indicates that ADAPs are to serve "low-income individuals," as defined by the States. The State's poverty criterion for ADAP eligibility should be based on Federal poverty guidelines.*
- (b) *All States should devise, implement, and rigorously monitor the use of consistent eligibility standards across all entities involved in certifying and re-certifying ADAP eligibility. Such certification is expected to include review and documentation of an applicant's income from all sources and any pharmaceutical benefits derived from private health insurance or other sources.*
- (c) *Every State should establish and implement procedures for ADAP client re-certification on a periodic basis, and for de-certifying individuals who qualify but have not utilized the program for a specific period of time (e.g., one year or longer). Re-certification procedures should include mechanisms to assure that individuals who have become eligible for Medicaid are transferred to the Medicaid program at the earliest possible date.*

DPW Guidelines for the SPBP Eligibility Criteria and Documentation Requirements Section B. 1. under Requirements states:

*Applicants are required to provide income information for self and each member of the family. Family is defined as any individual or child under age 21, who is related to the applicant by blood, marriage, or adoption, and who resides in the applicant's household.*

**Cause:** Regarding the lack of audit coverage of the third party contractor that administers the pharmacy benefit claims, the annual re-certification process, the third party liability process, and eligibility determinations, SPBP personnel indicated that an audit committee was formed to resolve this issue and the audit of the third party contractor for SFYE June 30, 2010 would obtain adequate audit coverage; however, as noted above in the condition the audit for SFYE June 30, 2011 still did not obtain adequate audit coverage.

Regarding the case noted above, SPBP's policy with respect to the residency has been to accept letters from social service agencies, health care providers or relatives stating that the applicant lives in Pennsylvania. Regarding the income limit being exceeded such errors have little chance of being detected due to lack of audit coverage of the contractor and the lack of DPW monitoring of a random sampling of cases for proper re-certification and eligibility determinations.

**Effect:** Based on the lack of audit and monitoring coverage of the third party contractor that administers the HIV pharmacy benefit claims, the annual re-certification process, eligibility determinations, and the third party liability process, DPW cannot provide assurance on the propriety of HIV pharmacy benefit claims, the annual re-certification process, eligibility determinations, and the third party liability process.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DPW-15: (continued)**

Due to our follow-up on the documentation weaknesses noted above, we question \$21,366 in drug costs charged to HIV during the fiscal year June 30, 2011. Also, as a result of weaknesses related to not adequately documenting the allowability and eligibility within the drug portion of the HIV program, as a whole it is likely that there are additional questioned costs for the current year under audit.

**Recommendation:** SPBP should pursue appropriate settlement with HHS of the \$21,366 in questioned costs. In addition, SPBP should strengthen procedures to verify and ensure that applications are properly approved, rejected, or referred to other insurance programs and adequate documentation supporting the participants' eligibility is maintained within all participant case files. DPW should also ensure that proper auditing and monitoring is performed on the third party contractor that administers the pharmacy benefit claims, the annual re-certification process, eligibility determinations, and the third party liability process, to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor. Also, DPW should strengthen their fraud prevention system within SPBP.

### **Agency Response:**

**Recommendation 1:** SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs reported on the SEFA.

**DPW-SPBP Response:** Disagree. The SPBP can justify and defend its management of the program for this time period and disagrees with the current-year questioned costs associated with program eligibility documents.

**Recommendation 2:** SPBP should strengthen procedures to verify and ensure that applications are properly approved, rejected, or referred to other insurance programs and adequate documentation supporting the participants' eligibility is maintained within all participant case files.

**DPW-SPBP Response:** Agree. DPW's SPBP continues to assess policy and procedures for opportunities to improve both in efficiency and efficacy. To enhance the SPBP application process and ensure consistency, the SPBP has transitioned the processing of applications to Magellan Health Services (MHS), the vendor responsible for the SPBP's recertification and pharmacy claim processing activities. The following are positive results of that change:

- All client files have been electronically imaged in order to create a single electronic record for each cardholder. All correspondence and information either sent or received is imaged into the record and available to the SPBP.
- A decision logic table (DLT) was developed which outlines Pennsylvania's eligibility requirements and the acceptable documentation for verification.
- A Case Manager handbook was drafted for the purpose of providing clear direction and information to Case Managers when supporting potential clients to apply for benefits. A DLT Oversight team was created which reviews all policy and makes recommendations on the acceptability of documents to validate eligibility requirements to the Program Administrator. This team is also responsible for the oversight of the vendor
- Required timelines were instituted for all phases of the application process.
- The vendor provides numerous reports which provide data as to the each of the phases of the application, recertification and Quality Management components of the process to ensure compliance with SPBP expectations.

Additional benefits of the vendor include:

- A Quality Assurance department which completes a 100% quality checks on all completed applications.
- An automated process which provides edits for income limits, generates all required correspondence and system alerts
- Continued system matches with Medical Assistance (MA), Medicare and other third party payers to verify the existence of other insurance resources.
- Recovery services through the vendors contract with Health Management Systems (HMS) for reconciliation of TPL benefits and MA reimbursements.
- Provides SPBP staff the opportunity to focus on program policy and customer service concerns.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-DPW-15: (continued)**

**Recommendation 3:** DPW should also ensure that proper auditing and monitoring is performed on the third party contractor that administers the pharmacy benefit claims process, the annual re-certification process, and the third party liability process, to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor.

**DPW-SPBP Response:** Agree. As previously stated, the Quality Assurance process completes a 100% review of all applications processed. Additionally, regular reports and daily logs document and account for all phases of the application and recertification process. This provides data for the SPBP to use in the monitoring of phases of the work completed by the vendor. A separate log is provided documenting all applications that have been processed and pended and the reason for the activity. This log also includes any applications determined by the QA process that require corrections.

The SPBP's DLT Committee is responsible for the oversight of the vendor and is in the process of identifying additional reporting requirements and monitoring standards as the application and recertification process progresses. Measures are established and utilized to monitor performance.

**Recommendation 4:** DPW should strengthen their fraud prevention system within SPBP.

**DPW-SPBP Response:** Agree. The SPBP pharmacist continually creates and uses reports to monitor over utilization as well as program strategies to minimize the opportunity for the misuse of benefits. For example, the SPBP has proposed limiting the number and frequency of refills whereby an enrollee must utilize at least 85 percent of the medication prior to receiving a refill.

**Auditors' Conclusion:** Regarding the DPW disagreement with questioned costs as we noted in the condition above the recipient exceeded the income eligibility limit and evidence of possible fraud; therefore, the questioned costs remain. We acknowledge DPW's agreement with the other parts of our recommendations regarding strengthening procedures over the application process, auditing, monitoring and fraud prevention. We will review and test any additional controls implemented during future Single Audits.

**Questioned Costs:** \$21,366

**The 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, 2011***

### **Department of Public Welfare**

#### **Finding 11-DPW-16:**

- CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (including ARRA)**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.778 – Medicaid Cluster (including ARRA)**
- CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)**
- CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families Cluster (including ARRA)**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**

**Inadequate Controls at Department of Public Welfare Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (A Similar Condition Was Noted in Prior Year Finding #10-101)**

**Federal Grant Numbers:** 12121PA405S2514, 12121PA405S2520, 11111PA405S2520, 1104PA4002, 1104PA4004, 1204PA4004, 1101PA1404, 1101PA1402, 1101PA1401, 1201PA1404, 1101PA1405, 1101PA1407, 1101PASOSR, 1102PATANF, 1202PATANF, 1201PA1404, 1002PATANF, 1004PA4002 (ARRA), 1004PA4004, 1001PATANF, 1001PATAN2 (ARRA), 1101PACCDF, 1202PATANF, 1201PACCDF, 1001PACCDF, 0901PACCDF, 0901PACCD7 (ARRA), 1001PA1401, 1001PA1402 (ARRA), 1001PA1403 (ARRA), 1001PA1407, 1001PASOSR, 051005PA5048, 051005PAARRA (ARRA), 051005PA5028, PA20111 and PA20121

**Condition:** As part of our current year follow-up on a prior year finding, we updated DPW's procedures for reviewing and reconciling SEFA amounts in its OMB Circular A-133 subrecipient Single Audit reports to state payment records, and following up on and correcting noted discrepancies. Our detailed testing of 25 subrecipient audit reports at DPW disclosed that DPW's Audit Resolution Section was generally performing SEFA reconciliations for counties and other subrecipients as part of the subrecipient audit resolution process. However, we found that DPW's SEFA reconciliation procedures were not adequate for the seventh year in a row since discrepancies between DPW's records and the audited SEFAs were not investigated and corrected, and reconciliations were not always performed on a timely basis. Specifically, we found that for 4 out of the 25 audit reports tested, differences greater than 10% were identified between the SEFA and DPW's records, but there was no evidence of investigation of the differences. Additionally, for 6 out of the 25 audit reports tested, there was no evidence that a SEFA reconciliation was performed as of the date of our testing. In addition, DPW did not have adequate written procedures to document the SEFA reconciliation process, including procedures related to investigation and correction of differences between DPW's records and the audited SEFAs. Also, as of the date of our testing in February 2012, there were 314 subrecipient audit reports which were received by DPW prior to June 30, 2011, over 8 months earlier, but the SEFA reconciliations were not completed, which was not timely. We concluded that DPW's overall SEFA reconciliation, follow-up, and resolution procedures were inadequate to ensure DPW's subrecipient funds were being properly subject to Single Audit under OMB Circular A-133 every year as required.

**Criteria:** OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Subpart D, Section \_\_\_\_400, states:

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-DPW-16: (continued)**

- (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.*
- (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are properly and timely reconciled to state payment records each year, and reconciling items are properly resolved.

**Cause:** DPW requires certain agreed-upon procedures to be performed as part of the subrecipient Single Audits. These agreed upon procedures include preparation of separate schedules of combined state and federal expenditures for DPW-funded county programs which are \$300,000 or more and for program-funded DPW contracts greater than \$300,000. DPW personnel in various bureaus reconcile the combined state and federal expenditures from these separate schedules to DPW payment records which are produced from various DPW payment systems. DPW's Audit Resolution Section personnel believe that these reconciliations of combined state and federal expenditures are adequate to compensate for inadequate SEFA reconciliations, but acknowledge that DPW could require more detail information regarding how expenditures were funded in order to trace the federal expenditures back to the SEFA. We believe that more detail is necessary because the agreed upon procedures reports do not break out the expenditures between state and federal. In addition, for the 25 subrecipients in our sample, DPW personnel stated that the reconciliations of combined state and federal expenditures were not yet completed for any of the 25 sample items, and DPW acknowledged that these reconciliations are not always performed on a timely basis, since DPW does not have enough staff to perform the work timely.

**Effect:** There are inadequate controls over DPW's A-133 subrecipient SEFA reconciliations to state payment records, and an increased risk that DPW's payments to subrecipients in its major federal awards are not being properly audited each year in accordance with the Single Audit Act. In addition, there is an increased risk that subrecipients could be mispending and/or inappropriately tracking and reporting federal funds over multiple-year periods, and these discrepancies may not be properly monitored, timely detected, and corrected by DPW as required.

**Recommendation:** We recommend that DPW strengthen its controls over its A-133 subrecipient SEFA reconciliation process to ensure subrecipient SEFA amounts are timely reconciled to state payment records each year, and discrepancies are properly followed up and corrected as soon as possible. This process should be more effectively monitored within DPW to help ensure that subrecipients properly spend and account for federal funds. If DPW plans to rely on the reconciliations of the separate schedules to compensate for the inadequate SEFA reconciliations, DPW needs to ensure the timeliness of the process, and DPW should provide an audit trail between the SEFA expenditures and the expenditures reported on the separate schedules. DPW should also complete, as soon as possible, the SEFA reconciliations that have not yet been done.

**Agency Response:** The DPW concedes that resolution of some subrecipient single audits, including the SEFA reconciliations, has not been timely and we are working to rectify the issue. However, the DPW believes that the current process of performing cost settlements of the DPW programs is sufficient to ensure that subrecipients are properly spending and accounting for federal funds.



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-DPW-16: (continued)**

The DPW Single Audit Supplement requires separate schedules for DPW-funded county programs that receive \$300,000 or more. DPW also requires a similar schedule for program-funded contracts over \$300,000. The schedules are prepared on DPW's fiscal year and are used for cost settlement (a comparison of payments made to actual costs which can result in DPW recovering monies not spent or paying additional funds if payments are less than eligible expenditures and the subrecipient is below their appropriation or budget amount). This is above and beyond following up on SEFA reconciliation differences as it results in funding changes to the subrecipient. However, DPW will continue to review its processes to determine if we can increase assurance without adding duplicative steps. DPW will also work to improve written procedures in this area.

**Auditors' Conclusion:** We are encouraged that DPW will take a proactive lead to rectify the untimely reconciliation process and improve written procedures. In addition, although DPW indicated that they have gone above and beyond the requirement in following up on SEFA reconciliation difference, we believe it is positive that they have committed to review its processes to determine whether increased assurances can be gained.

**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, 2011***

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### **Department of Transportation**

#### **Finding 11-PennDOT-01:**

**CFDA #20.205 – Highway Planning and Construction (including ARRA)**

**CFDA #20.219 – Recreational Trails Program**

**CFDA #23.003 – Appalachian Highway Development System**

**Internal Control Deficiencies Related to Buy American ARRA Provisions (A Similar Condition Was Noted in Prior Year Finding #10-46)**

**Federal Grant Numbers: N78000 and N78ARR (ARRA)**

**Condition:** During our prior-year Single Audit of the Highway, Planning and Construction (HPC) Cluster administered by Pennsylvania Department of Transportation (PennDOT), Finding 10-46 reported internal control deficiencies related to Buy American ARRA provisions. This provision is applicable to ARRA-funded construction projects, which totaled over \$360 million. During the current-year Single Audit of the HPC Cluster, a meeting was conducted with PennDOT management to discuss prior year findings, at which time, management indicated that PennDOT implemented corrective action; however, it was subsequent to our audit period. Therefore, the deficiencies reported in prior-year finding 10-46 continued to exist at fiscal year end June 30, 2011. More specifically, PennDOT's sole reliance on contractor self-certification by using Form CS-4171 for all steel used in highway construction is not adequate to ensure compliance with the Federal Highway Administration's (FHWA's) Buy American provisions. As a result, we have re-issued the finding in the current year and will evaluate any corrective actions implemented during the subsequent audit.

PennDOT field practices for documenting and validating Buy American steel that is not readily identifiable (e.g., stamped Made in USA), do not comply with Pennsylvania law or PennDOT's related regulation Publication 408 Construction Specification Guidance, which FHWA relies on PennDOT to follow for federally-funded highway programs. This distinction is necessary because both Pennsylvania law and Publication 408 require that when steel is identifiable, PennDOT's use of contractor self-certification is appropriate, but when the steel is unidentifiable or fabricated, the PennDOT Inspector-in-Charge must be provided with invoices, bills of lading, and mill certification that the steel was melted and manufactured in the United States. However, this is not occurring since PennDOT's actual field practice is to accept a self-certification by the contractor on Form CS-4171 for all steel.

We reviewed PennDOT's evidence of Buy American compliance for one test item that contained iron or steel products, and found that, consistent with the prior year, PennDOT noted compliance only through the use of Form CS-4171, the self-certification approach. This demonstrates that PennDOT's internal controls over compliance with Buy American provisions in the HPC Cluster are deficient and need to be strengthened.

**Criteria:** Title XII of the American Recovery and Reinvestment Act of 2009 (ARRA) directs that ARRA-funded highway projects be administered in accordance with Title 23, United States Code. Therefore, the FHWA applies the Buy American provisions per 23 USC 313, and the implementing regulations and policies, to all Recovery Act highway construction projects.

FHWA allows state transportation agencies, including PennDOT, to assume certain FHWA oversight roles and approval responsibilities on specific categories and construction projects. FHWA and PennDOT have traditionally entered into a "Stewardship & Oversight Agreement," in which PennDOT assumes certain FHWA oversight and approval authority for areas such as construction contract administration that, in part, is guided by PennDOT's Publication 408 Construction Specification guidance; FHWA relies on PennDOT to follow this guidance for federally-funded highway programs.

PennDOT's Publication 408 foundation for ensuring compliance with Buy American provisions are found in Pennsylvania law that includes, in part, a certification process. According to the provisions of Act 3 of 1978, as amended by Act 161 of 1982 and Act 144 of 1984, in the performance of the contract or any subcontract only steel produced in the United States shall be used. Both state law and PennDOT's publication 408 require that if a steel

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-PennDOT-01: (continued)**

product is identifiable on its face (e.g., stamped Made in USA), a contractor must submit certification, which satisfies PennDOT that the contractor has fully complied with the law and PennDOT's Publication 408 guidance. The state law and Publication 408 (section 106.1) further require that if the steel is unidentifiable or under Publication 408 (section 1105) is fabricated steel, the contractor must provide the PennDOT Inspector-in-Charge with the following: invoices, bills of lading, and mill certifications that the steel was manufactured in the United States.

**Cause:** During the current-year Single Audit of the HPC Cluster, PennDOT's field certification practices do not follow Pennsylvania law or PennDOT regulations in Publication 408.

**Effect:** Because PennDOT's field practices do not comply with state law or regulation and inspectors are potentially accepting all types of steel without proper verification, the potential exists that steel not made in America is being used in FHWA construction projects.

**Recommendation:** We recommend that PennDOT implement proper field practices that comply with Pennsylvania law and PennDOT's Publication 408 by documenting and reviewing invoices, bills of lading, and mill certifications when the steel is determined to be unidentifiable or fabricated.

**Agency Response:** Our modifications to the Publication 408 and Project Office Manual were accepted by the FHWA, and will be implemented with the April 2012 revision to those Publications. In the meanwhile, a standard special provision will be used to incorporate the wording changes into future contracts. We consider this item to be complete.

**Auditors' Conclusion:** We are encouraged by PennDOT's proactive response to modify the Policy and Procures in Publication 408 and the Project Office Manual and also obtain FHWA approval prior to implementation. PennDOT plans to implement the new procedures in April 2012 which is in the next audit period. As a result, we will evaluate the new procedures in the subsequent audit period.

**Questioned Costs:** The amount of questioned costs for steel not stamped "Made in the USA" 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, 2011***

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### **Department of Transportation**

#### **Finding 11-PennDOT-02:**

**CFDA #20.205 – Highway Planning and Construction (including ARRA)**

**CFDA #20.219 – Recreational Trails Program**

**CFDA #23.003 – Appalachian Highway Development System**

**Deficiencies in Information Technology Controls in the Engineering and Construction Management System (A Similar Condition Was Noted in Prior Year Finding #10-45)**

**Federal Grant Numbers: N78000 and N78ARR (ARRA)**

**Condition:** A large majority (approximately 75 percent) of PennDOT's 1.6 billion in federally reimbursable HPC Cluster highway and bridge expenditures, including ARRA, flow through PennDOT's Engineering and Construction Management System (ECMS). The ECMS system tracks individual contract payment activity for construction projects and invoices for engineering consultant agreements. After approval by PennDOT personnel, construction and engineering payments on ECMS are interfaced with SAP, the Commonwealth's statewide accounting system. Once interfaced to SAP, the expenditure transactions are pre-audited by Office of the Budget – Office of Comptroller Operations (OB-OCO) personnel before actual posting to SAP. However, OB-OCO personnel approve payment based on whether the PennDOT approver has a Signature Authority Form (STD-275) on file. Requests for payment are then sent to Treasury for further pre-audit and payment. PennDOT is reimbursed, based on the federal participation percentage, by the federal government (FHWA) for approved invoices and estimates that are cleared for payment within SAP.

In the prior audit, we noted that there were no written procedures for granting access to ECMS. We also noted inconsistencies between OB-OCO's population of Signature Authority Forms and PennDOT's population of ECMS approvers. Further, we found that certain sampled individuals with the ECMS role to approve invoices also had the Inspector in Charge (IIC) role in ECMS, which allowed the employees to create and approve invoices. The authority to both create and approve invoices represented a segregation of duties weakness. Also in the prior audit, we found that for certain PennDOT employees with a Signature Authority Form (STD-275) on file, PennDOT was unable to provide a "Request for ECMS USERID" form to evidence the propriety of such authority. In the current audit, we tested 65 invoices. Of those 65 invoices, 51 were processed through ECMS. For those 51 invoices, we found that one of the 51 invoices was approved by an ECMS approver who also had the conflicting IIC role. We also found in the current audit that PennDOT does not have formal procedures for revoking signature authority for separated employees.

In the audit of the Commonwealth's Basic Financial Statements (BFS) for FYE June 30, 2011, certain general computer controls weaknesses related to ECMS, such as inadequate controls over privileged access and inadequate password complexity were reported in Finding #11-08. Also, internal control weaknesses regarding segregation of duties in the overall SAP computer environment were reported in Finding #11-07.

The majority of SAP and ECMS controls for PennDOT transactions are automated; therefore, these controls provide limited assurance that both SAP and ECMS systems are properly recording authorized and allowable transactions in accordance with federal regulations because of the control weaknesses noted above. Manual compensating controls exist in the form of daily reconciliations between ECMS and SAP prior to the Office of Comptroller Operations approval of the invoices for payment. The daily reconciliation process was tested without exception during our audit period.

**Criteria:** Strong internal controls should ensure that all HPC Cluster transactions are reported accurately and completely on SAP and ECMS. 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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-PennDOT-02: (continued)**

Management Directive 205.4, *Delegation of Authority to Sign and Delegation to Authorize SAP Payments*, establishes the procedures for delegation of signature authority from agency principals to their designees via the Signature Authority Form (STD-275). The objective of the management directive is to ensure that only authorized individuals can sign documents to commit or expend funds on behalf of an agency and to ensure payments from SAP are approved by authorized users in the SAP system. Paragraph 6a states, in part, “Agency heads are to ensure that periodic reviews of signature authorization files are made and action taken to revoke authority, as appropriate.”

**Cause:** PennDOT did not have written procedures in place to grant access to ECMS or to determine which ECMS roles should be mutually exclusive (i.e., one person should not have both the IIC role to create invoices and the invoice approver role to approve invoices). PennDOT began corrective action on the prior year finding in May 2011 by reviewing all ECMS invoice approvers and inactive ECMS user accounts to determine the propriety of access to ECMS (including assigned roles). Further, PennDOT management took steps to ensure that staff was informed/re-informed that there will be no changes to roles (including termination) without a properly completed “Request for ECMS USERID” form. Finally, new procedures for providing access to ECMS were being finalized as of December 2011.

However, PennDOT did not initiate a periodic review of the Signature Authority Forms (STD-275) on file with OB-OCO, as required by Management Directive 205.4. Further, PennDOT does not have consistent procedures in place to revoke signature authority when applicable employees separate employment or their job responsibilities change.

**Effect:** The users who have the combination of the IIC role and the invoice approver role in ECMS represent a segregation of duties conflict that could lead to improper payments to construction contractors. Also, the lack of procedures to revoke signature authority when applicable could lead to inappropriate payments being approved in SAP. The deficiencies noted above in IT general controls and the segregation of duties weakness increase the risk of unauthorized payments.

**Recommendation:** PennDOT management should finalize their written policies and procedures governing ECMS access. These policies should ensure that: 1) appropriate segregation of duties exists between persons with the ability to create and approve invoices in ECMS; 2) only properly documented and authorized individuals are granted access to ECMS using the “Request for ECMS USERID” form; and 3) separated users’ access is removed timely. (See additional auditor recommendations to improve IT general controls in BFS Findings #11-08 for PennDOT agency systems and #11-07 for the statewide SAP accounting system.)

Further, PennDOT management should develop formal procedures to comply with Management Directive 205.4. These procedures should include a periodic review of signature authorization files. Signature authority should be revoked timely when an individual separates employment or changes job responsibilities.

**Agency Response:** PennDOT understands the auditor’s findings. The department will investigate current procedures for compliance to Management Directive 205.4.

PennDOT has a business necessity to allow “acting” roles for short periods of time. “Acting” roles are necessary for periods of time between when personnel depart and the vacant position is filled. It is PennDOT’s understanding that the auditors are agreeable to this need provided that requests are necessary to continuing to conduct business, temporary and adequate management controls are set in place. To ensure controls are established, PennDOT added a line to the ECMS User Access form for acting positions and also added processes to indicate that persons in those roles would need to reapply every six months.

**Auditors' Conclusion:** If PennDOT has a business need to allow acting roles and grants a user temporary authority to approve invoices, that user's authority to create invoices should immediately be revoked to ensure segregation of duties between creation and approval of invoices. If PennDOT allows the user to have the ability to create and approve invoices, then all related transactions should be monitored timely and strictly by appropriate management personnel. The monitoring should be documented and available for audit. We will review any corrective action in the subsequent audit.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-PennDOT-02: (continued)**

Questioned Costs: None. Although there were segregation of duties issues, none of the transactions tested were unallowable and the manual reconciliations between systems were tested without exception.

**The 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, 2011

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### Department of Transportation

#### Finding 11-PennDOT-03:

**CFDA #20.205 – Highway Planning and Construction (including ARRA)**

**CFDA #20.219 – Recreational Trails Program**

**CFDA #23.003 – Appalachian Highway Development System**

**Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects (A Similar Condition Was Noted in Prior Year Finding #10-47)**

**Federal Grant Numbers: N78000 and N78ARR (ARRA)**

**Condition:** Our prior year Single Audit of the Highway Planning and Construction (HPC) Cluster administered by the Department of Transportation (PennDOT) reported internal control deficiencies related to monitoring locally-sponsored subrecipient projects, in particular, monitoring checklists and approvals of local inspection staffing. Our prior audit disclosed that the monitoring checklists and key staffing documentation were not consistently utilized by district offices. During the current year Single Audit of the HPC Cluster and through discussion with management we determined that corrective actions for these deficiencies were not effectively implemented until subsequent to our audit period. To validate that the weaknesses existed in the current year, we performed sample test work of subrecipient project documentation and evaluated both the monitoring checklists and the approval documentation of local inspection staffing maintained in the district offices.

We reviewed a sample of 65 federally-funded locally-sponsored projects that had expenditures totaling \$19.8 million of the \$171 million paid to PennDOT subrecipients. Of these 65 projects, we found that 20 projects (that incurred expenditures of \$6,762,479) contained deficiencies. Specifically, we found that PennDOT's approval of staffing could not be provided for eight projects and PennDOT's completed monitoring checklists could not be provided for 16 projects. Both deficiencies were noted in four of these projects. As a result, we noted similar results to what was found in the prior audit.

A local project typically exists when the construction project is located on a street or highway over which PennDOT does not have legal jurisdiction. In such cases, PennDOT may arrange for the local public agency to perform the contract work with its own forces or by contract. However, PennDOT is responsible for the construction of all Federal-aid projects and is not relieved of such responsibility by authorizing performance of the work to a local public agency.

**Criteria:** 23 CFR 635.105, Supervising Agency, (c)(3) states:

*The local public agency is adequately staffed and suitably equipped to undertake and satisfactorily complete the work.*

PennDOT maintains a manual entitled Publication 39, *Procedures for the Administration of Locally Sponsored Projects*, to assist agency personnel in PennDOT's 11 engineering district offices that are involved with local projects. The publication is a compilation of PennDOT's policies and procedures relating to the letting, construction inspection, and management of local construction contracts. PennDOT Pub 39, Part B, Section 1.1, Staffing, states:

*If the Local Project Sponsor elects to staff the project with its own personnel, it is to demonstrate to the satisfaction of the Assistant District Executive for Construction or a designee that its personnel are qualified.*

*If the Local Project Sponsor elects to engage the services of a consultant, the procedures described in Publication 93, *Procedures for the Administration of Consultant Agreements*, are to be used to select the consultant. The Local Project Sponsor's request for construction authorization must include a request for construction inspection by consultant forces.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-PennDOT-03: (continued)

*Development of a consultant agreement for construction inspection services is to be accomplished in accordance with the procedure outlined in Publication 93. The Local Project Sponsor is to submit, to the District, the selected consultant's qualifications for review and approval by the Assistant District Executive for Construction or a designee.*

*The Local Project Sponsor is to submit a Staffing Letter to the Assistant District Executive for Construction wherein the Local Sponsor is to describe, in detail, how it proposes to staff the project.*

*If the Local Project Sponsor's proposed staffing is deemed acceptable, the Assistant District Executive for Construction or a designee is to approve the Local Sponsor's Staffing Letter, noting applicable conditions or comments, as necessary, and including a statement that any subsequent staffing changes be likewise submitted for review and approval.*

23 CFR 106, Project Approval and Oversight, (g)(4) states:

*(A) In General – The States shall be responsible for determining that subrecipients of Federal funds under this title have – (i) adequate project delivery systems for projects approved under this section; and (ii) sufficient accounting controls to properly manage such Federal funds.*

PennDOT Pub 39, Part B, Section 1.1, Construction Inspection, states:

*The Contractor's work and the Local Project Sponsor's inspection are to be reviewed by the District. The Assistant District Executive for Construction is to assign an Assistant Construction Engineer to monitor and oversee the project. The Assistant Construction Engineer or a designee is to visit the project as frequently as needed to maintain an intimate knowledge of current activities and ensure that the work is being inspected and the contact administered in accordance with the terms of the agreement, the requirements of FHWA, and the procedures outlined herein. During each visit to the project, the Assistant Construction Engineer or designee is to document, in writing, the project status and any outstanding issues relating to the following:*

- *Work Orders & Authorizations for Contract Work*
- *Project Schedule*
- *DBE Goal*
- *Trainees*
- *Inspection Staff*
- *Wage Rates*
- *Claims*
- *Maintenance and Protection of Traffic*
- *Materials Control and Certifications*
- *Erosion and Sediment Control*
- *Work Underway*
- *Bulletin Board in Place*
- *Environmental Commitments*
- *Railroad Issues*
- *Utility Issues*

PennDOT Pub 2, Project Office Manual, Part C, Section 1, Checklist for the Administration of Locally Sponsored Federal Aid Projects, contains a checklist to aid the Districts with monitoring and oversight of local projects. The checklist covers the bulleted points above and serves as documentation for PennDOT oversight of locally sponsored project activity.

**Cause:** PennDOT stated that staffing shortages have contributed to these internal control weaknesses. Furthermore, PennDOT management indicated that corrective actions were not implemented until after the current audit period.

**Effect:** Failure by PennDOT's district offices to ensure approval of local inspection staffing and to adequately monitor locally-sponsored projects could result in improper and non-compliant use of federal funds by subrecipients, which is not prevented or detected by PennDOT.



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-PennDOT-03: (continued)**

**Recommendation:** We recommend that PennDOT ensure that its 11 district offices strictly adhere to the requirements and policies within Pub 39 to prevent control deficiencies related to local project oversight and ensure compliance with federal regulations.

**Agency Response:** We concur that the requirements and policies implemented by PennDOT are designed to ensure compliance with federal regulations related to locally sponsored projects. We also concur that the District offices must adhere to these requirements and policies to prevent deficiencies related to local project oversight and better ensure compliance with federal regulations.

**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, 2011

### Finding 11-OB-01:

- CFDA #93.563 – Child Support Enforcement (including ARRA)
- CFDA #93.659 – Adoption Assistance
- CFDA #93.767 – State Children’s Health Insurance Program
- CFDA #93.778 – Medical Assistance Program (including ARRA)

**Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Findings #10-17 and 10-95)**

**Federal Grant Numbers: 05-1005PA5021, 05-1105PA5021, 1004PA4004, 1004PA4002 (ARRA), 1104PA4004, 1104PA4002 (ARRA), 1001PA1407, 1101PA1407, 5-1005PAARRA, 1005PA5028, 5-1105PAARRA and 1105PA5028**

**Condition:** We acknowledge that over the years, management has improved its transparency and provided auditors with documentation that it previously would not have. Moreover, we are encouraged by the actions of management to correct certain deficiencies identified in past audit findings. However, auditors and management continue to be in disagreement with regard to the disclosure of names of proposal evaluation committee members involved in the awarding of Commonwealth procurement contracts. Specifically, management declined to provide the aforementioned names by redacting them from evaluation scoring sheets provided to the auditors. This on-going decision to withhold committee members’ names precluded the auditors from determining whether proper controls are in place to prevent potential conflicts of interest, fraud, abuse or other inappropriate activity from occurring during the contract procurement process for the following federal programs:

State Agency	Federal Program	Number of Contracts Tested Without Committee Names	Dollar Value of the Contracts
PID	State Children’s Health Insurance Program	11	\$ 274,909,809
DPW	Adoption Assistance	1	14,436,533
DPW	Medical Assistance	14	5,412,877,087
	Medical Assistance ARRA	14	805,690,763
DPW	Child Support Enforcement	2	12,810,345
	Child Support Enforcement ARRA	2	6,294,353

**Criteria:** 45 CFR 92.36 Procurement states, in part:

*(a) States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.*

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-OB-01: (continued)**

**Cause:** Management has maintained that the identity of evaluation committee members is considered confidential information that auditors are not entitled to review. Management has also maintained that these documents are not within the scope of the Single Audit.

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

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts mentioned above. More specifically, we could not verify that management's controls operated effectively to prevent conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process.

Furthermore, management's refusal to provide procurement documentation to our department is a violation of the Commonwealth Procurement Code, which states:

*Retention of procurement records. All procurement records, including any written determinations issued in accordance with section 561 (relating to finality of determinations), shall be retained for a minimum of three years from the date of final payment under the contract and disposed of in accordance with records retention guidelines and schedules as provided by law. In accordance with applicable law, all retained documents shall be made available to the . . . Auditor General . . . upon request. (62 Pa.C.S.A. § 563)*

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

**Agency Response:** The Commonwealth advocates that the policy to maintain strict confidentiality of evaluation committee member names serves as an internal control that reduces the risk of improper external influences on evaluation committee members and strengthens the overall procurement process.

Commonwealth policy enables the auditors to initiate requests to the Department of General Services to interview individual evaluation committee members if they identify compelling reasons to do so within the scope of their procurement audit testing. We believe our current policy specific to evaluation committee members is reasonable given the balance necessary to minimize the risk of external influences on evaluation committee members; ensure willing participation of evaluation committee members in the Commonwealth's procurement process; and also ensure the auditors have access to necessary documentation. The importance of evaluation committee member confidentiality is demonstrated in the Commonwealth's Right to Know Law. In accordance with Act 3 of 2008, §708 – Exceptions for public records, (b)(26), the "identity of members, notes and other records of agency proposal evaluation committees established under 62 Pa. §513 (relating to competitive sealed proposals)" are exempt from requestors access.

The Commonwealth also recognizes the importance of internal controls related to conflicts of interest within the procurement process and has a longstanding policy of requiring evaluation committee members to review/acknowledge and sign an RFP Evaluation Committee Certification of Confidentiality and No Conflict of Interest Form (Procurement

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-OB-01: (continued)**

Handbook 11/10, Pt. II, Chpt.7). These forms are reviewed by the agency coordinators and referred to the Department of General Services' Office of Chief Counsel Legal Purchasing Unit if there are any questions or disclosures by the evaluation committee members.

In an effort to facilitate a solution to the auditors issue surrounding disclosure of evaluation committee member names, the Commonwealth initiated discussions with the auditors during the spring of 2011 and continued a dialogue to discuss potential compromises to alleviate this audit issue. In February 2012, the Commonwealth and its auditors agreed on a resolution that enables the auditors to satisfactorily complete their procurement testing related to evaluation committee members by completing the following steps at the offices of the Department of General Services (DGS):

- 1) For selected procurements, the auditor and/or audit manager will review an un-redacted summary score sheet and corresponding Statements of No Conflict of Interest (SNCI) and Confidentiality Agreements (CA) for each evaluation member in the presence of the procurement professional and program management.
- 2) Scribe notes onto auditor work papers only to indicate confirmation that all evaluation committee members had properly executed SNCIs and CAs; not to cite specific names of evaluation committee members.
- 3) Following audit staff review, leave all records with DGS procurement professional and program management.
- 4) Audit staff shall leave the DGS premises with only redacted copies of summary score sheets.
- 5) If the auditor or audit manager determines a need for additional information, such as an interview of an evaluator, follow established protocol to present a compelling reason and request an interview through DGS.

The new process was implemented after completion of the audit testing at PID and DPW. Applying the ascribed process in the next complete audit cycle should eliminate this audit finding. We recognize the importance of audit staff's ability to properly test our internal controls and want to work cooperatively to ensure audit staff can adequately complete their testing while maintaining our desire to provide each Commonwealth employee who agrees to serve as a committee member the opportunity to evaluate procurements candidly without the risk of external influences.

**Auditors' Conclusion:** We will evaluate and test the proposed procedures in the subsequent audit.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-OB-02:**

- CFDA #17.258 – WIA Adult Program (Including ARRA)**
- CFDA #17.259 – WIA Youth Activities (Including ARRA)**
- CFDA #17.260 – WIA Dislocated Workers (Including ARRA)**
- CFDA #17.278 – WIA Dislocated Workers Formula Grants**
- CFDA #20.205 – Highway Planning and Construction (including ARRA)**
- CFDA #20.219 – Recreational Trails Program**
- CFDA #23.003 – Application Highway Development System**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**
- CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)**
- CFDA #81.041 – ARRA – State Energy Program**
- CFDA #81.042 – ARRA – Weatherization Assistance for Low-Income Persons**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.027 – Special Education Grants to States**
- CFDA #84.173 – Special Education – Preschool Grants**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #84.389 – ARRA - Title I Grants to Local Educational Agencies**
- CFDA #84.391 – ARRA – Special Education – Grants to States**
- CFDA #84.392 – ARRA – Special Education – Preschool Grants**
- CFDA #84.394 – ARRA – State Fiscal Stabilization Fund – Education Grants**
- CFDA #84.410 – Education Jobs Fund**
- CFDA #93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers**
- CFDA #93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services**
- CFDA #93.053 – The Nutrition Services Incentive Program**
- CFDA #93.705 – ARRA – Aging Home – Delivered Nutrition Services for States**
- CFDA #93.707 – ARRA – Aging Congregate Nutrition Services for States**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.713 – ARRA – Child Care and Development Block Grant (CCDF)**
- CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program (including ARRA)**
- CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant**

**State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Findings #10-43, 10-48, 10-49, 10-56, 10-58, 10-72, and 10-77)**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-OB-02: (continued)

**Federal Grant Numbers:** AA-16051-07-55, AA-17144-08-55, EM-17478-08-60, AA-18664-09-55, AA-20216-10-55, EM-20513-10-60, N78000, N78ARR, CS-420001-10, 2W-42000209, FS-993577-10, 2F-09357709, DE-EE0000115, DE-EE0000135, H027A100093, H027A090093, H173A100090, H173A090090, H391A090093, H392A090090, S010A100038A, S010A090038A, S367A100051A, S367A090051A, S389A090038A, S394A090039A, S410A100039, 11AAPAT3SP, 11AAPANSIP, 10AAPAT3SP, 10AAPANSIP, 09AAPAC1RR, 09AAPAC2RR, 1002PATANF, 1102PATANF, 1004PA4004, 1004PA4002, 1104PA4004, 1104PA4002, 1001PA1401, 1101PA1401, 1001PA1402, 1101PA1402, 1101PA1404, 1001PA1407, 1101PA1407, 1101PA1403, 1101PA1405, 1001PA1403, 1101PASOSR, 1001PASOSR, 1001PATAN2, 1005PA5028, 5-1005PAARRA, 1105PA5028, 5-1105PAARRA, TI010044-10, TI010044-11 and 0901PACCDF

**Condition:** For the major federal programs listed above, the state agencies did not identify federally-required information in subrecipient award documents and at the time of disbursement of funds provided to subrecipients. 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 SEFAs. Therefore, the major programs listed above run the risk of not being properly administered or audited at the subrecipient level in accordance with program regulations or OMB Circular A-133, further requiring state agencies to follow-up with subrecipients to ensure they are aware of the correct award information and proper Single Audits are performed. The following chart shows noncompliance (i.e, No) with federally-required award information since the information was missing from subrecipient award documents at the time of award.

Program	Amount Passed to Subrecipients (in thousands)	CFDA Title	CFDA Number	Award Name	Federal Grant Number	Federal Awarding Agency
Aging Cluster	\$ 56,168	-	-	-	No	-
WIA Cluster	122,003	-	-	-	-	No
HPC Cluster	170,921	No	No	-	-	-
WAP	82,979	-	-	-	No	-
CWSRF	12,163	-	-	-	No	No
CWSRF – ARRA	79,361	-	-	-	No	No
DWSRF	30,131	-	-	-	No	No
DWSRF – ARRA	24,500	-	-	-	No	No
IDEA-B 84.027	29,023*	No*	No*	No*	No*	-
IDEA-B 84.173	13,677	No	No	No	No	-
IDEA-B 84.391 – ARRA	12,318*	No	**	No	**	-
IDEA-B 84.392 – ARRA	6,244	No	-	No	-	-
SFSF Education Grants - ARRA	742,896	-	-	-	No	-
Title I	644,495	-	No	No	No	No
Title I – ARRA	118,644	-	No	No	No	No
Improving Teacher Quality	113,755	-	No	No	No	No
TANF – L&I	133,773	-	-	No	No	No
TANF – ARRA – L&I	34,385	No	No	No	No	No
TANF Child Welfare	91,841	No	No	No	No	No
CSE	105,647	Yes	No	No	No	No
CSE ARRA	9,279	Yes	No	No	No	No
Foster Care	191,383	No	No	No	No	No
Foster Care ARRA	8,486	No	No	No	No	No
Adoption Assistance	93,125	No	No	No	No	No
Adoption Assistance ARRA	7,019	No	No	No	No	No
SSBG	47,508	No	No	No	No	No
MA	908,607	No	No	No	No	No
MA ARRA	155,440	No	No	No	No	No
SAPT DPW	1,983	No	No	No	No	No

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-OB-02: (continued)

\* - Exception applies to Preschool Component 1 only which accounts for approximately 7 percent of total program expenditures.

\*\* - Grant number and CFDA number were included on the original Component 1 Rider tested; however, the incorrect grant number and CFDA number were included in the rider amendment.

In addition, state agencies did not provide to its subrecipients at the time of disbursement the required ARRA award information. The following chart again shows noncompliance (i.e., No) with required information to be provided at the time of disbursement.

Program	Federal Grant Number	CFDA Number	Amount Of ARRA Funds
Aging Cluster – ARRA	No	-	-
WIA Cluster – ARRA	No	No	-
HPC Cluster – ARRA	-	No	-
CWSRF – ARRA	No	No	No
DWSRF – ARRA	No	No	No
SEP – ARRA	No	No	No
IDEA-B Cluster – ARRA	No	No	No
Title I – ARRA	No	No	No
SFSF Education Grants - ARRA	No	No	No
EJF	No	No	No
CSE – ARRA	No	No	No
Foster Care ARRA	No	No	No
Adoption Assistance ARRA	No	No	No
TANF ARRA L&I	No	No	No
MA – ARRA	No	No	No
CCDF – ARRA	No	No	No

**Criteria:** The Federal OMB Circular A-133 Compliance Supplement Part 3, Section M., related to Subrecipient Monitoring by pass-through entities, states:

*A pass-through entity is responsible for:*

*Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number, award name and number; if the award is research and development, and name of Federal agency) and applicable compliance requirements.*

*Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003... have met the audit requirements of OMB Circular A-133...*

*Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.*

The Federal OMB Circular A-133 Compliance Supplement Part 3, Section N., related to Special Tests and Provisions, states:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-OB-02: (continued)**

*As provided in 2 CFR section 176.210, Federal Agencies must require recipients to...separately identify to each subrecipient, and document at time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA Funds; and provide identification of ARRA awards in their Schedule of Expenditures of federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.*

The Federal OMB Circular A-133 Compliance Supplement Appendix VII, Other OMB Circular A-133 Advisories, states:

#### *Responsibilities for Informing Subrecipients:*

*Recipients agree to separately identify to each subrecipient, and at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.*

**Cause:** In general, state agencies believed that federal award information historically provided on award documents was sufficient; however, all required information as noted above was not being provided to the subrecipients at the time of the award. Likewise, the required information as noted above was not being provided to the subrecipients at the time of disbursements.

**Effect:** Failing to include the Federal grant award information at the time of award and at the time of disbursement may cause subrecipients and their auditors to be uninformed about specific program and other regulations that apply to the funds they receive. There is also potential for subrecipients to have incomplete SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds may not be properly audited at the subrecipient level in accordance with the Single Audit Act and Circular A-133.

**Recommendation:** Commonwealth Office of the Budget should develop a statewide policy and reporting mechanism to ensure all required federal award information to all subrecipients both at the time of award and at the time of disbursement for ARRA to ensure subrecipient compliance with applicable federal regulations and OMB Circular A-133.

**Agency Response:** The Commonwealth disagrees that subrecipients are not provided information related to the award identification. It should also be noted that the auditors stated that no instances were noted during their current year testing. The Commonwealth complies with the requirements of OMB Circular A-133 Compliance Supplement that states *when ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program* by identifying the related contract for each disbursement on the respective remittance advice. Initially a subgrant agreement is entered into between the state agency and the subrecipient identifying all of the relevant information such as the source of funding. As disbursements are made to the subrecipient a remittance advice is mailed to the subrecipient that identifies the disbursement and references the subgrant agreement. Remittance advices are sent for both checks and ACH transactions. A subrecipient is able to distinguish which subaward is ARRA related versus regular subawards through review of their remittance advices. In addition, most grants operate on a reimbursement basis. Subrecipients are required to request reimbursements and submit a request for disbursement. The fact that subrecipients are requesting disbursements also demonstrates that they are aware of the award in which the funding is being disbursed from.

**Auditors' Conclusion:** Per subsequent communications with Commonwealth management, they do not disagree with the content of the charts as noted in the condition, but is making the argument that the information they do provide meets the objective of the compliance requirement. We believe that the agency's response did not address the requirements of the OMB Circular A-133 Compliance Supplement regarding the states responsibility to provide specific federal award information to subrecipients at the time of award and, for ARRA funds, to provide specific award information at the time of disbursement as stated in the criteria section of the finding. The Commonwealth believes that in regard to



# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-OB-02: (continued)**

disbursements of ARRA funds that its procedures are adequate for compliance due to the fact that a remittance advice containing a state contract number is sent to the subrecipient at the time of disbursement. Commonwealth management stated that the subrecipient can then refer to the federal award information included in the subgrant agreement. However, we disagree. The first table in the condition of the finding details a list of 16 major federal programs in which the Commonwealth is not providing all of the required federal award information at the time of award, or subgrant agreement. Therefore, the contracts included on the remittance advices may likely not include the required federal award information. Additionally, these remittance advices are not maintained and cannot be provided for any of our sample items in any of our major federal programs audited for SFYE June 30, 2011. Therefore, no audit trail exists to test this process. Based on the Commonwealth's response, our finding and recommendation remain as stated.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

### **Finding 11-OB-03:**

- 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 #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (including ARRA)**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.027 – Special Education – Grants to States**
- CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.667 – 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 CMIA and at Least a \$184,759 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #10-104)**

**Federal Grant Numbers:** 20081PA300305, 20091PA30035, 20101PA30035, 11111PA705W1003, 11111PA705W1006, 11111PA705W5003, 10101PA705W1002, 10101PA705W1003, 10101PA705W1006, 10101PA705W5003, 10091PA705W5003, S010A090038A, S010A100038B, H027A090093, H027A100093, H126A090056, H126A100056, H126A110056, S367A090051A, S367A100051A, 1102PATANF, 1002PATANF, 100PATAN2 (ARRA), 1104PA4004, 1104PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 08B1PALIEA, 09B1PALIEA, 10B1PALIEA, 11B1PALIEA, 0901PALIE2, 1001PACCDF, 0901PACCDF, 1101PACCDF, 1001PA1401, 1001PA1402 (ARRA), 1101PA1401, 1001PA1402 (ARRA), 1001PASOSR, 1101PASOSR, 51005PA5021, 50115PA5021, 1105PA5028, 5-1105PAARRA, 1005PA5028, 5-1005PAARRA, 1005PA5048, 04-1004PAD100 and 04-1104PAD100

**Condition:** The Commonwealth of Pennsylvania has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement, the Commonwealth has developed policies and procedures contained in the Comptroller Operations’ Directive #540.1 and has developed the CMIA Drawdown System (CDS) which calculates and provides recommended drawdown amounts for most federal programs using the Average Daily Clearance (ADC) method.

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:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-OB-03: (continued)**

- Although the Comptroller's Office is properly conducting the check clearing study in order to establish the delay of draw, the date recorded in SAP, that is used to determine the date the invoice was sent to Treasury for payment, is a SAP-generated date. Given there is general computer control weaknesses noted in the SAP system as reported in findings in our current-year audit of the Commonwealth's BFS, we cannot place any reliance on dates posted on SAP.
- Within the State-Treasury Agreement for the WIC program (CFDA #10.557), we noted that the Payroll/Direct payments component of expenditures identified the clearance pattern as 1 day, and the Commonwealth was drawing funds for this component of payments on a one day delay. However, our testing of the check clearance pattern for WIC Payroll/Direct payments disclosed a clearance pattern of six days. As a result, Payroll/Direct payments are being drawn five days early and an unknown amount of CMIA interest would be owed for SFYE June 30, 2011.
- Our testing of monthly draws for the Supplemental Nutrition Assistance Admin (CFDA #10.561) and Medical Assistance (CFDA #93.778) program costs allocated through DPW's department-wide Cost Allocation Plan (CAP) disclosed that the Comptroller's Office did not draw these federal funds in accordance with the CMIA Treasury-State Agreement. The Treasury State Agreement requires monthly draws for DPW CAP costs to be made at the beginning of each month to fund activity of the prior month and shall be an estimate based on an average of the actual allocation of costs for the preceding twelve months and reconciled monthly. However, DPW's monthly draws for its CAP costs were not based on this required methodology, but were routinely based upon actual DPW CAP costs for the previous month and were made approximately 20 to 30 days after month end. Although the Commonwealth is drawing later than allowed, this draw procedure violated the Treasury-State Agreement in place for FY 2010-11.
- Within the Rehabilitation Services program, CFDA #84.126, we noted that the Comptroller's Office posted two expenditure adjustments #78034444895 and #7803451994 in August and September 2010 totaling \$9,626,765, to transfer federal expenditures to the state ledger. These transfers were made to increase underfunded state expenditures to the required state match percentage for the Rehabilitation Services grant that was closing out on September 30th. Prior to this transfer, there was an excess federal cash balance in violation of the CMIA State-Treasury Agreement, since the funds had already been drawn down and deposited as federal for the expenditures transferred. Further testing revealed that as of June 30, 2011, or nine months later, the required state match for the two open Rehabilitation Services grants was still underfunded by approximately \$4.1 million, so the excess federal cash remained on hand. Although this is a violation of CMIA, the CDS system does not record a state interest liability in situations where state matching funds are not being timely posted and excess federal cash is drawn down early to temporarily fund program state match. As a result, an unknown amount of CMIA interest is owed on this excess Rehabilitation Services federal cash for SFYE June 30, 2011 to be remitted during SFYE June 30, 2012.

Also, the State interest liability on the CMIA Annual Report for SFYE June 30, 2010, which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2011, was understated by a minimum of \$184,759 as follows:

- Within the Medical Assistance program, DPW's PROMISE system processes a file of medical claims on a weekly basis. Included within these claims are expenditures made by school districts for school-based medical services. For all school-based medical expenditures, DPW submits a check to PDE, who administers the school-based medical program. PDE then, in turn, reimburses the school districts for the medical services provided. Once DPW pays the money to PDE, the funds are subsequently drawn from the federal government. However, our review of the account used by PDE to reimburse the school districts disclosed that PDE is not reimbursing the school districts in a timely manner as this account had a balance of \$161,823,715 at June 30, 2010, with a carry-forward balance from the prior fiscal year of \$137,661,552. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any interest on the balance maintained within this account, even though it represents federal funds drawn down in excess of amounts paid to school districts. As a result, assuming the average balance in the account was approximately \$149.74 million during the June 30, 2010 fiscal year, the state's interest liability was understated by an estimated \$179,691 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$169.06 million as of June 30, 2011, so additional CMIA interest is owed for SFYE June 30, 2011 to be remitted during SFYE June 30, 2012.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-OB-03: (continued)

- Within our testing of Federal Revenue Collected in Advance, we noted a \$1,765,605 balance at the Department of Labor and Industry that was carried forward from our prior audit period. Our inquiry of Comptroller Office personnel during a prior audit disclosed that this balance represented the remaining balance of SSA from reimbursements received under the Social Security – Disability Insurance program CFDA #96.001 from many years ago. Since these funds were to be treated as program income and expended before any additional federal funds were to be drawn and additional SSA funds have been drawn since these funds were initially received, the Commonwealth would owe interest on these funds for the entire SFYE June 30, 2010 in the amount of \$2,119. Also, since this balance remained unchanged during the entire SFYE June 30, 2011, additional CMIA interest is owed for SFYE June 30, 2011 to be remitted during SFYE June 30, 2012.

As a result of testing the interest report applicable to our audit period which was dated December 31, 2010, we noted the following:

- Invoice #1902447642 selected for testing during SFYE June 30, 2010, posted \$2,686,848 of payments to a subgrantee to SAP on December 21, 2009. As a result, federal funds were received under the CHIP program, CFDA #93.767, on January 6, 2010; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until March 10, 2010. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 63 days, the Commonwealth's interest liability was understated by \$559.
- Invoices #1902447667 and #1902447678 selected for testing during SFYE June 30, 2010, posted payments of \$6,725,446 and \$4,956,292 for two subgrantees in SAP on December 22, 2009, respectively. As a result, federal funds were received under the CHIP program, CFDA #93.767, on January 7, 2010; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until March 10, 2010. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 62 days, the Commonwealth's interest liability was understated by \$2,390. Also, we noted additional invoice postings within the CHIP Program that we did not test that may have an interest liability that was not paid to the federal government.

Also, we noted that the CMIA Annual Report was submitted to the U.S. Treasury Department on January 10, 2011, 10 days after the due date of December 31, 2010.

**Criteria:** The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.2.4 related to the monthly draws under Cost Allocation Plans states:

#### *Monthly Draws*

*The State shall request funds at the beginning of each month to fund the activity of the prior month. The amount of the request for a given month's activity shall be an estimate based on the actual allocation of costs for the preceding 12 months and shall be reconciled monthly. This funding technique is interest neutral.*

31 CFR 205.20 provides the following regarding clearance patterns:

*States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:*

- a. A clearance pattern must be auditable.*
- b. A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. A clearance pattern must include seasonal or other periodic variations in clearance activity.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-OB-03: (continued)

31 CFR 205.15 states the following pertaining to state interest liabilities:

- (a) *General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*
- (b) *Refunds. (1) A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.*
- (d) *Mandatory matching of Federal funds. In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.*

Also, the Commonwealth's CMIA Agreement 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:*

*8.6.3 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.*

Further, 31 CFR 205.26(a) related to the Annual Report states:

- (a) *A State must submit to us an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends. We will provide copies of Annual Reports to Federal agencies. We will prescribe the format of the Annual Report, and may prescribe the format of the Annual Report, and may prescribe that the Annual Report be submitted by electronic means.*

Also, 20 CFR 437.25(g) related to SSA program income states:

- (g) *Use of program income. Program income will be deducted from outlays that may be both Federal and non-Federal...*

**Cause:** Office of Comptroller Operations (OCO) disagrees with the condition that computer control weaknesses prevented the auditor from relying on the dates posted in SAP. OCO indicated that the fact that the dates are system generated and unable to be edited by users should provide assurance to the auditors. However, due to the weakness in IT General Controls (ITGC), there is a possibility that system generated dates could be modified and not detected.

For monthly draws of DPW CAP costs OCO believed the State-Treasury Agreement was changed to support the drawing of actual DPW CAP costs from the previous month when such costs were posted to the accounting system. However, the State-Treasury Agreement was not changed until the 2011-12 fiscal year.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2011*

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### **Finding 11-OB-03: (continued)**

Regarding the Rehabilitation Services and SSA excess cash issues, OCO believes that the auditors are misinterpreting the Federal regulations. For Rehabilitation Services OCO believes that as long as compliance with mandatory matching requirements occurs at the time of payment and at the end of the grant period any other time period where the mandatory matching is not met due to adjustments or other reasons should not result in a State interest liability. For SSA OCO stated the funds are not program income because the funds were received prior to a 1991 SSA Policy Directive requiring this type of SSA funds to be treated as program income.

With regard to the Medicaid Education payments issues, OCO indicated that this process was reviewed and approved by HHS and a copy of the approval letter was provided to resolve this issue. However, we noted that the HHS documentation provided was only a review of the cost claims process and not an approval of the Commonwealth's Federal funds payment process to school districts.

For other items addressed in the condition relating to errors or weaknesses in the CMIA interest calculation, OCO personnel stated the amounts of interest involved are insignificant and that we did not consider additional expenditures not yet drawn that would offset any interest liability for expenditure postings that were redlined by Treasury.

**Effect:** As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2010 are not accurate. Our testing disclosed a minimum estimate of \$184,759 in understatements in the state interest liability to the federal government.

Also, various transactions that create interest liabilities, such as adjustment transactions, cancelled payments, etc. are not recognized as interest-generating transactions. Since manual adjustments are not always made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

**Recommendation:** We recommend that OCO:

- Modify the drawdown system or have Comptroller personnel review possible interest generating transactions occurring outside of the drawdown system so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation;
- Calculate any prior year additional June 30, 2010 CMIA interest due to the U. S. Treasury as a result of the drawdown system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury;
- Change the WIC program the clearance pattern for Payroll/Direct payments component of expenditures within the drawdown system and the CMIA State-Treasury Agreement to reflect the actual number day based on the check clearance study; and
- Consider amending the Commonwealth's CMIA State-Treasury Agreement to reflect the current actual monthly draws methodology used by the Comptroller for DPW's CAP costs.

**Agency Response:** The Office of Comptroller Operations (OCO) disagrees with several portions of the findings including the majority of the questioned costs of \$184,759. Specifics regarding each condition are listed below.

It should be noted that the conditions related to the Supplemental Nutrition Assistance Admin and Medical Assistance were corrected in the subsequent CMIA Treasury-State agreement.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-OB-03: (continued)**

WIC payroll expenditures are drawn in accordance with the CMIA Treasury-State agreement of one day. The auditors selection of a small subset of the expenditures is not appropriate when determining if the commonwealth is drawing funds accordingly. The delay of draw agreed upon in the CMIA Treasury-State agreement is prepared on a weighted average delay of draw. In this case the payroll expenditures are only about 7 percent of the overall expenditures and the program related expenditures have a negative delay of draw. When the agreement with US Treasury was negotiated the entire process was discussed with US Treasury and determined that a 1 day delay of draw was appropriate for the entire program. We disagree that interest is owed in regard to this program.

With regard to the Rehabilitation Services program, OCO disagrees with the auditor's position that excess federal cash is being drawn down early to temporarily fund program state match. In accordance with 31 CFR 205.15(d), the commonwealth does not arbitrarily assign expenditures to federal funds first. Invoices are split funded between federal and state when they are initially processed. Federal dollars are only drawn when federal expenditures are incurred. There are instances where necessary adjustments, such as the liquidation of a commitment, can affect the match for a short period of time. However, Comptroller Operations and the agency identify and implement corrections as needed to ensure the grant is matched appropriately.

OCO disagrees with the auditor's condition that the commonwealth owes interest on money currently held by the Pennsylvania Department of Education (PDE) for the Medical Assistance Program. This program was established as a result of the Medicare Catastrophic Act (PL 100-360). This law stated that federal Medicaid funds must be available to reimburse for the cost of health related services found in a child's individualized service plan (IEP), or individualized family service plan (IFSP). As a result of this 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 Public Welfare. Through this process Local Education Agencies are provided training to explain the entire process. During that time the LEAs enroll as providers with the DPW 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 they request funds as they deem necessary. The auditor's assertion that a large carry-forward balance exists and that the PDE is not reimbursing school districts is inaccurate. The auditors have been provided a copy of the MOUs that describe the process, copies of provider agreements completed by the schools that specifically direct payment to PDE, approval by CMS of a review that was performed of the process (including the MOU that describes the process), and offered additional information such as training materials that are provided to the LEAs and forms used to request money when the schools want the funds disbursed. It was also communicated to the auditors that the program is voluntary for the LEAs. Given the process described and all of the information provided we disagree that \$179,691 in CMIA interest is due on the funds held by the PDE at June 30, 2011.

With regard to the Federal Revenue Collected in Advance balance totaling \$1,765,605 with the Department of Labor & Industry, we disagree with the condition that these funds are required to be spent prior to incurring additional federal expenditures. The reimbursement, to which this balance is applicable, was received prior to SSA Policy Directive RSA-PD-92-04 issued on December 6, 1991, that required this reimbursement to be treated as program income to be expended before any additional funds are drawn. The policy has an effective date of the issue date and does not have any retroactive language stating that prior funds received must be treated in the same manner. However, the auditors have interpreted the policy to be applicable to the balance retroactively. Although there is no requirement to do so, L&I has historically used these funds for designated program expenditures. Based on these facts we disagree with the auditor's decision to retro-actively apply SSA Policy Directive RSA-PD-92-04 to the balance and the CMIA interest liability of \$2,119 due for these funds.

OCO disagrees with auditor's calculation of interest due for Invoices #1902447642, #1902447667 and #1902447678 totaling \$2,949. The auditor stated that excess funds were on hand for 63 days, 62 days, and 62 days respectively. Information was provided to the auditor showing that the invoices were actual expenditures that were subsequently

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-OB-03: (continued)**

rejected by the PA Treasury Department. Prior to being rejected they were valid expenditures and the commonwealth drew the funds in accordance with the CMIA Treasury-State agreement. Once the invoices were rejected they were timely reversed and the funds were ultimately returned to the US Treasury. The auditors calculated interest from the date the funds for the original postings were received to the date the funds were returned, rather than the date the documents were rejected by PA Treasury Department to the date the funds were ultimately returned to the US Treasury. In fact, Invoices for #1902447642, #1902447667 and #1902447678 were reprocessed and validated by the PA Treasury Department for payment shortly after the PA Treasury Department rejections. The commonwealth has controls in place to identify, timely reverse transactions, and reprocess invoices that are rejected by the PA Treasury Department. The auditors were provided information that their calculation was not taking into consideration the complete financial transaction activity, but rather just a few select documents. OCO disagrees that \$2,949 in CMIA interest is due related to these specific documents.

**Auditors' Conclusion:** We are encouraged by management's indication that it has undertaken action to correct identified weaknesses related to the Supplemental Nutrition Assistance Admin and Medical Assistance Programs.

With regard to management's disagreement with several other identified weaknesses, agency management indicated that the auditors are misinterpreting certain laws and regulations that govern the agency's performance in these matters. Therefore, in cooperation with the agency, we contacted the CMIA program representative from the U.S. Department of the Treasury 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. Thus, our finding remains as stated.

We will evaluate any actions to correct identified weaknesses in the subsequent Single Audit.

**Questioned Costs:** \$184,759

**The 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, 2011***

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### **Finding 11-OB-04:**

- CFDA #10.557 – Special Supplemental Nutrition Program for WIC**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**
- CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)**
- CFDA #81.041 – State Energy Program (including ARRA)**
- CFDA #81.042 – Weatherization Assistance for Low-Income Persons (including ARRA)**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.767 – Children’s Health Insurance Program**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster**
- CFDA #14.228 and 14.255 – CDBG – State-Administered CDBG Cluster (including ARRA)**
- CFDA #17.258, 17.259, and 17.260 – WIA Cluster (including ARRA)**
- CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)**
- CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)**
- CFDA #84.027, 84.173, 84.391, and 84.392 – Special Education (IDEA) Cluster (including ARRA)**
- CFDA #84.394 and 84.397 – State Fiscal Stabilization Fund Cluster (ARRA)**
- CFDA #93.044, 93.045, 93.053, 93.705, and 93.707 – Aging Cluster (including ARRA)**
- CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families Cluster (including ARRA)**
- CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)**
- CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)**

**Noncompliance and Control Deficiencies Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding #10-102)**

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

**Condition:** Under the Commonwealth's implementation of the Single Audit Act, review and resolution of OMB Circular A-133 subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through 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 also responsible for reviewing financial information in each

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-OB-04: (continued)**

audit report (e.g., SEFA) to determine whether the audit included all pass-through funding provided by the agency and to adjust Commonwealth records, if necessary. Our testing of this two-stage process disclosed 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 timely corrective action, was in excess of the 6 month timeframe required by OMB Circular A-133. Based on detailed testing of 40 subrecipient audit reports with and without findings at a sample of four different funding agencies (Aging, DCED, DEP, and DPW), we noted that 12 (or 57 percent) out of 21 audit reports with findings at Aging, DCED, and DPW were untimely processed and resolved between approximately 6.5 months to over 19 months after originally received by OB-BOA.
- **DPW:** The time period for making management decisions on findings ranged from approximately 6.5 months to over 17 months for 12 out of 14 subrecipient audit reports with findings tested. Also, we found various inaccurate dates and incomplete information as to whether certain audits contained findings or not in DPW's agency listing which could result in audit report processing not being completed timely.
- **PDE:** 49 of 97 subrecipient audit reports with findings remained unresolved and ranged from over 6.5 months to over 16 months. There also appeared to be delays in the completion of SEFA reconciliations at PDE.
- **DOH:** The time period for making a management decision on findings was approximately 7.5 months for one out of 13 subrecipient audit reports with findings.
- **L&I:** The time period for making a management decision on findings ranged from approximately 6.5 months to over 15 months for all 11 audit reports with findings.
- **PENNVEST:** The time period for making management decisions on findings was between 10 and 11 months for four out of seven subrecipient audit reports with findings.

In addition, as part of our current year follow up on the adequacy of the Commonwealth's procedures for ensuring timely audit submission for two subrecipients (Crawford County and Bucks County), which received material federal funding under multiple major federal programs/clusters as cited in our prior year Single Audit Finding #10-102, we noted that although Crawford County and Bucks County each submitted a Single Audit Report to OB-BOA for FYE December 31, 2009, these audits were 12 months and 13 months late, respectively, based on a due date of September 30, 2010.

As part of our audit of OB's statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient dollars for each of the 24 major programs or clusters with material subgranted funds recorded on OB-BOA's subrecipient universe in the prior fiscal year (SFYE June 30, 2010) for which audits were required to be submitted in the current year (SFYE June 30, 2011). Our test work disclosed that for 18 out of the 24 major programs/clusters, unaudited dollars were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133. However, for the remaining six, unaudited dollars were considered material to the program/cluster and the related audits should have been submitted, as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-OB-04: (continued)

CFDA #	Program Name	SFYE June 30, 2010 Expenditures	
		Total Subgranted Funds Per OB-BOA Universe	Total Subgranted To Entities Without Audits
10.558	Child and Adult Care Food Program	\$ 81,248,125	\$ 6,108,827
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	407,561,738	71,156,120
81.040, 84.389	Title I, Part A Cluster	680,023,706	214,820,648
84.027, 84.173, 84.391, 84.392	Special Education Cluster	613,498,112	67,073,819
84.367	Improving Teacher Quality Program	95,860,554	18,294,059
84.394, 84.397	State Fiscal Stabilization Fund Cluster	602,952,924	97,220,202

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.

**Criteria:** The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments to adhere to provisions of OMB Circular A-133.

OMB Circular A-133, Section 400, states the following:

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

- (2) *Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*
- (3) *Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*
- (4) *Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
- (5) *Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*
- (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are properly and timely reconciled to state payment records each year, and reconciling items properly resolved.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2011

### Finding 11-OB-04: (continued)

OMB Circular A-133, Section 320, Report Submission, states the following:

- (a) General. *The audit shall be completed and ... submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.*

To ensure Commonwealth enforcement of OMB Circular A-133 for subrecipient noncompliance with audit requirements, Commonwealth Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, Section 5 related to policy states, in part:

(a) *Agencies must develop and implement a progressive series of remedial actions to be taken against recipients who fail to comply with performance, reporting, and resolution requirements for audits of Commonwealth-funded programs.*

(c) *Where recipients receive Commonwealth financial assistance from multiple state agencies, the agency providing the largest amount of such assistance (as reported in the SEFA) shall be the lead agency, responsible for coordinating the imposition of remedial actions, in accordance with the provisions of this directive.*

(d) *The progressive series of remedial actions should be tailored to the unique aspects of each program... Such actions should be implemented in a timely and judicious manner to ensure that those recipients who fail to comply with the requirements of OMB Circular A-133 and/or Commonwealth policy, rules, and regulations related to audit performance, reporting, and resolution, are promptly brought into compliance or are properly sanctioned.*

*Overall time frames for the implementation of the series of remedial actions should not exceed six months from the date the first remedial action is initiated. At the end of the six-month time period, either the appropriate corrective action should be taken by the recipient or the final stage of progressive remedial action should be imposed on the recipient.*

**Cause:** The common reason provided by Commonwealth management for untimely audit resolution in the various agencies and the late submission of subrecipient audit reports was either a change in staff or a lack of staff to follow up on and process A-133 subrecipient audit reports more timely. Although we noted a significant improvement in the overall timeliness of OB-BOA's audit report processing in the current audit period, the processing delays at Aging and DCED as noted in the first bullet of the Condition appeared to be caused by untimely processing of certain county audit reports by OB-BOA. Also, the processing delays at DPW appeared to be mainly caused by untimely DPW processing of Intermediate Care Facilities-Mental Retardation and county audit reports.

Regarding the unaudited subrecipients, OB-BOA personnel stated that they believed they fulfilled their responsibilities by sending dunning letters to the unaudited subrecipients in July 2011 and by transmitting the unaudited PDE subrecipients' information to PDE agency personnel in December 2011. As a result of this action, PDE would be responsible for implementing remedial action procedures. PDE personnel stated that due to staffing constraints, PDE's Remedial Action Policy, which is in place to respond to subrecipients whom have not submitted the required audit reports, had not been addressed as aggressively as in prior years. PDE personnel stated that as positions are being filled, training will be provided to accommodate these requirements.

**Effect:** Since the Commonwealth did not make the required management decisions within six months of receipt to ensure appropriate corrective action was taken on audits received from subrecipients, the Commonwealth did not comply with federal regulations, and subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner. Furthermore, noncompliance may recur in future periods if control deficiencies are not corrected 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 reconciliations which are not being performed timely and late 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.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2011***

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### **Finding 11-OB-04: (continued)**

Since the Commonwealth did not obtain and review the required audit reports, material federal funds in the major programs and clusters listed above were not audited, thus noncompliance with OMB Circular A-133. In addition, a weakness exists since PDE was not following its established remedial action plan. Material dollars may be unaudited in the future without effective remedial action from PDE to enforce compliance.

**Recommendation:** We recommend that the above weaknesses that cause untimely OMB A-133 audit resolution, including untimely SEFA reconciliations, 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 PDE continue its efforts to obtain A-133 audits from the unaudited entities. Finally, PDE should adhere to the steps and timeframes in its remedial action plan.

**OB-BOA Response:** The Bureau of Audits (BOA) acknowledges that our office, as well as the agencies listed below, was deficient in meeting the requirements of OMB Circular A-133 Section 400 during the FYE 6/30/11. Seven of the 12 reports, which the external auditors took exception to, were processed by BOA within our two month target. Four of the remaining five delinquent reports related to county governments which are cumbersome and often require us to review multiple single audit reports for the primary county government and its component units. Therefore, we will be reevaluating the way we approach our review of county single audit reports.

BOA continues to dun, on a semiannual basis, the subrecipients who are delinquent in the submission of their single audit reports. In addition, BOA continues to work with the agencies to impose the sanctions, afforded by OMB Circular A-133, on these delinquent subrecipients.

**Aging Response:** The Department of Aging agrees with the finding. PDA will continue to review and reconcile amounts reported on the Schedule of Federal Awards as quickly as possible once the agency receives notification the audit is ready for evaluation.

**PDE Response:** The PDE, Bureau of Budget and Fiscal Management, Audit Section will continue efforts to obtain Subrecipient Single Audit Reports from the unaudited entities and strive for total audit review compliance in accordance with OMB Circular A-133.

**DPW Response:** The DPW concedes that resolution of some subrecipient single audits, including the SEFA reconciliations, has not been timely and we are working to rectify the issue. However, the DPW believes that the current process of performing cost settlements of the DPW programs is sufficient to ensure that subrecipients are properly spending and accounting for federal funds.

The DPW Single Audit Supplement requires separate schedules for DPW-funded county programs that receive \$300,000 or more. DPW also requires a similar schedule for program-funded contracts over \$300,000. The schedules are prepared on DPW's fiscal year and are used for cost settlement (a comparison of payments made to actual costs which can result in DPW recovering monies not spent or paying additional funds if payments are less than eligible expenditures and the subrecipient is below their appropriation or budget amount). This is above and beyond following up on SEFA reconciliation differences as it results in funding changes to the subrecipient. However, DPW will continue to review its processes to determine if we can increase assurance without adding duplicative steps. DPW will also work to improve written procedures in this area.

**DOH Response:** The reason that the time period for DOH making a management decision on the cited report was longer than six months is because the subrecipient audit review position that is assigned to do this work was unfilled at the time. This position remains unfilled at this time. The Department will seek to fill the subrecipient audit review position when budgetary constraints permit doing so.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2011***

### **Finding 11-OB-04: (continued)**

**L&I Response:** The Department of Labor and Industry is in agreement with the finding. As noted in the cause section of the finding, our Department experienced the same problems stated by other Commonwealth management – both a shortage and a turnover of staff. It should be noted, however, that all 11 audits cited have since had management decision letters issued.

**PENNVEST Response:** PENNVEST is in agreement with this finding. Loan Service data previously stored in ACCESS database system was converted to a NEW DataBase System which, when first converted, did not have the capabilities to build a report. Our IT department has since obtained Report Builder which will allow Loan Servicing to ascertain which FAR's were not submitted and notify the borrowers regarding outstanding financial statements. Loan Servicing will now be able to accurately request outstanding financial statements in a timely manner and will improve PENNVEST's accountability.

At June 30, 2011, PENNVEST did indeed have four loans that were more than 60 days delinquent. All four loans are currently in workout. PENNVEST has recently created a workgroup for these types of delinquencies and have involved PENNVEST's Legal Department's assistance to collect on these loans.

**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, 2011***

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### **Finding 11-OB-05**

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

**CFDA #10.553, #10.555, #10.556, and #10.559 – Child Nutrition Cluster**

**CFDA #93.558 and #93.714 – TANF Cluster**

**CFDA #93.575, #93.596, and 93.713 – CCDF Cluster**

**CFDA #93.667 – Social Services Block Grant**

**Insufficient Evidence Necessary to Opine on the Commonwealth’s Compliance With Requirements That Could Have a Direct and Material Effect on Certain Major Federal Programs**

**Federal Grant Numbers: 2008 1PA300305, 2009 1PA300305, 2010 1PA300305, 1002PATANF, 1102PATANF, 0901PACCDF, 1001PACCDF, 1101PACCDF, 1001PASOSR and 1101PASOSR**

**Condition:** Commonwealth management was unable to provide the representations required by generally accepted auditing standards.

**Criteria:** American Institute of Certified Public Accountants (AICPA) AU Section 801 - Compliance Audits, paragraph 23 states that the auditor should request from management written representations in accordance with AU Section 333 that are tailored to the entity and the governmental audit requirement. AU Section 333, Management Representations, establishes a requirement that the independent auditor obtain written representations from management as a part of an audit performed in accordance with generally accepted auditing standards and provides guidance concerning the representations to be obtained. AU 333.13 states that “Management’s refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion and is ordinarily sufficient to cause an auditor to disclaim an opinion or withdraw from the engagement. However, based on the nature of the representations not obtained or the circumstances of the refusal, the auditor may conclude that a qualified opinion is appropriate. Further, the auditor should consider the effects of the refusal on his or her ability to rely on other management representations.” AU 333.14 provides that “If the auditor is precluded from performing procedures he or she considers necessary in the circumstances with respect to a matter that is material to the financial statements, even though management has given representations concerning the matter, there is a limitation on the scope of the audit, and the auditor should qualify his or her opinion or disclaim an opinion.”

Section 510(a)(e) of OMB Circular A-133 provides that “the auditor should report as audit findings in the federal awards section of the schedule of findings and questioned costs the circumstances concerning why the auditor’s report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards (for example, a scope limitation that is not otherwise reported as a finding).”

**Cause:** This condition was caused by the inability of management to obtain sufficient information from entities outside of the Commonwealth to provide appropriate representations to the auditors.

**Effect:** The inability of management to obtain sufficient information, and the inability of the auditors to obtain sufficient information by other means, resulted in the issuance of a disclaimer of opinion on compliance for the identified programs.

**Recommendation:** We recommend that the required representations, or additional information, be shared with the grantor agencies and the auditors once the information has been received from the external entities.

**Agency Response:** Management concurs with the finding and recommendation.

**Questioned Costs:** Unable to determine the amount of questioned costs.

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# Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2010:</u></b>		
<b>OFFICE OF THE BUDGET (OB)</b>		
10-28	Lack of Staffing Resources Results in For-Profit Subrecipients Not Being Properly Audited	New procedures have been implemented for audits of FFYE September 30, 2011. PDE is working with USDA on this matter and has obtained approval of the revised audit policy.
10-35	Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of \$331,073	OCO and DMVA disagree with this finding and feel that no corrective action plan is necessary. SF-270 Requests for Reimbursement were prepared properly and correctly included reimbursement requests that were made prior to PA Treasury payment.
10-39	A Material Weakness Exists Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel (Prior Year Finding #09-34)	Corrective action was taken.
10-42	Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports	ES Federal Acct. staff are continuously working on bringing the reconciliations up to date from June 2010.
10-45	Material Weaknesses Exist Due to the Lack of Reconciliations Between SAP and PADOT's ECMS System and Poor IT General Controls	Corrective action as stated in the Single Audit report is in process. The process used in closing federal projects, which includes reconciliations between SAP and ECMS, is being reviewed by PennDOT and Comptroller Operations.
10-51	Misinterpretation of Regulations Resulted in Noncompliance With ARRA Requirements	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, OCO and Pennvest disagree with this finding and feel that no corrective action is necessary since 1512 reporting is not delegated to subrecipients.
10-56	Noncompliance With ARRA Regulations and Inadequate Controls Over ARRA Payments	DCED has added the award number onto the invoice forms per the AG directive.. OCO disagrees with the portion of the finding related to CCR registrations as noted and feels that no corrective action is necessary since 1512 reporting is not delegated to subrecipients.
10-69	Internal Control Deficiency Results in Inaccurate ARRA Section 1512 Reporting	Corrective action was taken.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>OFFICE OF THE BUDGET (OB) (Continued)</b>		
10-75	Internal Control Deficiency at DOH and the Commonwealth Comptroller Office Over SEFA Reporting	Corrective action was taken.
10-87	Noncompliance and Internal Control Weakness in Subrecipient Monitoring	Corrective action as stated in the Single Audit report is in process by DCED, and the CCR registration dates are required fields on the FFATA. However, as noted in the Single Audit report, OCO disagrees with the finding and feels that no corrective action is necessary since 1512 reporting is not delegated to subrecipients.
10-88	Noncompliance and Internal Control Weakness Over Financial Reporting	Corrective action was taken.
10-97	Lack of Timely Periodic Reconciliations of the PROMISe Provider Payment System to the SAP General Ledger Accounting System	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the report, OCO disagrees with this finding and feels that no corrective action is necessary. Adequate periodic/recurring reconciliations are in place throughout the year.
10-102	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #09-73 and #09-74 )	Corrective action was taken by PennDOT and PID. Corrective action as stated in the Single Audit report is in process by PDE, DPW, DOH, L&I and Pennvest. Pennvest is currently in the process of hiring additional staff to assist the Loan Officer.
10-103	Unallowable Payments for Unused Employee Leave Result in \$453,533 in Questioned Costs (Prior Year Finding #09-75)	Corrective action was taken.
10-104	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$767,220 Known Understatement of the CMIA Interest Liability (Prior Year Finding #09-77)	Corrective action was taken for those portions of the finding with which there is agreement. As noted in the report, there are portions of the finding which OCO disagrees with and feels that no corrective action is necessary. There are also indications that the CMIA interest issue related to the ACCESS program may no longer be an audit issue.
<b>DEPARTMENT OF AGING (PDA)</b>		
10-72	Material Weaknesses Exist in PDA Procedures for the Awarding and Disbursement of Subrecipient Funding Resulting in Noncompliance with OMB Circular A-133	Corrective action as stated in the Single audit report is in process, and the award notification numbers will be incorporated in the upcoming program directive.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF AGING (PDA) (Continued)</b>		
10-73	PDA Monitoring of AAA Subrecipients Needs Improvement (Prior Year Finding # 09-49)	AoA funded programs are now being fiscally monitored by the Department's QMMA/Division of Compliance.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
10-36	Internal Control Deficiency Over Period of Availability Requirement	Corrective action as stated in the Single Audit report is in process. A report on open grants with expired contracts is being pulled each quarter by our IDIS coordinator. Grant Managers are notified to work with grantees to close out activities in a timely fashion so that the contracts can be closed in IDIS to assure that funds under these contracts can no longer be accessed.
10-37	Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report (Prior Year Finding #09-30)	Corrective action was taken.
10-38	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #09-29)	Corrective action as stated in the Single Audit report is in process. Additional staff were added to the complement in September of 2011, with the intent of alleviating the monitoring backlog in calendar 2012.
10-54	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #09-39)	<p>Corrective action as stated in the Single Audit report is in process. For the 2011-12 program year, DCED is now reviewing and adjusting the monitoring guidelines and checklists to assure that agencies are adhering to the issued Directives. DCED is also monitoring the agencies' current corrective action plans and then applying new program year reviews to address the issues.</p> <p>DCED continues the monthly invoicing and FSR and is now completing the financial closeouts with agencies for the 2010-11 LIHEAP and regular DOE program year. The closeout includes reconciliation of funds per an FSR with the data reported in the Hancock Energy Software system.</p> <p>DCED continues to implement the Performance-Based Funding Standards which include agency operations and their adherence to completion of corrective action plans.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED) (Continued)</b>		
10-55	Noncompliance and Internal Control Deficiencies at DCED Result in Questioned Costs of \$260,668 in the Weatherization Assistance Program and \$19,308 in the Low Income Home Energy Assistance Program	Corrective action was taken for those portions of the finding with which there is agreement. DCED has provided the files and information requested for all bullet points, and the auditors have agreed to review these files and information as part of the current 2010-11 review which is underway. As noted in the report, there are also portions of the finding which DCED disagrees with and feels that no corrective action is necessary.
10-86	Noncompliance and Internal Control Weakness Over Subgrantee Payments at DCED (Prior Year Finding #09-61)	Corrective action was taken.
<b>DEPARTMENT OF CORRECTIONS (DOC)</b>		
10-71	Noncompliance and Weaknesses in DOC Procedures for Recording of Payroll Expenditures and Retention of Payroll and Attendance Records Leads to \$29,526 in Questioned Costs	Corrective action as stated in the Single Audit report is in process. Overtime related policy changes are in the review and approval process. The pending policy changes include a records retention section for source documents of payroll activity and should take effect in December, 2011.
<b>DEPARTMENT OF EDUCATION (PDE)</b>		
10-21	PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents	As noted in the Single Audit report, PDE disagrees with this finding and maintains that it is not out of compliance.
10-22	Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) (Prior Year Finding #09-23)	Corrective action as stated in the Single Audit report is in process. The conversion of the Division of Food and Nutrition to a .NET platform is proceeding.
10-27	Internal Control Weakness Resulting in Questioned Costs of \$2,780	Corrective action was taken.
10-29	Internal Control Deficiencies in PDE Monitoring of CACFP Subrecipients	Corrective action as stated in the Single Audit report is in process. The corrective action had just begun when the Single Audit report was issued on September 21, 2011.
10-57	Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #09-41)	Corrective action as stated in the Single Audit report is in process. The corrective action had just begun when the Single Audit report was issued on September 21, 2011.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF EDUCATION (PDE) (Continued)</b>		
10-58	PDE 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	Corrective action for those portions of the finding with which there is agreement is in process by PDE. OCO disagrees with the portion of the finding related to CCR registrations as noted and feels that no corrective action is necessary since 1512 reporting is not delegated to subrecipients.
10-59	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #09-40)	PDE believes they are already performing their functions in accordance with applicable regulations and guidance to the satisfaction of the awarding agency.
10-60	Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #09-42)	PDE believes they are already performing their functions in accordance with applicable regulations and guidance to the satisfaction of the awarding agency.
10-61	Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients (Prior Year Finding #09-43)	Corrective action was taken.
10-67	Noncompliance and Internal Control Deficiencies in PDE's Review and Approval of Title II Subrecipient Applications Resulting in Questioned Costs of \$1,268,363	Corrective action was taken for the 2011/2012 LEA Application process.
10-68	Noncompliance and Internal Control Deficiencies in PDE Monitoring of State Fiscal Stabilization Fund Subrecipients	PDE believes they are already performing their functions in accordance with applicable regulations and guidance to the satisfaction of the awarding agency.
<b>DEPARTMENT OF GENERAL SERVICES (DGS)</b>		
10-33	Lack of Documentation to Support Contracting and Procurement	Corrective action was taken for those portions of the finding with which there is agreement. In addition, DGS has improved internal controls and processes to ensure that all procurement and contract documents are retained and disposed of in accordance with Commonwealth records retention policy. There is disagreement with the auditors in regard to providing evaluation committee member names.
10-70	Noncompliance With Allowability Requirements Results in \$111,548 In Questioned ARRA Costs	As noted in the audit report, DGS disagrees with this finding and maintains that payments made to the Chief Accountability Officer under the SFSF Government Services Program were allowable and are supported.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF HEALTH (DOH)</b>		
10-23	Weaknesses in Department of Health Monitoring of WIC Local Agencies (Prior Year Finding #09-24)	Corrective action as stated in the Single Audit report is in process. Signature pad programming is expected to be completed by December 31, 2011. Signatures will be digitally placed on the Participant Data Form.
10-24	Noncompliance and Internal Control Weaknesses Related to Rebates Resulting in Questioned Costs of \$310,230	Corrective action was completed during October 2011.
10-25	Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments (Prior Year Finding #09-25)	Corrective action was taken during September 2011.
10-26	Various Weaknesses and Noncompliance Noted in a Separate Bureau of Audits Performance Audit of the WIC Program Including Questioned Costs of \$15,000	DOH is keeping a monthly log to track local agency compliance with supplying certain documentation.
10-74	Unsupported Payroll Charges Results in \$2,513,164 in Questioned Costs	Corrective action as stated in the Single Audit report is in process. An employee certification form was created, and the form was presented and instituted during an annual immunization conference on July 1, 2011.
10-99	Inadequate Program Monitoring of Department of Health SAPT Subrecipients (Prior Year Finding #09-70)	Corrective action as stated in the Single Audit report is in process. New schedules have been implemented for completion of desk reviews and on-site reviews. Current monitoring protocols were discussed with HHS/SAMHSA Financial Advisory Services Officer during a technical review on September 27, 2011.
10-100	Noncompliance and Internal Control Weaknesses Result in \$16,520 in Questioned Personnel Costs (Prior Year Finding #09-71)	Corrective action as stated in the Single Audit report is in process. Effective November 1, 2011, DOH is implementing strengthened internal controls to ensure that salaries and fringe benefits charged to the MCH block grant are for employees performing MCH-related work.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>		
10-40	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #09-35)	Corrective action as stated in the Single Audit report is in process. In addition, OIT is pulling a list of higher level roles twice per year for internal review; the role is removed from staff that no longer need that level of permission. Also, a process was developed outside of CWDS for approval of fee schedule increases.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I) (Continued)</b>		
10-41	Control Weaknesses Exist in Eligibility Determinations for Individuals	Corrective action as stated in the Single Audit report is in process. In addition, the Bureau of Workforce Development is in the process of revising its policy to include additional procedures for reviewing participant eligibility. In the interim, a survey of local WIAs is being conducted to ensure that all of them are employing a secondary review/approval of WIA eligibility.
10-43	Control Weaknesses at L&I and Noncompliance Regarding Subrecipient Expenditures Resulting in Questioned Costs of at Least \$80,924	Corrective action as stated in the Single Audit report is in process but, as stated in the report, there is disagreement with the auditors over parts of the finding. However, additional questions have been added to the monitoring tool to collect more data and financial information, in order to enable the program area to be more proactive in resolving issues at the local level. In regard to monitoring, the Bureau is in consultation with their Regional Representative on the current procedures.
10-44	Inaccurate Reporting on the ETA-9149 "Youth Served with WIA Recovery Act Resources Monthly Report"	Corrective action was taken in July 2011. As stated in the Single Audit report, the ETA-9149 report is cumulative, so when errors are corrected there is no need to correct previous reports. In regard to monitoring, eligibility review/verification were added to the monitoring tool.
10-62	A Material Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #09-46)	Corrective action as stated in the Single Audit report is in process, and OIT is now doing monthly purges of vendors who have not had invoice/claim activity in over 2 years. A report is being developed that will show vendors that OVR has dealt with for more than \$25,000 annually to check debarment status.
10-63	A Material Weakness Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #09-45)	Corrective action was taken, and the cases referenced in the finding are closed.
10-64	Noncompliance Exists Due to the Lack of Federal Review and Approval of the Hiram G. Andrews Center Cost Allocation Plan	As noted in the Single Audit report, L&I disagrees with this finding and feels that no corrective action is necessary.
10-65	A Material Weakness Exists in L&I's Procedures for Performing Eligibility Determinations (Prior Year Finding #09-47)	Corrective action as stated in the Single Audit report is in process. A report listing cases that are delinquent and require immediate attention by staff will be sent out every 6 to 8 weeks.



# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I) (Continued)</b>		
10-66	A Material Weakness Exists Over the Preparation and Submission of the Annual RSA-2 Report	Corrective action as stated in the Single Audit report is in process. In addition, inconsistencies in the RSA-2 report instructions have been corrected, and the binder, instructions, cells, index, and references have all been updated.
<b>DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)</b>		
10-31	Deficiencies in Internal Control Over Compliance With Allowability and Matching Requirements (Prior Year Finding #09-27)	Corrective action was taken.
10-32	Internal Control Deficiencies in Federal Reporting and Cash Management (Prior Year Finding #09-27)	Corrective action as stated in the Single Audit report is in process. A request was made to the United States Property and Fiscal Office (USPFO) to change the contract documents to quarterly billings, but USPFO refused the request. Staffing shortages continue to make it difficult to complete the billings on a monthly basis.
10-34	Equipment Management Internal Control Deficiencies and Noncompliance	Corrective action was implemented in October 2011.
<b>DEPARTMENT OF TRANSPORTATION (PENNDOT)</b>		
10-46	Internal Control Deficiencies Related to Buy American ARRA Provisions	Corrective action as stated in the Single Audit report is in process. Clearance Transmittal has been circulated with publication changes, with publication revision via SOL to follow. Estimated completion is December 5, 2011.
10-47	Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects	Corrective action as stated in the Single Audit report is in process. In addition, Publication 39 was revised, effective October 3, 2011, to require the use of the project oversight checklist. A Strike off letter, dated October 11, 2011, is to be issued to revise the POM policy and require the use of the checklist.
10-48	Internal Control Deficiencies in PADOT's Monitoring of Locally Sponsored ARRA Projects	As noted in the Single Audit report, PennDOT disagrees with this finding and feels that no corrective action is necessary because adequate controls are in place.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>PENNSYLVANIA INSURANCE DEPARTMENT (PID)</b>		
10-95	Lack of Documentation to Support Subrecipient Contracting and Procurement	As noted in the Single Audit report, the Pennsylvania Insurance Department disagrees with this finding and feels that no corrective action is necessary. The agency is following established Commonwealth policy.
<b>PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)</b>		
10-49	PENNVEST Did Not Specify Required Federal Award Information in Subrecipient Award and Disbursement Documents Resulting in Noncompliance With OMB Circular A-133	Corrective action as stated in the Single Audit report is in process. Staff is making efforts to contact borrower on ARRA disbursements, and a request was made of Information Technology to post notice in the electronic funding page of the PENNVEST system. All ARRA funds are almost disbursed.
10-50	Material Weaknesses Cause Errors in the CWSRF Annual Report Submitted to EPA (Prior Year Finding #09-37)	Corrective action as stated in the Single Audit report is in process. The 2011 report has been submitted; cross-checks were completed to ensure the correctness of the report.
10-52	Control Deficiencies Exist in PENNVEST's Subrecipient Audit Resolution Process	Corrective action as stated in the Single Audit report is in process. No project is finalized until the associated corrective action plan is reviewed and closed out.
10-53	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding #09-38)	Corrective action as stated in the Single Audit report is in process. The review of the Change Management policy is underway. The deployment of the SQL server software has not yet begun.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
10-17	Internal Control Deficiencies Exist at DPW Over Procurements for Various Federal Programs	As noted in the Single Audit report, DPW disagrees with this finding. DPW is following established procedures related to procurement, and the awarded contract is reviewed by both DGS and the Governor's Office of Administration to ensure these procedures were followed. Therefore, no corrective action plan is required.
10-18	Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #09-21)	DPW initiated procedures and is in the process of assigning additional staff to assist in the process.
10-19	Weaknesses in DPW IT Systems Used for TANF, CSE, Foster Care and Adoption Assistance, DPW Monitoring of CSE County Subrecipient IT User Controls, and Internal Control Deficiencies and Material Noncompliance Related to SNAP IT Systems	The DPW is working on migrating the CIS mainframe over to use CWOPA and managed domain accounts to comply with password policies. User applications are being reviewed to ensure that staff access to DPW systems is appropriate.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)</b>		
10-20	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #09-22)	As noted in the corrective action section of the Single Audit report, DPW disagrees with this finding, and feels that adequate internal controls are in place at the DPW County Assistance Offices. Accordingly, no corrective action is needed. DPW continually acts to strengthen policies and procedures to increase controls and eliminate waste, including additional training on the SPAL verification form and review of the policy for recovering overpayments. Master Guidelines that govern contractor issuances of supportive services are also frequently refined and simplified.
10-30	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Results in Questioned Costs of at Least \$27,429 (Prior Year Finding #09-26)	OIM is taking actions to strengthen policies and procedures to increase controls and eliminate waste. Actions include: Additional training to clarify the need and requirement of the SPAL verification form, changes to the Operations Memorandum-Employment & Training, and review of the policy for recovering over-payments. DPW has also implemented several policy and procedural changes to strengthen the administration and improve the integrity of special allowance payments.
10-76	Weaknesses Exist in DPW's Contracting and Program Monitoring of Child Care Subgrantees (Prior Year Finding #09-52)	As noted in the Single Audit report, DPW disagrees with this finding. The Office of Child Development and Early Learning feels that the monitoring policies and procedures in place adequately monitor each type of funding utilized, including TANF.
10-77	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award and Disbursement Documents, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding #09-50)	In conjunction with the clarifications provided in the response in the Single Audit report, DPW feels that it has provided subrecipients with the required information noted within OMB Circular A-133, so no corrective action is necessary. In addition, as noted in the report Comptroller Operations disagrees with the Central Contractor Registry portion of the finding.
10-78	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #09-59)	As noted in the Single Audit report, DPW disagrees with this finding. DPW is in compliance with the reporting requirements and, accordingly, no corrective action is necessary.
10-79	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (Prior Year Finding #09-53)	Corrective action as stated in the Single Audit report is in process. The Quality Assurance Division is finalizing the review procedure and protocol for Adoption Assistance and TANF, which will be incorporated with the placement maintenance review.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)</b>		
10-80	HHS-Required ADP Risk Analysis and System Security Review Was Not Performed for Various DPW and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding #09-76)	Corrective action as stated in the Single Audit report is in process. The Automatic Data Processing risk assessment has begun and is planned to be completed June 30, 2012.
10-81	Material Internal Control Deficiencies Over \$24.7 Million in Federal ARRA CSE Incentive Payments Result in Noncompliance With Matching and Supplanting Requirements and Questioned Costs of \$6,861,313	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding and feels that no corrective action is necessary.
10-82	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #09-56)	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding and feels that no corrective action is necessary.
10-83	Noncompliance With Contract Terms and Unallowable Contract Expenditures Result in \$478,157 In Questioned Costs	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding and feels that no corrective action is necessary.
10-84	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$64,781 in LIHEAP (Prior Year Finding #09-57)	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding and feels that no corrective action is necessary.
10-85	DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (Prior Year Finding #09-54)	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding and feels that no corrective action is necessary.
10-89	Internal Control Weaknesses Exist Over DPW's Subrecipient Expenditures Claimed For Federal Earmarking Requirements	The OCDEL is reviewing expenditures on the Regional Key grants prior to fiscal year end and adjusts funds as necessary to ensure all eligible expenditures are properly funded as noted with the SAP system.
10-90	Internal Control Weaknesses Exist Over DPW's Charging of Costs Not Approved in The CCDF State Plan Resulting in Noncompliance and Questioned Costs of \$282,546 (Prior Year Finding #09-62)	Corrective action was taken.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)</b>		
10-91	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #09-64)	The SSBG Administrator is filling in for the vacant SSBG Monitor position to help complete the pending monitoring reports.
10-92	Inadequate Controls Over Charging of YDS Personnel Costs	Corrective action was taken in July 2011.
10-93	DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families (Prior Year Finding #09-65)	As noted in the Single Audit report, DPW disagrees with this finding. The Office of Child Development and Early Learning acted within the terms of the ACF award letter, and no corrective action is necessary.
10-94	DPW Failed to Adequately Support a Transfer of LIHEAP Funds Charged to TANF ARRA Resulting in \$20,907,200 in Questioned Costs (Prior Year Finding #09-58)	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding and feels that no corrective action is necessary.
10-96	DPW Failed to Obtain an Outside Service Auditor's Report for a Third Party Drug Rebate Processor (Prior Year Finding #09-67)	The Automatic Data Processing risk assessment has begun and is planned to be completed June 30, 2012.
10-98	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$37,185 (Prior Year Finding #09-69)	Corrective action as stated in the Single Audit report is in process. SBPB staff developed an internal eligibility procedure manual. Enrollment applications are now processed by Magellan Health Services.
10-101	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #09-72)	The ARS is developing documented policies and procedures to address the SEFA reconciliation process.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2009:**

#### **OFFICE OF THE BUDGET (OB)**

09-27	Noncompliance and Deficiencies in Internal Control Over Charging of Project Costs Results in Questioned Costs of \$14,004	Corrective action was taken.
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# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>OFFICE OF THE BUDGET (OB) (Continued)</b>		
09-51	Internal Control Weaknesses Over Reviewing, Approving and Reporting Regular, ARRA, and Supplemental Payments to Subrecipients (Prior Year Finding #08-57)	Corrective action was taken.
09-58	DPW Failed to Adequately Support and Account For a Transfer of LIHEAP Funds Charged to TANF and Failed to Qualify for a \$28,507,184 TANF Emergency Fund Grant Award Under ARRA, Resulting in SEFA and ACF-196 Quarterly Reporting Errors and \$26,134,000 in Questioned Costs	Corrective action was taken.
09-62	DPW's Expenditures For Costs Not Approved in The CCDF State Plan Result in Noncompliance and Known Questioned Costs of at Least \$2,624,449 (Prior Year Finding #08-56)	Corrective action was taken.
09-73	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #08-68)	Corrective action was taken by PennDOT and PID. Corrective action as stated in the Single Audit report is in process by PDE, DPW, DOH, L&I and Pennvest. Pennvest is currently in the process of hiring additional staff to assist the Loan Officer.
09-74	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #08-69)	Corrective action was taken by PennDOT and PID. Corrective action as stated in the Single Audit report is in process by PDE, DPW, DOH, L&I and Pennvest. Pennvest is currently in the process of hiring additional staff to assist the Loan Officer.
09-75	Unallowable Payments for Unused Employee Leave Result in \$1,854,993 in Questioned Costs (Prior Year Finding #08-70)	Corrective action was taken.
09-77	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$3.4 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #08-73)	Corrective action was taken for those portions of the finding with which there is agreement. As noted in the report, there are portions of the finding which OCO disagrees with and feels that no corrective action is necessary.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF AGING (PDA)</b>		
09-49	PDA Monitoring of AAA Subrecipients Needs Improvement	AoA funded programs are now being fiscally monitored by the Department's QMMA/Division of Compliance.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
09-29	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #08-29)	Corrective action as stated in the Single Audit report is in process. Additional staff were added to the complement in September of 2011, with the intent of alleviating the monitoring backlog in calendar 2012.
09-30	Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report	Corrective action was taken.
09-39	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #08-51)	<p>Corrective action as stated in the Single Audit report is in process. For the 2011-12 program year, DCED is now reviewing and adjusting the monitoring guidelines and checklists to assure that agencies are adhering to the issued Directives. DCED is also monitoring the agencies' current corrective action plans and then applying new program year reviews to address the issues.</p> <p>DCED continues the monthly invoicing and FSR and is now completing the financial closeouts with agencies for the 2010-11 LIHEAP and regular DOE program year. The closeout includes reconciliation of funds per an FSR with the data reported in the Hancock Energy Software system.</p> <p>DCED continues to implement the Performance-Based Funding Standards which include agency operations and their adherence to completion of corrective action plans.</p>
<b>DEPARTMENT OF EDUCATION (PDE)</b>		
09-23	Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS)	The conversion of the Division of Food and Nutrition to a .NET platform is proceeding.
09-40	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #08-37)	In conjunction with the clarifications provided in the response in the Single Audit report, PDE disagrees with this finding and feels that no corrective action is necessary.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF EDUCATION (PDE) (Continued)</b>		
09-42	Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #08-35)	PDE believes they are already performing their functions in accordance with applicable regulations and guidance to the satisfaction of the awarding agency.
09-43	Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients	Corrective action was taken.
09-44	Inadequate Controls at PDE Over Exceeding Maximum Earmarking Requirements in the CTE Program	Corrective action was taken.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>		
09-35	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #08-72)	OIT is pulling a list of higher level roles twice per year for internal review; the role is removed from staff that no longer need that level of permission. Also, a process was developed outside of CWDS for approval of fee schedule increases.
09-46	A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #08-41)	OIT is now doing monthly purges of vendors who have not had invoice/claim activity in over 2 years. A report is being developed that will show vendors that OVR has dealt with for more than \$25,000 annually to check debarment status.
09-47	A Control Deficiency Exists in L&I's Procedures for Performing Eligibility Determinations	Corrective action was taken.
09-48	Control Deficiencies Exist in L&I's Procedures for Awarding ARRA Funding and Subgrants Resulting in Questioned Costs of \$405,675	Corrective action was taken.
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>		
09-33	Unallowable Equipment Purchases and Unallowable Cash Payments Result in Questioned Costs of \$37,150 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #08-31)	Corrective action was taken.



# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
09-21	Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #08-22)	DPW initiated procedures and is in the process of assigning additional staff to assist in the process.
09-22	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #08-23)	Corrective action was taken.
09-26	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #08-26)	OIM is taking actions to strengthen policies and procedures to increase controls and eliminate waste. Actions include: Additional training to clarify the need and requirement of the SPAL verification form, changes to the Operations Memorandum-Employment & Training, and review of the policy for recovering over-payments. DPW has also implemented several policy and procedural changes to strengthen the administration and improve the integrity of special allowance payments.
09-50	DPW Did Not Always Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding #08-45)	DPW feels that it has provided subrecipients with the required information noted within OMB Circular A-133, so no corrective action is necessary. In addition, as noted in the report Comptroller Operations disagrees with the Central Contractor Registry portion of the finding.
09-52	Weaknesses Exist in DPW's Contracting and Program Monitoring of Child Care Subgrantees (Prior Year Finding #08-48)	Corrective action was taken.
09-54	DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (Prior Year Finding #08-53)	Corrective action was taken.
09-55	DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients (Prior Year Finding #08-46)	Corrective action was taken.
09-56	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #08-52)	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding.
09-57	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$1,704 in LIHEAP (Prior Year Finding #08-54)	In conjunction with the clarifications provided in the response in the Single Audit report and as noted in the corrective action section of the report, DPW disagrees with this finding.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings - June 30, 2011

Finding	State Agency/Finding	Comments
<b>DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)</b>		
09-59	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #08-47)	As noted in the Single Audit report, DPW disagrees with this finding. DPW is in compliance with the reporting requirements and, accordingly, no corrective action is necessary.
09-64	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #08-61)	The SSBG Administrator is filling in for the vacant SSBG Monitor position to help complete the pending monitoring reports.
09-67	DPW Failed to Obtain an Outside Service Auditor's Report for a Third Party Drug Rebate Processor	The Automatic Data Processing risk assessment has begun and is planned to be completed June 30, 2012.
09-69	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Result in Likely Questioned Costs Over \$10,000 Up To \$27,388,425 (Prior Year Finding #08-63)	SBPB staff developed an internal eligibility procedure manual. Enrollment applications are now processed by Magellan Health Services.
09-72	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #08-67)	The ARS is developing documented policies and procedures to address the SEFA reconciliation process.
09-76	Deficiencies in Information Technology Controls at DPW (Prior Year Finding #08-71)	The Automatic Data Processing risk assessment has begun and is planned to be completed June 30, 2012.

### **FINDING FOR THE YEAR ENDED JUNE 30, 2008:**

#### **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)**

08-55	Noncompliance Over Subgrantee Payments at DCED (Prior Year Finding #07-54)	Corrective action was taken.
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# Corrective Action Plans



Commonwealth of Pennsylvania

**COMMONWEALTH OF PENNSYLVANIA**

**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-01	DGS/ OB-BFM	Beverly Hudson, Special Assistant to the Secretary, DGS  Michael Burns, Director of Financial Management, OB-BFM	<p><b>Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Finding #10-14)</b></p> <p>While disagreeing with the finding as detailed in the auditee response to the finding, OB and DGS have continued working with the auditors to identify compromise resolutions to their audit issue identified in this finding. In February 2012, the Commonwealth and its auditors agreed on a resolution that enables the auditors to satisfactorily complete their procurement testing related to evaluation committee members by completing the following steps at the offices of the Department of General Services (DGS):</p> <ol style="list-style-type: none"> <li>1 ) For selected procurements, the auditor and/or audit manager will review an un-redacted summary score sheet and corresponding Statements of No Conflict of Interest (SNCI) and Confidentiality Agreements (CA) for each evaluation member in the presence of the procurement professional and program management.</li> <li>2) Scribe notes onto auditor work papers only to indicate confirmation that all evaluation committee members had properly executed SNCIs and CAs; not to cite specific names of evaluation committee members.</li> <li>3) Following audit staff review, leave all records with DGS procurement professional and program management.</li> <li>4) Audit staff shall leave the DGS premises with only redacted copies of summary score sheets.</li> <li>5) If the auditor or audit manager determines a need for additional information, such as an interview of an evaluator, follow established protocol to present a compelling reason and request an interview through DGS.</li> </ol> <p>This resolution was implemented near the completion of the audit fieldwork for the June 30, 2011 Single Audit. Applying the ascribed resolution in the next complete audit cycle should eliminate this audit finding.</p>	March 31, 2012
11-02	DOR	Donald Bianchi, Assistant to the Director, BIT  Anita Bullock,	<p><b>Internal Control Weaknesses in Processing Property Tax/Rent Rebate Claims</b></p> <p>All of the subject matters identified in the recently completed GAAP audit have been addressed with the staff responsible for the item. In addition, the subject matter of these items will be addressed in our future training sessions conducted for new tax examiners (TEs) and will also be included in our yearly Property Tax/Rent Rebate (PTRR) update training for all TEs.</p>	March 30, 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-02 (cont'd)		Chief, PTRR Division  Aaron Zehring, Trainer, PTRR	In 2012, the Bureau of Individual Taxes is also going to hire six additional temporary TEs to assist with the review of rebate claims; this will enable us to assign the more complex claims to our most experienced full-time TEs. A new suspension condition has also been implemented to randomly select for review repeat filer claims that have not suspended for review in prior years; this will ensure that a percentage of repeater claims are reviewed every few years. Additionally, three new input fields have been added to the 2011 PA-1000 rebate claim form to help reduce claim preparation math errors which cause claims to suspend for review. All of the above actions are being undertaken to improve the processing of rebate claims.	
11-03	PennDOT/ OB-BFM	Kathryn Barone, Section Chief, BOS Finance and Travel Operations Division  Lauren Dungan, Assistant Director, Bureau of Financial Management	<b>Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the Basic Financial Statements (A Similar Condition Was Noted in Prior Year Finding #10-04)</b>  PennDOT will continue to work with OB-BFM to develop a system to monitor, assess and report the impact of highway and bridge replacement activity. <ol style="list-style-type: none"> <li>1. March 2012 – Define what projects extend useful life and serviceability of infrastructure assets in accordance with GASB 34.</li> <li>2. March 2012 – Develop a methodology to quantify the cost of the portion of the asset replaced. If it is not practicable to quantify the dollar value of the portion of the asset replaced develop an estimation method for this step.</li> <li>3. April 2012 – Identify current year projects that meet the definition from Step 1.</li> <li>4. May and June 2012 – Apply the methodology developed in Step 2 to the current year projects identified in Step 3. <ol style="list-style-type: none"> <li>a. Projects through the 3<sup>rd</sup> quarter</li> <li>b. Projects through the 4<sup>th</sup> quarter</li> </ol> </li> </ol> <p>July 2012 – Implement ongoing reviews utilizing the methodology outlined in Step 2 for future fiscal years.</p>	<b>June 30, 2012</b>
11-04	L&I	Kenneth Wright, Assistant	<b>Internal Control Weaknesses Resulting in Overpayments of Unemployment Compensation Benefits</b>  1. PA’s State UI Integrity Task Force will continue to implement corrective actions already included as part of Task Force’s State Strategic Plan, as well as: identify new tangible and measurable procedures aimed at reducing the effect of the root causes of improper payments, improve the	<b>Ongoing</b>

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**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-04 (cont'd)		Director, Office of UC Benefits Policy	<p>detection and prevention of employer and claimant fraud, and further reduce, establish and collect benefit overpayments. This includes coordinating with USDOL and other states to implement established best practices.</p> <ol style="list-style-type: none"> <li>2. Prioritize employer separation information receipt to prevent erroneous payments due to incorrect separation reporting by claimants.</li> <li>3. Continue operating the Dedicated Overpayment Teams (DOTS) to aid in detecting and addressing UI overpayments.</li> <li>4. Monitor the BAM BYE overpayment rate, and work towards meeting the UI Integrity core measure by reducing the percentage of UI benefits overpaid due to BYE from the baseline level by 30% at the end of the 1<sup>st</sup> year of implementation, and by 50 percent by the end of the 2<sup>nd</sup> year of implementation.</li> </ol>	
11-05	<b>OB-BFM</b>	Lauren Dungan, Assistant Director	<p><b>Internal Control Deficiencies Over Financial Reporting in the Preparation of the Basic Financial Statements</b></p> <p>For each of the four conditions identified in the finding, BFM and BCA will, where appropriate, incorporate changes into the preparation and review procedures for the June 30, 2012 CAFR.</p> <ul style="list-style-type: none"> <li>• For the first and second condition, BFM will review the fund balance of each Governmental Fund for proper presentation of fund balance categories – non-spendable, restricted, committed, assigned and unassigned. In addition, BFM will provide training to GAAP template preparers on proper analysis of fund balance categories.</li> <li>• For the third condition, BFM has established a specific non-operating interest expense G/L that will allow for reporting of interest expense incurred in a Proprietary Fund that meets the definition of a non-operating expense.</li> <li>• For the fourth condition, BFM believes it is appropriate for the Commonwealth to report the convention center expansion land as a fixed asset based on the Commonwealth having titled (deeded) ownership of the land.</li> </ul>	<b>October 30, 2012</b>

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-06	Treasury	Cynthia Cranmer, Comptroller	<p><b>General Computer Controls in the PA Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding #10-13)</b></p> <ol style="list-style-type: none"> <li>1. Treasury is aware of the finding related to expiration of mainframe passwords. This functionality was not intrinsic to our mainframe environment. Treasury transitioned to a server platform in September 2011 requiring password changes.</li> <li>2. The Bureau of Human Resources (HR) will notify the IT Director via e-mail when a Treasury department employee is transferred or terminated. Effective December 2010.</li> <li>3. Treasury's Bureau of Information Technology agrees detection controls to monitor user privileges are not employed. IT will periodically review user privileges and document these reviews.</li> <li>4. The Bureau of Human Resources (HR) notifies the BUCD Director via a Personnel Transaction Form, which must be signed by the director when a Treasury department employee is transferred or terminated. A subsequent email usually follows. Effective December 2010.</li> <li>5. A shared manager account exists, but is not the primary access point for the administrators. The vendor established this account for vendor upgrades and maintenance. Account is not used by Treasury employees effective April 2011.</li> <li>6. BUCD developed a change control schedule. Effective April 2011.</li> <li>7. OnBase is an enterprise content management system with strong inherent internal controls. Treasury BUCD relies on the system generated documentation for successful testing changes. Effective April 2011.</li> <li>8. Windows patches and updates have been applied. Updates will occur consistent with the change control schedule. Effective January 2011.</li> <li>9. 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 includes 145 Capitol Police and fire officials as required by Labor and Industry. These individuals have been established as a separate access group. This group will be reviewed and confirmed by the Department of General Services periodically. Effective December 2010.</li> </ol>	Completed

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**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-06 (cont'd)			<p>10. Compensating password controls serve to protect the users in the OnBase application. Before accessing OnBase, a user must log on to the unique BUCD domain using both user name and an eight character alpha numeric password. The domain name must match the pre-established user account. This domain password is changed at sixty day intervals.</p> <p>11. Although there are no standardized policies regarding end user computing, Treasury has a formal Information Technology Use and Security Policy included in our Policy and Procedure Manual issued December 2010. This includes policies concerning the general use and ownership of equipment, as well as the security and propriety of information. The auditors noted that based on interviews, Treasury management asserts that access to significant spreadsheets is limited to authorized users. To that end, Treasury implemented a strong password in August 2011 policy to enhance security of user information.</p>	
11-07	OA	<p>Colby Smith, IES Director</p> <p>Kinzer Shearer, IES Assistant Director for Program Operations &amp; Support</p>	<p><b>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 Findings #10-12 and #10-16)</b></p> <p>1. By end of May 2012, the GRC Access Controls firefighter role and procedures will be fully implemented for use by all IES staff. Existing SAP support roles will be removed from IES staff user IDs. An IES SOP (Standard Operating Procedure) will be published directing IES managers to routinely monitor GRC logs to validate the proper use of the firefighter IDs.</p> <p>2. OB comptroller Operations is leading a SAP Security Roles Project that includes the updating of Management Directive 205.37 to be completed by June 2012.</p> <p>3. IES has completed a review of individuals with access to SAP and the Oracle databases and determined that all access is appropriate.</p> <p>4. SAP GRC firefighter roles will be fully implemented for all SAP production systems support access by May 2012.</p> <p>b. Corrective action completed.</p> <p>c. Corrective action completed.</p>	<p><b>May 2012</b></p> <p><b>June 2012</b></p> <p><b>Completed</b></p> <p><b>May 2012</b></p>



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**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-07 (cont'd)			d. Corrective action completed. e. Corrective action completed.	
	<b>OB-BPS</b>	Deb Chernicoff, Director, Bureau of Payable Services	4.a. We are in the process of removing the role for the call center employees.  4.b. Access was removed.  4.d. Access was removed.  4.f. For invoices outside of Finance Transformation workflow, an approved invoice must be attached to the transaction in SAP in order for the invoice to be paid by Treasury.  4.g. The Bureau of Quality Assurance is coordinating the GRC project to review all SAP roles.  4.h. The Supervisor of the unit monitors the printing of the checks as well as the check stock to ensure there is a separation of duties.	<b>March 31, 2012</b>  <b>Completed</b>  <b>Completed</b>  N/A  <b>August 31, 2012</b>  <b>June 30, 2012</b>
	<b>OB-BQA/BFM</b>	Joshua Naylor, Assistant Director	The Bureau of Quality Assurance is coordinating a multi-agency project to implement the Governance Risk and Compliance module of SAP to address segregation of duty conflicts. This implementation involves tasks such as: creating a custom rule set that accurately identifies the Commonwealth's Segregation of Duties issues; remediating any risks identified within single SAP roles by removing or modifying conflicting transactions; remediating any risks identified within composite SAP roles by modifying or removing single roles contained within that composite; and remediating any risks identified with individual users by recommending the removal of conflicting roles or documenting compensating controls that effectively mitigate the risk. The tentative timeline indicates a June 1, 2012 completion date for the role remediation phase and a December 31, 2012 target date for user remediation.	<b>December 31, 2012</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08	OA	Colby Smith, IES Director	<p><b>General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #10-11)</b></p> <p>1. By May 25, 2012, IES will complete all necessary changes to update the diagram of SAP interfaces to include a data element that relates the inputs to the source system. This data element will be populated through each interface.</p>	<b>May 25, 2012</b>
		Sharon Minnich, Assistant Chief Information Officer for the Commonwealth		2. OA is starting research into the language of the new policy. We will likely use the ITB as the vehicle for this. The new ITB will need to go through the new IT governance process.
		John Clark, Special Assistant to the Secretary of Administration	<p>3. The following findings have been or will be corrected by March 31, 2012:</p> <ul style="list-style-type: none"> <li>• Passwords for AIX servers do not follow guidelines outlined in Information Technology Bulletin (ITB), ITB-SEC007 and RFD-SEC007A.</li> <li>• There are no procedures in place for monitoring the access of AIX hosts utilizing root ids/passwords.</li> <li>• Policies and procedures are not in place to monitor and follow up on failed logon attempts for AIX. Reviews of failed logon attempts are performed on an ad-hoc basis.</li> </ul>	<b>March 31, 2012</b>
		Kinzer Shearer, IES Assistant Director for Program Operations and Support	4. Unisys has committed to preparation of a SAS 70 report for the Data Powerhouse for the period July 1, 2011 through June 30, 2012. Further Unisys will take action to correct the control findings noted in the Audit Finding.	<b>Not Determined</b>
	OB-BCPO	David Kessler, Director	<p>While no controls exist in SAP, BCPO, along with BQA and IES have developed mitigating controls to greatly reduce risks. BCPO developed reports to monitor payroll payments generated by BCPO staff - transactions by random staff members are reviewed quarterly by our Pay Processing Assistant Director. In addition, BQA monitors for transactions by BCPO staff if they were to affect their own payroll records. Any complement-related transactions are reviewed by BCPO and agencies. In addition, BCPO reviews FI and travel-related transactions generated by BCPO staff quarterly. We also plan to request that IES develop a report to monitor travel expense reports that are changed by BCPO staff before</p>	<b>June 30, 2012</b>

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**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)			processing.	
	<b>DOR-Lottery</b>	Kevin Sarnowski, Sr. Application Developer  Rebecca Roush, ITGA2	<p>1. We have reviewed the number of Administrators in the Back Office System and have reduced the number of administrators to 5 users who need to have this access. On March 2011, the additional excessive number of admins was reduced from 17 to 6 but according to the auditors this was not sufficient since it was late during the GAAP audit period. Rebecca Roush explained that we only received our findings late in the year so we couldn't address the problem before March.</p> <p>Kevin Sarnowski was removed from the WASADM role so he is no longer able to promote changes into production.</p> <p>According to the AG office this should be resolved during the next GAAP Audit.</p>	<b>December 2011</b>
		Kevin Sarnowski, Sr. Application Developer  Rebecca Roush, ITGA2	<p>2. The Lottery has implemented an internal change management process which requires signoffs and testing before changes are moved into production. A review of the process as well as the individuals that are required to make these changes to the production system has been conducted.</p> <p>05/24/2011 – System Identification Document was generated to obtain signoffs for new releases for MIS and will be used by Lottery moving forward.</p> <p>By 06/30/11 – Monitoring Scripts were installed on the Back Office AIX Servers to monitor user activity.</p> <p>12/20/11 – All servers have monitoring scripts installed on them. Work was completed by Ed Cramer and Brent Zeiders. Emails are sent when a user logs off of a server that details their activity during that session.</p>	<b>Completed</b>
		Jay Venkatadri, SGI	3. The number of administrators was reduced to 30 in August 2011 after receipt of the report.	<b>August 2011</b>
	Jay Venkatadri, SGI	4. The password change deficiency was corrected in August 2011 after receipt of the report.	<b>August 2011</b>	

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)	L&I	David Andrews, Director of App Development	1. A team from the L&I OIT Bureaus of Architecture and Application Development will be coordinating the formalization of this document.	December 31, 2012
		Ed Bowlen, Director Enterprise Architecture	2. A manual process is in place to detect such changes, however it is not automated. Due to the legacy systems being retired in the very near future, no automated system will be developed for this system.	N/A
		Steve Yurich, Security Division Chief	3. Due to staff shortages within the UC division with the ongoing development of the Modernization system, these are currently the only staff working with the legacy system. This weakness will also be remediated upon retirement of the legacy system.	N/A
		Steve Yurich, Security Division Chief	4. Reviews were completed as requested in the previous year's audit, but there appears to have been confusion revolving around what specific roles were expected to be reviewed. After discussions with the Auditor General, we will be implementing a review of the additional user administration roles alongside the business areas access roles in the coming year.	July 1, 2012
		ML Kowalski, Div Chief UC Application Development	5. This weakness is acknowledged, the UCMS project will be required to implement changes in their process to address this weakness.	June 30, 2013
		Joe Sheridan, Division Chief Data Base Administrators	6. The DBA's responsible for the Oracle DB's for UCMS are investigating alternatives to utilize individual ID's for their administrative access. It is expected that the changes will be put in place prior to the end of the next fiscal year.	June 30, 2013
		Steve Yurich, Security Division Chief	7. Physical security of the building falls outside of OIT's overall control. The building is owned and maintained by DGS, and any alarm system and appropriate responses for them will require coordination with that Department. We can investigate potential solutions, but will be unable to	Not Determined

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)	L&I-SWIF	David Andrews, OIT BBAD Bureau Director	remediate this weakness without their cooperation.	
		Mary Calomino, BBAD SWIF Applications Manager	1. The lack of segregation of duties currently exists due to the vacant Database Administrator position assigned to support the SWIF program area. In order to provide the appropriate database maintenance and production support, it was necessary for us to contract with the Vendor to allocate a portion of their resources to augment the L&I Bureau of Enterprise Architecture DBA staff. Due to intellectual property constraints with the PowerComp system, this work could not be done by any other vendor.	<b>March 2012</b>
		Mary Calomino, BBAD SWIF Applications Manager	The other segregation of duties issue existed due to the vacant Data Analyst 2 position created with the promotion of this resource to an Application Developer 1. This position was filled in early December 2011 and we are currently completing training for the new resource and have initiated requests terminating the access for the AD1. In response to these findings, OIT will look at how to restrict access while still being able to provide the necessary support, such that should there be continuation or recurrence of a vacant position, procedures will be in place to segregate duties to the extent possible and provide for documented tracking of the work being performed.	<b>Completed</b>
		Mary Calomino, BBAD SWIF Applications Manager	2. In November of 2011, a procedure change was implemented in that the <i>GolNo-go</i> verbal approvals for implementation of a PowerComp release are now documented in the meeting minutes.	<b>Completed</b>
		Mary Calomino, BBAD SWIF Applications Manager	3. In November of 2011, a procedure change was implemented in that the <i>GolNo-go</i> verbal approvals for implementation of a PowerComp release are now documented in the meeting minutes.	<b>June 2012</b>
David Andrews, OIT BBAD Director	4. L&I OIT implemented changes to the Enterprise Tivoli Alert system in November 2011, which will notify L&I OIT if unauthorized changes have been made to the production environment. We continue to work on customization of these alerts as to timing and description.	<b>December 31, 2012</b>		
Ed Bowlen, OIT BEA Director	5. A workgroup will be formed which will include the OIT Standards Committee so that the details of this item can be documented and a determination can be made as to how this should be appropriately addressed. The output of the workgroup will be documented procedures. OIT will work with the SWIF management as appropriate.	<b>December 31, 2012</b>		

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		Robert Shafer, BBAD Sr App Developer	6. In December of 2011, a manual process was developed for control of these HASPS. This includes a quarterly physical inventory of each item. We are currently working to enter these physical assets into our Remedy system which is used for physical hardware asset tracking. This will relate a hardware asset with a specific user. In February of 2012 a license upgrade was applied to the Kofax scanning software which eliminated the need for the HASP hardware. SWIF is also planning to upgrade their current version of Onbase to V11, which will eliminate the need for the HASP hardware for this application.	September 2012
		Mary Calomino, BBAD App Manager		
		Kathy Zale, Accounting Manager	7. SWIF is planning on having the latest upgrade of the Freedom software installed sometime after they complete the 2011 Annual Statement (first quarter of 2012). This version of the software contains password security functionality that can be customized by the Administrator. As part of the upgrade process, SWIF will be assigning an Administrator and backup Administrator for this application.	March 2012
		Mary Calomino, BBAD App Manager	8. In order to gain access to the PowerComp system, a user has to use their CWOPA account to log into a particular machine. This is the primary mode of authentication. As noted in #7, SWIF is planning on upgrading to the most current version of the Freedom Financial software during the first quarter of 2012. This version of the software contains password security functionality which includes password complexity, length, expiration, and user lockout. These can all be configured by the Administrator. SWIF has already changed the configuration for the Iworks application to enable user lockout after 3 failed login attempts. There is also a minimum length configured in the application for the password.	March 2012
		Kathy Zale, Accounting Manager	9. The primary mode of authentication is the user logon to the hardware; their machine. The secondary mode of authentication for PowerComp is the PowerComp login. If a user is unable to authenticate to their machine using the primary mode of authentication, then they will not be able to access PowerComp. As noted in #7 above, SWIF is planning on upgrading to the most current version of the Freedom Financial software during the first quarter of 2012. As part of the upgrade process, SWIF will be assigning unique user IDs and passwords to staff who require access to this application. In January of 2012, SWIF implemented a procedure to address periodic access reviews for the Onbase application.	March 2012
		Mary Calomino, BBAD App Manager		
		Jack Roberts,	10. SWIF will work on a procedure for periodic access reviews for the Freedom Financial application as	March 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
<p><b>11-08 (cont'd)</b></p>		<p>RMU</p> <p>Martin Thomas, Ops Sys Programming Supervisor</p> <p>Mary Calomino, BBAD App Manager</p>	<p>part of the planned upgrade noted in #7 above. SWIF is currently working on drafting a procedure to address periodic access reviews for the Onbase application and anticipates this will be in place by end of the 1st quarter of 2012.</p> <p>11. Password formats have been changed (December 2011) to follow the CWOPA rules; unique IDs and passwords have been instituted for all users; the 8 users that have administrative access are Operations staff who work different shifts and different days. This was set up this way to ensure that there is always a staff person onsite who can make updates and changes to the security database.</p> <p>12. The system development life cycle for PowerComp is determined by Stone River, the software intellectual property owner. Stone River provides system development and support services and their staff follow Stone River's processes.</p>	<p><b>Completed</b></p> <p><b>Not Determined</b></p>
	<p><b>PennDOT</b></p>	<p>Debbie Reihart, Chief, Systems Management PennDOT, Bureau of Project Delivery</p> <p>Doreen Wallen, Senior App Dev dotGrants IT Application</p>	<p>1. An ECMS Inactivity Report is run every 60 days which includes any users that have not accessed ECMS in the past 60 days. ECMS Help Desk staff will investigate inactive users and remove ECMS access as appropriate.</p> <p>The Engineering Computing Management Division (ECMD) is responsible for granting ECMS user access. ECMD has disseminated a policy to staff that no roles (including termination) will occur without a properly completed user request form. The User Access Request form has also been updated to include the following reminders for prospective users:</p> <ul style="list-style-type: none"> <li>• I understand that ECMS roles must be given to users judiciously and agree that the roles requested for this user are correct and required to complete job responsibilities.</li> <li>• Roles for employees in acting positions which include mutually exclusive roles are only valid for six months. A new form must be completed and business justification provided for extending the time period.</li> </ul> <p>Request for user roles must be accompanied by a copy of the completed Signature Authorization Card. (where appropriate)</p> <p>2. Tighter password security was implemented into the production environment of dotGrants on November 23, 2011. Passwords must be a minimum of 8 characters, a mix of upper and lower case letters, and at least one number or special character.</p>	<p><b>Ongoing</b></p> <p><b>Completed</b></p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		Manager  Jay Bodenstein Program Analyst 3, Office of Information Services  Doreen Wallen, Senior App Dev dotGrants IT Application Manager	3. A waiver addressing the reasons minimum password requirements are not implemented for MPMS, ECMS, DL&C, and CARATS applications is currently under review by the OA. OA/OIT decision is expected by the middle of March. If they approve our waiver, we do not need to make any changes to the systems. If they conditionally approve or disapprove the waiver, then a plan will need to be determined to move into compliance.  4. dotGrants IT Application Manager will check PA40 report weekly for new terminated PennDOT employees and will search dotGrants to see if any of those employees have dotGrants credentials. If a terminated employee has a dotGrants user ID and password, dotGrants IT Application Manager will send an email to the associated bureau dotGrants System Administrator reminding them to deactivate those user IDs within dotGrants. The last modified date/timestamp in dotGrants will serve as documentation of when the user's account was deactivated.	March 2012  April 2012
	<b>DPW</b>	Thomas Zarb, Information Technology Generalist Administrator 2 (BIS)  Andy Tiazkun, Financial Planner Manager  Andy Tiazkun, Financial Planner	1. DPW instated new policy May 17, 2011, the User and Access Certification policy has been implemented. User applications are being reviewed to ensure that staff has appropriate access to DPW systems.  2. DPW staff began to monitor job failures in December 2010 based on the procedures for follow-up resolution.  3. The DPW upgraded the OpCons application on 3/4/11. This upgrade also included the elimination of shared user IDS. Anyone that has access to use this application will have their own user account created.  4. The DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts with comply with the password policies.  5a. Recertification by appropriate management occurs at regular intervals to confirm user access remains commensurate with individual job responsibilities or, if required, requests a change / revocation.  5b. PwC confirmed the issue was remediated as of June 21, 2011, with the implementation of additional	May 2011  Completed  March 2011  Not Determined  Completed  June 2011



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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date	
11-08 (cont'd)		Manager	escalation procedures to support the transfer process to ensure TSS user access to the operating system was being amended or revoked, as appropriate after a transfer event.		
		5c.	PwC confirmed the improper access was disabled and also confirmed that as of July 1, 2011, GTI and TSS operating systems users follow a common transfer access review and removal process. PwC tested an additional sample of 25 GTI and TSS transferred users for the period July 1, 2011 through September 30, 2011, and no further exceptions were noted.	<b>July 2011</b>	
		6a.	HP has taken appropriate action and has resolved this control finding as of June, 2011. HP PROMISE™ has enabled stronger password complexity. The rules for PROMISE™ password complexity mirrors what our corporate HP password requirements are for HP employee credential passwords. Passwords now require a combination of alphabetic, numeric, and special characters to meet the account password complexity standards. These criteria include: <ul style="list-style-type: none"> <li>• Passwords contain minimum of 1 alphabetic character</li> <li>• Passwords contain minimum of 1 numeric character</li> <li>• Passwords contain minimum of 1 special character</li> <li>• Password not contain more than 2 repeating characters</li> </ul>	<b>June 2011</b>	
		Denise Luce, Section Chief, Bureau of Data and Claims Management	6b.	HP PROMISE™ has taken action to resolve this control finding as of May 2011. The System Administrator(s) review the SU Logs and take appropriate action is required.	<b>May 2011</b>
		Sandra Patterson, Bureau Director - BDCM	6c.	HP PROMISE™ has taken action to resolve this control finding as of the 2nd quarter of 2011. These reviews are now being done on a quarterly basis. HP has performed reviews consistently for the past two quarters. These are being reviewed by the Systems Manager.	<b>June 2011</b>
		Denise Luce, Section Chief, Bureau of Data and Claims Management	7a.	A change request was initiated to remove database administration access to local server administrators. Database administration access will now be granted on an individual case-by-case basis as determined by the Unisys Drug Rebate Program Manager in accordance with business requirements.	<b>February 2012</b>
		Sandra	7b.	Since December 2010, Unisys and Molina (our application support vendor) have used ClearCase software configuration management software to track changes to the PRIMs application.	<b>February 2012</b>
			Unisys performed testing on all application changes. Testing related to two (2) minor application changes was not documented correctly. Unisys has implemented a new procedure to ensure that all	<b>February 2012</b>	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		Patterson, Bureau Director - BDCM	<p>testing is documented properly and is approved by the Program Manager.</p> <p>7c. Since December 2010, Unisys and Molina have used ClearCase software configuration management software to track changes to the PRIMS application. Changes prior to that time were tracked outside of that tool.</p> <p>7d. A change request was initiated to remove database administration access to local server administrators. Database administration access will now be granted on an individual case-by-case basis as determined by the Unisys Drug Rebate Program Manager in accordance with business requirements.</p> <p>PRIMS support is provided by a small number of application developers that work for Molina (formerly a division of Unisys). Unisys will continue to work with Molina to develop a process that allows for sufficient segregation of duties.</p> <p>Unisys will continue to work with Molina and our in-house team to monitor production code libraries for unauthorized changes.</p> <p>In addition to the items called out in the table, the auditors provided their opinion regarding Unisys' claim import/reconciliation process. HP and Unisys have addressed this via a change to the Claims Extract File and Monthly Encounters Extract File that HP provides to Unisys each month. The new files will include a trailer record that indicates the type of file (i.e. FFS or MCO) and the record count of the transactions processed. This change is effective beginning with the February 2012 files (i.e. files containing data on paid claims and encounters processed in January 2012).</p>	<p><b>February 2012</b></p> <p><b>February 2012</b></p>
	<b>DOH</b>	<p>Mike Matter, DOH Security Officer</p> <p>William Miller, Director of Development Services</p>	<p>1. The identified individual's access will be restricted. The individual will not have write access to the production folders as part of the implementation of the DOH Enterprise Release Management process for Production Regions.</p> <p>Promotions to the Production region will follow the DOH Enterprise Release Management process, which will ensure multiple levels of approval and documentation before a change can be made to the Production region.</p>	<b>March 2012</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		Scott Kister, Application Development Administrator	<p>The execution of the DOH Enterprise Release Management Process is dependent on the implementation of Microsoft Team Foundation Server (TFS) as the software necessary to support the process.</p> <p>Develop and review Release Management process: 07/30/2011 (completed)                      Revise DOH Enterprise Release Management process: 08/30/2011 (completed)                      CORE Developer Training: 02/02/2012 (completed)                      Move CORE code management and build process to TFS: 02/06/2012 (started)                      Implement Release Management process within CORE: 03/2012</p>	Completed
		Scott Kister, Application Development Administrator	<p>2. The Core application will be changed to comply with Commonwealth password policies. Passwords will be configured to enforce password history and invalid password lockout threshold.</p> <p>Perform analysis and requirements: 4/2011                      Perform general and detailed design: 5/2011                      Perform system development: 8/2011                      Perform system testing: 9/2011                      Perform user acceptance testing: 10/12/2011                      Release to production: 10/19/2011</p>	
		Kevin Geist, Senior Application Developer	<p>3. Per Program Area policy, user account creation is a Local Agency / Program function and not performed by BIT staff, except when the new user is a member of the IT staff. The majority of users are created by the Local Agency security officer for the QuickWIC system. This is the policy of the WIC Program Office.</p>	Completed
		William Miller, Director of Development Services	<p>When new user requests are made for IT staff (state and contractor), we will continue to follow the existing IT policy of requiring the request to be submitted in writing. In the audit period, the submittal was performed via e-mail, but we will now use Remedy to submit requests for new IT users of the QuickWIC system.</p>	
		Mike Matter, DOH Security Officer	<p>4. Multiple technical staff have access to the room for their day to day tasks (network staff, database staff, server team staff). Also, administrative and maintenance staff have infrequent access. Senior management have access to provide unplanned, accompanied access during after-hours responses. One area of review is access granted solely for use of a large format plotting printer which was placed in the restricted area several years. With office relocation, it is now possible to relocate that</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
<p><b>11-08 (cont'd)</b></p>			<p>device and reduce the number of staff with room access.</p> <p>Relocate the plotter out of server room by 4/30/2011. Review and reduce badges with entry authorization by 5/31/2011.</p> <p>Plotter has been relocated and badge access reviewed. The number of badges with data center access has been reduced to 40.</p>	
	<p><b>PDE</b></p>	<p>Assist. Director, Bureau of Budget and Fiscal Management</p> <p>Division Chief, Subsidy Data and Admin Bureau of Budget and Fiscal Management</p>	<p>1. As previously reported in GAAP Audit Finding #10-11, the Pennsylvania Department of Education, Bureau of Budget and Fiscal Management, maintains BEF calculation files in a restricted-access network folder – only select staff in the Bureau can view the contents of this folder. In addition, calculation files are password-protected; only two (2) Bureau staff members have knowledge of the password. A document is prepared each year before allocations are finalized at the end of the fiscal year. This document includes instructions for the staff creating the allocation file as well as a table on which the Division Chief (or Bureau Director) independently records state totals for each of the various data elements used in the creating the allocations. This document was first created for use starting with the revised BEF allocations for 2003-2004, prepared in May 2005, and was updated into a more detailed document for use beginning with the final calculation for the 2010-2011 payable year. Although payment files were not password-protected for the year in the audit scope, allocation and payment files have been protected beginning with the 2011-2012 payable year and continue to be maintained within the restricted-access network folder. This occurred beginning in August 2011.</p>	<p><b>Completed</b></p>
		<p>Chief, IT Support Division, Center for Data Quality and Information Technology</p> <p>Chief, LAN Team, Center for Data Quality</p>	<p>2. The PDE, Center for Data Quality and Information Technology (CDQIT) will review and confirm administrator assignments with an anticipated completion date of April 15, 2012. The CDQIT will also brief administrators on the new Login Policy and Procedures with an anticipated completion date of April 30, 2012. Individual administrator accounts will be created on all servers matching CWOPA login with an anticipated completion date of May 31, 2012. The program will be updated to automatically change server administrative account passwords to work with individual server accounts with an anticipated completion date of May 31, 2012.</p> <p>3. The PDE, Center for Data Quality and Information Technical (CDQIT) will request eScholar to isolate deployment function to specific employees who are not maintaining PDE Applications with an anticipated completion date of March 31, 2012. The CDQIT will also document procedures and</p>	<p><b>May 31, 2012</b></p> <p><b>May 15, 2012</b></p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		and Information Technology	controls for eScholar staff to access servers and deploy program updates with an anticipated completion date of May 15, 2012. For each code rollout, the PDE will document specific eScholar staff who will deploy that rollout. This action will have various completion dates.	
	DOR	Christopher Dressler, IT Manager	<p>1. On 01/03/2010 DOR implemented an interim solution utilizing our System Implementation Document (SID). For each change implemented in production, we require the programmer to receive management approval prior to moving the change into production. The approval is documented on the internal DOR system approval document (SID) which is stored with the project request information in the Bureau of Information System's online project request system.</p> <p>DOR has contracted with Accenture to implement a SAP-based tax system solution. This integrated tax system will provide role-based functionality and access, and will provide segregation of duties once implemented. Corporation Tax is the first tax system slated to be implemented in July 2012, with other systems following later as the project progresses, ending in July 2015 with Miscellaneous Tax.</p> <p>In the imaging/scanning environment, the promotion of Firmware changes is more complex than simply copying program files to production. Promotion requires detailed technical knowledge of the code, because a series of code changes have to be made at different parts of the environment.</p>	July 2015
		Michael Dailey, IT Manager	<p>2. To mitigate the finding, the SoftTrac application software Administrator account has now been configured to use a password. Also, SoftTrac software is installed on a limited number of agency computers, and the software cannot be accessed until an authorized user has signed onto the computer with CWOPA credentials. The Department will further investigate what can be done to provide password protection for SoftTrac software that complies with ITB-SEC007.</p>	July 1, 2012
	Michael Dailey, IT Manager	<p>3. The ETIDES Internet filing system has a very large number of public users, many of whom only access the system one time each year. DOR will examine business requirements to determine how to implement password requirements while minimizing end-user disruption.</p> <p>DOR has also initiated a dialog with the Commonwealth CISO to determine the scope of ITB-SEC007, whether it is intended to apply to user accounts for public-facing websites.</p>	July 1, 2012	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		Christopher Dressler, IT Manager	<p>DOR will look into creating new password parameters for the IFTA and CigTax applications that meet ITB requirements.</p> <p>4. DOR implemented an access review procedure in August 2011 and has piloted the procedure with selected client/server systems. DOR intends to continue to improve and expand the periodic access review procedure, and to complete the initial review of all systems by 07/01/2012.</p>	July 1, 2012
		Rodney Hawk, IT Manager	<p>5. This finding is mitigated because most processing failures in the Client/Server and Scanning/Imaging environments are recorded in the enterprise Remedy system, and resolution times can be determined from Remedy reports.</p> <p>Additionally, the Department has drafted Process Monitoring and Resolution procedures and Service Level Guideline documentation to ensure that processing failures and failed backups are addressed appropriately.</p>	July 1, 2012
		Christopher Dressler, IT Manager	<p>6. In October 2011, DOR commissioned a study of the Brookwood Street data center environment to determine the potential costs and feasibility of restructuring the building layout. The study reviewed the current data center environment, and provided recommendations on reducing and eliminating risks that currently exist. As mentioned in the finding, the current layout of the data center put the emergency exits in the room where the imaging equipment and servers are located. DOR has made employee safety our top priority by providing access to all employees in event of an emergency. Additionally, DOR does not own the building, so changes will need to be done in accordance with agreement(s) with building owner. Likewise, funding will need to be budgeted and secured to proceed with any changes decided upon by DOR executive management. A completion date is dependent on executive management direction and department budget.</p>	Not Determined
		Michael Dailey, IT Manager	<p>7. In mid-December, privileged users in the CIGTAX application was reduced from 153 to 75.</p> <p>Within the ETIDES application, privileged users include employees of both the Department of Revenue and the Dept. of Labor and Industry (DLI). DLI is working to implement their Unemployment Compensation modernization project, and when it is implemented we will be able to remove about half of the current number of ETIDES privileged users. DLI is not yet able to provide a tentative implementation date.</p>	Not Determined
		Michael Dailey,	<p>8. Passwords have now been added to the SoftTrac Administrator account.</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)		IT Manager  Michael Dailey, IT Manager	9. No further information provided. See Agency Response in the body of the finding.	N/A
	<b>PLCB</b>	Mary Benner, CIO  Oren Bachman, Director Financial Operations	<p>1. A project is underway with the DPH to correct this. The DPH change request is scheduled to complete on or before February 28<sup>th</sup>. This change is already in place in 2 of the 6 DPH environments.</p> <p>2. User activity, logins/logouts, have always been tracked, however, the use of a service account makes it difficult to tie the activity back to an individual. Providing individual user accounts should make that process easier. A project is underway with the DPH to correct this. The DPH change request is scheduled to complete on or before February 28<sup>th</sup>. This change is already in place in 2 of the 6 DPH environments.</p> <p>3. Existing policy is to review access into IBMS systems semi-annually. The security team will run a report on who has privileged access into IBMS systems. The IBMS management will review these reports to ensure that only approved users will have this privileged access. The first review occurred on August 30, 2011 and found no one on the list that should not have been. The next review is due on February 28, 2012. This review process is contained in the policy document "Granting Access to PLCB systems".doc.</p> <p>4. This is correct. RMS passwords meet OA ITB-SEC007 for password complexity. The ability for users to change their RMS passwords will be researched with future upgrades to the Oracle system.</p> <p>5. PLCB issued an RFP in July 2011, to consolidate its three warehouses to a selected Contractor. That contract has not yet been awarded. It includes outsourcing the warehouse management system to the selected Contractor. Assuming a contract is executed by February 29, 2013, warehouse consolidation is expected to be completed by June 1, 2013.</p> <p>6. New POS stores installations will be completed on February 26, 2012. Stores 2298 and 2299 (Internal SLO area stores) will have new server installed in the locked computer room on second floor in PLCB Central Office. Festival Stores (temporary stores) will have equipment stored in lockable cabinets. The Pittsburgh warehouse has been completed. Philadelphia and Scranton</p>	February 28, 2012
				February 28, 2012
				Completed
				Completed
				June 1, 2013
				May 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
<p>11-08 (cont'd)</p>			<p>warehouses are scheduled to be completed the spring of 2012.</p> <p>7. New POS uses CWOPA Sign-on credentials. Old POS should be completely removed from stores by June 30, 2012 (It is only being used for time and attendance information). Access into EBS, SIM, and BI (Oracle based systems) currently do not meet ITB-SEC007. Oracle is a COTS Proprietary System where only Oracle employees can change the core code (users can only build code around the core). Password functions are a part of the core code. Oracle doing a re-engineering of the core code or system upgrades to newer versions where the re-engineering has occurred are required for us to meet this requirement. An upgrade is planned FY 12/13. RIMS is a COTS proprietary system where only RoboCom employees can change the core code. Password functions are a part of the core code. RoboCom would have to be contracted to customize the system to meet minimum requirements. PLCB issued an RFP in July 2011, to consolidate its 3 warehouses to a selected Contractor. That contract has not yet been awarded. It includes outsourcing the warehouse management system to the selected Contractor.</p> <p>8. Existing policy is to review access into IBMS systems semi-annually. The security team will run a report on who has privileged access into IBMS systems. The IBMS management will review these reports to ensure that only approved users will have this privileged access. The first review occurred on August 30, 2011 and found no one on the list that should not have been. The next review is due on February 28, 2012. This review process is contained in the policy document "Granting Access to PLCB systems".doc. Additionally we are developing a policy and review process for new POS.</p> <p>9. We are establishing the policy, review process and documentation for new POS.</p> <p>10. The WMS is a COTS proprietary software product. Coding changes can be made only by the Software owners. We do occasionally contract with them to make changes. Once RoboCom has completed the changes at their own facility, they are sent to PLCB. PLCB places the changes in the test environment. When testing is complete, PLCB staff move the changes into production. The RoboCom Software owners &amp; programmers do <u>not</u> have access to the PLCB production environment. However, we are not sure how we can produce system-generated evidence of a segregation of duties in this circumstance, since the developers never touch our instance of the system. Assuming a contract is executed by February 29, 2013, warehouse consolidation is expected to be completed by June 1, 2013. PLCB is not sure how we can have system-generated evidence for this process for new POS. The POS team will need to work with the server team to try</p>	<p>Various</p> <p>Not Determined</p> <p>April 15, 2012</p> <p>Not Determined</p>



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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)			<p>to develop something.</p> <p>11. Telnet is not enabled on PLCB servers. We believe that this is a reference to the PCI auditor's finding that Telnet was enabled on the store routers and switches. Even though access to Telnet was limited by firewall rules to the network management team, its presence alone on the network devices was unacceptable to the PCI auditor. Accordingly, Telnet was removed from all routers and switches on January 8, 2012. The DPH has always performed quarterly scans and testing on the PLCB's IBMS servers in accordance with their written practices. The OA has always performed quarterly scans and testing on the PLCB's IBMS and eCommerce servers located in the Enterprise Data Center in accordance with their written practices. The PLCB has not yet performed scans and testing on its new point-of-sale systems that were deployed in 2011. The security team is investigating scripts and frameworks to help audit firewall rules and router configurations. OA security runs PCI vulnerability scans on <a href="http://www.finewineandgoodspirits.com">http://www.finewineandgoodspirits.com</a> and <a href="http://lcbapps.lcb.state.pa.us">http://lcbapps.lcb.state.pa.us</a>. The PLCB also runs scans on these sites from a qualified ASV (Backbone Security) as per PCI guidelines found in section 11.2 of the current PCI standards. PLCB servers housed within the DPH are scanned utilizing DPW's Retina scanning platform. Internal vulnerability assessments of store environments are currently in a testing phase. A sampling of stores within our network has occurred. Testing is currently ongoing in a controlled environment to ensure system stability while scanning. The PLCB scans its stores with a mixture of Nessus Professional and Nmap. Penetration testing will commence after the initial round of vulnerability assessments have been completed. Penetration testing will initially be limited to a test environment to reduce the potential harm to a live production system. This can be expanded in the future to a larger portion of the network. A penetration tester by nature will utilize technology in ways that are not normal to be able to obtain a desired result. This way of using technology can cause harm to a production system, so testing in an appropriate environment is generally the way to go. The scope of the test will need to be approved by management before testing would commence.</p> <p>12. The PLCB is creating formal server, router and switch build guides which contain hardening information. Most of our servers, routers and switches are cloned from a master template.</p> <p>13. For the new POS system, the creation of the policy and sign off documentation for the payment switch has been assigned. This is targeted to be completed and implemented by the end of Feb. The LCB is currently writing a policy and determining the strategy for key management. This is a PCI requirement.</p>	June 30, 2012
				April 15, 2012
				April 15, 2012

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-08 (cont'd)			<p>14. Processes and policies are being developed so the new POS is kept up to date and documented. As per OA ITB, the PLCB is required to patch all of its Windows servers via OA's standard patching and reporting tools, Microsoft SCCM. OA monitors the network to find where agencies are not patching. The PLCB's outsourced IBMS servers are patched by the DPH in accordance with DPH policies and procedures. The PLCB's eCommerce servers located in the OA's Managed Service Lite at the Enterprise Data Center, are patched by OA in accordance with the OA's standard patching procedures and reporting tools. The PLCB's Change Advisory Board retains documentation that code changes have been reviewed, tested and approved. Deployment of code and patches to production IBMS are done by the PLCB's Database Administration Team. Patches on store equipment will be checked for patch compliance and configuration with Nessus Professional when quarterly scans of the PCI network begin. Performing vulnerability assessments on the PCI network is a PCI requirement.</p> <p>15. OA has a number of ITBs which state the policy for security and records retention. ITB-SEC019 mandates agencies to protect data that is classified as confidential. A policy named Information Classification Policy.doc has been written describing what information the PLCB deems confidential.</p>	<p><b>April 15, 2012</b></p> <p><b>Completed</b></p>
11-09	<b>OB-BPS</b>	Deb Chernicoff, Director, Bureau of Payable Services	<p><b>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 #10-15)</b></p> <ol style="list-style-type: none"> <li>1. A workgroup has been formed to discuss policy relating to one-time vendors .</li> <li>2. This will be discussed in the new policy, however current SAP functionality does not exist to perform this check electronically.</li> <li>3. This will be discussed in the new policy, however current SAP functionality does not exist to perform this check electronically.</li> <li>5. This will be discussed in the new policy, however current SAP functionality does not exist to perform this check electronically.</li> <li>6. If a one-time vendor is entered by a Comptroller Office Supervisor, the Manager, Assistant Director or Director will be required to unblock the invoice to separate the entry and approval process.</li> </ol>	<p><b>August 31, 2012</b></p> <p><b>June 30, 2012</b></p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-09 (cont'd)	OB-BCA	Brian Seno, Assistant Director  Catherine Kelly, Manager	4. The corrective action is not necessary because the OCO refunds to the code where the program expenses originally posted. Where the original document is known or supporting documentation is provided, it is either referenced on the SAP posted entry or is included in the attachments linked to the SAP posted entry via DocFinity.	N/A
11-PDA-01	PDA	Carol Boyle, Aging Services Supervisor	<b>PDA Monitoring of AAA Subrecipients Needs Improvement (A Similar Condition Was Noted in the Prior Year Finding #10-73)</b>  The monitoring instrument has been developed and implemented. To date 11 Area Agencies on Aging (AAA) have been programmatically reviewed and 19 AAA fiscal operations have been reviewed. The workplan shows a schedule to review all 52 AAAs within a 2-year period.	Completed
11-PDA-02	PDA	Robert Heinlen, Aging Services Specialist	<b>PDA's Procedures for Calculating the Allocations Under the Nutrition Services Incentive Program Grant Awards to Areas on Aging Needs Improvement</b>  PDA will ensure the Excel cell-referencing formula references the correct column in future allocations.	March 15, 2012
11-AGRI-01	AGRI	Nancy Derr, Commodity Specialist	<b>Internal Control Weaknesses and Noncompliance with Recordkeeping and Reporting to Verify Commodity Receipts and Distributions</b>  1. There was in fact no variance of approximately \$55,516 existing in FY 10-11 when the warehouses submitted reports to the Bureau of Food Distribution and those reports were reviewed, reconciled and entered into the PA Meals software by the Bureau. There appeared to be a variance at the time of the audit many months later due to a December 2011 change in commodity pricing made in the PA Meals software. This change altered previously reconciled numbers. The Bureau's software contractor, ComputerAid, Inc., rectified this situation on February 27, 2012. The majority of the perceived variance was due to the increase of the commodity price of a single item, A269 Grape Juice. On 12/21/11, an employee of the Bureau entered a new price for this commodity from \$20.36 to \$23.45 per case. However the employee entered an effective date of 7/01/2010, instead of 7/1/2011. This inadvertently changed totals for the entirety of FY10-11. This has been corrected	Completed



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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DCED-02	<b>DCED</b>	Donna Enrico, Chief Community Development Operations Division	<p><b>Internal Control Deficiency Over Period of Availability Requirement (A Similar Condition Was Noted in Prior Year Finding #10-36)</b></p> <p>DCED is required to maintain internal controls that insure grant funds are utilized within the period of availability. This is accomplished by appropriate monitoring of grant status and by the timely closing of grants in the Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS) system.</p> <p>DCED acknowledges that staff has not been able to perform regular reviews of financial data on expired contracts and has not been able to address the close out of older grants. Increased demands on existing personnel related to grant awards received under new Federal stimulus programs (HERA and ARRA), as well as personnel vacancies, inhibited staff from the regular, timely, documented reviews of the status of grants and the timely closing of these contracts.</p> <p>Action Steps: The Division Chief will request a quarterly report through IDIS to identify open grants that have expired contracts. The list will be provided to staff to address the closeout issues/requirements. Additionally, the IDIS coordinator will be requested to terminate IDIS access for the identified grants. This step to terminate funding will assure that funds are not expended outside the period of availability.</p> <p>Staff, given their current workloads and requirements, will attempt to review the reports on a monthly basis and close these grants out if their workloads permit.</p> <p>Timetable to complete tasks: Initiated 2nd calendar quarter of 2011 and is on-going.</p>	<b>Not Determined</b>
11-DCED-03	<b>DCED</b>	Lynette Praster, Deputy Director, Office of Energy	<p><b>Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Similar Conditions Were Noted in Prior Year Findings #10-54 and #10-55)</b></p> <ol style="list-style-type: none"> <li>1. Verifying applicant's identity prior to weatherization service – DCED will change its current policy and will require that local agencies establish a timely intake process which will verify the identity (such as requesting a form of photo identification) in addition to verifying income and household composition no later than ONE MONTH prior to the time of service.</li> </ol>	<b>June 30, 2012</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DCED-03 (cont'd)		Conservation and Weatherization	<ol style="list-style-type: none"> <li>2. Clients who are renters must show proof of rent paid – DCED has no clear procedural requirement on this from the federal Department of Energy, however, in order to correct this finding, DCED will instruct agencies to report any instances to DCED (via the Weatherization Director) where no rent is paid or where it is clear that a significantly below market rate is paid. DCED will evaluate each reported instance on a case-by-case basis because there may be legitimate reasons for such arrangements.</li> <li>3. One agency’s possible inflated costs – DCED continues to monitor this agency for said findings and has notified them of their lack of adherence to many additional areas of the Weatherization Program Performance Standards. This agency is designated at Severity Level 4, has had a funding sanction placed on them and may lose further funding if they do not adhere to corrective actions.</li> <li>4. The deficiencies of the HES system – DCED staff received training from the Bureau of Audits staff on “data mining” of HES information. This has broadened the staff and monitoring supervisors’ knowledge of how to better investigate and analyze the agencies’ use of HES and their input of data. Monitors will be strictly enforcing the agency performance requirement of HES use and through monitoring and program review, agencies may be facing higher severity levels in their performance rating if they do not improve their mandatory use of the HES system. In addition, DCED staff are working closely and aggressively with the Hancock personnel to fix system functions and glitches that cause HES deficiencies.</li> </ol>	
11-DCED-04	<b>DCED</b>	<p>Erich Loych, Acting Director, DCED Information Technology</p> <p>Lynette Praster, Deputy Director,</p>	<p><b>Deficiencies in Information Technology Controls at the Department of Community and Economic Development (A Similar Condition Was Noted in Prior Year Finding #10-54)</b></p> <ol style="list-style-type: none"> <li>1. DCED agrees that user accounts for the Wx application adhere to standard minimum criteria set forth by OA regarding password parameters and logging of user access violations. Since our roll out of version 5.0 on February 4<sup>th</sup>, DCED has worked with the vendor to modify password expiration from 90 to 60 days. The current password requirements are all satisfied as well although the current system, which was upgraded February 4<sup>th</sup>, logs and stores user’s previous passwords to prevent reuse. DCED considers this finding as corrected. However, DCED requests further information on what other “security events” should be logged. The term “security events” is very broad.</li> <li>2. DCED agrees to monitor all changes in the Wx application in a change deployment log by date and</li> </ol>	<b>June 30, 2012</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DCED-04 (cont'd)		Energy Conservation and Weatherization	<p>time to substantiate a segregation of duties between the program developer and the individual promoting the change to production. With the current setup DCED has no way to ensure segregation since the Vendor updates the system remotely only with approval and unlocking of the system by DCED. That being the case DCED is looking into requiring installation packages from the vendor that DCED personnel will then put into production. We hope to have this resolved by June 30, 2012.</p> <p>3. DCED agrees that there should be software to monitor the production environment to ensure that only authorized and approved program development and program changes have been deployed to the production environment. DCED is looking into requiring installation packages from the vendor that DCED personnel will put into production. This will also be addressed by June 30, 2012.</p>	
11-OCO-01	OB-BCA	Heather Morgan, Commonwealth Accounting Manager, ES Federal Acct	<p><b>Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports (A Similar Condition Was Noted in Prior Year Finding #10-42)</b></p> <p>OCO personnel are currently still working on bringing these reconciliations up to date, however since the report which is produced by the CWDS system needs to be modified, it is taking OCO longer than anticipated to complete these reconciliations. OCO personnel have been working with the L&amp;I OIT Department on modifications to the reports produced by CWDS that are necessary to perform the reconciliations. L&amp;I OIT have stated that the reports modifications should be complete in February 2012. The \$5.3 million reconciling amount has been reduced since subsequent reconciliations are now complete. In the future, OCO personnel will be performing these reconciliations on a monthly basis.</p> <p>Additionally, OCO personnel agree that the transfer information on the PY2008 9130 reports was omitted. This omission was not deliberate. OCO personnel were not aware that this was a requirement. OCO personnel have since started reporting transfers on the quarterly 9130 reports as required.</p>	Not Determined
11-OCO-02	OB-BCA	Dan Troxell, Asst Director Special Accounting	<p><b>Inaccurate Reporting on the SF-425 Report</b></p> <p>OCO has submitted revised SF-425 reports to properly reflect the grant award amounts for the CS-420001-10 and FS-993577-10 awards as of June 30, 2011. Going forward SF-425 reports will continue to be reviewed and approved by a supervisor prior to submission. Every effort will be made to ensure the accuracy of all reported information including grant award totals.</p>	February 9, 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DOC-01	DOC	Ruth Palmer, Chief of Employee Services Division, Bureau of Human Resources	<p><b>Noncompliance and Weak Internal Controls Over DOC Payroll Leads to \$11,317 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #10-71)</b></p> <p>The Overtime Policy (4.1.1 Section 16) for the Department Of Corrections has been revised and includes requirements for post audits of timekeeper entries to be performed each payroll cycle. The policy also includes the retention schedule for the shift rosters (7 years). The retention of STD 330 leave slips is already addressed in the Commonwealth's absence and attendance manual (M530.7.) The updated policy will be reissued to all supervisors and managers.</p>	April 9, 2012
11-PDE-01	PDE	State Director, Child Nutrition Programs, Div. of Food and Nutrition, Bureau of Budget and Fiscal Mgmt	<p><b>Internal Control Deficiency in PDE Monitoring of School Food Service Accounts</b></p> <p>The PDE, Division of Food and Nutrition (DFN) maintains it is not in violation of regulations governing the Net Cash Resources and therefore, no specific actions will be taken. Per USDA, if compliance with Net Cash Resources is reviewed within the review period, DFN is in compliance with the regulations. Per regulations, reviews are currently completed every five years and the Net Cash Resources for all School Food Authorities have been reviewed within this time period. The Department of the Auditor General has made a subjective interpretation pertaining to timeliness that is not founded by regulation or USDA Guidance. Therefore, based on regulation and USDA Guidance, DFN is not out of compliance and disagrees with this finding.</p>	N/A
11-PDE-02	PDE	State Director, Child Nutrition Programs, Div. of Food and Nutrition, Bureau of Budget and	<p><b>Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding #10-22)</b></p> <p>As noted in the prior year PDE, Division of Food and Nutrition (DFN) has implemented measures to address the auditors concerns. A Deployment Log had been implemented to monitor that the individual responsible for program development is not the same individual responsible for deploying the code. The Deployment Log will be compared to the Server Log. This will be done at least on a quarterly basis.</p> <p>The DFN is in the process of converting .NET platform. This change in platform will change the rights that DFN staff have to the system, and will adapt system parameters to meet Commonwealth standards.</p>	July 31, 2012



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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-PDE-02 (cont'd)		Fiscal Mgmt	<p>.NET platform will be rolled out in phases of the various programs with the first roll out scheduled July 1, 2012 for the Child and Adult Care Food Program. The deployment log is already being utilized; however, PDE will work towards a system to compare the Deployment Log with the Server Log with the tentative schedule.</p> <p>Review Log Option with DFN Staff                      May 1, 2012                      Complete Log Extract Specs                                  June 1, 2012                      Run Test of Log Extract                                      June 15, 2012                      Complete Log Review, Report Issues                      June 30, 2012                      Implement Log Extract in Production                      July 31, 2012</p>	
11-PDE-03	<b>PDE/OB-BOA</b>	Division Chief, Division of Food and Nutrition, PDE  Allison Morgan, Division Chief, Central Audits, OB-BOA	<p><b>For-Profit Subrecipients Are Not Being Audited in a Timely Manner (A Similar Condition Was Noted in Prior Finding #10-28)</b></p> <p>As explained by the Office of Comptroller Operations, Bureau of Audits (BOA), a new audit procedure which determines the audit selection of the For-Profit Entities was implemented for audits of FFYE September 30, 2011. Also, as previously explained, the Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is exceeding the federal audit requirements of For-Profit Entities. Providing resources and funding are available, DFN will continue to exceed the requirements to protect the integrity of the Program. However, Program growth, and financial and human resource limitations have necessitated a change in procedure. The For-Profit Entities expending federal funding in the amount of \$500,000 or more will continue to be audited each cycle, as required by Federal Regulations. The For-Profit Entities expending less than \$500,000 will be assigned a risk level. The DFN and BOA will continue discussions regarding this procedure and any adjustments will be made as necessary. The number of audits to be conducted each year (ranked according to risk analysis) will be discussed annually and will be based upon available BOA and DFN resources. New procedures have been implemented for audits of FFYE September 30, 2011.</p>	<b>Completed</b>
11-PDE-04	<b>PDE</b>	State Director, Child Nutrition Programs,	<p><b>Internal Control Deficiencies in PDE Monitoring of CACFP Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-29)</b></p> <p>The PDE, Division of Food and Nutrition (DFN) has implemented a policy during the 2011-2012 FFY that will reduce the number of reviews that are not closed within the 120 day timeline. If sponsors do not submit a satisfactory corrective action within two attempts, the review will be given to program staff,</p>	<b>Completed</b>

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11-PDE-04 (cont'd)		Div. of Food and Nutrition, Bureau of Budget and Fiscal Mgmt	<p>moved into the serious deficiency process, and closed administratively.</p> <p>The DFN obtained USDA approval and the process has been implemented during the 2011-2012 FFY. Throughout the implementation of this process, the procedure will be adjusted accordingly.</p>	
11-PDE-05	PDE	State Director, Child Nutrition Programs, Div. of Food and Nutrition, Bureau of Budget and Fiscal Mgmt	<p><b>PDE Approved an Institution to Participate in the CACFP Program That Did Not Meet Eligibility Requirements</b></p> <p>The PDE, Division of Food and Nutrition (DFN) is in full compliance with regulations and will not change any steps in its process. The DFN is responsible for checking the entities eligibility status at the time it enrolls for participation on the program. The entity is responsible for reporting changes to DFN. Regulations do not require DFN to monitor an entity for a change in status. Per USDA, DFN is not out of compliance with regulations. The DFN has taken action to remove the sponsor from the program and collect the Questioned Costs, based on the fact that they did not correctly report information. As previously stated, DFN is not out of compliance with any regulations and will not be changing its procedures.</p>	N/A
11-PDE-06	PDE	Chief, Division of Performance Analysis and Reporting, Bureau of Assessment and Accountability	<p><b>Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #10-57)</b></p> <p>The PDE will implement additional documented measures in the data review to ensure the accuracy of the CSPR and the SRC. These measures will include the written procedures reflecting the actual activities carried out by PDE personnel to include independent verification, supervisory review and documented sign-offs. Forms will be revised to identify the procedures performed by each PDE staff member in the review of the data, issues arising during the review, resolution of the issues and the date of completion.</p> <p>To address the reconciliation of individual school data to the district level data and to the state level data, new procedures will be instituted to ensure that students included in the schools are also included in the district and students included in the districts are included in the state. A full explanation will be provided for any discrepancies in the roll-up of the data at any level.</p> <p>The PDE will provide comments to Part 1.2.2 and Part 1.2.4 explaining the reason the information is not applicable in order to justify leaving these sections of the CSPR blank.</p>	Not Determined

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11-PDE-06 (cont'd)			Revised procedures and forms have been completed for the 2011 data collection. New procedures for the accurate roll-up of data between school, district and state levels will be in place for the 2012 data collection.	
11-PDE-07	PDE	Susan McCrone, Monitoring Program Manager/Regional Coordinator for the SD of Philadelphia	<p><b>A Material Weakness Exists in PDE's During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-60)</b></p> <p>The PDE, Division of Federal Programs (DFP) will implement the following corrective action:</p> <p>Action 1: The routing sheet will be updated to ensure additional steps are added to the review process. These actions will minimize the risk of incorrect or incomplete monitoring documents. Additionally, at the time the Philadelphia School District and the Pittsburgh School District, along with the IUs, are scheduled to be monitored, routing sheets will be attached to the review instruments. As a result, all monitoring documents administered by DFP will have a consistent routing process.</p> <p>Action 2: Monitors will be required to submit an assurance page with a checklist of actions they must complete prior to being reimbursed for their work. This document will be submitted for review, along with their invoice for payment.</p> <p>Action 3: Technical assistance will continue to be ongoing for the Philadelphia School District. The focus will be monitoring the implementation of their Corrective Action Plan and any other topic related to federal programs as issues arise. This will occur primarily on site, but will also occur through conference calls, email, etc.</p>	<p><b>May 1, 2012</b></p> <p><b>April 15, 2012</b></p> <p><b>Ongoing</b></p>
11-PDE-08	PDE	Title II A Program Manager	<p><b>Noncompliance and Control Deficiencies in PDE's Review and Approval of Improving Teacher Quality Subrecipient Applications Resulting in Questioned Costs of \$6,501,601 (A Similar Condition Was Noted in Prior Year Finding #10-67)</b></p> <p>The PDE, Division of Federal Programs (DFP) had implemented corrective action last year addressing the prior year audit finding. All 2010-2011 Consolidated Applications had been completed by the issuance of the audit finding therefore corrective actions did not affect the 2010-2011 School Year. The eGrant Application for the 2011-2012 School Year has been changed so that no LEA can answer "No"</p>	<b>Completed</b>

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11-PDE-08 (cont'd)			to the question regarding a needs assessment for Title II. Completed and part of the 2011-2012 eGrant application.	
11-PDE-09	PDE	Special Assistant to the Secretary	<p><b>Noncompliance and Internal Control Deficiencies in PDE's Monitoring of ARRA Funds (Similar Conditions Were Noted in Prior Year Findings #10-60 and #10-68)</b></p> <p>The PDE worked with USDE and the Department of Auditor General to provide clarification on the resolution of this finding. Based on a clarifying e-mail dated March 6, 2012, PDE believes no further corrective action is necessary.</p>	<b>Completed</b>
11-DEP-01	DEP	Hayley Book, DEP Audit Coordinator	<p><b>Noncompliance and Internal Control Weakness Over ARRA-Funded PA Sunshine Program Rebates at DEP Results in Questioned Costs of \$29,920</b></p> <p>The \$29,920 in PA Sunshine rebates, which at the time of audit were incorrectly paid from ARRA funds, were coded to the appropriate non-ARRA funding source in January 2012. As of this date all Reinvestment and Recovery Act funds for the PA Sunshine program have been disbursed and the Department will be issuing no further rebates. However, in response to the Single Audit, existing internal controls have been strengthened within the PA Sunshine Office in regards to payment coding and processing. Any rebates issued in the future will follow the new strengthened internal quality control protocols that have been established. New protocols will add an additional layer of quality control which will involve a secondary review of assigned coding and funding prior to the rebate's approval and forwarding to the Grant's Center for processing. The Grants Center will continue current procedures which are to verify that the funding type corresponds with the coding prior to processing the rebate for payment. The Department believes the establishment of these protocols will prevent similar miscoding.</p> <p>Additionally the Department notes that one of these incorrect coding instances was a result of a one-time clerical error and was not indicative of internal control weaknesses.</p>	<b>January 31, 2012</b>
11-DEP-02	DEP	Hayley Book, DEP Audit Coordinator	<p><b>Noncompliance and Internal Control Weakness Over DEP's System of Cash Management and Reporting of Expenditures</b></p> <p>The Department believes that the previously submitted SF-425 reports were complete and accurate. They were based on the Department's and Department of Energy's mutual understanding that the Pennsylvania Department of Treasury is considered a third party, and as such upon transfer of funds to</p>	N/A

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11-DEP-02 (cont'd)			<p>Treasury, the funds were considered expended.</p> <p>Additionally, in a letter dated February 14, 2012, the Department of Energy further solidifies this interpretation stating that, "After a thorough review of the Interagency Agreement between DEP and PA Department of Treasury (PADT), and PA State Regulation 71P.S. it has been determined that PADT has been accurately designated as a third party administrator of DEP's ARRA RLF. Additionally, a prior history of similar third party relationships have existed between DEP and PADT in the past thus setting a precedent for our determination in this case."</p> <p>The Department believes that upon transfer of funds to the Department of Treasury, they were considered expended which corresponds with the direction from the Department of Energy. The Department believes all submitted SF-425 reports were complete and accurate, and that all cash management best practices were followed and as such no corrective action is necessary.</p>	
11-DGS-01	DGS	<p>Beverly Hudson, Special Assistant to the Secretary of DGS and DGS Audit Coordinator</p> <p>Michael Richart, Chief Procurement Officer</p> <p>Patty Chapman-Nagurney, Director of the Bureau of IT Procurement</p>	<p><b>Lack of Documentation to Support Contracting and Procurement</b></p> <p><i>"Lack of Documentation to Support Contracting and Procurement":</i></p> <ul style="list-style-type: none"> <li>• Procurement professionals will be reminded of the Commonwealth's Record Retention Policy, particularly as it relates to retaining procurement documentation and procurement managers will be held accountable for compliance with Record Retention Policy.</li> <li>• Bureau of Procurement departing employees, supervisors, and/or managers shall work together to verify that the appropriate records remain in the Bureau of Procurement, pursuant to the records retention and disposition schedules, including e-mail records, and shall do the following: <ul style="list-style-type: none"> <li>○ Consult with the Agency Records Coordinator in determining proper disposition of records;</li> <li>○ Ensure that procurement records under the control of the departing employee, including e-mails and other electronic records, are transferred to the control of the supervisor (i.e. moved from the network drive of the employee to the network drive of the supervisor or that paper records are left in the office of the departing employee) or otherwise retained for the successor employee following appropriate records retention and disposition schedules;</li> </ul> </li> </ul>	June 1, 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DGS-01 (cont'd)		Beverly Hudson, Special Assistant to the Secretary of DGS and DGS Audit Coordinator	<ul style="list-style-type: none"> <li>o Comply with restrictions on the copying or destruction of records that may be subject to a litigation hold, audit reporting requirements, confidentiality provisions, archival review or other considerations noted in the appropriate general or procurement-specific records retention and disposition schedules.</li> <li>• Any records the separating employee may have will be sent to the procurement file room or, when applicable, to the appropriate Commodity Manager.</li> <li>• Procurement record retention and disposition schedule shall be adhered to by all procurement professionals.</li> </ul> <p><i>“For one of the procurements we could not authenticate the signature on the Certification of Confidentiality and No Conflict of Interest form for one of the six evaluation team members.”:</i></p> <p>DGS will meet with staff from the Commonwealth’s Bureau of Audits as well as staff from the Auditor General’s office and the outside auditing firm to discuss the use of electronic signatures in the procurement process. Specifically, DGS will seek advice on the permissibility of electronic signatures, and if permissible, under what circumstances additional information may be required (i.e. an email from the signor indicating their electronic signature was indeed their own).</p>	April 15, 2012
11-DOH-01	DOH	Mary King-Maxey, WIC Director  Renee Sadler, WIC Program Supervisor	<p><b>Noncompliance and Internal Control Weaknesses Related to Erroneous Food Instruments (A Similar Condition Was Noted in Prior Year Finding #10-25)</b></p> <ul style="list-style-type: none"> <li>• DOH’s WIC Director and WIC Program Supervisor conducted a retraining of the DOH WIC Program Representative responsible for processing the reports on January 11, 2012. Retraining will occur annually in coordination of staff EPRs.</li> <li>• The DOH WIC Program Representative sends a notice to the local agency staff that the reports are posted in the WIC data system. The local agencies have 30 days to investigate all of their cases that are on the report and provide a resolution to the state agency. Following the January 11, 2012 meeting, the DOH WIC Program Representatives are sending reminder emails to the local agencies at the 15 day point to remind them of the due date for the reports. This process began after January 11, 2012 and will continue until further notice.</li> <li>• In order to monitor the status of the reports and discuss any issues the staff may be having in communicating with the local agencies, the DOH WIC Director and the WIC Program Supervisor meet on a weekly basis to discuss work products expected by weeks’ end. This meeting is a</li> </ul>	February 29, 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DOH-01 (cont'd)			<p>standing meeting until further notice and started February 6, 2012.</p> <ul style="list-style-type: none"> <li>• Additionally, the DOH WIC Program Supervisor is also meeting with staff every two weeks to discuss these reports and see how the work is coming along. This meeting is a standing meeting and began summer 2011.</li> <li>• Once the reports are completed in their entirety, DOH WIC program staff are to provide the DOH WIC Program Supervisor with the finished product to review and sign-off on; the reports are then forwarded to the DOH WIC Director for review and approval (sign-off) as well. This is a new process and will begin with the November 2011 report, which is currently in process.</li> <li>• By implementing these procedures DOH's WIC Program will be within the 120 day time-frame to get the reports completed. Each of these items is within the 30 day time period to hear back from the local agency staff.</li> <li>• Lastly, changes to DOH WIC Program position descriptions and performance standards will occur with the next updates for the positions responsible for this report.</li> </ul>	
11-DOH-02	DOH	<p>Mary King-Maxey, WIC Director</p> <p>William Miller Director, Division of Applications Development and Support Bureau of Information Technology</p>	<p><b>Noncompliance and Internal Control Weaknesses Related to Rebates (A Similar Condition Was Noted in Prior Year Finding #10-24)</b></p> <p>As of January 24, 2012, DOH has fixed its rebate report queries so that all FIs are included on the rebate invoices.</p>	Completed
11-DOH-03	DOH	Heather	<p><b>Unsupported Payroll Costs (A Similar Condition Was Noted in Prior Year Finding #10-74)</b></p> <p>An employee certification form was initiated January 1, 2011, and is utilized semi-annually for all</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DOH-03 (cont'd)		Stafford, Director, Division of Immunizations	<p>employees funded by the Immunization and Vaccines for Children Grant.</p> <p>01/01/11 – 06/30/11 - Forms were completed and received 07/11. 07/01/11 – 12/31/11 - Forms were completed and received 01/12.</p> <p>This process will continue every six months.</p> <p>These forms are on file in DOH's Division of Immunizations.</p>	
11-DOH-04	DOH	<p>Maureen Cleaver, Chief, Division of Program Monitoring</p> <p>Terry Matulevich, Chief, Fiscal Section</p>	<p><b>Inadequate Program Monitoring of Department of Health SAPT Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-99)</b></p> <p>The Department of Health, Bureau of Drug and Alcohol Programs maintains disagreement regarding the basis of this finding, as indicated in prior responses. Although correspondence from the Financial Advisory Services section of the Substance Abuse and Mental Health Services Administration has been received concerning a similar prior year finding (Finding #09-70), the content of that correspondence was indeterminate regarding final disposition to this finding. Instead, the issue was forwarded to the Grants Management Officer and the Substance Abuse Prevention and Treatment Block Grant Project Officer for final determination. No further correspondence has been received to date. However, with the execution of a new five-year grant agreement between the Department of Health and the Single County Authorities (SCAs), a schedule has been established to complete a desk review of submitted materials from all SCAs by March 2011, followed by on-site reviews of all SCAs performed from the period of March 2011 through November 2011. This is accomplished on a twelve month cycle and to be continued in subsequent periods. Desk reviews of fiscal reports continue to be performed on a state fiscal year basis. The schedule of monitoring was discussed with representatives from the Auditor General in a meeting held on November 10, 2011. It was recognized at that time that because of the new twelve month schedule, one that does not coincide with a single state fiscal year, that a continued finding would be issued until the Auditor General had the opportunity to review a full twelve month cycle.</p>	Completed
11-PID-01	PID	Peter Salvatore, Chief, Office Mgmt Division	<p><b>Internal Control Weakness in the Review of Subrecipient Monitoring Reports</b></p> <p>The Department has initiated steps to ensure that all reports are reviewed and signed within one week to ensure that subrecipient eligibility findings or operational deficiencies be identified and addressed on a timely basis.</p>	June 30, 2012



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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-L&I-01	L&I	Ryan Hyde, Assistant Bureau Director, Program Operations	<b>Deficiencies in Information Technology Controls at the Department of Labor &amp; Industry (A Similar Condition Was Noted in Prior Year Finding #10-40)</b>  Two additional roles will be developed within the Commonwealth Workforce Development System (CWDS) in the spring of 2012 to address the segregation of duties issue in the Office of Vocational Rehabilitation (OVR). OVR will remove the ability from the Central Office Fiscal Administrator (COFA) role that permits staff to edit individual service code fees. A new role will be created to do this and will only be given to select staff that are responsible for managing the OVR fee schedule. The second role that will be created is a COFA read only role given to staff that may need to view high level fiscal information in CWDS, but not actually perform functions in the system. Between the addition of these two roles, the number of staff within the COFA role will be reduced and the COFA role will no longer be able to edit the fee schedule without the addition of the new secondary role.  OVR has also developed a practice where the BVRS Fiscal Technician must request approval from their supervisor via email to edit a fee amount. Once the approval is received, the emails will be stored by the Fiscal Technician to provide an audit trail. CWDS was also modified last spring to show that a fee was edited, when and by whom within the manage fee schedule process.  L&I's OIT provides a listing twice a year of users who have powerful roles (COFA, Super-User and CO Admin) which CWDS Project staff review to determine the validity and continued necessity of staff to those roles and edits them accordingly. This review was implemented beginning in July 2011.	<b>May 2012</b>
		John Long, Descriptive Statistical Supervisor	In regards to the Unemployment Compensation Modernization System (UCMS) and the UC Incomplete Data: Steps have already been taken to address data backlogs in order to produce federal reports within the UCMS system. Although the data is currently incomplete, the reliability and accuracy of the data cannot be determined until processing of data is brought up to date. The current status of the backlog is being monitored daily in order to accomplish other UC tax related requirements and when fully up to date will allow for revisions to the report to accurately reflect tax accounts for federal reports.	<b>August 15, 2012</b>
		Michael Fuller, Division Chief	In relation to the citing of the Bureau of the Workforce Development Partnership (BWDP), it has begun work with the Department's OIT staff to get quarterly listings of privileged (superuser) CWDS users which BWDP Central Office staff will review to determine and identify as to having such access. Anyone identified as questionable will be contacted along with their supervisor to review the need for such access. Access will then be continued or removed as each situation warrants.	<b>Not Determined</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-L&I-01 (cont'd)			<p>BWDP has drafted an email to go to all field staff (including business partner staff) to remind everyone of the proper procedures to observe when someone no longer needs access to CWDS due to retirement, leaving their current job, etc. pointing out that staff access to CWDS should be removed on the individual's last day of work or the first business day after they no longer need access. Additionally, BWDP is in the initial stages of planning a webinar for field Local System Admins to review policy and procedure related to staff access and security.</p> <p>Work is currently in progress and is awaiting final approval.</p>	
11-L&I-02	L&I	Michael Fuller, Division Chief	<p><b>Control Weaknesses Exist in L&amp;I's Subrecipient Monitoring of Eligibility Determinations for Individuals (A Similar Condition Was Noted in Prior Year Finding #10-41)</b></p> <p>L&amp;I agrees with the auditor's recommendation that "L&amp;I should strengthen its monitoring and oversight of LWIAs to ensure that eligibility is properly determined and documented." However, we want to clarify information regarding the current monitoring procedure. While L&amp;I currently monitors LWIAs to ensure they have procedures in place to monitor participant eligibility determined by their subrecipients, L&amp;I oversight staff also asks for and reviews the LWIA monitoring reports of participant eligibility determined by their subrecipients. In order to help strengthen our monitoring, L&amp;I will add some additional questions related to participant eligibility review as part of our monitoring tool, including whether a secondary review of eligibility is conducted locally. This will help ensure that LWIAs not only have a monitoring procedure in place for participant eligibility but are also conducting this type of review and documenting it.</p>	April 30, 2012
11-L&I-03	L&I	David Bohanick, Financial Coordination Services Supervisor	<p><b>Control Weaknesses at L&amp;I Regarding Subrecipient Expenditure Monitoring (A Similar Condition Was Noted in Prior Year Finding #10-43)</b></p> <p>BWDP has disagreed with this finding and is awaiting USDOL to issue a determination.</p>	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-L&I-04	L&I	David Bohanick, Financial Coordination Services Supervisor	<p><b>Noncompliance Related to Period of Availability for Local Areas Resulting in Questioned Costs of \$155,590</b></p> <p>BWDP has disagreed with this finding and is in the process of seeking USDOL interpretation; however, BWDP will ensure, going forward, all local area formula allocated funds that are not fully expended within two (2) years are recaptured by the Commonwealth for reallocation. This process will begin 6/30/12 and then on an on-going basis.</p>	N/A
11-L&I-05	L&I	Michael Fuller, Division Chief	<p><b>Inadequate Monitoring of the ETA-9149 entitled, “Youth Served With WIA Recovery Resources Monthly Report” (A Similar Condition was Noted in Prior Year Finding #10-44)</b></p> <p>L&amp;I will follow up with the LWIAs that still show youth ARRA participants who have not been exited or transitioned into other WIA programs. A follow up report has been run and there are 8 youth cases (involving five LWIAs) that still need to be corrected. Staff will contact each LWIA that has participant records to correct. LWIAs have until February 3, 2012 to correct these records. On February 6, 2012 L&amp;I will rerun the report to verify that all corrections have been made. After that date, L&amp;I staff will contact any LWIA with outstanding corrections by phone to ensure that appropriate action is taken.</p>	<b>February 6, 2012</b>
11-L&I-06	L&I	Ryan Hyde, OVR CWDS Program Lead  Kathy Stine, BCO Fiscal Technician	<p><b>A Material Weakness Exists in L&amp;I’s Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #10-62)</b></p> <p>OVR disagreed with the finding as we have already implemented strategies that will resolve the issue moving forward, the following has been implemented to negate the issue:</p> <ol style="list-style-type: none"> <li>1. Provider purges have been implemented that will inactivate a provider after there has been two years of inactivity (no invoices or claims).</li> <li>2. During the summer of 2011 all active providers whose debarment was not checked for over two years were reviewed and updated. Changes to the CWDS system were also implemented that will show on the screen when the last debarment check occurred and who completed the check.</li> <li>3. As of October 1, 2011, OIT has created a report that they run monthly that will pull a list of vendors where OVR has spent over 25K in the past 12 month period. This list is submitted to the BCO</li> </ol>	<b>October 2011</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-L&I-06 (cont'd)			<p>Fiscal Technician who then reviews the file within CWDS, checking the debarment, and updating CWDS as appropriate.</p> <p>4. OVR will continue to check the debarment of all new providers as they are entered and will check the debarment of any existing vendors if the file is updated by OVR Central Office staff.</p> <p>The review of providers where OVR has spent more than 25K was implemented in October of 2011 and will be ongoing.</p>	
11-L&I-07	L&I	<p>Thomas Washic, Deputy Executive Director</p> <p>Nesta Livingston, Bureau Director, Central Operations</p>	<p><b>L&amp;I Did Not Comply With Maintenance of Effort Requirements Resulting in Questioned Costs of \$19,763</b></p> <p>1. OVR will contact RSA for guidance on the process to settle the cost. Status: Complete. OVR contacted Craig McManus at RSA.</p> <p>2. RSA will provide the guidance. Status: Pending. Craig McManus will verify the correct procedure and forward guidance to OVR.</p> <p>3. OVR will comply with whatever instructions are in the guidance. OVR will coordinate with the Comptroller's office to assure prompt completion. Status: Incomplete.</p>	June 30, 2012
11-DMVA-01	DMVA	Patricia Derry, Director, Bureau of Budget and Finance	<p><b>Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in QC of \$60,435 (A Similar Condition Was Noted in Prior Year Finding #10-35)</b></p> <p>This plan is regarding the 2nd portion of this finding. There was an issue with four transactions that were audited where the commitments were not listed on the end of year memo when the payments only took place after the end of December. The reason they were not listed is because the Invoice Receipt (IR) was entered prior to the end of December which would have liquidated the commitment and that is why it did not appear on the end of year report. The Goods Receipt (GR), however, was not entered until several months into the new year which is when the payments took place. DMVA issued Policy Information Memorandum (PIM) 10-025 on December 6, 2010 instructing program offices to enter all</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DMVA-01 (cont'd)			<p>GR's within three (3) days of receipt to ensure timely payment to vendors.</p> <p>In addition, six utility transactions that were audited were paid against the incorrect federal fiscal year. These transactions will be corrected and adequate controls are in place to prevent these occurrences. DMVA processes over 1.7 million financial transactions yearly and we find this risk to be minimal.</p>	
	<b>OB-BCA</b>	Danny Novak, Assistant Director, Federal Accounting	BCA disagrees with this finding and corrective action is not necessary. SF-270 Requests for Reimbursement are prepared as close as administratively feasible to the State's actual cash outlay. The SF-270 Request for Reimbursement Instructions state "for requests prepared on an accrued expenditure basis, outlays are the sum of the actual cash disbursements, the amount of indirect expenses incurred, and the net increase (or decrease) in the amounts owed by the recipient for goods and other property received and for services performed by employees, contracts, subgrantees and other payees." All SF-270s were properly prepared on an accrual basis and correctly included amounts for expenditures that were incurred prior PA Treasury payment.	N/A
11-DMVA-02	<b>DMVA</b>	Mandy Kroh, Director, Bureau of Office Services	<p><b>Equipment Management Internal Control Deficiencies and Noncompliance (A Similar Condition Was Noted in Prior Year Finding #10-34)</b></p> <p>The Procurement &amp; Contracting and Division of the Office of Administration drafted a Policy Information Memorandum (PIM) and issued it to DMVA employees. This PIM was released July 31, 2011. It includes the use of a new system that allows for federal indicators and a field for the internal order number to distinguish which federal grant was used to purchase the item. DMVA had all information transferred into the new system by August 31, 2011. Starting October 1, 2011, the listing of all federal property is provided to USPFO annually by 30 October and this will be included in the PIM. In addition, effective July 1, 2011 the form that is filled out by the purchasing agents listing required items for contracts that includes the fixed asset number that is obtained by BBF is required to be completed and attached to all contracts that are processed to ensure that a fixed asset number is in place for all applicable purchases.</p>	<b>Completed</b>
11-Pennvest-01	<b>Pennvest</b>	Beverly Reinhold,	<p><b>Internal Control Weaknesses in the Preparation, Review, and Approval of the CWSRF Annual Report Submitted to EPA (A Similar Condition Was Noted in Prior Year Finding #10-50)</b></p> <p>Chart 3 represents the binding commitment schedule. This chart excluded the ARRA portion (totaling \$176,912,530) in the cumulative binding commitments amounts. Chart 3 has been corrected to include</p>	<b>October 2012</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-Pennvest-01 (cont'd)		Deputy Executive Director for Financial Management	<p>the Binding Commitment amount in the chart. This addition will remain with the chart for future annual reporting purposes.</p> <p>Chart 11 represents the Intended Use Plan and Chart 12 depicts the Intended Use Plan Summary. We found that the administrative funds reported on Chart 11 and Chart 12 as \$48,470,021 was overstated by \$2.5 million. Chart 11 has been corrected to include the correct amount. In the future there will be independent verification of the amount shown in the various charts.</p> <p>The <i>Addendum to Narrative for the CWSRF Annual Report</i> summarizes the report's information for use in the Narrative Section. We reviewed the Addendum for accuracy by comparing it to the loans awarded information in Chart 1 and found inaccuracies. The Addendum has been corrected to reflect the correct amounts. In the future these numbers will be calculated by two independent people and compared for accuracy.</p> <p>The <i>Narrative for the CWSRF Annual Report</i> summarizes the report's information for use in the Narrative Section. We reviewed the Addendum for accuracy by comparing it to the loans awarded information in Chart 1 and found the following inaccuracies. Prior to submission of the entire Annual Report document there will be an independent review of all submission documentation by the Deputy Executive Director for Financial Management to make sure that the Final version of the Narrative is not a working version of the document and all attachments have been double checked for accuracy, including the Addendum information included in the Narrative.</p>	
11-Pennvest-02	Pennvest	Beverly Reinhold, Deputy Executive Director for Financial Management	<p><b>Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding #10-53)</b></p> <p>It is anticipated that the provided recommendations from the audit report will be implemented through the following activities:</p> <ol style="list-style-type: none"> <li>1. A log will be implemented immediately to establish evidence of production monitoring reports by management.</li> <li>2. The PENNVEST SharePoint environment will be (planned in the previous audit period) moved into the Commonwealth Technology Center, Enterprise Server Farm to segregate both physical access and to further segregate administrative controls from PENNVEST IT personnel.</li> </ol>	June 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-Pennvest-02 (cont'd)		Laura Lewis, Deputy Executive Director for IT	<ol style="list-style-type: none"> <li>3. Policies and procedures will be formalized for management of adding and terminating various types of roles and permissions for the Funds Disbursement system and the Online Application System.</li> <li>4. Immediate measures will be implemented to ensure more tightly enforced policies for locking of server cages and stricter controls for physical accesses.</li> </ol> <p>PENNVEST expects to complete these new controls and measures by June 2012. In addition, continued efforts will be taken to further review existing controls to ensure compliancy by:</p> <ol style="list-style-type: none"> <li>1. Re-evaluation the current structure of job responsibilities to identify any further opportunities for job duty segregation.</li> <li>2. Evaluate additional software for more advanced monitoring of user activities and enforced security.</li> <li>3. Conduct a self-audit for compliancy upon completion of the controls.</li> </ol>	
11-Pennvest-03	<b>Pennvest</b>	Jan Napoli, Loan Service Officer	<p><b>Internal Control Improvements Needed in Subrecipient Loan Monitoring System</b></p> <p>Issues related to the new OnBase tracking system have been identified and are being resolved. This should be completed by mid-March 2012.</p> <p>A determination of the missing financial statements will be made and the borrowers contacted to submit the financial statements by the end of April 2012.</p> <p>As the financial statements are submitted they will be reviewed by the independent CPA and appropriate actions taken. Due to currently unknown number of reviews to be caught up this may be done by about mid-summer 2012.</p> <p>The delinquency tracking will continue to monitor any loans that fall behind on repayments and address as necessary. The loans currently in workout will continue to be monitored on a continuous basis with regular monthly reporting.</p>	<b>August 2012</b>
11-DPW-01			<p><b>Weaknesses in DPW IT Systems Used for TANF, CSE, Foster Care and Adoption Assistance, DPW Monitoring of CSE County Subrecipient IT User Controls, and Internal Control Deficiencies and Material Noncompliance Related to SNAP IT Systems (A Similar Condition Was Noted in Prior Year Finding #10-19)</b></p>	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-01 (cont'd)	DPW	<p>Thomas Zarb, Information Technology Generalist Administrator 2 (BIS)</p> <p>Andy Tiazkun, Financial Planner Manager</p> <p>Janis Bell, Office of Inspector General</p>	<ul style="list-style-type: none"> <li>• DPW instated new policy May 17, 2011, the User and Access Certification policy has been implemented. User applications are being reviewed yearly to ensure that staff has appropriate access to DPW systems.</li> <li>• DPW staff began to monitor job failures daily in December 2010 based on the procedures for follow-up resolution.</li> <li>• The DPW upgraded the OpCons application on 3/4/11. This upgrade also included the elimination of shared user IDS. Anyone that has access to use this application has been given their own user account.</li> <li>• The DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts to comply with the password policies. This will be completed when funding is available.</li> <li>• The users of the ARRC system are the County Assistance Office personnel who are given access through BIS. Access to ARRC is granted, changed and deactivated based on automated feeds received from Human Resources. The level of access that is granted is defined by security codes that are assigned to staff based on their employment classifications. The BIS will extract information regarding users that have access to the ARRC system. The access codes will be reviewed for access rights and any exceptions will be provided to Operations to review on an annual basis. This process began in FY 2012.</li> <li>• The Office of Inspector General (OIG) began to maintain a log of changes that a developer programs. Then another designated OIG staff (who is not a developer), or the backup in this person's absence, in the OIG Bureau of Information Systems will implement the changes on the production server. The OIG implemented this procedure within the FY June 30, 2011.</li> </ul>	Various
	OIG	<p>William Barrett, Director of the OIG Bureau of Information Systems</p> <p>Janis Bell, Chief of the OIG Business Applications Development Division</p>	<p>The Office of Inspector General (OIG) now maintains a log of changes that a developer programs. Then another designated OIG staff (who is not a developer), or the backup in this person's absence, in the OIG Bureau of Information Systems will implement the changes on the production server. The OIG implemented this procedure as a corrective action June 30, 2011.</p> <p>Also the OIG will review the following guidance from the auditors for implementation in the future, if possible:</p> <p>The best solution would be to implement a migration tool that would provide an automated workflow based on roles. This solution is geared at preventing unauthorized changes in the production environment. The goal of this solution is to lock out programmers from making direct changes to production code, and requires a supervisor-level employee to log into the workflow tool and approve any</p>	Completed



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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-01 (cont'd)			code changes before the change can be scheduled for implementation. Using this model, all affected code should be validated and tested and automatically scheduled for implementation using the migration tool.	
11-DPW-02	DPW	Ralph Reichert, Director, Division of Office Services, Bureau of Program Support, Office of Income Maintenance	<b>Internal Control Deficiencies and Noncompliance at DPW Related to Returned EBT Cards (A Similar Condition Was Noted in Prior Year Finding #10-18)</b>  Additional staff has been assigned to the EBT returned card process, and updated central office procedures instituted to improve accountability of returned cards. This was done in October 2011.	<b>Completed</b>
11-DPW-03	DPW	Ralph Reichert, Director, Division of Office Services, Bureau of Program Support, Office of Income Maintenance	<b>Internal Control Deficiency and Compliance Finding at DPW Related to Timely Filing of Monthly and Quarterly Reports</b>  Additional staff has been assigned as backup for the submission and certification of the identified report (FNS-46). This was done in October 2011.	<b>Completed</b>
	OB-BCA	Tammy Miller, Manager, Med Assist Fed Accounting Unit	The following corrective action steps been implemented and have resulted in timely certification of the CMS-64 quarterly reports. <ol style="list-style-type: none"> <li>1) Increased knowledge of staff new to the Unit, including the Manager.</li> <li>2) Filled the vacant position responsible for the MA Administrative Grant.</li> <li>3) Cross-trained staff to perform multiple functions.</li> </ol>	<b>Completed</b>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-04	DPW	Ralph Reichert, Director, Division of Office Services, Bureau of Program Support, Office of Income Maintenance	<p><b>Internal Control Deficiency and Compliance Finding at DPW Related to EBT Daily Reconciliation</b></p> <p>Additional staff has been assigned as backup to ensure the reports are done timely. This was done in October 2011.</p>	Completed
11-DPW-05	DPW	Tamila Lay, Director, Division of Policy, CAO- Based Programs and Development, Bureau of Employment and Training, Office of Income Maintenance	<p><b>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #10-30)</b></p> <p>DPW disagrees with the overall finding, though we agree with some of the errors cited.</p> <p>This finding is partially based on audits performed by the Bureau of Financial Operations that covered the period October through December, 2009, which is prior to the current audit period. As such, the results of these audits do not reflect the procedures in place during the audit period. Through continuous efforts to improve program administration and accuracy, DPW has taken actions to strengthen policies and procedures to further increase controls and eliminate waste, such as: additional training on SPAL requirements, limits, coding, and overpayment processing; improved procedures for monitoring SPALs; require corrective action plans from CAOs when SPAL errors are found.</p> <p>This finding is also based on a Special Report issued by the Auditor General in September 2011 on Electronic Benefits Transfer (EBT) cards, citing lax oversight, failed leadership and inadequate monitoring relevant to the use of EBT for the delivery of public assistance benefits (including SPALs). In addition to existing internal controls already in place, in 2011 DPW initiated efforts to develop and implement an internal process to monitor EBT card usage to help identify potential fraud and abuse, and hired additional staff to implement/enhance this process. We are also working with the Office of Inspector General on this issue.</p> <p>DPW is proactive in rooting out waste, abuse and fraud. Because of ongoing actions to strengthen policies and procedures to further increase controls and eliminate waste, we disagree with this finding.</p>	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-06	DPW	Cliff Crowe, Acting Bureau Director, Bureau of Budget & Fiscal Support	<p><b>Weaknesses in Department of Public Welfare Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding #10-79)</b></p> <p>1.) OCYF agrees that Bulletin 00-95-08 is outdated. Plans are to revise the bulletin by July 1, 2012 to include and update only the licensing inspection piece, as there are now separate protocols and procedures for conducting the quality assurance reviews which have been determined adequate by the Auditor General's Office.</p> <p>DPW disagrees with the Auditor's finding regarding the consistent application of the appropriate licensing inspection procedures. Not as a result of this audit, a workgroup was developed to discuss the uniformity of licensing inspection summaries (LIS) for each inspection. As a result of the workgroup, the LISs were re-formatted and revised to provide clearer direction for the regional staff when conducting inspections. If a certain agency does not provide a certain service, a N/A will be noted on the LIS to show uniformity in compliance. There is also an attestation clause added to the end of the summary to support that all areas were reviewed. This LIS will be implemented by all regional staff effective July 1, 2012. A draft of the LIS and the crib sheet (guide to complete LIS) was provided with this CAP. OCYF feels that these added steps will satisfy the audit findings.</p> <p>2. OCYF agrees that Adoption Assistance and TANF have not been adequately monitored during Quality Assurance reviews. Protocols and procedures related to these programs were developed and implemented October 2011. The Auditor General's Office have already reviewed the protocol and procedures and determined them adequate to meet this finding.</p>	July 1, 2012
11-DPW-07	DPW	Patricia Weik, Bureau of Program Evaluation, Division of Quality Control,	<p><b>Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #10-78)</b></p> <p>DPW disagrees with the overall finding, but agrees with several cases.</p> <p>Four of the cases cited by the audit finding as having "errors and/or documentation discrepancies" meets DPW's verification requirements as approved by HHS but were calculation errors. Therefore, we do not agree with the auditor's conclusion that "DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan." DPW is in compliance with the reporting requirements and has taken steps to provide remedial action for the calculation errors cited in the audit finding.</p>	March 30, 2012

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11-DPW-07 (cont'd)		Operations Specialist	Accordingly, the corrective action needed will be to review 10% of the cases monthly to monitor calculation inconsistencies with remedial action as needed. Monthly calls to enforce and reevaluate consistent review measurements will be held with supervisors to monitor compliance with audit standards and verification requirements.	
11-DPW-08	DPW/PID	Thomas Zarb, Information Technology Generalist Administrator 2  Pamela Skelton, IT Generalist 2	<b>HHS-Required ADP Risk Analysis and System Security Review Was Not Performed for Various DPW and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Findings #10-80 and #10-96)</b>  DPW has stood up RSAs Archer GRC tool which will be used to perform Risk/Security assessments for the applications listed in this finding. Now that the tool is completely stood up, DPW started to perform the assessments on the applications and plans to be done by 06/30/12. DPW will also be performing these assessments at least every 2 years unless there are major functionality changes within the applications. If there are major functionality changes DPW will perform the risk assessment before those changes are put into production to ensure that DPW mitigates any potential risk.	<b>June 30, 2012</b>
11-DPW-09	DPW	Suzanne H. Connolly, Director - Bureau of Program Evaluation, Office of Income Maintenance	<b>Unallowable Contract Expenditures Resulted in \$507,835 In Questioned Costs (A Similar Condition was Noted in Prior Year Finding #10-83)</b>  DPW disagrees with the finding.  The outside monitor utilized by DPW to assist in our monitoring program was hired, in part, in response to the AG's Special Audit of LIHEAP in 2007 in which the AG raised concerns critical of DPW's monitoring efforts. The overall administration of the LIHEAP program has improved, in part, as a result of the expertise provided by the outside independent monitor.  The outside monitor is a forensic accounting firm that assisted DPW in putting together and implementing systems and controls to prevent internal or external fraud and to help improve program performance, providing independent ideas, perspective and experiences during the course of their work that continues to contribute to the overall improvement of the LIHEAP program.  DPW management periodically met with the contractor to evaluate the billings to ensure that, on an	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-09 (cont'd)			<p>annual basis, the work plan was met and DPW received their agreed-upon allotment of services.</p> <p>For DPW to be solely responsible for all the LIHEAP monitoring, additional staff would be needed, and the estimated additional costs would exceed the cost incurred to use the outside monitor. A partnership that effectively combines the program and system knowledge of DPW staff with the forensic auditing experience and insight of a private sector, independent outside monitor results in improved program administration and utilization of funds.</p>	
11-DPW-10	DPW	Catherine Buhrig, Division Director, Division of Federal Programs and Program Management, Bureau of Policy	<p><b>Noncompliance and Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits Resulting in Questioned Costs of \$2,897 in LIHEAP (Similar Conditions Were Noted in Prior Year Findings #10-82 and #10-84)</b></p> <p>DPW disagrees with the overall finding, but agrees with several cases.</p> <ul style="list-style-type: none"> <li>One household was approved for duplicate payment: two applicants residing in the same household inappropriately received benefits by claiming on each application to have rented from the other party.</li> </ul> <p>DPW has made changes in the eCIS to prevent this issue from happening in the future. As of the beginning of the 2011-2012 LIHEAP season, the eCIS system will give workers a warning message informing them that other cases exist with the same address and they will need to investigate to ensure the information provided is accurate.</p> <ul style="list-style-type: none"> <li>Two applicants underreported income on their applications.</li> </ul> <p>DPW authorized benefits based upon known information and it appears the client misled or withheld income information. DPW referred these cases to the Office of Inspector General. No further corrective action is necessary.</p> <p>Adequate internal controls are in place to ensure that LIHEAP is being administered accurately and efficiently with all supporting documents that are necessary to determine eligibility to be in compliance with state and federal regulations. In addition, DPW conducts thorough training of staff to ensure that:</p> <ul style="list-style-type: none"> <li>LIHEAP policy is applied correctly on all applications</li> <li>Verification provided by all applicants is interpreted and input into eCIS accurately</li> </ul>	November 1, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-10 (cont'd)			<ul style="list-style-type: none"> <li>Information known to CIS and available through data exchanges is reviewed and used properly</li> </ul> <p>DPW is continually making improvements and system enhancements to eCIS to ensure there are adequate internal controls and to reduce fraud and abuse in the program.</p>	
11-DPW-11	DPW	Todd Klunk, Director of Finance, Administration and Planning	<p><b>Noncompliance and Internal Control Weakness Over Health and Safety Requirements</b></p> <p>OCDEL has already engaged in conversations with DPW HR. The plan is to request an additional 1-2 wage positions in Certification to help address the high turn-over rate and long term leave issues. If the federal block grant is increased we will work to make these permanent positions.</p> <p>This strategy has already helped to reduce the 25% overdue rate to 5%. One to two additional wage positions should prove successful.</p>	May 1, 2012
11-DPW-12	DPW	Amanda Newman, HSDF/SSBG Program Administrator	<p><b>Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (A Similar Condition Was Noted in Prior Year Finding #10-91)</b></p> <p>Corrective Action had begun implementation when the SSBG Monitor was hired November 20, 2010. Since then the SSBG Monitor resigned from the position on June 16, 2011. This position is still open within BFO and the agency is awaiting approval from DPW Human Resources to fill this vacancy. Currently, the SSBG Administrator in BFO is in the process of completing the pending monitoring reports for the Mental Health Program. Once the SSBG Monitor position is hired, BFO plans to review the funding for Legal Services, the Homeless Assistance Program (HAP), Domestic Violence, Rape Crisis, County Assistance Office Case Management, Child Welfare, and Family Planning services. Community Mental Retardation services will also be monitored, if the BFO risk assessment process indicates that it is necessary.</p>	June 30, 2013
11-DPW-13	DPW	Lois Huling, Director, Division of	<p><b>Inadequate Controls Related to the Charging of Youth Development Services Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #10-92)</b></p> <p>The OCYF has implemented a monthly auditing process to ensure that timesheets are signed by both the employee and the employee's supervisor or the shift supervisor as required in the Bureau of Juvenile Justice Services' Timekeeping Policy 8.19. Each month, the Time Advisor selects a random sampling of</p>	Completed

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-13 (cont'd)		Administration and Quality Improvement, Bureau of Juvenile Justice Services Office of Children, Youth and Families	<p>timesheets and performs the audit. Items that the Time Advisor checks during the audit include but are not limited to: employee signature for each day worked and the employee supervisor's (or shift supervisor's) signature. After the audit is performed each month, the results are sent to the Facility Directors and Regional Directors as well as the Financial Manager, Director of Human Resources, Director of Administration and Quality Improvement, and Director of the Bureau of Juvenile Justice Services.</p> <p>The OCYF will continue quarterly random position description audits in order to ensure properly approved position descriptions are on file for all YDC/YFC staff.</p> <p>Monthly auditing process was implemented beginning with July 2011 timesheets.</p>	
11-DPW-14	DPW	Richard Wallace, Acting Director of Operations, Bureau of Operations, Office of Income Maintenance	<p><b>Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses</b></p> <p>DPW disagrees with this finding.</p> <p>Of the five cases cited for lack of documentation, we provided documentation for four of the cases. The one remaining case does not support this finding.</p>	N/A
11-DPW-15	DPW	Cheryl Henne, SPBP Administrator  Sarah Witmer, Director,	<p><b>Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$21,366 (A Similar Condition Was Noted in Prior Year Finding #10-98)</b></p> <ol style="list-style-type: none"> <li>The SPBP disagrees with the OAG's recommendation to pursue appropriate settlement with HHS regarding current year questioned costs associated with program eligibility documents and can justify and defend its management of the program for this time period.</li> <li>The SPBP agrees with the OAG that in order to run a quality program it is imperative and incumbent upon the program administration to take the necessary steps to ensure eligibility determinations and</li> </ol>	N/A

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-15 (cont'd)		Division of Operations	<p>administration of the third party contractor meet HRSA requirements. To that end, the SPBP has taken the following steps to ensure that applications are properly approved, rejected, or referred to other insurance programs and adequate documentation supporting the participant's eligibility is maintained within the participant's case files. Furthermore, the SPBP received email confirmation from HRSA that a SSN is not required for those individuals who are deemed illegal alien as it is HRSA's intent to stop the disease. Additionally, the SPBP utilizes a third party recovery vendor, HMS, and has collected over <u>\$8,772,616.73</u> in third party recoveries during the time period of this audit.</p> <ul style="list-style-type: none"> <li>- All client files have been electronically imaged in order to create a single electronic record for each cardholder. All correspondence and information either sent or received is imaged into the record and available to the SPBP.</li> <li>- A decision logic table (DLT) was developed which outlines Pennsylvania's eligibility requirements and the acceptable documentation for verification.</li> <li>- A Case Manager handbook was drafted for the purpose of providing clear direction and information to Case Managers when supporting potential clients to apply for benefits.</li> <li>- A DLT Oversight team was created which reviews all policy and makes recommendations on the acceptability of documents to validate eligibility requirements to the Program Administrator. This team is also responsible for the oversight of the vendor and is in the process of identifying additional reporting requirements and monitoring standards as the application and recertification process progresses. Measures are established and utilized to monitor performance.</li> <li>- Required timelines were instituted for all phases of the application process.</li> <li>- The claims processing vendor provides numerous reports which provide data as to each of the phases of the application, recertification and Quality Management components of the process to ensure compliance with SPBP expectations. Additional benefits of the vendor include:</li> <li>- A Quality Assurance department which completes a 100% quality checks on all completed applications.</li> <li>- An automated process which provides edits for income limits, generates all required correspondence and system alerts</li> <li>- Continued system matches with Medical Assistance (MA), Medicare and other third party payers to verify the existence of other insurance resources.</li> <li>- Recovery services through the vendors contract with Health Management Systems (HMS) for reconciliation of TPL benefits and MA reimbursements.</li> </ul>	



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**Corrective Action Plans - June 30, 2011**

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-15 (cont'd)			<p>3. The SPBP agrees with the OAG and has taken the following steps to ensure that proper auditing and monitoring is performed on the third party contractor that administers the pharmacy benefit claims process, the annual re-certification process, and the third party liability process to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor.</p> <ul style="list-style-type: none"> <li>- As previously stated, the Quality Assurance process completes a 100% review of all applications processed.</li> <li>- Additionally, regular reports and daily logs document and account for all phases of the application and recertification process. This provides data for the SPBP to use in the monitoring of phases of the work completed by the vendor. A separate log is provided documenting all applications that have been processed and pended and the reason for the activity. This log also includes any applications determined by the QA process that require corrections.</li> <li>- The SPBP's DLT Committee is responsible for the oversight of the vendor and is in the process of identifying additional reporting requirements and monitoring standards as the application and recertification process progresses. Measures are established and utilized to monitor performance.</li> </ul> <p>4. The SPBP agrees with the OAG and has taken the following steps to ensure fraud prevention within the SPBP is minimized.</p> <p>The SPBP pharmacist continually creates and uses reports to monitor over utilization as well as program strategies to minimize the opportunity for the misuse of benefits. For example, the SPBP has proposed limiting the number and frequency of refills whereby an enrollee must utilize at least 85% of the medication prior to receiving a refill.</p> <p>These are an on-going processes listed above to ensure proper management and oversight of the SPBP.</p>	
11-DPW-16	DPW	David Bryan, Manager, Audit Resolution	<p><b>Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (A Similar Condition Was Noted in Prior Year Finding #10-101)</b></p> <p>To address the timeliness issue, DPW plans to institute a threshold for single audit reviews. Any audit that involves less than \$300,000 of funding passed-through DPW will only receive a cursory review (the review will focus on items such as whether the necessary elements of a single audit report are present,</p>	June 30, 2012

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-DPW-16 (cont'd)		Section  Alexander Matolyak, Director, Division of Financial Policy and Operations	whether the opinion is unqualified, and whether there are any findings that relate to DPW funding). If there are no major deficiencies noted in the cursory review, the results will be reported to the Bureau of Audits in a batch letter which will also reduce the correspondence involved. This will allow the DPW to focus attention on audits of the larger subrecipients and complete the reviews of those single audits and the related audit settlements more timely. The DPW also plans to fill the staffing vacancy in this area which should also help to reduce the backlog. DPW is not convinced that following up on significant SEFA reconciliation differences is necessary since our current cost settlement process does essentially the same function. However, DPW will investigate what it will take to reconcile the SEFAs so any differences are insignificant and will make a decision as to whether the additional assurance warrants the effort involved.	
11-PennDOT-01	PennDOT	Rebecca Burns, Chief, Bureau of Project Delivery, Innovation and Support Services Division	<p><b>Internal Control Deficiencies Related to Buy American ARRA Provisions (A Similar Condition Was Noted in Prior Year Finding #10-46)</b></p> <ol style="list-style-type: none"> <li>1. BOCM to talk with AG's office to understand the finding. The AG auditor indicates the finding is that the Department is not complying with Pub 408 for unidentified steel. Complete</li> <li>2. Meet with PennDOT OCC to determine appropriate definition of unidentified steel Complete</li> <li>3. Propose Publication 408 change to insert definition of unidentified steel if approved by OCC Complete</li> <li>4. Propose Pub 2, Project Office Manual (POM) change(s) to address unidentified steel required documentation Complete</li> <li>5. Circulate Pub changes in Clearance Transmittal (CT) process Complete</li> <li>6. Collect comments on CT and revise Publications 408 and 2. Complete</li> </ol>	April 2012

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## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-PennDOT-01 (cont'd)			7. Issue SOL implementing change and emphasizing compliance with Pub 408 provisions and the POM. Target: April 2012	
11-PennDOT-02	PennDOT	<p>Kevin Connors, Highway Applications Division Chief, Bur. of Business Solutions and Services</p> <p>Roger Riley, Director, Bureau of Business Solutions and Services</p> <p>Deb Reihart, Chief, Systems Management, Bureau of Project Delivery</p> <p>Diane Chamberlain, Director, Bureau of</p>	<p><b>Deficiencies in Information Technology Controls in the Engineering and Construction Management System (A Similar Condition was Noted in Prior Year Finding #10-45)</b></p> <ol style="list-style-type: none"> <li>1. PennDOT has a business necessity to allow “acting” roles for short periods of time. “Acting” roles are necessary for periods of time between when personnel depart and the vacant position is filled. It is PennDOT’s understanding that AG is agreeable to this need provided that requests are necessary to continuing to conduct business, temporary and adequate management controls are set in place. To ensure controls are established, PennDOT added a line to the ECMS User Access form for acting positions and also added processes to indicate that persons in those roles would need to reapply every six months. Automated reports are produced listing individuals with mutually exclusive roles for longer than six months. All individuals in these temporary roles are required to have documented and approved business justification for assignment to these roles.</li> <li>2. ECMD has issued a memo to all IT Coordinators informing/re-informing them that there will be NO changes to roles (including termination) without a properly completed ECMS User Request Form. This has also been emphasized in meetings with all District Assist District Executives (ADE’s) for Design.</li> <li>3. ECMD reviews an automated report that lists inactive users (no ECMS System activity for 6 months). Each User listed on the report is contacted to determine if continued ECMS access is required/justified. Separated users will have access removed (with request for a completed ECMS User Request Form) at this time (in the event the request to revoke ECMS access was not filed at the time of the employee’s departure).</li> <li>4. PennDOT will investigate current procedures for compliance to Management Directive 205.4.</li> <li>5. Currently, Bureau Directors are responsible for the approval of signature authorizations and revocations; therefore, each Bureau Director and his/her section will be held accountable for the filing and updating of signature authorization forms as well as initiating a periodic review of the Signature Authority Forms (STD-275) on file with OB-OCO, as required by Management Directive</li> </ol>	<b>December 2012</b>

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**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-PennDOT-02 (cont'd)		Office Services	205.4. The Bureau of Office Services is currently awaiting a legal decision on delegation authority for deputy secretaries within PennDOT. A database has been developed and will serve as a repository for Signature Authority Forms (STD-275). The Bureau of Office Services will manage this database which will allow PennDOT to keep up-to-date Signature Authority forms and to initiate periodic reviews of the Signature Authority Forms with OB-OCO.	
11-PennDOT-03	PennDOT	J. Michael Long, P.E. Chief, Contract Mgmt Section, Highway Delivery Division, Bureau of Project Delivery	<p><b>Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects (A Similar Condition Was Noted in Prior Year Finding #10-47)</b></p> <p>PennDOT has updated Publication 2 (Project Office Manual) to require the use of checklists for future projects in order to assure statewide consistency. PennDOT will also assure proper reference in Publication 39 (Procedures for the Administration of Locally Sponsored Projects).</p> <p>Strike Off Letter 420-11-08 was issued 10/11/11 to require the use of checklists. This policy addresses the finding. The actual updated version of Pub 2 will be issued March, 2012. Pub 39 was updated October 2011.</p>	March 2012
11-OB-01	DGS/ OB-BFM	Beverly Hudson, Special Assistant to the Secretary, DGS  Michael Burns, Director of Financial Management, OB-BFM	<p><b>Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Findings #10-17 and #10-95)</b></p> <p>In February 2012, the Commonwealth and its auditors agreed on a resolution that enables the auditors to satisfactorily complete their procurement testing related to evaluation committee members by completing the following steps at the offices of the Department of General Services (DGS):</p> <ol style="list-style-type: none"> <li>1) For selected procurements, the auditor and/or audit manager will review an un-redacted summary score sheet and corresponding Statements of No Conflict of Interest (SNCI) and Confidentiality Agreements (CA) for each evaluation member in the presence of the procurement professional and program management.</li> <li>2) Scribe notes onto auditor work papers only to indicate confirmation that all evaluation committee members had properly executed SNCIs and CAs; not to cite specific names of evaluation committee members.</li> <li>3) Following audit staff review, leave all records with DGS procurement professional and program</li> </ol>	March 31, 2012

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-OB-01 (cont'd)			<p>management.</p> <p>4) Audit staff shall leave the DGS premises with only redacted copies of summary score sheets.</p> <p>5) If the auditor or audit manager determines a need for additional information, such as an interview of an evaluator, follow established protocol to present a compelling reason and request an interview through DGS.</p> <p>This resolution was implemented near the completion of the audit fieldwork for the June 30, 2011 Single Audit. Applying the ascribed resolution in the next complete audit cycle should eliminate this audit finding.</p>	
11-OB-02	OB-BFM	Michael Burns, Director	<p><b>State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Findings #10-43, 10-48, 10-49, 10-56, 10-58, 10-72, and 10-77)</b></p> <p>Refer to the agency response in the audit finding to view details regarding our disagreement.</p>	N/A
11-OB-03	OB-BCA	Richard Cardamone, Director, Bureau of Accounting	<p><b>Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$184,759 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #10-104)</b></p> <p>The CMIA Treasury-State agreement was revised to reflect the appropriate monthly draws based on actual costs for the Supplemental Nutrition Assistance Admin and Medical Assistance programs.</p> <p>For all other instances the Office of Comptroller Operations (OCC) disagrees with the auditors. Additional information was provided to the auditors to assist in addressing and resolving these conditions. However, the auditors have a different interpretation of policy and regulations. The auditors did attempt to discuss the finding with US Treasury, however they were advised that US Treasury had no basis to interpret the policy and regulations in question. OCO will work with the auditors to identify contacts in the federal agencies that can clarify the policy and regulations in question. In the mean time, no corrective action will be implemented.</p>	<p><b>Completed</b></p> <p>N/A</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-OB-04	OB-BOA	Denise Lovejoy, Audit Manager of the Desk Review Unit	<p><b>Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding #10-102)</b></p> <p>Seven of the 12 reports, which the external auditors took exception to, were processed by BOA within our two month target. Four of the remaining five delinquent reports relate to county governments which are cumbersome and often require us to review multiple single audit reports for the primary county government and its component units. Therefore, we are re-evaluating the way we approach our review of county single audit reports. Up to this point in time, we tasked one ASIII with the review of all 67 counties along with the conduct of second level reviews. To ensure that the review of the county reports with findings is conducted within the expected two month timeframe, we will now shift a portion of this workload as follows:</p> <ol style="list-style-type: none"> <li>(1) A newly hired Audit Specialist 3 will be responsible for all second level reviews for Non-Profits (NP), For-Profits (FP), Local Government Entities (LGE), and Local Education Agencies (LEA) once the Audit Specialist 3 is fully trained by the Audit Manager of the Desk Review Unit. In the interim, Audit Manager will assist in performing the second level desk reviews for these entities. The Audit Specialist 3 is expected to be fully trained by May 31, 2012.</li> <li>(2) The designated Audit Specialist 3, who was performing first and second level desk reviews for Counties, Related Component Units and Other County Related Entities along with performing second level reviews for NP, FP, LEA, and LGE, will now be responsible for only Counties, Related Component Units and Other County Related Entities . This sole focus will allow the Audit Specialist 3 to process the reports more timely during the influx season of the submission due date of September 30, 2012 for single audit reports with fiscal years ending December 31, 2011. This strategy will be implemented by April 1, 2012, which will alleviate the backlog and ensure timely processing of the Counties.</li> <li>(3) We will begin the process of cross training another staff member to assist on County reports without findings and/or without component units. The cross-training of the staff member will occur by September 30, 2012 but no later than December 31, 2012.</li> </ol> <p>These actions will ensure that all single audit reports with findings will be processed within no more than two months from the date of receipt. This will give the passed through Commonwealth agencies four months to process the same single audit reports with findings. The exception to the rule is if the</p>	<b>December 31, 2012</b>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-OB-04 (cont'd)			<p>single audit report is rejected for deficiencies or for other deficiencies pending resolution. Management Directive 325.9, Processing Audits of Federal Pass-through Funds, is being revised to address the 2-month window of the 6 months for BOA and 4 months for the agencies to resolve those single audit reports with findings.</p> <p>In addition, a future meeting of the Subrecipient Monitoring, Audit Resolution, and Technical Support (SMARTS) Task Force will address the timely processing of single audit reports with findings. SMARTS was created in October 2011. The purpose of the SMARTS Task Force is to implement a standardized method for processing single audit reports with or without findings, resolving those reports with or without findings in a timely manner, and developing strategies for refining the reconciliatory process for the SEFA compared to the Commonwealth records. The next meeting is tentatively scheduled for April 2012.</p> <p>BOA continues to dun, on a semiannual basis, the subrecipients who are delinquent in the submission of their single audit reports. In addition, BOA continues to work with the agencies to impose the sanctions, afforded by OMB Circular A-133, on these delinquent subrecipients. Further details related to this process are shown below:</p> <ol style="list-style-type: none"> <li>1. Delinquent subrecipients were properly dunned to inform them of their noncompliance with the auditing and reporting requirements of OMB Circular A-133. The dunning process is performed for December 31 and June 30. When there is no response through the dunning process, those subrecipients are forwarded to the corresponding commonwealth agency(ies) who provided the federal funding. BOA diligently works with the agencies to consider imposing sanctions against the delinquent subrecipients as required by OMB Circular A-133 and Management Directive, 325.8, Remedies for Recipient Noncompliance with Audit Requirements.</li> <li>2. Another proactive approach to consider is to immediately notify the Commonwealth agencies of those delinquent subrecipients after the required deadline submission date of 3/31 for the 6/30 fiscal year and 9/30 for the 12/31 calendar year. BOA will still send a dunning letter. However, the Commonwealth agencies will be notified at the same time of those delinquent subrecipients. This will allow the Commonwealth agencies to expedite remedial action sooner. This concept will be implemented by March 31, 2012 for the delinquent December 31, 2010 and June 30, 2011 subrecipients.</li> </ol>	

**COMMONWEALTH OF PENNSYLVANIA**

**Corrective Action Plans - June 30, 2011**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-OB-04 (cont'd)			New procedures will be implemented for desk reviews of entities having audits with fiscal year ends of December 31, 2010, June 30, 2011, and December 31, 2011.	
	<b>PDA</b>	Robert Heinlen, Aging Services Specialist	PDA has developed a tracking log to monitor audit receipt and processing times. This will allow for tracking audit status and aid in ensuring the reports are being processed timely.	<b>Completed</b>
	<b>DPW</b>	David Bryan, Manager, Audit Resolution Section  Alexander Matolyak, Director, Division of Financial Policy and Operations	To address the timeliness issue, DPW plans to institute a threshold for single audit reviews. Any audit that involves less than \$300,000 of funding passed-through DPW will only receive a cursory review (the review will focus on items such as whether the necessary elements of a single audit report are present, whether the opinion is unqualified, and whether there are any findings that relate to DPW funding). If there are no major deficiencies noted in the cursory review, the results will be reported to the Bureau of Audits in a batch letter which will also reduce the correspondence involved. This will allow the DPW to focus attention on audits of the larger subrecipients and complete the reviews of those single audits and the related audit settlements more timely. The DPW also plans to fill the staffing vacancy in this area which should also help to reduce the backlog. DPW is not convinced that following up on significant SEFA reconciliation differences is necessary since our current cost settlement process does essentially the same function. However, DPW will investigate what it will take to reconcile the SEFAs so any differences are insignificant and will make a decision as to whether the additional assurance warrants the effort involved.	<b>June 30, 2012</b>
	<b>PDE</b>	Audit Coordinator, Division of Budget, Bureau of Budget and Fiscal Management	The PDE, Audit Section is in the process of assigning a position that will be responsible for the review of the Subrecipient Single Audit Reports with findings along with providing management decisions within the six month timeframe. These responsibilities will also include the implementation of the Remedial Action Process for Subrecipients that have not submitted their Single Audit Reports in accordance with OMB Circular A-133.	<b>June 2012</b>
	<b>DOH</b>	David DePeau, Chief, Audit Resolution Section	DOH will seek to fill the subrecipient audit review position that is assigned to do this work as soon as budgetary constraints permit doing so.	<b>December 31, 2012</b>



# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - June 30, 2011

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
11-OB-04 (cont'd)	L&I	Mark Fausey, Budget Analyst III Bureau of Financial Management	It is anticipated that if consistent staffing is able to be maintained along with more diligent monitoring of the Bureau of Financial Management's Audit Tracking System that adherence to compliance of a six-month management decision will be achieved. The already implemented corrective action continues to be ongoing with increased diligence to monitoring effective immediately upon receipt of this finding.	Ongoing
	Pennvest	Jan Napoli, Loan Service Officer	<p>Issues related to the new OnBase tracking system have been identified and are being resolved. This should be completed by mid-March 2012.</p> <p>The Loan Service Officer has made notations their personal calendar in order to ensure timely SEFA reconciliations are effectively accomplished within the 6 month timeframe. This is completed and will be an ongoing action.</p> <p>The backlog is being addressed as well as the overload of work.</p>	June 2012
11-OB-05	OB-BOA	John Kaschak, Director	<p><b>Insufficient Evidence Necessary to Opine on the Commonwealth's Compliance With Requirements That Could Have a Direct and Material Effect on Certain Major Federal Programs</b></p> <p>The required representations and/or additional information will be shared with the grantor agencies and the auditors immediately upon receipt from the external entities.</p>	Not Determined

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# Appendix



Commonwealth of Pennsylvania

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***APPENDIX - Legend of Abbreviations - June 30, 2011***

The following legend presents descriptions of abbreviations that appear throughout the report:

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
ACF	Administration for Children and Families
AGRI	Department of Agriculture
ARC	Appalachian Regional Commission
ARRA	American Recovery and Reinvestment Act
BCPO	Bureau of Commonwealth Payroll Operations
BCA	Bureau of Commonwealth Accounting
BFM	Bureau of Financial Management
BFS	Basic Financial Statements
BOA	Bureau of Audits
BPS	Bureau of Payable Services
BQA	Bureau of Quality Assurance
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CAO	County Assistance Office
CAP	Corrective Action Plan
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grant
CDS	Central Drawdown System
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHIP	State Children's Health Insurance Program
CIS	Client Information System
CMIA	Cash Management Improvement Act of 1990
CNC	Child Nutrition Cluster
CRP	Contractor Responsibility Program
CSBG	Community Services Block Grant
CSE	Child Support Enforcement
CSR	Comprehensive Supervisory Review
CWSRF	Capitalization Grants for Clean Water State Revolving Fund
DCED	Department of Community and Economic Development
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	United States Department of Homeland Security
DMVA	Department of Military and Veterans Affairs
DOC	Department of Corrections
DOD	United States Department of Defense
DOE	United States Department of Energy
DOH	Department of Health
DOI	United States Department of Interior
DOL	United States Department of Labor
DOR	Department of Revenue
DOS	Department of State
DOT	United States Department of Transportation
DPW	Department of Public Welfare
DWSRF	Capitalization Grants for Drinking Water State Revolving Fund
EBT	Electronic Benefits Transfer
ED	United States Department of Education
EO	Executive Offices
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning
ES	Employment Services
FFY	Federal Fiscal Year

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Legend of Abbreviations (Continued) - June 30, 2011***

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
FNS	Food and Nutrition Service
FYE	Fiscal Year Ended
GAAP	Generally Accepted Accounting Principles
HHS	United States Department of Health and Human Services
HS	Homeland Security
HUD	United States Department of Housing and Urban Development
ICS	Integrated Central System
IES	Integrated Enterprise System
IT	Information Technology
L&I	Pennsylvania Department of Labor and Industry
LEA	Local Educational Agency
LIHEAP	Low Income Home Energy Assistance Program
LCB	Liquor Control Board
LWIA	Local Workforce Investment Authorities
MA	Medical Assistance Program
MCH	Maternal and Child Health Care Services Block Grant to the States
MD	Management Directive
MLF	Motor License Fund
MOE	Maintenance of Effort
NGMO	National Guard Military Operations and Maintenance Projects
OA	Office of Administration
OB	Office of the Budget
OCO	Office of Comptroller Operations
OCYF	Office of Children, Youth and Families
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PennDOT	Pennsylvania Department of Transportation
PAG	Public Assistance Grants
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
QA	Quality Assurance
RESET	Road to Economic Self-Sufficiency through Employment and Training
RSBS	Rehabilitation Services - Vocational Rehabilitation Grants to States
SAPT	Block Grants for Prevention and Treatment of Substance Abuse
SAS	Statement on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards
SFSF	State Fiscal Stabilization Fund
SFYE	State Fiscal Year Ended
SNAP	Supplemental Nutrition Assistance Program
SSA	Social Security Administration
SSBG	Social Services Block Grant
SWIF	State Workers' Insurance Fund
TAA	Trade Adjustment Assistance - Workers
TANF	Temporary Assistance for Needy Families
UC	Unemployment Compensation
UI	Unemployment Insurance
USDA	United States Department of Agriculture
USDE	United States Department of Education
USDOL	United States Department of Labor

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Legend of Abbreviations (Continued) - June 30, 2011***

### **ABBREVIATION**

VOC ED

WIA

WIC

### **DESCRIPTION**

Vocational Education

Workforce Investment Act

Women, Infants, and Children