Commonwealth of Pennsylvania

Single Audit Report

For the Fiscal Year Ended June 30, 2012

Tom Corbett
Governor

Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2012

Tom Corbett, Governor

Prepared By:

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Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2012

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

CHARLES B. ZOGBY
SECRETARY
OFFICE OF THE BUDGET

March 21, 2013

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, 2012. 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, 2012 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 $27.9 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2012. Most of the $27.9 billion in federal expenditures occurred in twelve state agencies, as follows:

AGENCY NAME	**FEDERAL EXPENDITURES (in thousands)**
Public Welfare	$15,418,852
Labor & Industry	6,706,288
Education	2,174,815
Transportation	1,704,475
Health	499,587
Insurance	293,806
Community & Economic Development	193,652
Military & Veterans Affairs	147,455
Aging	146,732
Infrastructure Investment Authority	134,352
Environmental Protection	110,349
Emergency Management Agency	102,957
Subtotal	$27,633,320
Other Agencies (20)	273,119
Grand Total	$27,906,439

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least $41.9 million. Of the $27.9 billion expended, 96 percent, or $26.9 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 35 major federal programs for the fiscal year ended June 30, 2012.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2012 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 134 findings are described from single audits between the years ended June 30, 2010 through June 30, 2011.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2012 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
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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, 2012, 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 non-major Special Revenue Fund, which represents 1 percent of total assets, 2 percent of total net assets, and 1 percent of total revenues of the governmental activities and 1 percent of total assets, 1 percent of total net assets, and 4 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund, which is both a major Enterprise Fund and represents 25 percent of total assets, 4 percent of total net assets, and 2 percent of total revenues of the business-type activities, 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 88 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 Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets, 95 percent of total net assets and 43 percent of total additions/revenues of the aggregate remaining fund information opinion unit. The financial statements of the Tobacco Settlement Fund, the Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, the Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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, the Port of Pittsburgh Commission, the Ben Franklin Technology Development Authority, and the 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 19, 2012 on our consideration of the Commonwealth of Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information included in the Comprehensive Annual Financial Report on pages 18 through 35 and 148 through 153 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Jack Wagner

KPMG LLP

December 19, 2012

Department of the Auditor General
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Harrisburg, Pennsylvania 17120-0018

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

The Honorable Tom Corbett
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, 2012, which collectively comprise the Commonwealth basic financial statements, and have issued our report thereon dated December 19, 2012. 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 non-major Special Revenue Fund, which represents 1 percent of total assets, 2 percent of total net assets, and 1 percent of total revenues of the governmental activities and 1 percent of total assets, 1 percent of total net assets, and 4 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund, which is both a major Enterprise Fund and represents 25 percent of total assets, 4 percent of total net assets, and 2 percent of total revenues of the business-type activities 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 88 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 Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets, 95 percent of total net assets and 43 percent of total additions/revenues of the aggregate remaining fund information opinion unit.

The financial statements of the Tobacco Settlement Fund, the Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, the Tuition Payment Fund, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds, are based solely on the reports of the other auditors. 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, the Port of Pittsburgh Commission, the Ben Franklin Technology Development Authority, and the 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 deficiencies in the Commonwealth's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as Findings 12-01 and 12-05 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 12-02 through 12-04 and 12-06 through 12-08 to be significant deficiencies in internal control over financial reporting.

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 19, 2012.

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.

Jack Wagner KPMG LLP

December 19, 2012

Department of the Auditor General
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Harrisburg, Pennsylvania 17120-0018

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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, 2012. 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 $9.3 billion in federal awards and $41.6 billion of federal loan guarantees that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2012. 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.

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.

Adverse

As identified in the following table and described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with the subrecipient monitoring requirements, as noted below, that are applicable to its Community Development Block Grants/State-Administered CDBG Cluster. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to that program.

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Department of Community and Economic Development	12-DCED-01	14.228 14.255 – A	Community Development Block Grants / State – Administered CDBG Cluster	Subrecipient Monitoring
Office of the Budget	12-OB-01	14.228 14.255 – A	Community Development Block Grants / State – Administered CDBG Cluster	Subrecipient Monitoring, Special Tests and Provisions related to Awards with ARRA Funding
Office of the Budget	12-OB-04	14.228 14.255 – A	Community Development Block Grants / State – Administered CDBG Cluster	Subrecipient Monitoring

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Commonwealth did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on the Community Development Block Grants/State-Administered CDBG Cluster.

Qualified

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

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Department of Education	12-PDE-02	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
Department of Education	12-PDE-03	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
Department of Education	12-PDE-04	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	12-PDE-05	84.010 84.389 – A	Title I, Part A Cluster	Subrecipient Monitoring, Special Tests and Provisions related to Participation of Private School Children
		84.367	Improving Teacher Quality State Grants	
Department of Education	12-PDE-07	84.377 84.388 – A	School Improvement Grants Cluster	Activities Allowed, Allowable Costs, Earmarking, Subrecipient Monitoring
Department of Health	12-DOH-02	93.917	HIV Care Formula Grants	Activities Allowed or Unallowed, Eligibility, Program Income, Subrecipient Monitoring, Special Tests and Provisions related to Section 340B Drug Pricing Program
Department of Labor and Industry	12-L&I-04	17.258 – A 17.259 – A 17.278	WIA Cluster	Subrecipient Monitoring
Pennsylvania Emergency Management Agency	12-PEMA-01	97.067	Homeland Security Grant Program	Equipment and Real Property Management
Pennsylvania Emergency Management Agency	12-PEMA-02	97.067	Homeland Security Grant Program	Subrecipient Monitoring
Pennsylvania Emergency Management Agency	12-PEMA-03	97.067	Homeland Security Grant Program	Special Tests and Provisions related to Subgrant Awards

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Pennsylvania Infrastructure Investment Authority	12-PENNVEST-02	66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring
		66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	
Pennsylvania Infrastructure Investment Authority	12-PENNVEST-04	66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	Matching
Department of Public Welfare	12-DPW-01	10.551 10.561	SNAP Cluster	Special Tests and Provisions related to the ADP System for SNAP
Department of Public Welfare	12-DPW-04	93.558 93.714 – A	TANF Cluster	Special Tests and Provisions related to ADP Risk Analysis and System Security Review
		93.563 – A	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.658 – A	Foster Care - Title IV-E	
		93.659 – A	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.720 – A 93.775 93.777 93.778 – A	Medicaid Cluster	
		93.767	Children’s Health Insurance Program	
Department of Public Welfare	12-DPW-06	93.575 93.596	CCDF Cluster	Special Tests and Provisions related to Health and Safety Requirements
Department of Public Welfare	12-DPW-07	93.667	Social Services Block Grant	Cash Management, Subrecipient Monitoring

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Department of Public Welfare	12-DPW-08	93.778	Medical Assistance Program	Activities Allowed, Allowable Costs, Eligibility
Office of the Budget	12-OB-04	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Subrecipient Monitoring
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.558	Child and Adult Care Food Program	
		17.258 – A 17.259 – A 17.278	WIA Cluster	
		20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	
		66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	
		66.468 – A	Capitalization Grants for Drinking Water State Revolving Funds	
		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	
		84.367	Improving Teacher Quality State Grants	
		84.377 84.388 – A	School Improvement Grants Cluster	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
		84.394 – A	State Fiscal Stabilization Fund – Education State Grants	
		93.044 93.045 93.053	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	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	
		93.917	HIV Care Formula Grants	
		97.067	Homeland Security Grant Program	

In our opinion, except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the compliance 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, 2012. 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:

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Department of Agriculture	12-AGRI-01	10.555 10.559	Child Nutrition Cluster	Special Tests and Provisions related to Accountability for USDA Donated Foods
Department of Community and Economic Development	12-DCED-02	81.042 – A	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring
		93.568	Low-Income Home Energy Assistance	
Department of Education	12-PDE-06	84.010 84.389 – A	Title I, Part A Cluster	Reporting
Department of Education	12-PDE-08	84.389 – A	Title I Grants to LEAs	Subrecipient Monitoring
		84.391 – A 84.392 – A	Special Education Cluster (IDEA)	
		84.394 – A	State Fiscal Stabilization Fund – Education State Grants	
Department of Health	12-DOH-01	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Activities Allowed/ Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions related to Food Instruments and Cash-Value Voucher Disposition, Special Tests and Provisions related to Review of Food Instruments and Cash-Value Vouchers to Enforce Price Limitations and Detect Errors

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Department of Labor and Industry	12-L&I-01	17.225 – A	Unemployment Insurance	Special Tests and Provisions related to Employer Experience Rating
Department of Labor and Industry	12-L&I-05	84.126 84.390 – A	Vocational Rehabilitation Cluster	Eligibility
Department of Labor and Industry	12-L&I-06	96.001	Social Security – Disability Insurance	Reporting
Department of Military and Veterans Affairs	12-DMVA-01	12.401 – A	National Guard Military Operations and Maintenance Projects	Allowable Costs, Cash Management, Matching, Period of Availability
Department of Military and Veterans Affairs	12-DMVA-02	12.401 – A	National Guard Military Operations and Maintenance Projects	Equipment and Real Property Management
Pennsylvania Infrastructure Investment Authority	12-PENNVEST-01	66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	Reporting
Department of Public Welfare	12-DPW-02	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Allowable Costs
		93.558	Temporary Assistance for Needy Families	
		93.778	Medical Assistance Program	
Department of Public Welfare	12-DPW-03	93.558	Temporary Assistance for Needy Families	Reporting
Department of Public Welfare	12-DPW-05	93.568	Low-Income Home Energy Assistance	Allowable Costs, Eligibility
Department of Public Welfare	12-DPW-07	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management, Subrecipient Monitoring

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Department of Transportation	12-PennDOT-01	20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	Subrecipient Monitoring
Department of Transportation	12-PennDOT-02	20.205 – A 20.219 23.003	Highway Planning and Construction Cluster	Procurement and Suspension and Debarment
Office of the Budget	12-OB-01	17.258 – A 17.259 – A 17.278	WIA Cluster	Subrecipient Monitoring, 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	
		84.367	Improving Teacher Quality State Grants	
		84.377 84.388 – A	School Improvement Grants Cluster	
		84.389 – A	Title I Grants to LEAs	
		93.558	Temporary Assistance for Needy Families	
		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	
		93.778 – A	Medical Assistance Program	
		93.917	HIV Care Formula Grants	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program	Compliance Requirement
Office of the Budget	12-OB-02	10.555	National School Lunch Program	Cash Management
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	
		66.458 – A	Capitalization Grants for Clean Water State Revolving Funds	
		81.042 – A	Weatherization Assistance for Low-Income Persons	
		84.010	Title I Grants to LEAs	
		84.027	Special Education – Grants to States	
		84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	
		84.367	Improving Teacher Quality State Grants	
		93.558	Temporary Assistance for Needy Families	
		93.563 – A	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658 – A	Foster Care - Title IV-E	
		93.659 – A	Adoption Assistance	
		93.767	Children's Health Insurance Program	
		93.778 – A	Medical Assistance Program	

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 12-DCED-01, 12-PDE-02, 12-PDE-03, 12-PDE-04, 12-PDE-05, 12-PDE-07, 12-DOH-02, 12-L&I-04, 12-PEMA-01, 12-PEMA-02, 12-PEMA-03, 12-PENNVEST-02, 12-PENNVEST-04, 12-DPW-01, 12-DPW-04, 12-DPW-06, 12-DPW-07, 12-DPW-08, and 12-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 12-AGRI-01, 12-DCED-02, 12-DCED-03, 12-PDE-01, 12-PDE-06, 12-PDE-08, 12-DOH-01, 12-L&I-01, 12-L&I-02, 12-L&I-03, 12-L&I-05, 12-L&I-06, 12-DMVA-01, 12-DMVA-02, 12-PENNVEST-01, 12-PENNVEST-03, 12-DPW-01, 12-DPW-02, 12-DPW-03, 12-DPW-05, 12-DPW-07, 12-PennDOT-01, 12-PennDOT-02, 12-PennDOT-03, 12-OB-01, 12-OB-02, and 12-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, 2012, and have issued our report thereon dated December 19, 2012 which contained unqualified opinions on those financial statements and includes a reference to other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 19, 2012. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements 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.

Eugene A. O'Pasqua [signature] KPMG LLP

March 21, 2013

Schedule of Expenditures of Federal Awards

Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
	SNAP Cluster:				
10.551	Supplemental Nutrition Assistance Program		2,775,255		
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm		173,961		28,826
	Total *SNAP Cluster*			2,949,216	
	Child Nutrition Cluster:				
10.553	School Breakfast Program		82,493		82,219
10.555	National School Lunch Program (Cash Assistance)	303,993			302,797
10.555	National School Lunch Program (Food Commodities)	36,919			36,919
	Total National School Lunch Program		340,912		
10.556	Special Milk Program for Children		535		535
10.559	Summer Food Service Program for Children (Cash Assistance)	12,657			12,252
10.559	Summer Food Service Program for Children (Food Commodities)	130			130
	Total Summer Food Service Program for Children		12,787		
	Total *Child Nutrition Cluster*			436,727	
	Emergency Food Assistance Cluster:				
10.568	Emergency Food Assistance Program (Administrative Costs)		3,085		1,940
10.569	Emergency Food Assistance Program (Food Commodities)		11,801		11,801
	Total *Emergency Food Assistance Cluster*			14,886	
10.025	Plant and Animal Disease, Pest Control, and Animal Care			1,582	208
10.028	Wildlife Services			4	
10.069	Conservation Reserve Program			47	
10.162	Inspection Grading and Standardization			231	
10.163	Market Protection and Promotion			78	
10.170	Specialty Crop Block Grant Program - Farm Bill			847	632
10.215	Sustainable Agriculture Research and Education			1	
10.304	Homeland Security - Agricultural			49	
10.435	State Medication Grants			1	
10.458	Crop Insurance Education in Targeted States			667	194
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children			225,599	49,290
10.558	Child and Adult Care Food Program (Cash Assistance)		98,297		97,776
10.558	Child and Adult Care Food Program (Food Commodities)		30		30
	Total Child and Adult Care Food Program			98,327	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
10.560	State Administrative Expenses for Child Nutrition		5,611	
10.565	Commodity Supplemental Food Program (Cash Assistance)	2,616		2,615
10.565	Commodity Supplemental Food Program (Food Commodities)	8,384		8,384
	Total Commodity Supplemental Food Program		11,000	
10.572	WIC Farmers' Market Nutrition Program (FMNP)		2,037	238
10.574	Team Nutrition Grants		34	
10.576	Senior Farmers Market Nutrition Program		1,938	
10.578	WIC Grants to States (WGS)	97		
10.578	ARRA - WIC Grants to States (WGS)	318		
	Total WIC Grants to States (WGS)		415	
10.579	Child Nutrition Discretionary Grants Limited Availability		1,135	711
10.580	Supp Nutrition Assistance Program Outreach/Participation		508	508
10.582	Fresh Fruit and Vegetable Program		3,810	3,810
10.664	Cooperative Forestry Assistance		1,833	644
10.665	Schools and Roads - Grants to States		3,508	3,508
10.675	Urban and Community Forestry Program		15	
10.676	Forest Legacy Program		1	
10.678	Forest Stewardship Program		121	
10.680	Forest Health Protection		117	
10.683	National Fish and Wildlife Foundation		6	
10.912	Environmental Quality Incentives Program		164	164
10.913	Farm and Ranch Lands Protection Program		6,166	
	Total - U.S. Department of Agriculture		**$3,766,681**	**$646,131**
11.407	Interjurisdictional Fisheries Act of 1986		12	
11.419	Coastal Zone Management Administration Awards		2,053	1,196
11.474	Atlantic Coastal Fisheries Cooperative Management Act		87	
11.555	Public Safety Interoperable Communications Grant Program		8,485	3,835
11.557	ARRA - Broadband Technology Opportunities Program (BTOP)		8,692	
11.558	ARRA - State Broadband Data and Development Grant Program		591	
	Total - U.S. Department of Commerce		**$19,920**	**$5,031**
12.112	Payments to States in Lieu of Real Estate Taxes		306	306
12.400	Military Construction, National Guard		17,134	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
12.401	National Guard Military Operations and Maintenance Projects	49,732		
12.401	ARRA - National Guard Military Operations and Maintenance Projects	1,708		
	Total National Guard Military Operations and Maintenance Projects		51,440	
	Total - U.S. Department of Defense		**$68,880**	**$306**
	CDBG - State-Administered CDBG Cluster:			
14.228	Community Development Block Grants/State's Program	52,622		51,481
14.255	ARRA - Community Development Block Grants/State's Program	631		564
	Total *CDBG - State-Administered CDBG Cluster*		53,253	
14.231	Emergency Shelter Grants Program		2,215	2,135
14.235	Supportive Housing Program		96	
14.239	Home Investment Partnerships Program		10,868	10,460
14.241	Housing Opportunities for Persons with AIDS		1,936	1,935
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program		6,872	6,522
14.401	Fair Housing Assistance Program - State and Local		2	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		1,585	1,438
14.908	ARRA - Healthy Homes Demonstration Grants		291	199
	Total - U.S. Department of Housing and Urban Development		**$77,118**	**$74,734**
	Fish and Wildlife Cluster:			
15.605	Sport Fish Restoration Program	7,359		
15.611	Wildlife Restoration and Basic Hunter Education	16,907		
	Total *Fish and Wildlife Cluster*		24,266	
15.226	Payments in Lieu of Taxes		82	82
15.250	Regulation of Surface Coal Mining		10,506	
15.252	Abandoned Mine Land Reclamation (AMLR) Program		29,581	121
15.608	Fish and Wildlife Management Assistance		1,091	
15.612	Endangered Species Conservation		36	
15.615	Cooperative Endangered Species Conservation Fund		507	
15.622	Sportfishing and Boating Safety Act		1,080	
15.634	State Wildlife Grants		1,497	
15.657	Endangered Species Conservation - Recovery Implement Funds		26	

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
15.808	U.S. Geological Survey - Research and Data Collection		26	
15.810	National Cooperative Geologic Mapping Program		132	
15.819	Energy Coop to Support National Coal Resources Data System		18	
15.904	Historic Preservation Fund Grants-In-Aid		1,233	139
15.916	Outdoor Recreation - Acquisition, Development and Planning		1,383	1,383
15.929	Save America's Treasures		48	45
	Total - U.S. Department of the Interior		**$71,512**	**$1,770**
	JAG Program Cluster:			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	9,423		6,944
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant Prgm	13,055		10,833
	Total *JAG Program Cluster*		22,478	
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training		1,135	
16.017	Sexual Assault Services Formula Program		228	228
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)		67	
16.523	Juvenile Accountability Block Grants		1,650	1,570
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States		1,202	942
16.548	Title V - Delinquency Prevention Program		10	10
16.550	State Justice Statistics Prgm for Statistic Analysis Centers		70	
16.554	National Criminal History Improvement Program (NCHIP)		325	96
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants		277	112
16.575	Crime Victim Assistance		14,063	12,990
16.576	Crime Victim Compensation		5,916	
16.579	Edward Byrne Memorial Formula Grant Program		(4)	
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm		1,086	
16.588	Violence Against Women Formula Grants	4,356		4,044
16.588	ARRA - Violence Against Women Formula Grants	1,136		1,051
	Total Violence Against Women Formula Grants		5,492	
16.593	Residential Substance Abuse Treatment for State Prisoners		405	33
16.601	Corrections - Training and Staff Development		14	
16.607	Bulletproof Vest Partnership Program		42	
16.609	Project Safe Neighborhoods		178	171
16.610	Regional Information Sharing Systems		5,925	
16.727	Enforcing Underage Drinking Laws Program		312	78

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
16.740	Statewide Automated Victim Info Notification (SAVIN) Program			494	355
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program			1,064	625
16.746	Capital Case Litigation			154	154
16.750	Support for Adam Walsh Act Implementation Grant Program			206	
16.801	ARRA - State Victim Assistance Formula Grant Program			137	137
16.812	Second Chance Act Prisoner Reentry Initiative			29	25
16.816	John R. Justice Prosecutors and Defenders Incentive Act			155	
16.922	Equitable Sharing Program			6,456	
	Total - U.S. Department of Justice			**$69,566**	**$40,398**
	Employment Service Cluster:				
17.207	Employment Service/Wagner-Peyser Funded Activities		38,131		
17.801	Disabled Veterans' Outreach Program (DVOP)		2,506		
17.804	Local Veterans' Employment Representative Program		2,727		
	Total *Employment Service Cluster*			43,364	
	WIA Cluster:				
17.258	WIA Adult Program	23,005			21,822
17.258	ARRA - WIA Adult Program	31			31
	Total WIA Adult Program		23,036		
17.259	WIA Youth Activities	33,175			31,087
17.259	ARRA - WIA Youth Activities	2,095			1,795
	Total WIA Youth Activities		35,270		
17.278	WIA Dislocated Worker Formula Grants		36,238		33,107
	Total *WIA Cluster*			94,544	
17.002	Labor Force Statistics			2,585	
17.005	Compensation and Working Conditions			149	
17.225	Unemployment Insurance		4,174,382		
17.225	ARRA - Unemployment Insurance		1,986,039		
	Total Unemployment Insurance			6,160,421	
17.235	Senior Community Service Employment Program			5,008	4,753
17.245	Trade Adjustment Assistance			43,157	41
17.260	WIA Dislocated Workers		2,512		1,737
17.260	ARRA - WIA Dislocated Workers		3,350		3,181

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
	Total WIA Dislocated Workers			5,862	
17.270	Reintegration of Ex-Offenders			(130)	
17.271	Work Opportunity Tax Credit Program (WOTC)			767	
17.273	Temporary Labor Certification for Foreign Workers			304	
17.275	ARRA - Training and Placement in Growth and Industry Sectors			2,625	2,428
17.277	WIA National Emergency Grants			3,179	3,159
17.600	Mine Health and Safety Grants			502	
17.802	Veterans' Employment Program			92	92
17.805	Homeless Veterans Reintegration Project			402	387
	Total - U.S. Department of Labor			**$6,362,831**	**$103,620**
	Highway Planning and Construction Cluster:				
20.205	Highway Planning and Construction	1,484,953			219,871
20.205	ARRA - Highway Planning and Construction	161,496			
	Total Highway Planning and Construction		1,646,449		
20.219	Recreational Trails Program		1,705		1,062
23.003	Appalachian Development Highway System		4,233		
	Total *Highway Planning and Construction Cluster*			1,652,387	
	Federal Transit Cluster:				
20.500	Federal Transit - Capital Investment Grants	897			403
20.500	ARRA - Federal Transit - Capital Investment Grants	38			38
	Total Federal Transit - Capital Investment Grants		935		
20.507	Federal Transit - Formula Grants	1,930			1,227
20.507	ARRA - Federal Transit - Formula Grants	75			75
	Total Federal Transit - Formula Grants		2,005		
	Total *Federal Transit Cluster*			2,940	
	Transit Services Programs Cluster:				
20.513	Capital Assistance Program for Elderly and Disabled Persons		3,800		3,800
20.516	Job Access - Reverse Commute		504		504
20.521	New Freedom Program		760		760
	Total *Transit Services Programs Cluster*			5,064	

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	Highway Safety Cluster:			
20.600	State and Community Highway Safety	9,929		3,575
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	3,532		2,698
20.602	Occupant Protection Incentive Grants	719		670
20.605	Incentives to Prevent Operation by Intoxicated Persons	1,027		
20.610	State Traffic Safety Information System Improvement Grants	287		253
20.612	Incentive Grant Program to Increase Motorcyclist Safety	383		
	Total *Highway Safety Cluster*		15,877	
20.106	Airport Improvement Program		13,003	12,768
20.218	National Motor Carrier Safety		7,010	
20.232	Commercial Driver's License Program Improvement Grant		997	
20.238	Commercial Drivers License Information System		552	
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort		122	
20.317	Capital Assistance to States - Intercity Passenger Rail Service		363	
20.319	ARRA - High-Speed Rail and Intercity Passenger Rail Service		819	20
20.505	Metropolitan Transportation Planning		1,388	
20.509	Formula Grants for Other Than Urbanized Areas	15,814		15,779
20.509	ARRA - Formula Grants for Other Than Urbanized Areas	4,352		4,352
	Total Formula Grants for Other Than Urbanized Areas		20,166	
20.514	Public Transportation Research		136	
20.515	State Planning and Research		2,261	
20.523	Capital Assistance Program for Reducing Energy Consumption		1,280	1,280
20.604	Safety Incentive Grants for Use of Seatbelts		3,864	90
20.614	Nat Highway Traffic Safety Admin Discretionary Safety Grants		45	
20.700	Pipeline Safety Program Base Grants		975	
20.703	Interagency Hazardous Materials Training and Planning Grants		537	423
	Total - U.S. Department of Transportation		**$1,729,786**	**$269,648**
21.000	Treasury Equitable Sharing Program		97	
	Total - U.S. Department of the Treasury		**$97**	**$0**
23.001	Appalachian Regional Development		100	
23.002	Appalachian Area Development		1,199	871

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
23.011	Appalachian Research, Technical Assistance and Demo Projects		142	
	Total - Appalachian Regional Commission		**$1,441**	**$871**
30.002	Employment Discrimination - State and Local Agency Contracts		1,294	
	Total - Equal Employment Opportunity Commission		**$1,294**	**$0**
39.003	Donation of Federal Surplus Personal Property		2,558	2,558
39.011	Election Reform Payments		445	430
	Total - General Services Administration		**$3,003**	**$2,988**
45.025	Promotion of the Arts - Partnership Agreements		1,032	703
45.310	Grants to States		5,351	3,276
	Total - National Foundation on the Arts and Humanities		**$6,383**	**$3,979**
59.061	State Trade and Export Promotion Pilot Grant Program		762	
	Total - Small Business Administration		**$762**	**$0**
64.005	Grants to States for Construction of State Home Facilities	1,514		
64.005	ARRA - Grants to States for Construction of State Home Facilities	18,138		
	Total Grants to States for Construction of State Home Facilities		19,652	
64.010	Veterans Nursing Home Care		387	
64.014	Veterans State Domiciliary Care		4,103	
64.015	Veterans State Nursing Home Care		37,371	
64.111	Veterans Education Assistance		1,268	
	Total - U.S. Department of Veterans Affairs		**$62,781**	**$0**
66.001	Air Pollution Control Program Support		5,765	6
66.032	State Indoor Radon Grants		417	48
66.039	ARRA - National Clean Diesel Emissions Reduction Program		524	524
66.040	State Clean Diesel Grant Program		75	75

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
66.202	Congressionally Mandated Projects		53	
66.312	State Environmental Justice Cooperative Agreement Program		94	94
66.419	Water Pollution Control State and Interstate Program Support		7,067	
66.432	State Public Water System Supervision		3,995	
66.438	Construction Management Assistance		140	
66.454	Water Quality Management Planning		600	96
66.458	Capitalization Grants for Clean Water State Revolving Funds	65,223		62,066
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds	7,617		7,617
	Total Capitalization Grants for Clean Water State Revolving Funds		72,840	
66.460	Nonpoint Source Implementation Grants		4,514	3,643
66.461	Regional Wetland Program Development Grants		153	
66.466	Chesapeake Bay Program		2,829	2,210
66.468	Capitalization Grants for Drinking Water State Revolving Funds	65,366		57,252
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	3,229		3,229
	Total Capitalization Grants for Drinking Water State Revolving Funds		68,595	
66.469	Great Lakes Program		346	20
66.474	Water Protection Grants to the States		69	
66.479	Wetland Program Grants - Environmental Outcome Demo Prgm		23	
66.511	Office of Research and Development Consolidated Research		92	83
66.605	Performance Partnership Grants		590	
66.606	Surveys, Studies, Investigations and Special Purpose Grants		860	20
66.608	Environmental Information Exchange Network Grant Program		36	
66.707	TSCA Title IV State Lead Grants Certification		191	
66.708	Pollution Prevention Grants Program		145	145
66.709	Multi-Media Capacity Building Grants for States and Tribes		122	
66.714	Regional Agriculture IPM Grants		35	35
66.716	Research, Dev, Education, Training, Demos, and Studies		40	40
66.801	Hazardous Waste Management State Program Support		5,399	918
66.802	Superfund State Site-Specific Cooperative Agreements		5	
66.804	Underground Storage Tank Prevention and Compliance Program		1,167	
66.805	Leaking Underground Storage Tank Trust Fund Program	1,579		
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Program	616		
	Total Leaking Underground Storage Tank Trust Fund Program		2,195	
66.817	State and Tribal Response Program Grants		268	183
	Total - Environmental Protection Agency		**$179,244**	**$138,304**

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
81.039	National Energy Information Center		1	
81.041	State Energy Program	732		122
81.041	ARRA - State Energy Program	17,450		13,999
	Total State Energy Program		18,182	
81.042	Weatherization Assistance for Low-Income Persons	2,910		1,999
81.042	ARRA - Weatherization Assistance for Low-Income Persons	85,514		68,247
	Total Weatherization Assistance for Low-Income Persons		88,424	
81.119	ARRA - State Energy Program Special Projects		111	111
81.122	ARRA - Electricity Delivery and Energy Reliability, Research & Dev		789	
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)		2	(6)
81.128	ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)		3,946	3,684
	Total - U.S. Department of Energy		**$111,455**	**$88,156**
	Title I, Part A Cluster:			
84.010	Title I Grants to Local Educational Agencies	523,422		516,184
84.389	ARRA - Title I Grants to Local Educational Agencies	82,344		80,688
	Total *Title I, Part A Cluster*		605,766	
	Special Education Cluster (IDEA):			
84.027	Special Education - Grants to States	380,691		369,336
84.173	Special Education - Preschool Grants	16,615		16,094
84.391	ARRA - Special Education Grants to States	65,024		65,024
84.392	ARRA - Special Education - Preschool Grants	4,100		3,580
	Total *Special Education Cluster (IDEA)*		466,430	
	Student Financial Assistance Programs Cluster:			
84.007	Federal Supplemental Educational Opportunity Grants	29		
84.032	Federal Family Education Loans	2,288		
84.033	Federal Work-Study Program	21		
84.063	Federal Pell Grant Program	1,962		
	Total *Student Financial Assistance Programs Cluster*		4,300	

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	Vocational Rehabilitation Cluster:			
84.126	Rehabilitation Services - Vocational Rehab Grants to States	126,358		
84.390	ARRA - Rehab Services - Vocational Rehab Grants to States	5,570		
	Total *Vocational Rehabilitation Cluster*		131,928	
	Independent Living State Grants Cluster:			
84.169	Independent Living - State Grants	387		344
84.398	ARRA - Independent Living State Grants	135		135
	Total *Independent Living State Grants Cluster*		522	
	Independent Living Services for Older Blind Individuals Cluster:			
84.177	Rehab Serv - Indep Living Services for Older Blind Indiv	1,777		
84.399	ARRA - Independent Living Serv for Older Blind Individuals	1,177		455
	Total *Independent Living Services for Older Blind Individuals Cluster*		2,954	
	Early Intervention Services (IDEA) Cluster:			
84.181	Special Education - Grants for Infants and Families	12,324		10,711
84.393	ARRA - Special Education - Grants for Infants and Families	8,701		6,563
	Total *Early Intervention Services (IDEA) Cluster*		21,025	
	Education for Homeless Children and Youth Cluster:			
84.196	Education for Homeless Children and Youth	2,517		2,276
84.387	ARRA - Education for Homeless Children and Youth	111		111
	Total *Education for Homeless Children and Youth Cluster*		2,628	
	Educational Technology State Grants Cluster:			
84.318	Education Technology State Grants	4,069		3,965
84.386	ARRA - Education Technology State Grants	2,893		2,533
	Total *Educational Technology State Grants Cluster*		6,962	
	Statewide Data Systems Cluster:			
84.372	Statewide Data Systems	987		
84.384	ARRA - Statewide Data Systems	2,427		
	Total *Statewide Data Systems Cluster*		3,414	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	School Improvement Grants Cluster:			
84.377	School Improvement Grants	13,895		13,138
84.388	ARRA - School Improvement Grants	37,430		36,444
	Total *School Improvement Grants Cluster*		51,325	
84.002	Adult Education - Basic Grants to States		19,177	17,856
84.011	Migrant Education - State Grant Program		7,958	7,490
84.013	Title I Program for Neglected and Delinquent Children		1,026	812
84.042	TRIO - Student Support Services		215	
84.048	Career and Technical Education - Basic Grants to States		39,912	37,247
84.144	Migrant Education - Coordination Program		35	35
84.184	Safe and Drug-Free Schools & Communities - National Programs		149	
84.186	Safe and Drug-Free Schools and Communities - State Grants		1,226	1,159
84.187	Supp Employment Serv for Indiv with Significant Disabilities		554	
84.213	Even Start - State Educational Agencies		328	290
84.235	Rehabilitation Services Demonstration and Training Programs		405	
84.243	Tech-Prep Education		2,353	2,278
84.265	Rehab Training - State Voc Rehab Unit In-Service Training		213	
84.287	Twenty-First Century Community Learning Centers		35,821	33,814
84.298	State Grants for Innovative Programs		(2)	
84.323	Special Education - State Personnel Development		1,255	
84.330	Advanced Placement Program		397	308
84.331	Grants to States for Training for Incarcerated Individuals		90	
84.357	Reading First State Grants		(79)	
84.358	Rural Education		1,456	1,456
84.365	English Language Acquisition Grants		16,226	15,943
84.366	Mathematics and Science Partnerships		5,476	5,476
84.367	Improving Teacher Quality State Grants		101,495	97,516
84.368	Grants for Enhanced Assessment Instruments		681	
84.369	Grants for State Assessments and Related Activities		13,187	
84.371	Striving Readers		228	115
84.378	College Access Challenge Grant Program		4,034	4,032
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants		104,506	104,506
84.902	National Assessment of Educational Progress		123	
	Total - U.S. Department of Education		**$1,655,699**	**$1,457,914**

- See Notes to Schedule of Expenditures of Federal Awards -

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
90.401	Help America Vote Act Requirements Payments			4,652	1,811
	Total - Elections Assistance Commission			**$4,652**	**$1,811**
	Aging Cluster:				
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		25,511		23,741
93.053	Nutrition Services Incentive Program		7,162		7,162
	Total *Aging Cluster*			56,448	
	Immunization Cluster:				
93.268	Immunization Grants (Cash Assistance)	8,053			3,776
93.268	Immunization Grants (Vaccines)	77,760			
	Total Immunization Grants		85,813		
93.712	ARRA - Immunization (Cash Assistance)		357		100
	Total *Immunization Cluster*			86,170	
	TANF Cluster:				
93.558	Temporary Assistance for Needy Families		500,119		179,360
93.714	ARRA - Emergency Contingency Fund for TANF State Programs		1,565		1,489
	Total *TANF Cluster*			501,684	
	CCDF Cluster:				
93.575	Child Care and Development Block Grant		241,239		228,121
93.596	Child Care Mandatory and Matching Funds of the CCDF		113,954		113,518
	Total *CCDF Cluster*			355,193	
	Head Start Cluster:				
93.600	Head Start		699		699
93.708	ARRA - Head Start		772		614
93.709	ARRA - Early Head Start		418		418
	Total *Head Start Cluster*			1,889	
	Medicaid Cluster:				
93.720	ARRA - Survey & Certification Ambulatory Surgical Center		123		

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
93.775	State Medicaid Fraud Control Units		3,355		
93.777	State Survey and Cert of Health Care Providers and Suppliers		14,975		
93.778	Medical Assistance Program	10,982,648			1,273,312
93.778	ARRA - Medical Assistance Program	114,755			(1)
	Total Medical Assistance Program		11,097,403		
	Total *Medicaid Cluster*			11,115,856	
93.041	Special Programs for the Aging - Title VII, Chapter 3			243	242
93.042	Special Programs for the Aging - Title VII, Chapter 2			560	545
93.043	Special Programs for the Aging - Title III, Part D			941	941
93.048	Special Programs for the Aging - Title IV and Title II			323	323
93.052	National Family Caregiver Support, Title III, Part E			8,804	8,804
93.069	Public Health Emergency Preparedness			26,840	5,029
93.070	Environmental Public Health and Emergency Response			886	412
93.072	Lifespan Respite Care Program			40	40
93.089	Emergency System for Advance Registration of Vol Health Prof			155	8
93.090	Guardianship Assistance		9,384		9,384
93.090	ARRA - Guardianship Assistance		278		278
	Total Guardianship Assistance			9,662	
93.092	Personal Responsibility Education Program			164	109
93.103	Food and Drug Administration - Research			373	
93.104	Community Mental Health Services for Children with SED			782	781
93.110	Maternal and Child Health Federal Consolidated Programs			141	127
93.116	Project Grants and Coop Agreements for Tuberculosis Control			723	36
93.127	Emergency Medical Services for Children			144	
93.130	Primary Care Offices Coordination and Dev Coop Agreements			238	31
93.136	Injury Prevention and Control Research			1,598	1,261
93.150	Projects for Asst in Transition from Homelessness (PATH)			2,483	2,409
93.165	Grants to States for Loan Repayment Program			175	
93.197	Childhood Lead Poisoning Prevention Projects			53	32
93.234	Traumatic Brain Injury State Demonstration Grant Program			254	241
93.235	Abstinence Education Program			1,691	
93.240	State Capacity Building			451	
93.241	State Rural Hospital Flexibility Program			355	355
93.243	Substance Abuse and Mental Health Services - Projects			3,124	2,999
93.251	Universal Newborn Hearing Screening			358	240

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
93.275	Substance Abuse & Mental Health Serv. - Access to Recovery		1,622	1,562
93.283	Centers for Disease Control & Prevention - Investigations		8,720	4,146
93.296	State Partnership Grant Program to Improve Minority Health		92	
93.402	ARRA - State Loan Repayment Program		27	
93.414	ARRA - State Primary Care Offices		48	23
93.505	Affordable Care Act Maternal, Infant, Childhood Home Visit		2,238	2,236
93.507	PPHF 2012 National Public Health Improvement Initiative		380	(5)
93.511	Affordable Care Act Grants for Health Insur Premium Review		145	
93.518	Affordable Care Act - Medicare Improvements		1,035	1,035
93.519	Affordable Care Act - Consumer Assistance Program Grants		279	
93.520	Affordable Care Act - Communities Putting Prevention to Work		41	
93.521	Affordable Care Act - Building Epi, Lab, & Health Info Sys.		282	
93.525	State Planning & Establishment Grants for Affordable Care Act		485	
93.538	Affordable Care Act - Environmental Public Health Tracking		626	
93.544	Coordinated Chronic Disease Prevention and Health Promotion		289	
93.556	Promoting Safe and Stable Families		12,948	12,881
93.563	Child Support Enforcement	144,137		106,152
93.563	ARRA - Child Support Enforcement	274		274
	Total Child Support Enforcement		144,411	
93.566	Refugee and Entrant Assistance - State Administered Programs		10,998	3,474
93.568	Low-Income Home Energy Assistance		179,962	12,678
93.569	Community Services Block Grant		21,257	20,320
93.576	Refugee and Entrant Assistance - Discretionary Grants		830	726
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants		774	774
93.590	Community-Based Child Abuse Prevention Grants		1,280	1,280
93.597	Grants to States for Access and Visitation Programs		343	343
93.599	Chafee Education and Training Vouchers Program (ETV)		1,320	1,317
93.602	Assets for Independence Demonstration Program		(700)	(700)
93.603	Adoption Incentive Payments		1,695	1,330
93.617	Voting Access for Individuals with Disabilities - Gov Grants		414	368
93.630	Developmental Disabilities Basic Support and Advocacy Grants		2,840	1,988
93.645	Stephanie Tubbs Jones Child Welfare Services Program		10,483	9,438
93.658	Foster Care - Title IV-E	191,597		188,123
93.658	ARRA - Foster Care - Title IV-E	3,889		3,889
	Total Foster Care - Title IV-E		195,486	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
93.659	Adoption Assistance	91,684		89,074
93.659	ARRA - Adoption Assistance	473		473
	Total Adoption Assistance		92,157	
93.667	Social Services Block Grant		97,742	78,503
93.669	Child Abuse and Neglect State Grants		635	293
93.671	Family Violence Prevention and Services		2,827	2,827
93.674	Chafee Foster Care Independence Program		5,825	5,825
93.713	ARRA - Child Care and Development Block Grant		11,210	11,210
93.717	ARRA - Preventing Healthcare-Associated Infections		460	(2)
93.719	ARRA - State Grants to Promote Health Information Technology		1,111	
93.723	ARRA - Prevention and Wellness - State, Territories		1,845	681
93.724	ARRA - Prevention & Wellness - Communities Funding Opp (FOA)		1	
93.725	ARRA - Communities: Chronic Disease Self-Management Program		513	513
93.767	Children's Health Insurance Program		295,133	287,094
93.768	Medicaid Infrastructure Grants to Support Competitive Employ		1,721	343
93.779	CMS Research, Demonstrations and Evaluations		2,889	2,733
93.790	Alternate Non-Emergency Service Providers or Networks		443	
93.791	Money Follows the Person Rebalancing Demonstration		7,909	300
93.889	National Bioterrorism Hospital Preparedness Program		12,414	9,571
93.917	HIV Care Formula Grants		44,098	12,357
93.928	Special Projects of National Significance		13	
93.938	Coop Agreements to Support School Health Programs		201	114
93.940	HIV Prevention Activities - Health Department Based		1,431	321
93.943	Epidemiologic Research Studies of AIDS and HIV		3,499	591
93.944	HIV/AIDS Surveillance		1,124	
93.946	Coop Agreements to Support Safe Motherhood and Infant Health		155	
93.958	Block Grants for Community Mental Health Services		14,461	14,213
93.959	Block Grants for Prevention and Treatment of Substance Abuse		59,178	50,622
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant		1,906	881
93.991	Preventive Health and Health Services Block Grant		3,588	2,678
93.994	Maternal and Child Health Services Block Grant to the States		23,044	12,302
	Total - U.S. Department of Health and Human Services		**$13,466,984**	**$2,847,880**
94.003	State Commissions		125	
94.004	Learn and Serve America - School & Community Based Programs		275	201

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2012

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
94.006	AmeriCorps	9,205	9,205
94.007	Program Development and Innovation Grants	15	7
94.009	Training and Technical Assistance	102	39
	Total - Corporation for National and Community Service	**$9,722**	**$9,452**
95.001	High Intensity Drug Trafficking Areas Program	2,785	
	Total - Executive Office of the President	**$2,785**	**$0**
96.001	Social Security - Disability Insurance	106,837	
	Total - Social Security Administration	**$106,837**	**$0**
97.001	Pilot Demonstration or Earmarked Projects	897	841
97.008	Non-Profit Security Program	238	238
97.012	Boating Safety Financial Assistance	2,303	
97.023	Community Assistance Program State Support Services Element	221	
97.029	Flood Mitigation Assistance	(15)	(15)
97.032	Crisis Counseling	955	935
97.036	Disaster Grants - Public Assist (Presidentially Declared)	31,621	26,028
97.039	Hazard Mitigation Grant	1,244	857
97.041	National Dam Safety Program	209	12
97.042	Emergency Management Performance Grants	10,443	4,667
97.043	State Fire Training Systems Grants	22	
97.045	Cooperating Technical Partners	175	
97.047	Pre-Disaster Mitigation	597	156
97.050	Presidential Declared Dis Assist to Households - Other Needs	10,503	
97.052	Emergency Operations Centers	536	536
97.055	Interoperable Emergency Communications	295	1
97.056	Port Security Grant Program	1,038	779
97.067	Homeland Security Grant Program	47,293	37,524
97.075	Rail and Transit Security Grant Program	14,212	14,195
97.078	Buffer Zone Protection Program (BZPP)	1,660	(1)
97.088	Disaster Assistance Projects	59	59
97.089	Driver's License Security Grant Program	1,613	

- See Notes to Schedule of Expenditures of Federal Awards -

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
97.091	Homeland Security Biowatch Program	348	
97.110	Severe Repetitive Loss Program	539	480
	Total - U.S. Department of Homeland Security	**$127,006**	**$87,292**
	GRAND TOTAL	**$27,906,439**	**$5,780,285**

- See Notes to Schedule of Expenditures of Federal Awards -

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2012

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 PCCA is not required to submit a single audit for the year ended June 30, 2012 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, 2012.

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 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

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, 2010.

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 #23.002, Appalachian Area Development, and CFDA #23.003, Appalachian Development Highway System are presented on the basis that expenditures are reported to the

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

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

Expenditures identified on the SEFA as Vaccines under CFDA #93.268, Immunization 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, 2012. 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	$3,019,240
Federal UC Benefits	2,916,197
Federal Admin.	224,984
Total Expenditures	$6,160,421

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Schedule of Findings and Questioned Costs

Commonwealth of Pennsylvania

Summary of Auditors' Results - June 30, 2012

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:

Adverse opinion for the following major programs:

Community Development Block Grants - State-Administered CDBG Cluster (CFDA #14.228 and #14.255)

Qualified for noncompliance in 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)
SNAP Cluster (CFDA #10.551 and #10.561)
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)
WIA Cluster (CFDA #17.258, #17.259 and #17.278)
Highway Planning and Construction Cluster (CFDA #20.205, #20.219 and #23.003)
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)
Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)
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)
Improving Teacher Quality State Grants (CFDA #84.367)
School Improvement Grants Cluster (CFDA #84.377 and #84.388)
State Fiscal Stabilization Fund – Education State Grants (CFDA #84.394)
Aging Cluster (CFDA #93.044, #93.045 and #93.053)
TANF Cluster (CFDA #93.558 and #93.714)
Child Support Enforcement (CFDA #93.563)
Low-Income Home Energy Assistance (CFDA #93.568)
CCDF Cluster (CFDA #93.575 and #93.596)

Foster Care Title IV-E (CFDA #93.658)
Adoption Assistance (CFDA #93.659)
Social Services Block Grant (CFDA #93.667)
Children's Health Insurance Program (CFDA #93.767)
Medicaid Cluster (CFDA #93.720, #93.775, #93.777 and #93.778)
HIV Care Formula Grants (CFDA #93.917)
Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
Homeland Security Grant Program (CFDA #97.067)

Unqualified for the following major programs:

National Guard Military Operations and Maintenance Projects (CFDA #12.401)
Employment Service Cluster (CFDA #17.207, #17.801 and #17.804)
Unemployment Insurance (CFDA #17.225)
Trade Adjustment Assistance (CFDA #17.245)
Vocational Rehabilitation Cluster (CFDA #84.126 and #84.390)
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

<u>Identification of Major Programs</u>:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.551 and 10.561	SNAP Cluster	$ 2,949,216
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	436,727
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	225,599
10.558	Child and Adult Care Food Program	98,327
12.401	National Guard Military Operations and Maintenance Projects (A)	51,440
14.228 and 14.255	Community Development Block Grants – State-Administered CDBG Cluster (A)	53,253
17.207, 17.801 and 17.804	Employment Service Cluster	43,364
17.225	Unemployment Insurance (A)	6,160,421
17.245	Trade Adjustment Assistance	43,157
17.258, 17.259 and 17.278	WIA Cluster (A)	94,544
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster (A)	1,652,387
66.458	Capitalization Grants for Clean Water State Revolving Funds (A)	72,840
66.468	Capitalization Grants for Drinking Water State Revolving Funds (A)	68,595
81.042	Weatherization Assistance for Low-Income Persons (A)	88,424
84.010 and 84.389	Title I, Part A Cluster (A)	605,766

84.027, 84.173, 84.391 and 84.392	Special Education Cluster (IDEA) (A)	466,430
84.126 and 84.390	Vocational Rehabilitation Cluster (A)	131,928
84.367	Improving Teacher Quality State Grants	101,495
84.377 and 84.388	School Improvement Grants Cluster (A)	51,325
84.394	State Fiscal Stabilization Fund – Education State Grants (A)	104,506
93.044, 93.045 and 93.053	Aging Cluster	56,448
93.268 and 93.712	Immunization Cluster (A)	86,170
93.558 and 93.714	TANF Cluster (A)	501,684
93.563	Child Support Enforcement (A)	144,411
93.568	Low-Income Home Energy Assistance	179,962
93.575 and 93.596	CCDF Cluster	355,193
93.658	Foster Care Title IV-E (A)	195,486
93.659	Adoption Assistance (A)	92,157
93.667	Social Services Block Grant	97,742
93.720, 93.775, 93.777 and 93.778	Medicaid Cluster (A)	11,115,856
93.767	Children's Health Insurance Program	295,133
93.917	HIV Care Formula Grants	44,098
93.959	Block Grants for Prevention and Treatment of Substance Abuse	59,178
96.001	Social Security – Disability Insurance	106,837
97.067	Homeland Security Grant Program	47,293
	Total Federal Expenditures – Major Programs	$26,877,392

(A) = ARRA Funds included

Dollar threshold used to distinguish between Type A and Type B programs (000s): $41,860

Auditee qualified as low-risk auditee? ____yes __X__no

Index to Basic Financial Statement Findings - June 30, 2012

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

Finding 12 – 01:

Office of the Budget – Bureau of Accounting and 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 11-03)

Condition: We noted for the sixth 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, 2012 was $24.1 billion and $11.2 billion, respectively. Our test work disclosed no material replacement activity, however, in the event material replacement activity would occur, the Commonwealth lacks adequate procedures to monitor, detect, and account for them.

Criteria: The Governmental Accounting Standards Board Statement No. 34 Implementation Guide (GASB 34 Guide), "Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" requires removed and replaced highway and bridge infrastructure assets to be subtracted from infrastructure balances in the BFS. The GASB 34 Guide (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. In addition, the GASB 34 Guide required the retroactive capitalization of infrastructure assets back to 1980.

Cause: 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 Accounting and Financial Management (BAFM) 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, BAFM, 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 BAFM and PennDOT to ensure the proper reporting of infrastructure assets in the BFS.

PennDOT and OB – BAFM Response: PennDOT and OB-BAFM agree that there is a need to implement a procedure to monitor, assess, and report the impact of highway and bridge replacement activity that has occurred in relation to infrastructure assets capitalized since 1980. PennDOT continues to work with BAFM on development of a process to address this issue. Since the previous year's finding, PennDOT has been working on developing a methodology for identifying instances of infrastructure that have been retired and completely replaced. For 2011-12, PennDOT recognized 251 Bridge Rehabilitation projects and 15 Highway Reconstruction Projects that replaced existing infrastructure assets. Six of these infrastructure projects have been identified as capitalized in SAP in accordance with Government Accounting Standards Board Statement 34. PennDOT, together with BAFM, is now working on the

Finding 12 – 01: (continued)

retirement of the identified assets. The acquisition value of the six projects to be retired is approximately $10.6M. The $10.6M is about .03% of total PA infrastructure as reported in the CAFR for FYE June 30, 2012.

<u>Auditors' Conclusion</u>: We are encouraged that PennDOT and OB-BAFM 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.

Finding 12 – 02:

Office of the Budget – Bureau of Payable Services
Office of Comptroller Operations – Bureau of Accounting and Financial Management

Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 11-09)

Condition: Test work of SAP invoice processing during the fiscal year ended June 30, 2012 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 (OCO) and Bureau of Accounting and Financial Management (BAFM) do not actively monitor the usage of one-time vendor payments in accordance with the requirements of Management Directive 310.28. The Directive states that the OCO and BAFM are responsible for "monitoring the use of one-time vendor records to determine if a permanent master record should be established and contacting identified vendors to register with the Central Vendor Management Unit (CVMU)." The Directive also requires the performance of "a periodic analysis of the payments posted to one-time vendor records to determine if a permanent vendor master record should be established." The policy also states that "One-time vendor records shall be used for all payments made to vendors that are paid on a one-time basis or very infrequently and that are not established in the SAP Vendor Master Database."

2. SAP is not configured to match manually-entered, one-time vendor payments and payments received through automated interfaces to an established vendor in the SAP Vendor Master Database. As a result, numerous payments are made via the one-time vendor process to payees that are already established vendors, which provides limited ability to validate the total payments made to each vendor and to validate that the payment was remitted to the vendor according to their instructions (account, address, contact person, etc.).

3. SAP does not require the entry of an original document reference for one-time vendor refund payments. While the functionality in SAP allows attachments to provide justification for the payment, no justification is required. The auditors recognize that many of these transactions are entered through an interface from another system (e.g., Low Income Home Energy Assistance Program and Third Party Liability payments from Department of 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, during audit testing, it was noted that the refunds in SAP which do not have identifying information, whether a single payment or multiple payments, cannot be traced back to the original program or an original document and therefore cannot be substantiated within SAP.

4. SAP is not configured to query employee records to determine whether a one-time vendor payment (interfaced or non-interfaced) is being made to a Commonwealth employee. Additionally, management does not have a monitoring process in place to analyze payments that are made to employees to verify appropriateness.

5. The Office of Comptroller Operations' supervisors, without adequate documented justification, have the ability to both enter and approve a one-time vendor invoice. In these instances, SAP is not configured to require additional approval.

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

Finding 12 – 02: (continued)

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

Cause: No policy exists for guidance on recording vendor names and documenting explanations for one-time vendor payments in SAP. Also, individuals entering one-time vendor payments and the Office of Comptroller Operations and Bureau of Financial Management are not following the policies in Management Directive 310.28. The Management Directive was necessitated by the absence of system-enforced restrictions on overuse of the one-time vendor functionality.

Some agency systems send large volumes of payment data to SAP for processing, but due to lack of automated functionality to match the payment with an established payee, all of the payments are processed as one-time vendor payments. Additionally, one-time vendor refund payments can be entered directly into SAP with no required supporting documentation or validation that the payment is authorized. There is no additional functionality to validate that the payee is an established approved vendor or require supporting documentation that links the payment to a source document.

Further, inappropriate access role assignments exist because of the Financial Transformation initiative, which resulted in the changing of positions and shifting of responsibilities.

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

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

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

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

- Communicate the importance of and require Commonwealth staff to comply with Management Directive 310.28. Commonwealth management should provide applicable training to all employees involved in the processing and review of one-time vendor payments, and regular reviews of all one-time vendor payments should be conducted according to the Management Directive.

- Develop and implement a procedure that continually monitors and documents compliance with the Management Directive.

Finding 12 – 02: (continued)

- 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 an external secondary review of all one-time vendor invoices that are entered by Comptroller Office supervisors or provide internal staffing to eliminate the segregation of duties conflict.

Office of the Budget Response:

Bureau of Payable Services (BPS) Response:

1. BPS agrees with this item and will initiate corrective action.

2. BPS agrees with this item and will initiate corrective action.

4. BPS agrees with this item and will initiate corrective action.

5. BPS agrees with this item. Although we recognize that 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 Accounting & Financial Management (BAFM) Response:

3. BAFM agrees that there are instances for which one-time vendor refunds that are processed in SAP (*applicable to payments that originated from **non-SAP** systems*) cannot be traced back to an original program document or non-SAP system record and therefore cannot be substantiated within SAP. A corrective action plan is presently being developed.

Auditors' Conclusion: We are encouraged that management has indicated they will initiate actions to correct most of the identified deficiencies.

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.

Finding 12 – 03:

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 Finding 11-07)

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

1. Multiple generic user IDs, with shared passwords, were used to promote system changes to the SAP production environment; therefore, no systematic audit trail of the individuals who promoted system changes can be generated, and proper segregation of duties cannot be established. Management does not have additional compensating controls in place to monitor the program code for unauthorized program changes.

2. For the SAP application, management is not adhering to 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 system 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 #11-07 that the policy will be re-published and enforced once the SAP Governance, Risk and Compliance (GRC) tool is fully implemented. The anticipated date to complete segregation of duties role conflict clean-up is June 2013. GRC is expected to provide comprehensive role-based access management and will facilitate the identification of users with segregation of duties conflicts.

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

   Vendor Master Data Access:

   a. In January 2012, management partially remediated a prior-year weakness in which call center employees had access to add, change, and delete vendor master records. The call center supervisor retained access to add and delete vendor master records, and all other call center employees were removed from the role. The call center employees retained access to create and change SAP bank account information and to view vendor master records. SAP is not utilized to require a secondary review or approval for changes to vendor records. According to Management Directive 310.26, "Vendor Data Management Unit (VDMU) for Agencies Using SAP," the ability to add/change/delete vendor records should be restricted to only the Vendor Data Maintenance Unit (VDMU) manager and 4 staff members who are responsible for performing these functions on a regular and substantial basis.

Finding 12 – 03: (continued)

SAP GL Master Data Access:

b. Management remediated a prior-year deficiency during the audit period by removing IT department employees' access to the Account Code Custodian role, which allows users to make changes to master data in SAP. Access to the role was inactivated on May 30, 2012 as part of the firefighter implementation. The IT employees now have a process in place for making master data changes that does not require them to access the data directly in production.

c. Management remediated a prior-year deficiency during the audit period by removing IT department employees' access to the BFM-Reviewer-Commonwealth-Wide Reporting role, which allows users post, display, and report transactions for GL processes, generate audit reports, post audit adjustments, and other financial functions. Access to this role was inactivated in February 2012.

Comptroller Role Access:

d. 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 lack of segregation of duties. 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.

e. 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.

f. 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.

Finding 12 – 03: (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.

- Management Directive 205.37 is modified to reflect the usage of GRC and to continue 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:

1. OA agrees with this item.

Office of the Budget Response:

Bureau of Payable Services (BPS) Response:

Responses to specific items in Condition 3:

a. BPS agrees with this item.

d. 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.

e. BPS agrees with this item. The Bureau of Quality Assurance is coordinating the GRC project to review all SAP roles.

f. BPS disagrees with 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.

Finding 12 – 03: (continued)

Bureau of Quality Assurance (BQA) Response:

2. BQA agrees with this item.

Responses to specific items in Condition 3:

b. BQA agrees with this item.

c. BQA agrees with this item.

Auditors' Conclusion: The deficiencies noted above are accurate as stated. Management's disagreements related to deficiencies 3d and 3f 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.

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.

Finding 12 – 04:

Department of Treasury

General Computer Controls in the PA Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 11-06)

Condition: Our review of general computer controls at the Department of Treasury (Treasury) during the fiscal year ended June 30, 2012 disclosed the following internal control deficiencies that need to be addressed by Treasury management:

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

1. The manager account for the OnBase System was shared by multiple users. The auditors acknowledge that these users also access the administrative functionality via their individually-issued IDs; however, the shared manager account exists on the system and was used for administrative functions. Additionally, shared administrative accounts have direct access to the OnBase Oracle database. The usage of the shared manager and database administration accounts was not regularly monitored by management to detect unauthorized activity.
2. Administrative access to the OnBase application and database servers was granted to multiple non-IT personnel. The access was granted with permission of management due to requirements to access certain data in shared folders that are only accessible with higher-level access rights.
3. Access to the data center that houses the OnBase application servers and databases is not limited to individuals who have daily responsibilities requiring data center access. 191 badges had access to the data center. The data center access list is reviewed by management on a regular basis for appropriateness, and management has taken action to reduce the number of badges; however, most of the individuals on the list do not require daily access.
4. The password settings for the OnBase application and BUCD domain do not comply with Treasury password policies. OnBase passwords are required to have only a minimum password length of six. Users must first authenticate through the BUCD domain; however, the domain passwords are configured for a minimum length of seven characters and complexity is not enabled.
5. A comprehensive listing of OnBase application programming changes is not available. Due to a system limitation, a system-generated listing of changes cannot be obtained from the OnBase system, and therefore does not provide auditable evidence required to verify that all programming changes were appropriately documented, approved, and tested.
6. The OnBase application was upgraded during the fiscal year. Comprehensive evidence of IT testing and user acceptance testing of the upgrade was not retained; however, management indicated that user acceptance testing was performed.

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

7. Financial data is processed in spreadsheets, databases, and other user-developed programs that may be used to support financial reporting. Management has not implemented standardized policies to address IT controls related to access, change control, development, and backup of these 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.

Finding 12 – 04: (continued)

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

Control	Exception
Access to production servers is restricted to employees who require this access as part of their daily job responsibility. Access to promote code changes is restricted to authorized and appropriate personnel. Members of the Xerox CE group and the IT Operations group have the ability to execute the commands necessary to promote code changes to production servers through the use of the sudo command.	One account of six unique accounts with access to use the sudo command for six servers across a selection of 18 servers remained active after the employee was terminated. Inspected the last logon date for the terminated employee and noted the last logon was prior to termination date.
Access to the production database and application servers is restricted to authorized and appropriate personnel.	Two accounts of 87 unique accounts across a selection of five servers remained active after the employees were terminated.
Access to the report file server is restricted to appropriate personnel.	One account of 105 unique accounts remained active after the employees were terminated.
Changes to network security devices protecting client environments are authorized, tested, approved, properly implemented, and documented.	Four of 25 changes selected were not documented. The four exceptions involved adding a rule to monitor network traffic. Inquired with management and were informed additions of rules to monitor traffic are not consistently documented.

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

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

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

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

- Revoke the shared manager and database administration accounts on the OnBase system and ensure that administrative users are actively using their own individual ID.
- Segregate or move data from the OnBase servers so that non-IT users do not have a need to access administrative functions.

Finding 12 – 04: (continued)

- Implement alternate procedures for emergency data center access to ensure that only individuals with daily work requirements in the data center are issued badges to that area.
- Implement changes to the password settings for the OnBase application and BUCD domain or implement a manual process to ensure that users' passwords meet the minimum requirements of the Treasury password policy.
- Establish a logging function on all applications, databases, and servers to ensure that an audit trail of all changes is accessible in the event of a system change requiring research.
- Require and retain full documentation of all programming changes and system upgrades, including initial approval, evidence of testing by IT personnel and users, approval for implementation, and final signoff of completion.
- Implement a policy regarding access, change control, development, and backup of user-developed programs (spreadsheets and databases) that are used to support financial proceses.

Agency Response:

1. 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. BUCD will document vendor access using MicroSoft Outlook calendar function to document vendor access and purpose. Also, BUCD has created a *Manager Log* folder which will be completed by users after every instance and periodically reviewed by the BUCD director.

2. BUCD operates a call center for claimants. Access is granted as domain administrator to provide the call center personnel with access to payment information including check issuance, check clearing and eligibility information.

   The previous versions of OnBase had security issues which unfortunately necessitated the current configuration. BUCD recently upgraded to a newer version of OnBase which now allows the modification of the user rights to a stricter, more appropriate security setting. The modifications required are currently being analyzed and documented. If this effort is reasonable, BUCD will begin testing user access changes. Once testing is approved, the changes will be implemented into production.

3. 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 172 officials (163 capitol and state police, nine DGS fire and safety personnel) as required by Labor and Industry. These individuals have been established as a separate access group. Since December 2010, BUCD conducts regular reviews of authorized users with Department of General Services.

4. Treasury BUCD is not a client of the Treasury Department network, but is a client of the Department of Labor and Industry (L&I) network. All password requirements of the L&I network apply to users of BUCD. On or about August 15, 2012 L&I OIT issued a Security Awareness Program (Program) bulletin that updated its Information Technology Acceptable Use Policy. BUCD will adapt aspects of the Program bringing BUCD into substantial alignment with Treasury's strong password policy, as well as utilizing newly available encryption for transmission of sensitive data.

   OnBase passwords are required after network login and consist of six alphanumeric characters. These expire every 30 days. The newest version of OnBase enables strong password policies, which are being evaluated by Treasury's CIO for implications at an enterprise level.

5. BUCD has no control over this functionality, but acknowledges that this is a limitation of the software. In lieu of system generated logs, BUCD maintains change logs to document system changes and updates.

6. Although comprehensive documentation of the test results of the upgrade were not maintained, we retained the automatically-generated activity during the upgrade and verified that the upgrade was successful.

Finding 12 – 04: (continued)

7. Treasury agrees that some data is kept on spreadsheets. These spreadsheets are in secured folders on Treasury servers. The security is set such that only those needing access to the information have access to the folder. Typically, only bureau members have access to folders located within the bureau folder, however, specific individuals can have additional file security. Access to these folders requires network logon to which strong passwords are applied and which are required to change every 60 days.

8. Although Treasury executed the contract with Xerox and L&I, Treasury has no access to the Linux system referred to in this finding. Treasury does not have super user authority and does not manage users or traffic on this system.

Auditors' Conclusion: We are encouraged that management has implemented or initiated actions to correct a number of the identified deficiencies.

Regarding Treasury's response to Condition #3, we recognize that a policy allows for broad access to the data center; however, a risk of unauthorized access exists with 172 individuals outside the organization holding badges with access to Treasury's servers.

Regarding Treasury's response to Condition #8, we recognize that Treasury is not directly responsible for the control environment of the third-party service provider and does not manage access to Xerox systems. However, Xerox is responsible for the electronic disbursement of payments under the direction of the PA Department of Treasury, and their control environment is integral to the security and reliability of Treasury's electronic payment process. The exceptions noted in Condition #8 represent a potential risk to Treasury's payment processing activity.

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.

Finding 12 – 05:

Office of Comptroller Operations – Bureau of Accounting and Financial Management

Material Weakness Over Financial Reporting in the Unemployment Compensation Fund

Condition: The Commonwealth's Basic Financial Statements (BFS) contained material misstatements in the Unemployment Compensation (UC) Fund operating activities that required adjustment. The UC Fund Operating Revenues include UC tax revenues collected from employers and Operating Expenses include disbursements of UC benefits to unemployed recipients, as well as other related costs (IRS withholdings). Our testing of the UC Fund GAAP Template for FYE June 30, 2012 determined a $1,197 million understatement of Operating Revenues and Operating Expenses went undetected by management. The error occurred due to incorrect recording of UC Fund GAAP Template entries.

Criteria: Strong internal controls should ensure that account balances and adjustments are reported accurately in the BFS in accordance with GAAP, and are appropriately reviewed and approved by management.

Cause: Office of Comptroller Operations (OCO) internal review procedures in the UC GAAP Template preparation process failed to detect and correct the errors noted above. The misstatement was due to errors in recording the GAAP template adjusting entries for the Cash with Fiscal Agents account. GAAP templates are the Commonwealth's basis for the preparation of its BFS.

Effect: The above balances in the UC Fund government-wide and fund financial statements were misstated and required adjustment. In addition, the noted weaknesses could continue to result in additional misstatements in the BFS in the future.

Recommendation: We recommend that OCO improve its procedures for preparing and reviewing the UC Fund GAAP Template to ensure that the amounts reported in the UC Fund GAAP Template are accurate.

Agency Response: BAFM agrees with this finding and will initiate corrective action.

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

Finding 12 – 06:

Department of Labor and Industry

Internal Control Weaknesses Resulting in Overpayments of Unemployment Compensation Benefits (A Similar Condition Was Noted in Prior Year Finding 11-04)

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. For any weeks where the system determines that there may be an issue, claims are pended 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). It is designed to identify the Unemployment Insurance (UI) Program's processing trends that cause erroneous UC 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 22.8 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 billion of the $6 billion in total payments. Based on the gross error rate of 22.8 percent, the projected overpayment during the audit period totaled approximately $684 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.

During the audit period, L&I has made the prevention and detection of overpayments a top priority. In addition to the various data cross matches mentioned above, various other ongoing efforts are occurring. 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 developing controls to improve UC benefit payments, which are outlined annually in a report submitted to USDOL called State Quality Service Plan narrative. The office of UC Benefits during 2011 established a state UI integrity task force that is responsible for identifying and developing processes and procedures to prevent claimant fraud and reduce overpayments. Also, in June 2011 L&I began participating in a national UI integrity task force to reduce the overpayment rates in Pennsylvania and nationally. L&I has created a new Office of Integrity to ensure adequate integrity department wide.

Finding 12 – 06: (continued)

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.

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 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 and internally.

Agency Response: The Department of Labor and Industry acknowledges the finding. Many initiatives and revisions have already been implemented with others to follow shortly. Details of this information will be included in the corrective action plan.

Auditors' Conclusion: We are encouraged that L&I is implementing initiatives and revisions to strengthen controls over processing of UC benefit payments.

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.

Finding 12 - 07:

Treasury Department

Ineffective Methodology in Estimating Escheat Liability

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

Based on an analysis of June 30, 2011 and 2012 unclaimed property reports received from Treasury (the Total Amounts Claimable report generated by the UPS2000 system used by the Bureau of Unclaimed Property to account for property received, disbursed and held), there are significant differences in the payout rates for property depending on the year in which the property was received. For example, the auditors noted that of the total amount paid out during the fiscal year ended June 30, 2012, approximately 1 percent consisted of property received in 2011, 51 percent consisted of property received 2009 to 2010, 25 percent consisted of property received in 2006 through 2008, 18 percent consisted of property received in 2002 through 2005, 3 percent consisted of property received in 2000 and 2001, and 2 percent consisted of property received in all years prior to 2000. In other words, with the exception of the most recent year, the probability that property will be reclaimed and paid decreases the longer the property is held. Treasury's methodology, which is based on an average payout rate, does not take this factor into account.

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

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

Effect: The escheat liability being reported in the CAFR may be misstated.

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

Finding 12 – 07: (continued)

Agency Response: Treasury acknowledges the methodology used to compute the escheat liability has been in place for a number of years and applies the same payout rate for all property years. Treasury does not have the resources available to engage an actuary nor the in house expertise to develop an actuary report. Treasury recently upgraded the UPS2000 application version to include software enhancements. We will review new functionality to determine if the software can provide useful information about property payouts by year or property type. Treasury will work to develop a methodology based on property year payout rates.

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

Finding 12 - 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 11-08)

Condition:

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

1. Due to the size and complexity of Commonwealth agencies and operations, numerous feeder systems pass significant financial data to SAP. While an interface listing has been created to identify the inputs from outside agencies into SAP, the interface listing is not comprehensive enough to provide an auditable listing of the applications that are transferring significant financial data into SAP. Missing or incomplete information includes:

   - source application name,
   - service providers that may be involved in processing the data,
   - SAP transaction codes (for some interfaces), and
   - 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 populated through the interface; therefore, it is not possible to determine the source of all transactions based on SAP data.

2. In some agencies, financial data is processed in end-user computing applications. End-user computing applications are defined as spreadsheets, databases, and other user-developed programs that may be used to support financial reporting. Management has not implemented standardized policies and procedures to address IT controls related to access, change control, development, and backup of end-user computing programs and data. Management provided a relevant draft policy in July 2012 and is in process of finalizing that policy.

3. Control deficiencies related to AIX (the operating system for SAP production servers) and Oracle (the database for SAP) were noted as follows:

   - A periodic review of users with AIX and Oracle access was conducted; however, it did not include a comprehensive review of contractors with access.
   - Two AIX user accounts are not appropriately restricted to individuals with a business need.
   - A generic database ID is used for direct database administration. While the system records login activities to provide additional accountability, a regular documented review of user access is not performed to ensure that only appropriate members of IT are utilizing this powerful generic account.

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 PA Liquor Control Board, because information technology systems reside at the Commonwealth's Consolidated Data Center known as the Data Powerhouse (DPH). The Commonwealth contracts with Unisys Corporation and International Business Machines Corporation as service organizations to provide managed services to the DPH, including data hosting and programming support services. The following operating effectiveness exceptions were noted within the Service Organization Controls (SOC 1) examination of the DPH under Statements on Standards for Attestation Engagements (SSAE) No. 16. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report:

Finding 12 – 08: (continued)

Control	Exception
Visitors to the Data Center must sign in and be escorted by an authorized employee through the Unisys-controlled space. 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 three months selected.
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 two of the two employees selected. Inspected the DPH Access Roster and the list of terminated employees and determined that four of 13 terminated employees were not removed from the DPH 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 and IBM employees who possessed agency system access and determined termination was not communicated to the Commonwealth for one of eight users selected.
Reports documenting internal open tickets are generated and issued at least daily to Unisys and IBM employees to remind them that resolution thresholds are approaching or have been exceeded.	Inspected open ticket reports and internal correspondence for a selection of dates and determined that open ticket reports were not generated and issued to employees to remind them that resolution thresholds were approaching or had been exceeded for two of 15 dates selected.
Unisys administers network infrastructure devices for systems housed within the DPH. Access is gained through authentication against the TACACS+ server.	Inspected the system-generated list of users with access to the TACACS+ server and the listing of current employees with job titles and determined that access was not appropriate for one of eight users with access.

Finding 12 – 08: (continued)

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

Pennsylvania Lottery (Lottery)

1. Management remediated a prior year weakness in which the Back Office application (which manages retailer licensing and processes claims and fiscal accounting for retailers) lacked segregation of duties between application development, promotion of program changes into production, and system administration. Corrective action was implemented in November 2011 and May 2012. Further, management remediated a prior year weakness in which the Back Office application lacked a monitoring process to detect changes moved into production that did not follow the standard process. A monitoring process was implemented in December 2011.
2. In order to access the Internal Control System (ICS), which is used to reconcile sales totals for lottery ticket drawings, administrators (two Lottery employees and two contractors) authenticate using a group userID and password. Use of the group userID was not logged until June 2012.
3. In ICS, contractors who perform development also have access to promote changes to production without authorization or testing by Lottery. Further, the contractors have unrestricted, remote access to the root directory in ICS and their actions were not logged or monitored until June 2012.
4. Password requirements for ICS are not configured to enforce adequate complexity settings to comply with Information Technology Bulletin (ITB)-SEC007, "Minimum Standards for User IDs and Passwords".

The following deficiency is related to a service provider that supports Lottery's critical applications:

5. Scientific Games International, Inc. (SGI):
   The following control deficiency related to the Advanced Entertainment and Gaming Information System (AEGIS) was noted as a result of the SOC 1 examination of SGI, the service organization that provides on-line games as well as retail location terminals and communications to Lottery:

Control	Exception
Firewall rules permitting remote access through to production systems are inactive. Upon request and approval, SGI operations staff can run a script that makes the rule active. When remote access is no longer needed a script is run to return the rule to an inactive state. Operations staff maintains a manual log of all requests.	One out of four firewall rules requiring approval for activation was open during the time of inspection of the configuration.

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. 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) mainframe environment. Further, management has not implemented a monitoring process over the production environment to detect changes moved into production that did not follow the standard process.
3. There are no policies and procedures for granting powerful user attributes (SPECIAL, OPERATIONS or AUDITOR) in the mainframe environment. Further, six users have been granted all three powerful user attributes (SPECIAL, OPERATIONS and AUDITOR), 63 users were granted OPERATIONS access and 17 users were granted AUDITOR access without written justification for this broad level of access.

Finding 12 – 08: (continued)

4. Periodic access reviews to determine the appropriateness of all users with privileged access have not been implemented in the Unemployment Compensation Modernization System (UCMS) client/server environment.
5. A lack of segregation of duties exists because developers (five L&I personnel and two contractors) can promote changes to production in UCMS.
6. L&I does not have adequate written policy requiring documentation of testing in ClearQuest (software used to track and document program changes) prior to implementation of program changes into the UCMS production environment. Evidence of testing was not available for audit for the one program change haphazardly selected for walkthrough.
7. L&I was unable to provide documentation to evidence successful and accurate data migration for release 2.0 of UCMS.
8. L&I did not conduct post-implementation reviews on release 2.0 of UCMS to ensure that the system is functioning correctly in the production environment. Further, L&I contracted with an outside vendor to perform an Independent Verification and Validation (IV&V); however, L&I did not develop a specific corrective action plan based on the IV&V vendor's findings.
9. Management remediated a prior year weakness in which a group ID was used for database administrator access to UCMS, and use of the group ID was not monitored. Corrective action was implemented in June 2012.
10. There is no alarm system to alert for any type of physical intrusion or for any forced entry to the external steel door that accesses the first floor server room.

State Workers' Insurance Fund (SWIF)

1. A lack of segregation of duties exists because one of the vendor's developers for the PowerComp application (workers compensation policy and claim software) also has the ability to promote changes into the production environment. Further, until March 2012, one SWIF developer also had the ability to promote changes into production.
2. A monitoring process has not been fully implemented over the production environment to detect changes moved into production that did not follow the standard process. SWIF began implementation of Tivoli Service Management in November 2011; however, it was not fully functional as of the end of the audit period.
3. 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.
4. Until June 2012, the Freedom Financial application (general ledger and financial reporting software) had an excessive number of administrators and privileged users. All six users with access to the application had both administrative and privileged access. SWIF reduced the number of administrative and privileged users in June 2012.
5. Password requirements for the PowerComp, Freedom Financial, Onbase (imaging software), and Iworks (investment portfolio software) applications were 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. While some corrective actions occurred during the audit period in the Freedom Financial and Iworks applications, none of SWIF's applications fully comply with ITB-SEC007.
6. Until June 2012, in order to access application functionality in the Freedom Financial application, users were not required to authenticate using a unique user ID and password.
7. PowerComp users logon to the application using their CWOPA user ID, which is also their password.
8. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented for the Freedom Financial application.
9. Until June 2012, password requirements for the Simplex software (which controls door access in the Scranton State Office Building) were not configured to enforce adequate complexity settings. Furthermore, until that date, a unique user ID and password was not utilized to access the software, and an excessive number (eight) of individuals had administrative access to the software.

Finding 12 – 08: (continued)

10. 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. There are no policies and procedures for granting powerful user attributes (SPECIAL, OPERATIONS or AUDITOR) in the RACF database used to secure the mainframe computer. An excessive number of userIDs have been assigned powerful user attributes (17 SPECIAL users, 21 OPERATIONS users, and 18 AUDITOR users). Further, nine users have been assigned all three powerful user attributes (SPECIAL, OPERATIONS and AUDITOR) without written justification.
2. In the Engineering and Construction Management System (ECMS), used to process construction invoices, system logging is not enabled to allow for a system-generated log of changes to PennDOT applications and servers. Additionally, there are servers that use local shared administrator accounts, which may be used to promote system changes. Therefore, no systematic audit trail of the individuals who promoted system changes can be generated, and proper segregation of duties cannot be established. Management does not have additional compensating controls in place to monitor the program code for unauthorized program changes.
3. Management remediated a prior year weakness in which user accounts for the dotGrants application (web product used to release grant funds) were not required to comply with ITB-SEC007. Corrective action was implemented in November 2011.
4. When a non-PennDOT user (i.e., contractor or employee of another agency/municipality) is terminated, there are no procedures in place to notify dotGrants system administrators to suspend/delete the user IDs within a two-week period.
5. Management did not employ adequate security controls for sensitive data submitted via the internet.

Department of Public Welfare (DPW)

1. A 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 for all significant applications, servers, and databases to verify that access rights are appropriate and segregation of duties conflicts do not exist. DPW's policy issued in May 2011 requires an annual review of user IDs.
2. Generic user IDs exist within OpCon/xps (job scheduling software) to promote programming changes to production for DPW-maintained applications; therefore, proper segregation of duties cannot be established. Management does not have additional compensating controls in place to monitor the program code for unauthorized program changes.
3. Mainframe password settings for the Client Information System (CIS) application do not comply with ITB-SEC007.

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

4. 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:

Finding 12 – 08: (continued)

Control	Exception
Access to systems is limited to authorized individuals.	Controls are not suitably designed to prevent unauthorized use of system administrator accounts with direct access to data. Passwords to these accounts are shared amongst team members and/or stored in clear text within configuration files, allowing Electronic Financial Services (EFS) information technology personnel unmonitored access to these accounts, and facilitating unauthorized access to these accounts. As a result, the controls are not suitably designed to achieve the control objective.
Access to the job scheduler is restricted to authorized personnel who do not have processing responsibilities within the business.	Two operating system level access recertifications, inclusive of security administrative access and Global Technology Infrastructure (GTI)-managed jobs scheduler access, were performed during the period. The service auditors tested a sample of 25 users from the recertification that was initiated in October 2011, and noted no exceptions. As of June 2012, the tool used to facilitate the access recertification changed. As a result, the auditors selected an additional sample of users from the June 2012 recertification and noted that operating system level access was not recertified for three of twenty-five users sampled. While automated notification of access recertification tasks were reported to appropriate management, the manual action required to complete the recertification process was not performed due to a misunderstanding of the process associated with the new tool. In response to these exceptions, management has subsequently recertified the access as appropriate.
Access to systems is granted only upon approval by authorized management or a designee. The approver confirms access is commensurate with the users' job responsibilities.	For the period July 1, 2011, through June 30, 2012, the auditors selected a sample of 26 new users and for each sampled user determined whether access had been approved by authorized management or a designee. The auditors noted one unauthorized member of production support had logged into an administrator account and used that access account to grant herself unauthorized access to the Front End Balancing (FEB) application. The user was able to grant herself this access as a result of the design exception noted under the access administration control above.

The first deficiency in the list above resulted in the following opinion qualification: "Treasury Services states in its description that access to systems is limited to authorized individuals. However, controls are not suitably designed to prevent or detect unauthorized use of system administrator accounts with direct access to data. Passwords to these accounts were shared amongst team members and/or stored in clear text within configuration files, allowing EFS IT personnel unmonitored access to these accounts, and facilitating unauthorized access to these accounts. As a result, the controls are not suitably designed to achieve the control objective, "Controls provide reasonable assurance that access to systems is limited to authorized individuals."

Finding 12 – 08: (continued)

5. Fiserv, Inc.
   The following control deficiencies related to Fiserv, Inc. Card Services were noted as a result of the Service Organization Controls (SOC 1/SSAE 16) examination of a subservice organization of JP Morgan Treasury Services that is contracted to provide transaction processing for Electronic Benefits Transfer (EBT) on behalf of the Commonwealth. The SOC 1 report (received by the Commonwealth on January 9, 2012) covered the period October 1, 2010 through September 30, 2011, which was the most recent report available from Fiserv, Inc. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
Fiserv Card Services restricts the ability to make production system software changes to authorized IT technical personnel.	Of the six users with access to migrate changes to the Stratus production environment, three are members of the Billings, MT development team. These users have the ability to migrate code, including their own, into the Stratus production environment at the operating system layer.
User access and profiles are reviewed periodically at the network, application, operating system, and database levels. Manual and automated tools (e.g., scripts) are used to facilitate the periodic review.	A periodic user access review was not performed between October 1, 2010 and March 31, 2011 for the Linux environment to confirm that only authorized and valid users maintain Linux system access.
Fiserv Card Services performs periodic restoration testing of tape backups on a monthly basis.	Monthly, scheduled backup restoration tests are not performed.
Only Fiserv employees authorized by management have access to the settlement adjustment and reconciliation systems based on job responsibilities.	Noted that 63 of 111 users maintaining Single Point Corrections (SPC) adjustments access that required the ability to view transactional data for responding to questions per client requests also maintained the ability to perform adjustments. Due to a system limitation within the SPC module of the Back Office System (BOS), a view-only access role was not an available feature. Management had approved the access these 63 users had in order to support their job responsibilities pertaining to client inquiries.

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, 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 history was not enabled within the Sun Solaris (UNIX) environment until May 8, 2012.

Finding 12 – 08: (continued)

7. Unisys Global Managed 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 update production code is restricted to authorized individuals.	A segregation of duties between the Pharmaceutical Reimbursement Information Management System (PRIMS) application developers and production controls is not maintained. A process has not been implemented to monitor production code libraries for unauthorized changes.
Data imported into the PRIMS application is reconciled to control totals.	Control totals were not available prior to February 2012.

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 routinely imports Fee-For-Service (FFS) claim and Managed Care Organization (MCO) encounter pharmacy data into the drug rebate system, PRIMS, to support the rebate invoicing process. Prior to February 2012, the FFS claim and MCO encounter data files did not include control totals. Therefore, the procedures followed during the import process did not include reconciling the data imported to control reports. Beginning in February 2012, the FFS claim and MCO encounter data files were modified to include control totals and reports were developed that allowed Unisys to reconcile imported data. As a result, the controls were not suitably designed for the period July 1, 2011 to February 1, 2012 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. Unisys did not consistently implement controls to segregate duties between the application program developers and the application production control. Nor did Unisys implement procedures to monitor the production environment for updates. 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."

8. Hewlett Packard Enterprise Services:
We were unable to evaluate the technology controls in place at Hewlett Packard Enterprise Services, a subservice organization of JP Morgan Chase that is responsible for the implementation, operation, backup, and support services of the data warehouse that is used for the electronic benefits transfer (EBT) processing of DPW's supplemental nutrition assistance program (SNAP), temporary assistance for needy families (TANF), and low-income home energy assistance program (LIHEAP). Hewlett Packard did not provide a SOC1 or equivalent report to DPW within a reasonable time (6 months) after the end of the fiscal year. In addition, DPW did not perform any additional procedures to assess the service provider's control environment; therefore, DPW did not have a sufficient level of understanding and reasonable assurance that the EBT data warehouse for these major programs was sufficiently protected from inappropriate access and modifications, operating properly, and consistently backed up.

Finding 12 – 08: (continued)

Department of Health (DOH)

1. User IDs for two terminated employees with domain administration rights were not removed following termination. Additionally, generic user IDs had access to domain administration, Women, Infants and Children (WIC) database administration, and server administration functions, with no additional monitoring of the activities performed by these IDs.
2. Management remediated a prior-year weakness that the password settings for the CORE system did not comply with ITB-SEC007. The settings were updated in October 2011.
3. 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. Access to the data center that houses the WIC application servers and databases is not limited to individuals who have daily responsibilities requiring data center access. Forty-nine badges had access to the data center. The data center access list is reviewed by management on a regular basis for appropriateness, and management has taken action to reduce the number of badges; however, some individuals on the list do not require daily 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 spreadsheets in this process are password-protected, passwords are not changed and maintained in accordance with ITB-SEC007. 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. PDE contracted with a vendor to develop and maintain the Pennsylvania Information Management System (PIMS), which collects student data from LEAs as the basis for state and federal subsidies. A lack of segregation of duties exists because two outside vendor employees have access into PIMS to both develop and promote program changes into production.
3. 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, and emergency changes to the PIMS application.
4. An excessive number of users, including an annuitant, have administrative and privileged access (the ability to add, change or delete userIDs, edit data directly, or make configuration changes) in two PDE applications. Further, PDE has no policies or procedures in place to monitor the use of these powerful attributes.
5. Periodic access reviews to determine the appropriateness of users with privileged access were not conducted during the audit period.
6. Management remediated a prior year weakness in August 2012, whereby servers at PDE had machine-level administrator accounts, which were accessed by several employees using a shared password.

Department of Revenue (DOR)

1. A lack of segregation of duties exists because developers (seven in the client server environment and 18 in the mainframe environment) can promote changes to production. Programmers can also promote changes to production in the computing environment used to scan and transmit invoice images received by the Commonwealth. Furthermore, two of the individuals in the client server environment also have privileged access (ability to add /delete users or change data directly).

Finding 12 – 08: (continued)

2. Password requirements for the SoftTrac application (software used to scan invoices for the Commonwealth), Transaction Management System (TMS) application (software used to scan checks for the Commonwealth) and Electronic Tax Information and Data Exchange System (E-Tides) (software used to process Automated Clearing House debit and credit payments for certain taxes), are not configured to enforce adequate complexity settings or to comply with ITB-SEC007.
3. Until May 11, 2012, passwords for the International Fuels Tax Agreement (IFTA) application (which processes fuel taxes) and the Cigarette Tax application were the same as the assigned user IDs which never change.
4. Periodic access reviews to determine the appropriateness of users with privileged access have not been completed for six of eight in-scope applications in the client/server environment and for all applications in the computing environment used to scan and transmit images of invoices and checks received by the Commonwealth.
5. There is no documentation maintained to evidence timely resolution of failed backups in the client/server environment and the computing environment used to scan and transmit invoice and check images. In addition, documentation is not maintained to evidence timely resolution of job processing failures in the client/server environment.
6. The servers are not in locked rooms in the computing environment used to scan and transmit invoice and check images; therefore, all 664 employees with access to the Brookwood Street imaging facility also have access to the SoftTrac and TMS imaging equipment and the servers on which the Formware (used to review and process the scanned images), Check 21 (used to transmit check images to the bank), and Virtual Capture (data entry software) applications reside. In addition, eight employees have duplicate badge access to the Brookwood Street imaging facility.
7. Four administrators access the SoftTrac invoice imaging application using a group userID and a shared password.
8. We noted an excessive number (130) of group IDs with privileged access to the Formware application that is used to process images of invoices received by the Commonwealth.
9. Documentation is not maintained to evidence management authorization prior to initiating an application change in the mainframe and client/server environments.
10. DOR was unable to produce a list of program changes made to the IFTA & Cigarette Tax applications during the audit period.
11. A lack of segregation of duties exists because developers (DOR personnel and contractors) have the ability to change the operations schedule in the computing environment used to scan and transmit images of invoices received by the Commonwealth.
12. A lack of segregation of duties exists because seven developers have the ability to change the operations schedule in the client/server environment, three of whom can promote programs to production.
13. DOR does not have policies and procedures in place to ensure requests for new and separated users in the TMS and Check 21 applications are documented.
14. Documentation is not maintained to evidence application changes are approved by management or tested prior to implementation into the TMS and the Check 21 production environment.

<u>Pennsylvania Liquor Control Board (PLCB)</u>

Information Business Management Systems (IBMS) – formerly known as Oracle

1. Changes to IBMS are deployed using group user IDs that do not identify personnel performing tasks. Additionally, the password for these accounts cannot be changed and user activity is not tracked or logged.
2. An excessive number of users, including contractors, have privileged access in IBMS (i.e., the ability to add, change or delete user IDs, edit data directly, or make configuration changes), and the policy on granting access to PLCB systems does not define which groups should have each type of access. Further, PLCB has no policies or procedures in place to monitor the use of these powerful attributes.
3. Individuals accessing the IBMS Retail Management System (RMS) cannot change their own passwords.

Finding 12 – 08: (continued)

Credit Card Payment Switch Application

4. PLCB computer job monitoring procedures did not detect that the credit card payment switch application incompletely purged several thousand credit card transactions in February 2012. This processing error resulted in numerous transactions remaining in suspense within the application. Consequently, duplicate charges were posted to customer credit cards when the payment switch application erroneously re-processed the suspended transactions.

Warehouse Management System

5. User access violations in the warehouse management system are not monitored.

Multiple Environments

6. PLCB does not have a written policy outlining requirements for the acquisition of new systems and major upgrades.
7. User accounts for the warehouse management application and IBMS were not required to comply with ITB-SEC007.
8. PLCB did not deploy secure encryption key management in all areas of the organization.
9. Management remediated a prior year weakness in February 2012 whereby PLCB had not installed locked server cages in all stores and all warehouses. At that time, PLCB issued written procedures over physical access to all server cages in the stores. Additional written policies and procedures for controls over physical access to servers in the warehouses were implemented after the audit period.

Criteria: For the auditors to conduct the audit with reliance on computer controls, a preliminary requirement is an overall diagram/schematic of SAP that includes all the key financial system interfaces. We also require a comprehensive trail to link each transaction back to its original application source within the agencies. A well designed system of internal controls dictates that sound general computer controls (which include adequate segregation of duties, access controls to programs and data, and program change controls) be established and functioning to best ensure that overall agency operations are conducted as closely as possible in accordance with management's intent.

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.

Finding 12 – 08: (continued)

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.

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

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

Pennsylvania Lottery (Lottery) Response:

1. Lottery agrees with this finding.
2. Lottery agrees with this finding.
3. Lottery agrees with this finding.
4. Lottery agrees with this finding.
5. Lottery agrees with this finding. The deficiency was corrected at the time it was discovered by disabling the firewall rule referenced in the finding.

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

1. The finding is acknowledged, and evaluation of potential resolutions is underway.
2. The finding is acknowledged, and evaluation of potential resolutions is underway.
3. The finding is acknowledged, and evaluation of potential resolutions is underway.
4. The finding is acknowledged, and evaluation of potential resolutions is underway.
5. The finding is acknowledged, and evaluation of potential resolutions is underway.
6. The finding is acknowledged, and evaluation of potential resolutions is underway.
7. The finding is acknowledged, and evaluation of potential resolutions is underway.
8. The finding is acknowledged. Meetings were routinely held to discuss vendor's findings and to act upon those that were considered applicable.
9. The finding is acknowledged. As noted, corrective action was implemented.
10. The finding is acknowledged. As indicated in prior year's findings, the building is under the auspice of the Department of General Services; any modification would have to be coordinated with their approval. Further, our Department is part of a Commonwealth-wide Data Center Consolidation Systems project in which data systems may be consolidated into one area which may render this finding moot if our data program is no longer housed within our building.

Finding 12 – 08: (continued)

State Workers' Insurance Fund (SWIF) Response:

1. The finding is acknowledged, and evaluation of potential resolutions is underway.

2. The monitoring process has been fully implemented as of the first quarter of the current fiscal year.

3. At this time the area responsible for defining this process has not provided the formal procedures.

4. As defined in the finding, the number was reduced at the end of the audit period.

5. Users are required to be logged in with their CWOPA credentials to access these applications. The CWOPA username and passwords meet the requirements laid out in ITB SEC-007.

6. As defined in the finding, the number was reduced at the end of the audit period.

7. Users are required to be logged in with their CWOPA credentials to access PowerComp.

8. Periodic Access Review Procedures have been implemented to conduct reviews on the occurrence of specific events: employee transfer or termination, change in an employee's job duties, or a system upgrade related to user access. Written procedures are available upon request.
9. As defined in the finding, the number was reduced at the end of the audit period.

10. At this time the area responsible for defining this process has not provided the formal procedures.

Department of Transportation (PennDOT) Response:

1. PennDOT agrees with this issue.

2. PennDOT disagrees that system logging is not enabled. The standard Windows logging is enabled for system access and operating system level changes. For environment level changes in both Lotus Domino and IBM WebSphere logging is enabled.

   PennDOT agrees that there are shared system administrative accounts that are used to promote system changes. When the shared system administrative account is used there are no systematic audit trails of the individuals.

   PennDOT disagrees that we do not have controls in place for the development of the code. PennDOT agrees that there is not a process in place to monitor code for unauthorized program changes. After the code is promoted into production, there is no routine activity to ensure that the version of the code is only changed with the proper approvals.

3. PennDOT agrees with this issue.

4. PennDOT agrees with this issue.

5. PennDOT agrees and is in the process of improving the security controls.

Department of Public Welfare (DPW) Response:

1. DPW agrees with the finding. DPW uses automated provisioning solution, IBM Tivoli Identity Manager (ITIM), to assign required roles to the users based on their job classification assigned by HR in the SAP system. ITIM is configured to look up the HR feed file on a scheduled basis and accordingly grant the roles as per the provisioning roles defined for each job classification. ITIM also removes the access once the relationship is terminated between DPW and the individual user.

Finding 12 – 08: (continued)

2. DPW disagrees with this finding. All users of OpCon/xps are identified by name as well as the privileges they have assigned. A report was sent to the auditors on September 12th to support the named users' access.

3. DPW agrees with this finding. A plan has been established and the plan will be implemented in 2013 to ensure all users, both Commonwealth employees and business partners, will be using IDs and passwords that meet the ITB-SEC007 policy.

4. JP Morgan agrees with the finding. DPW will follow-up on the corrective action plan to ensure JP Morgan completes the actions.

5. Fiserv agrees with the finding. DPW will follow-up on the corrective action plan to ensure JP Morgan completes the actions.

6. HP PROMISe™ acknowledges that this was a valid audit finding prior to May, 2012. This finding has been resolved as of May 8, 2012 and password history is now enabled on the UNIX environment. This should no longer be a finding in future audits.

7. Unisys agrees with the finding. The PRIMS application is maintained by a small number of individuals that work for Molina. Unisys has worked with Molina to develop a process that Unisys believes will allow for sufficient segregation of duties, to the extent possible, between PRIMS application developers and production controls.

   Unisys is investigating available options that can be used to monitor production code libraries for unauthorized changes.

   Unisys agrees with the finding that the data imported into the PRIMS application was not being reconciled to control totals. Unisys corrected this issue in February 2012. This should no longer be a finding in future audits.

8. DPW agrees that the SOC1 report has not been received at this time; however, the SOC1 examination is being performed and the report is expected to be issued by the end of January 2013. In addition, based on the past SOC1 report which did not include any findings, and the fact that DPW did not make any major changes to the procedures of these programs, DPW does not believe there is a lack of sufficient level of understanding and reasonable assurance that the EBT data warehouse for these major programs was sufficiently protected from inappropriate access and modifications, operating properly, and consistently backed up.

Department of Health (DOH) Response:

1. The two employees have been removed. There are two processes in place that should mitigate this risk in the future. We have a Remedy process that is used to add and delete users from servers and this also maintains a tracking history. All Admin requests will go through the Remedy Process. In addition, there is also a new system, Tivoli Identity Manager (TIM) that provides notification of any employee leaving or transferring. This information is used to remove these previous employees from administrator admin groups thereby removing any access. Applicable managers have been directed to perform periodic audits to verify that accounts are deactivated for prior employees.

Finding 12 – 08: (continued)

Regarding Service and Domain Administration, the DHProdAdmin account has been deactivated. Also, there are "Service Accounts" in-place to facilitate application-to-application access requirements. Applicable managers have been directed to implement policy directing staff not to use service accounts to login; staff must use named accounts. Additionally, managers have been directed to monitor accounts periodically to verify policy compliance. Regarding WIC Database Administration, there are "Service Accounts" in-place to facilitate application-to-database access requirements. There are also generic accounts used by the WIC applications staff and database administrators. There is an on-going effort to remediate this finding. Applicable staff members are meeting on a periodic timetable to address necessary actions.

2. The issue has been resolved.

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. The WIC Program policy is available upon request (Security Manual for Users).

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 employees have access to provide unplanned, accompanied access during after-hours responses. The number of badges is 42.

<u>Department of Education (PDE) Response</u>:

1. As reported in previous GAAP audit findings, the Pennsylvania Department of Education, Bureau of Budget and Fiscal Management, Division of Subsidy Data and Administration (DSDA) maintains BEF calculation files in a restricted-access network folder – only select staff can even view the contents of this folder. In addition, calculation files have been password-protected beginning with School Year 2011-2012; only two (2) DSDA staff members have knowledge of the password. Procedures have now been put into place to modify the password every two months according to requirements in ITB-SEC007.

   There are no Commonwealth-level end-user procedures to which to adhere. However, 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 and his staff independently record state totals for each of the various data elements used in 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.

2. The PDE disagrees with this finding. Vendor employees have access to the PIMS production servers for the express purpose of deploying program updates, for both scheduled updates and emergency fixes to operational issues. More than one vendor employee has been granted this access so that alternate staff and/or managers can execute the deployments when they need to be done. Because code development is done in the vendor's IT environment, not in the COPA/PDE PIMS environment, we have no documentation of any specific instance where a code developer also deployed the code they developed or modified.

   The issue of separation of duties has been discussed with the vendor in the past. The PDE agrees that more formal documentation of our understanding with the vendor regarding separation of duties should be maintained. The PDE intends to use the development and deployment controls recently implemented by PDE, Division of Food and Nutrition for its CN-PEARS vendor-maintained system as a template for the documentation and controls for PIMS deployment.

Finding 12 – 08: (continued)

3. The PDE agrees with this finding. The PDE intends to use the development and deployment controls recently implemented by PDE, Division of Food and Nutrition for its CN-PEARS vendor-maintained system as a template for the documentation and controls for PIMS deployment.

4. The PDE disagrees with this finding. The audit team was specifically referencing the AFR V2 System ("excessive number of users") and the Basic Instructional Subsidy System ("including a retired employee").

   With regard to AFR V2:

   - The Subsidy User role is assigned to three staff in PDE, Bureau of Budget and Fiscal Management, one of whom is a manager who needs the ability to perform actions in the absence of the other two (2) staff. The Subsidy User role allows these users to do the following:

     View/Add/Edit/Delete Subsidy Actions
     View/Add Status Comments
     Save Configuration Settings (Report Criteria)
     View/Update Subsidy Status Date

     All of these allowed actions are required to allow the staff to perform their assigned duties in tracking AFR submissions and managing subsidy holds. These actions are performed within the system interface and do not allow direct access to data tables.

     The Save Configuration permission is limited to report criteria, as noted above, and again is required for these staff to do their assign tasks.

   - The Super User role is assigned to six (6) individuals in the Comptroller's Office, which is primarily responsible for tracking the receipt, review, and approval of AFRs received from school entities. There are more than 700 reports received annually and several staff are needed to process them.

     Of the six, their classifications are Financial Transactions Analyst (1), Accountant 1 (1), Accountant 2 (3), and Accounting Manager (1).

     The Super User role allows these individuals to do the following:

     View/Add/Edit/Delete AFR Actions
     View/Add/Delete Status Comments
     View/Update AFR Required Indicator
     Save Create/Update Subsidy Hold List
     Configuration Settings (Report Criteria)

     All of these allowed actions are required to allow the staff to perform their assigned duties in tracking AFR submissions and processing subsidy holds as directed by PDE. These actions are performed within the system interface, and do not allow direct access to data tables.

   - The Super User role is also assigned to three (3) PDE Center for Data Quality & Information Technology (DQITC) staff who are Application Developers, and who require this access to troubleshoot and resolve any reported issues, and perform other periodic system maintenance as needed.

   - It is PDE's position that neither the Subsidy User nor Super User roles are assigned to excessive numbers of staff, given the annual peak cycle for receipt and processing of more than 700 AFRs, as well as the need to have backup staff, managers, and/or supervisors provisioned to step in due to staff absence or unavailability.

Finding 12 – 08: (continued)

With regard to the Basic Instruction Subsidy System, the retired employee was a former Bureau Director who returned to PDE as an annuitant employee, and during this audit period may have performed duties requiring this role, as they did before their retirement. The PDE will confirm the propriety of this role during the 2012-2013 audit period.

5. The PDE agrees with this finding. The PDE conducted access reviews during Fiscal Year 2011-2012 and plans to repeat the access reviews annually. However, due to staff reductions and other priority projects, no access review was done during the 2012-2013 period. The PDE has scheduled an access review for 3Q of Fiscal Year 2012-2013 and will schedule annually thereafter.

6. The PDE agrees with this finding. The CDQIT Server Administrators now have the administrator role associated with their individual CWOPA accounts, and the Administrators login using their personal CWOPA credentials. This allows individual identification of all Administrator logins in the server access logs.

<u>Department of Revenue (DOR) Response</u>:

1. DOR agrees with the finding.

   On January 3, 2010 DOR implemented a compensating control 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.

3. DOR agrees with the finding. DOR has addressed this finding and completed new password parameters that meet requirements for IFTA and CigTax.

4. DOR agrees with the finding. DOR implemented an access review procedure in August 2011 and has piloted the procedure with selected client/server systems. DOR continues to expand the periodic access review procedure to the remaining in-scope systems.

5. DOR agrees with the finding.

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.

Finding 12 – 08: (continued)

8. 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.

9. DOR disagrees with the finding. On January 3, 2010 DOR implemented a compensating control 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.

10. DOR agrees with the finding.

11. DOR agrees with the finding.

12. DOR agrees with the finding.

13. DOR agrees with the finding.

14. DOR agrees with the finding.

Liquor Control Board (PLCB) Response:

1. PLCB agrees there was an issue, but it was remediated during May 2012, which is in the 11/12 FY.

2. PLCB agrees with the finding.

3. PLCB agrees with the finding, but the system is third party proprietary software.

4. PLCB agrees there was an issue, but it was remediated during March 2012, which is in the 11/12 FY.

5. PLCB agrees with the finding, but the system is third party proprietary software.

6. PLCB agrees with the finding.

7. PLCB agrees with the finding, but RIMS and IBMS were put into place before the policy took effect.

8. PLCB agrees there was an issue, but it was remediated during March 2012 with the rollout of the new POS system.

9. PLCB agrees with the finding.

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.

Finding 12 – 08: (continued)

Regarding L&I's response to Condition #8, L&I states that "Meetings were routinely held to discuss the [IV&V] vendor's findings and to act upon those that were considered applicable." However, the final report entitled "Summary – Lessons Learned and Remaining Items to Monitor" includes valuable insights into the development of project requirements and the contracting process that could be useful for future projects to help prevent change orders, project overruns and implementation delays. We continue to recommend that L&I consider specific corrective actions to implement the IV&V vendor's recommendations for future phases of UCMS and other future development projects.

Regarding SWIF's response to Conditions #5 and #7, we acknowledge that users are required to be logged in with their CWOPA credentials to access the SWIF applications. However, due to the sensitive nature of the information in these systems, we continue to recommend that all SWIF applications comply with ITB-SEC007.

Regarding SWIF's response to Condition # 8, periodic access reviews of privileged users should be conducted regularly regardless of underlying events. We will review written policies in the subsequent audit.

Regarding PennDOT's disagreement with Condition #2 that system logging was not enabled, PennDOT agreed that shared administrator accounts are used and there is not a process in place to monitor code for unauthorized program changes. While we acknowledge that certain logs are enabled, the current logging capabilities do not allow for monitoring code for unauthorized program changes and do not compensate for the shared administrator accounts used to promote system changes.

Regarding DPW's disagreement with Condition #2, during our meeting with DPW management on June 29, 2012, DPW was not able to generate a listing of the users with access to move changes to production through OpCon/xps. As noted in DPW's response, the list was generated and provided to the auditors on September 12, 2012. We inspected the list and noted that two generic user IDs that were not identifiable to a specific person were included on the list of IDs with access to schedule changes to move to production. In a subsequent communication, DPW management did not provide a rationale for allowing the generic IDs to access the system, and indicated that they would be removed.

Regarding DOH's response to Condition #3, we acknowledge that the Department of Health Bureau of Information Technology does not have responsibility to administer access to QuickWIC, per policy. As noted in the finding, the remote office administrators do not consistently require a formal request to be submitted prior to adding users to the system, which represents the control weakness.

Regarding DOH's response to Condition #4, we acknowledge that management's response indicates the number of individuals with badge access to the data center has been reduced to 42 (from 49 that were listed during our testing). The risk of unauthorized access still exists when granting badge access to individuals who do not have daily job responsibilities requiring access to the data center; however, we will evaluate management's rationale for each individual's access in the subsequent audit.

Regarding PDE's response to Condition #1, PDE stated that they have instructions for the users of the BEF user-developed application; however, these instructions were not provided during the current audit. We will evaluate any documentation or instructions available in the subsequent audit.

Regarding PDE's disagreement to Condition #2 that two vendor employees have access into PIMS to both develop and promote program changes into production, PDE agreed to implement development and deployment controls over this application.

Regarding PDE's disagreement to Condition #4 in which PDE contends that actions of Super Users in the AFR application are not performed through direct access to data tables, we will evaluate documentation to support this representation in the subsequent audit since it was not provided during the current audit. We continue to recommend that administrative/privileged access be removed from the user profile of the annuitant.

Regarding DOR's disagreement with Condition #8, we reiterate that an excessive number of employees, regardless if they are temporary, should not have privileged access to the Formware application.

Finding 12 – 08: (continued)

Regarding DOR's disagreement with Condition #9, we acknowledge that the System Implementation Document is appropriate to document approval of program changes prior to implementation; however, during meetings with DOR management on May 18, 2012 and June 7, 2012, DOR stated that documentation is not kept to evidence management authorization prior to initiating all program changes.

Regarding PLCB’s response to Condition #1, although management replaced service accounts with individual user IDs for database administrators in May 2012, we still have questions about the availability and monitoring of the ORADEV account in the production environment. Since corrective action occurred late in the audit period, we will evaluate this issue in the subsequent audit.

Regarding PLCB’s response to Condition #4, we agree that management implemented computer operations monitoring procedures in the payment switch application in March 2012. However, we believe it is important to note that these monitoring procedures were implemented after the duplicate charges were posted.

Regarding PLCB’s response to Condition #7, we continue to recommend that PLCB comply with ITB-SEC007 by meeting those requirements or applying for a waiver.

Regarding PLCB’s response to Condition #8, we noted that other auditors reported the lack of secure encryption key management in their report dated August 30, 2012. A subsequent report by the same other auditors indicated that all control weaknesses were resolved. We will consider this information in the subsequent audit.

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.

Index to Federal Award Findings and Questioned Costs - June 30, 2012

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-AGRI-01 *	10.555 10.559	National School Lunch Program Summer Food Service Program for Children	Internal Control Weaknesses and Noncompliance With Recordkeeping and Reporting to Verify Commodity Receipts and Distributions (Prior Year Finding 11-AGRI-01)	NC	ND	AGRI	103	299
12-DCED-01 **	14.228 14.255	Community Development Block Grants – State-Administered CDBG Cluster (including ARRA)	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 11-DCED-01)	MNC	ND	DCED	105	299
12-DCED-02 *	81.042 93.568	Weatherization Assistance for Low-Income Persons (including ARRA) Low-Income Home Energy Assistance	Noncompliance and Internal Control Deficiencies in the Department of Community and Economic Development's Program Monitoring of Weatherization Subrecipients (Prior Year Finding 11-DCED-03)	NC	ND	DCED	107	300
12-DCED-03 *	81.042 93.568	Weatherization Assistance for Low-Income Persons (including ARRA) Low-Income Home Energy Assistance	Deficiencies in Information Technology Controls at the Department of Community and Economic Development (Prior Year Finding 11-DCED-04)	N/A	None	DCED	109	301
12-PDE-01 *	10.553 10.555 10.556 10.559 10.558 84.027 84.173 84.391 84.392	Child Nutrition Cluster Child and Adult Care Food Program Special Education Cluster (including ARRA)	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 11-PDE-02)	N/A	None	PDE	111	302
12-PDE-02 **	10.558	Child and Adult Care Food Program	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding 11-PDE-03)	MNC	ND	OB/OCO PDE	114	302

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

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

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-PDE-03 **	10.558	Child and Adult Care Food Program	Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of Child and Adult Care Food Program Subrecipients (Prior Year Finding 11-PDE-04)	MNC	ND	PDE	117	303
12-PDE-04 **	84.010 84.389	Title I, Part A Cluster (including ARRA)	A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding 11-PDE-06)	MNC	None	PDE	120	303
12-PDE-05 **	84.010 84.389 84.367	Title I, Part A Cluster (including ARRA) Improving Teacher Quality State Grants	A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality State Grants Subrecipients (Prior Year Finding 11-PDE-07)	MNC	ND	PDE	126	304
12-PDE-06 *	84.010 84.389	Title I, Part A Cluster (including ARRA)	A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data	NC	None	PDE	128	304
12-PDE-07 **	84.377 84.388	School Improvement Grants Cluster (including ARRA)	A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Compliance With Earmarking Requirements, and Monitoring of Subrecipients	MNC	ND	PDE	134	305

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

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

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-PDE-08 *	84.389 84.391 84.392 84.394	Title I Grants to Local Educational Agencies (ARRA) Special Education – Grants to States (ARRA) Special Education – Preschool Grants (ARRA) State Fiscal Stabilization Fund – Education State Grants (ARRA)	Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of ARRA Funds (Prior Year Finding 11-PDE-09)	NC	ND	PDE	138	305
12-DOH-01 *	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions and Vendor Overcharges	NC	$84,862	DOH	141	306
12-DOH-02 **	93.917	HIV Care Formula Grants	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third-Party Subrecipient Contractor Results in an Undetermined Amount of Questioned Costs (Prior Year Finding 11-DPW-15)	MNC	ND	DOH	144	307
12-L&I-01 *	17.225	Unemployment Insurance (including ARRA)	Deficiencies Noted During Re-Calculation of Experience Based Employer Tax Rate	NC	None	L&I	147	309
12-L&I-02 *	17.225 17.245 17.258 17.259 17.278 84.126 84.390	Unemployment Insurance (including ARRA) Trade Adjustment Assistance WIA Cluster (including ARRA) Vocational Rehabilitation Cluster (including ARRA)	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 11-L&I-01)	N/A	None	L&I	151	310
12-L&I-03 *	17.245	Trade Adjustment Assistance	Internal Control Weaknesses in Approving of the Trade Adjustment Assistance Training Payments	N/A	None	L&I	154	310

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

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

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-L&I-04 **	17.258 17.259 17.278	WIA Cluster (including ARRA)	Control Weaknesses Exist in the Department of Labor and Industry's Subrecipient Monitoring of Eligibility Determinations for Individuals (Prior Year Finding 11-L&I-02)	MNC	ND	L&I	156	311
12-L&I-05 *	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations	NC	None	L&I	159	311
12-L&I-06 *	96.001	Social Security – Disability Insurance	Internal Control Weakness in the Preparation, Review, and Approval of the Quarterly Form SSA-4514 Reports Submitted to the Social Security Administration	NC	None	L&I	161	311
12-DMVA-01 *	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of $35,422 (Prior Year Finding 11-DMVA-01)	NC	$35,422	OB/OCO DMVA	163	312
12-DMVA-02 *	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Noncompliance and Internal Control Deficiencies Related to Equipment Management and Accountability	NC	ND	DMVA	168	313
12-PEMA-01 **	97.067	Homeland Security Grant Program	Material Weakness and Material Noncompliance Over Equipment and Real Property Management	MNC	ND	PEMA	170	314
12-PEMA-02 **	97.067	Homeland Security Grant Program	Material Weakness and Material Noncompliance Over Subrecipient Monitoring	MNC	ND	PEMA	172	314
12-PEMA-03 **	97.067	Homeland Security Grant Program	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement	MNC	None	PEMA	174	314

* - Significant Deficiency
** - Material Weakness
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NC - Noncompliance
N/A - Not Applicable
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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-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 Annual Report Submitted to the Environmental Protection Agency for the Clean Water State Revolving Fund (Prior Year Finding 11-PENNVEST-01)	NC	None	PENNVEST	176	315
12-PENNVEST-02 **	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 11-PENNVEST-03)	MNC	None	PENNVEST	178	315
	66.468	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)						
12-PENNVEST-03 *	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding 11-PENNVEST-02)	N/A	None	PENNVEST	180	316
	66.468	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)						
12-PENNVEST-04 **	66.468	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Internal Control Weakness Over Matching Requirement Resulted in Material Noncompliance and Questioned Costs of $6,313,514	MNC	$6,313,514	PENNVEST	182	316

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

MNC - Material Noncompliance
NC - Noncompliance
N/A - Not Applicable
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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-DPW-01 ** SNAP * Other Programs	10.551 10.561 93.558 93.563 93.575 93.596 93.658 93.659 93.720 93.775 93.777 93.778	SNAP Cluster Temporary Assistance for Needy Families Child Support Enforcement (including ARRA) CCDF Cluster Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA) Medicaid Cluster (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 (Prior Year Finding 11-DPW-01)	MNC– SNAP N/A – Other Programs	None	DPW	184	317
12-DPW-02 *	10.561 93.558 93.778	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Temporary Assistance for Needy Families Medical Assistance Program	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Known Questioned Costs of $33,272 (Prior Year Finding 11-DPW-05)	NC	$33,272	DPW	189	317
12-DPW-03 *	93.558	Temporary Assistance for Needy Families	Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 11-DPW-07)	NC	None	DPW	196	318

* - Significant Deficiency
** - Material Weakness
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MNC - Material Noncompliance
NC - Noncompliance
N/A - Not Applicable
CAP - Corrective Action Plan

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-DPW-04 **	93.558 93.714 93.563 93.568 93.658 93.659 93.667 93.720 93.775 93.777 93.778 93.767	TANF Cluster (including ARRA) Child Support Enforcement (including ARRA) Low-Income Home Energy Assistance Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA) Social Services Block Grant Medicaid Cluster (including ARRA) Children's Health Insurance Program	U.S. Department of Health and Human Services Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Public Welfare and Insurance Department Systems (Prior Year Finding 11-DPW-08)	MNC	None	DPW PID	201	319
12-DPW-05 *	93.568	Low-Income Home Energy Assistance	Noncompliance and Internal Control Deficiencies in the Department of Public Welfare's Administration of Low-Income Home Energy Assistance Program Cash and Crisis Benefits Resulting in Questioned Costs of $490 in the Low-Income Home Energy Assistance Program (Prior Year Finding 11-DPW-10)	NC	$490	DPW	203	319
12-DPW-06 **	93.575 93.596	CCDF Cluster	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 11-DPW-11)	MNC	ND	DPW	208	320
12-DPW-07 **** SSBG** *** SAPT**	93.667 93.959	Social Services Block Grant Block Grants for Prevention and Treatment of Substance Abuse	Weaknesses in the Department of Public Welfare Program Monitoring of Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (Prior Year Finding 11-DPW-12)	MNC – SSBG NC - SAPT	ND	DPW	211	322
12-DPW-08 **	93.778	Medical Assistance Program	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (Prior Year Finding 11-DPW-14)	MNC	ND	DPW	214	322

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-PennDOT-01 *	20.205 20.219 23.003	Highway Planning and Construction Cluster (including ARRA)	Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (Prior Year Finding 11-PennDOT-03)	NC	$6,128,979	PennDOT	217	323
12-PennDOT-02 *	20.205 20.219 23.003	Highway Planning and Construction Cluster (including ARRA)	Internal Control Deficiencies Related to Buy American ARRA Provisions (Prior Year Finding 11-PennDOT-01)	NC	ND	PennDOT	219	323
12-PennDOT-03 *	20.205 20.219 23.003	Highway Planning and Construction Cluster (including ARRA)	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding 11-PennDOT-02)	N/A	None	PennDOT	221	324
12-OB-01 *	Various	Various CFDA Numbers – See Finding	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and At The Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 11-OB-02)	NC	ND	OB/OCO Various	224	325
12-OB-02 *	Various	Various CFDA Numbers – See Finding	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 and at Least a $198,529 Known Understatement of the Cash Management Improvement Act of 1990 Interest Liability (Prior Year Finding 11-OB-03)	NC	$198,529	OB/OCO	230	328
12-OB-03 *	17.207 17.801 17.804 17.245 66.468	Employment Service Cluster Trade Adjustment Assistance Program Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	General Information Technology Control Weaknesses Affecting the Payroll Process	N/A	None	OB/OCO	235	329

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

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N/A - Not Applicable
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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
12-OB-04 **	Various	Various CFDA Numbers – See Finding	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings 11-OB-04 and 11-DPW-16)	MNC	ND	OB/OCO Various	237	329

* - 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

Matrix of Findings by Federal Agency - June 30, 2012

Finding	USDA	DOD	HUD	DOL	DOT	ARC	EPA	DOE	ED	HHS	SSA	DHS
Prefix	**10**	**12**	**14**	**17**	**20**	**23**	**66**	**81**	**84**	**93**	**96**	**97**
12-AGRI-01	X											
12-DCED-01			X									
12-DCED-02								X		X		
12-DCED-03								X		X		
12-PDE-01	X								X			
12-PDE-02	X											
12-PDE-03	X											
12-PDE-04									X			
12-PDE-05									X			
12-PDE-06									X			
12-PDE-07									X			
12-PDE-08									X			
12-DOH-01	X											
12-DOH-02										X		
12-L&I-01				X								
12-L&I-02				X					X			
12-L&I-03				X								
12-L&I-04				X								
12-L&I-05									X			
12-L&I-06											X	
12-DMVA-01		X										
12-DMVA-02		X										
12-PEMA-01												X
12-PEMA-02												X
12-PEMA-03												X
12-PENNVEST-01							X					
12-PENNVEST-02							X					
12-PENNVEST-03							X					
12-PENNVEST-04							X					
12-DPW-01	X									X		
12-DPW-02	X									X		
12-DPW-03										X		
12-DPW-04										X		
12-DPW-05										X		
12-DPW-06										X		
12-DPW-07										X		
12-DPW-08										X		

Matrix of Findings by Federal Agency - June 30, 2012

Finding	USDA	DOD	HUD	DOL	DOT	ARC	EPA	DOE	ED	HHS	SSA	DHS
Prefix	**10**	**12**	**14**	**17**	**20**	**23**	**66**	**81**	**84**	**93**	**96**	**97**
12-PennDOT-01					X	X						
12-PennDOT-02					X	X						
12-PennDOT-03					X	X						
12-OB-01			X	X	X	X	X		X	X		
12-OB-02	X						X	X	X	X		
12-OB-03				X			X					
12-OB-04	X		X	X	X	X	X	X	X	X		X

Department of Agriculture

Finding 12-AGRI-01:

CFDA #10.555 – National School Lunch Program
CFDA #10.559 – Summer Food Service Program for Children

Internal Control Weaknesses and Noncompliance With Recordkeeping and Reporting to Verify Commodity Receipts and Distributions (A Similar Condition Was Noted in Prior Year Finding 11-AGRI-01)

Federal Grant Number: 2011-1PA300305

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to Accountability for USDA Donated Foods

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 ended June 30, 2012 reported by BFD on the Schedule of Expenditures of Federal Awards (SEFA) were $37.05 million.

During the fiscal year ended June 30, 2012, BFD contracted with five warehouses and approximately 64 processors, who convert donated commodities into end products, to deliver donated food items to schools. Distributions of commodities to schools consist of approximately 37 percent distributed directly from warehouses and approximately 62 percent distributed from processors. These distributions encompass $37 million, or 99 percent, of SEFA expenditures related to the food donation program. These processors and warehouses submit monthly distribution and disbursement information to BFD for each commodity. This information is then electronically transferred by BFD personnel into PaMeals.

According to BFD management, processor monthly reconciliations were performed during the audit period to ensure that BFD's activity agrees to processor activity prior to uploading it into PaMeals. Our testing of three BFD's monthly processor reconciliations for sixteen processors showed that reconciliations were performed and contained evidence that BFD was identifying and documenting differences. These differences were tracked until resolved.

According to management, BFD did not perform warehouse monthly reconciliations during the audit period to ensure that BFD's activity agrees to warehouse activity prior to uploading it into PaMeals. The reconciliations were not performed because BFD no longer receives physical receiving documents from the USDA due to the implementation of USDA's Web Based Supply Chain Management (WBSCM) system. These receiving documents were used to reconcile to receipt information received from the warehouses. Subsequent to our inquiry, BFD retrieved receipt information from the WBSCM system and compared it to the PaMeals Distributor Imports Report for the audit period to attempt to reconcile the warehouse activity. This process collectively identified differences totaling 759 cases in three of the five warehouses out of a total of 360,533 cases from all five warehouses.

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)).

Finding 12-AGRI-01: (continued)

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.

A well designed system of internal controls dictates that reconciliations should be performed to ensure the accuracy and completeness of records. Reconciliations allow agencies to detect irregularities and errors promptly which enables corrections to be made timely.

Cause: According to BFD management, as a result of the USDA implementing the WBSCM system certain documents and files previously used by BFD to perform warehouse reconciliations were not produced for fiscal year ended June 30, 2012. Therefore, the reconciliations were not completed by BFD.

Effect: BFD is not adequately verifying USDA-donated foods warehouse activity throughout the year. Failure to maintain complete and accurate records could result in BFD being required to pay the USDA the value of the food or replace it in kind.

Recommendation: BFD should determine how to utilize the information contained on the WBSCM system to reconcile the warehouse receipts or consider requesting guidance from the USDA or other states. Monthly reconciliations between BFD and warehouse activity should be performed and performed timely.

Agency Response: BFD agrees with the finding. However, as acknowledged by the Auditor, the basis for this finding pertains to the USDA's new Web Based Supply Chain Management (WBSCM) System not providing the documentation necessary to perform warehouse monthly reconciliations – as was provided by its previous software (ECOS) – the absence of which led to the finding. BFD has already designed and implemented a new system for verifying distributor receipts to address this preliminary 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.

Department of Community and Economic Development

Finding 12-DCED-01:

CFDA #14.228 and 14.255 – Community Development Block Grants – State-Administered CDBG Cluster (including ARRA)

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 11-DCED-01)

Federal Grant Numbers: 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-10-DC-42-0001, B-10-DC-42-0001, B-09-DY-42-0001, B-08-DN-42-0001, B-11-DN-42-0001

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2012, the Department of Community and Economic Development (DCED) reported subrecipient expenditures for the Community Development Block Grant (CDBG) (including the Neighborhood Stabilization Programs (NSP)) and CDBG-R Programs of $52,044,578, which represented approximately 98 percent of total CDBG cluster expenditures on the SEFA. There were a total of 198 subrecipients that received 2011 fiscal year grant allocations from the CDBG Program. There were no grant allocations for CDBG-R and NSP during fiscal year ended June 30, 2012.

Annually, DCED generates a Monitoring Schedule that details each project funded by subrecipient grant contracts and their scheduled on-site monitoring visit. The DCED Monitoring Schedule provides that an on-site monitoring visit is scheduled to be completed once every three years for each open project.

Based on our examination of the DCED Monitoring Schedule, we noted that for calendar years 2010 and 2011 in total, there were 620 subrecipient contracts scheduled to be monitored with an on-site monitoring visit. There were 265 contracts monitored resulting in a backlog of 355 contracts remaining unmonitored for all programs.

From July 1, 2011 to June 30, 2012, there were a total of 21 contracts, representing six subrecipients, monitored by DCED related to the CDBG and CDBG-R Programs. In addition, there was no on-site monitoring performed for the NSP subrecipient contracts. We tested the monitoring of three of the contracts and determined that, if applicable, corrective action required by the subrecipient was outlined in written correspondence provided to the subrecipient subsequent to the on-site visit and the on-site monitoring procedures were adequately performed for the contracts tested.

A material number of subrecipients expended individually less than $500,000 in total federal awards from the Commonwealth during the fiscal year ended June 30, 2011, and as a result would not have been required to submit an A-133 Single Audit to the Commonwealth during the fiscal year ended June 30, 2012. Therefore, these subrecipients had no other on-site monitoring by the 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.

Finding 12-DCED-01: (continued)

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

Effect: DCED did not adequately perform during-the-award monitoring of the CDBG, CDBG-R, and NSP subrecipients to ensure the subrecipient administers the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements. Further, the CDBG and CDBG-R subrecipients draw funds down directly from the Federal government through the Integrated Disbursement and Information System 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 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 the facts of 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.

Department of Community and Economic Development

Finding 12-DCED-02:

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

Noncompliance and Internal Control Deficiencies in the Department of Community and Economic Development's Program Monitoring of Weatherization Subrecipients (A Similar Condition Was Noted in Prior Year Finding 11-DCED-03)

Federal Grant Numbers: G-12B1PALIEA, G-11B1PALIEA, DE-EE0000135, DE-EE0000290

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: As noted in the prior year Single Audit, 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 awarded during 2009 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. During the current audit period, the federal government extended the deadline to use ARRA funding until March 31, 2013. For the fiscal year ended June 30, 2012, of the $88.4 million in expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA), $84.3 million was sent to subrecipients, which provide weatherization services to eligible applicants.

DCED has worked to develop corrective actions to resolve the deficiencies in subrecipient monitoring reported in the prior year Single Audit. However, DCED was not able to implement all the corrective actions before June 30, 2012.

During the fiscal year ended June 30, 2012, DCED performed subrecipient monitoring on all 44 local weatherization agencies. 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 still existed in the nine items we tested:

- DCED's policy and procedures did not adequately ensure that local agencies verify an applicant's identity prior to approving weatherization services. DCED management agreed with our finding and, as such, issued a new policy and related procedures. However, these did not become effective until September 2012.

- 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. DCED's new policy, which became effective in September 2012, requires renters to prove the amount of rent paid and requires local agencies to investigate monthly rent amounts less than $250 per month. All documentation used to justify the approval of weatherization services must be maintained in the clients' files.

DCED management has taken an active role in developing effective resolutions to the internal control weaknesses originally found during the fiscal year ended June 30, 2010 Single Audit of WAP. As noted above, additional changes were implemented after June 30, 2012. The effectiveness of these changes will be evaluated during the next Single Audit.

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, including compliance with federal requirements (CFR 440 - Weatherization) and the American Recovery and Reinvestment Act, state plans, applicable state laws and weatherization standards.

Finding 12-DCED-02: (continued)

Client eligibility must be properly determined by the subrecipients and 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.

Cause: According to DCED management, the development and implementation of the new policy and procedures to resolve the deficiencies reported in the prior Single Audit has been a priority. However, DCED was not able to implement the new policy prior to June 30, 2012, because of the time needed to obtain feedback from the subrecipients and provide the necessary training to ensure the new policy and procedures would be consistently applied across the state.

Effect: The potential still existed during the current audit period 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.

Agency Response: DCED agrees with this finding since all of the corrective action procedures were not in place as of June 30, 2012.

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.

Department of Community and Economic Development

Finding 12-DCED-03:

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

Deficiencies in Information Technology Controls at the Department of Community and Economic Development (A Similar Condition Was Noted in Prior Year Finding 11-DCED-04)

Federal Grant Numbers: G-12B1PALIEA, G-11B1PALIEA, DE-EE0000135, DE-EE0000290

Type of Finding: Significant Deficiency

Compliance Requirement: Subrecipient Monitoring

Condition: The Department of Community and Economic Development's (DCED) implementation of the Weatherization (Wx) application, an application from Hancock Energy Software (the vendor), was introduced during the fiscal year ended June 30, 2009 to enhance the management and oversight of funding paid to subrecipients for the Weatherization Assistance Program (WAP) portion of the Low-Income Home Energy Assistance Program. In prior audits, we found weaknesses in logical access controls, monitoring security events, and segregation of duties. We found that management remediated all prior year weaknesses during or after the current audit period:

- Management remediated a prior year weakness in which password requirements for the Wx application were not configured to enforce adequate complexity settings to comply with Information Technology Bulletin (ITB)-SEC007, *Minimum Standards for User IDs and Passwords*. As part of a system upgrade in February 2012, DCED management updated their password complexity settings to comply with ITB-SEC007.
- Management remediated a prior year weakness in which user access violations and security events were not logged. Also, as part of the system upgrade in February 2012, DCED implemented a script to log user access violations. While DCED management represented that they started reviewing the logs in February 2012, they did not start documenting review of the logs until after fiscal year end.
- Management remediated a prior year weakness in which 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. In January 2012, DCED changed their process for implementing changes into production. They centralized the implementation function under one DCED employee and removed all vendor access to the production servers, thereby ensuring proper segregation of duties between development and promotion of program changes into production.

Criteria: A well designed system of internal controls dictates that sound general computer controls (which include adequate segregation of duties, access controls over programs and data, and program change controls) be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: DCED was unable to remediate the prior year deficiencies prior to the start of the fiscal year under audit and, as such, the deficiencies continued to exist during the fiscal year ended June 30, 2012.

Effect: When general computer controls are weak, federal programs may not be conducted in accordance with management intent.

Recommendation: While DCED had remediated the above weaknesses by fiscal year end, we recommend that DCED continue to document their review of security logs so that timely responses to security events are documented and available for audit.

Finding 12-DCED-03: (continued)

Agency Response: DCED agrees that the facts of the finding are correct. Corrective action was implemented in 2012.

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.

Department of Education

Finding 12-PDE-01:

CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster
CFDA #10.558 – Child and Adult Care Food Program
CFDA #84.027, 84.173, 84.391, and 84.392 – Special Education Cluster (including ARRA)

Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 11-PDE-02)

Federal Grant Numbers: 1PA300305, H027A090093, H027A100093, H027A110093, H391A090093

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) is a 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 fiscal year ended June 30, 2012, 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 to which the vendor has around-the-clock access. In addition, we found that no formal program change methodology has been developed to outline PDE and vendor responsibilities. Further, we determined that there is an excessive number of Division of Food and Nutrition (DFN) staff with administrator access rights. Finally, 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 of DFN program staff have administrator access rights in the CN-PEARS application, which allow them to grant administrator rights to other individuals. Further, management does not conduct a periodic access review of staff with access to perform these sensitive system functions.
- System parameter settings did not comply with the Commonwealth's standards for user IDs and passwords.

Finding 12-PDE-01: (continued)

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 requires administrator-level access to unlock them. In addition, once a user is logged in, the system will be locked after fifteen minutes of inactivity, requiring the user to re-enter the password to regain access to the system.

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 continues to log 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. After the audit period, PDE began developing procedures to perform a review of the production environment to ensure only properly authorized and approved changes have been deployed to the production environment. However, these procedures have not been fully implemented.

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.

After the audit period, PDE and vendor management began developing written procedures to outline respective responsibilities for application development, program changes, system patching, configuration changes, and emergency changes to the CN-PEARS application. However, these procedures have not been finalized.

PDE management indicated that the security upgrade scheduled for completion in May 2013 will allow logging of all changes made to key compliance documents. Additionally, PDE management maintains that the security upgrade, which is driven by roles and groups, will increase security of privileged DFN staff in the CN-PEARS application. However, no procedures have been implemented to conduct a periodic review of staff with access to perform these sensitive system functions. 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.

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.

Finding 12-PDE-01: (continued)

- 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 virtual private network (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.
- 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 who do not perform business functions but require this level of access to perform their job function.
- conduct a periodic review of staff with access to perform sensitive system functions to ensure that administrator access rights are appropriate.
- ensure the system parameter settings in the planned upgrade comply with Commonwealth ITB SEC007.

Agency Response: PDE DFN continues to implement the responses provided in prior year audits and will continue to engage in discussions with the appropriate parties pertaining to the auditors' recommendations.

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.

Department of Education

Finding 12-PDE-02:

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 11-PDE-03)

Federal Grant Numbers: 2009 1PA300305, 2010 1PA300305

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

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 fiscal year ended June 30, 2012, payments were made to 530 for-profit subrecipients, totaling $29.8 million, or 30.3 percent, of the CACFP expenditures totaling $98.3 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. Effective for audits of federal fiscal year ended September 30, 2011, PDE has adopted a new federally-approved audit policy. BOA will perform a risk analysis, based on the amount of subrecipient reimbursement, previous audits conducted including number of findings, average lunch percentage of claims billed compared to total enrollment, and the past history with sponsor owner for all for-profit subrecipients receiving $75,000 or more in the federal fiscal year (October 1 to September 30). Sponsors determined to be high risk by BOA and PDE will be selected for an audit to be performed in the subsequent federal fiscal year. BOA and PDE determine the number of audits based on available staff and resources.

BOA performed the risk analysis for federal fiscal year ended September 30, 2011. Thirteen sponsors were selected for audit based on the risk analysis performed. None of the audits selected for review from the risk analysis were scheduled or performed by BOA during the current audit period. In addition, there were no performance audits done for the two for-profit sponsors who received over $500,000 in the federal fiscal year ended September 30, 2011. Audit reports completed during the current audit period were for the federal period ended September 30, 2010 and prior and were selected for review based on prior audit policy. These issued audits eliminated the back log of audits that were not completed in the prior year audit period. We reviewed ten of the eleven audit reports issued in fiscal year ended June 30, 2012 and noted no exceptions.

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 effective for audits of federal fiscal year ended September 30, 2011 is as follows:

If the Child and Adult Care Food Program (CACFP) sponsor is a for-profit organization and receives over $500,000 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 an annual performance audit conducted in accordance with Government Auditing Standards.

Finding 12-PDE-02: (continued)

If the Child and Adult Care Food Program (CACFP) sponsor is a for-profit organization and receives over $75,000 of reimbursement during the CACFP program year of October 1 through September 30, from the Child and Adult Care Food Program, and selected based on a risk analysis using various factors the Child and Adult Care Food Program sponsor is required to have agreed upon procedures performed annually in accordance with standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in generally accepted government auditing standards. The selected financial and program compliance requirements will consist of the following three compliance areas, Eligibility, Meal Counts, and Financial Management. The Department may in addition to the three compliance areas require, as circumstances warrant, other financial and/or program compliance requirements to be tested. Based on the results of the agreed upon procedures, PDE may determine that a performance audit of a sponsor is warranted. 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 agreed upon procedures performed will have the procedures conducted by auditors retained by the state Child and Adult Care Food Program office at no cost to them.

If a For-Profit Child and Adult Care Food Program center or sponsor receives total federal awards of less than $75,000 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. PDE could request an audit of these sponsors.

Cause: According to management, BOA does not have sufficient staffing to adhere to its policy of auditing for-profit CACFP subrecipients. Also, management stated that due to BOA's staffing shortages, the entities selected for audit under the new risk-based approach were not scheduled for review during the audit period. BOA plans to perform audits covering the federal fiscal years ended September 30, 2011 and 2012, during the October 2012 – September 2013 period.

Effect: BOA's failure to schedule or perform audits of CACFP for-profit subrecipients during the audit period resulted in the untimely review of for-profit sponsors which can lead to subrecipient noncompliance not being detected and corrected in a timely manner. Instances of noncompliance 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 analyze staffing needed to comply with the new risk-based audit policy to ensure compliance with this policy.

Department of Education (PDE) Response:

The Pennsylvania Department of Education, Division of Food and Nutrition will continue to investigate and analyze solutions that will provide for audits to be completed timely.

Office of the Budget, Bureau of Audits (BOA) Response:

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. 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.

Finding 12-PDE-02: (continued)

New procedures will be implemented beginning for reviews conducted for FFYE September 30, 2011. BOA will be testing two program years at once (10-11 and 11-12) for the For-Profit Entities reviewed during SFY 2012-13. Agreed-upon procedure engagements will be conducted of the For-Profit entities expending less than $500,000 (selected based on risk assessment). BOA will continue to conduct performance audits of For-Profit entities expending federal funding in the amount of $500,000 or more. These procedures are being implemented in order to address the backlog noted in the finding.

Auditors' Conclusion: We are encouraged by management's implementation of the new risk-based approach for identifying for-profit entities to audit and their plan for testing these entities in the fiscal year ending September 2013. We will review corrective action in the subsequent audit.

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

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

Department of Education

Finding 12-PDE-03:

CFDA #10.558 – Child and Adult Care Food Program

Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of Child and Adult Care Food Program Subrecipients (A Similar Condition Was Noted in Prior Year Finding 11-PDE-04)

Federal Grant Numbers: 2009 1PA300305, 2010 1PA300305, 2011 1PA300305

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During our audit of the Child and Adult Care Food Program (CACFP) administered by Pennsylvania Department of Education (PDE), we again found, for the third year in a row, internal control deficiencies in PDE's on-site monitoring of its subrecipients. Specifically, we found that PDE did not adequately perform and complete monitoring reviews and did not timely close corrective action plans (CAP). Total subrecipient expenditures on the SEFA were $97.8 million out of total CACFP expenditures of $98.3 million, or 99 percent.

PDE performs on-site monitoring of subrecipients to ensure compliance with federal program regulations. Independent centers and sponsoring organizations with 1 to 100 facilities must be reviewed once every three years and sponsoring organizations with more than 100 facilities must be reviewed once every two years. PDE uses standardized monitoring reports for independent centers and sponsoring organizations to document its 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 the CAPs submitted by the subrecipients and evaluates them for adequacy. In December 2011, PDE implemented new procedures to reduce the number of reviews that are not closed within 120 days, which the U.S. Department of Agriculture (USDA) agrees is an appropriate period of time for PDE to approve subrecipients' responses to CAPs and close each monitoring review. Specifically, subrecipients are now given only one chance to correct their CAP. If the corrective action submitted by any subrecipient is inadequate or incomplete, PDE will issue a notice of serious deficiency.

We sampled 65 of PDE's on-site reviews out of a population of 379 completed reviews conducted during program year 2011 (October 2011 – September 2012). Total funding paid to the 65 recipients tested was $5,607,164. We audited this period because that is the period used by PDE to track on-site monitoring. We noted the following deficiencies in our monitoring testing:

- For five sponsor reviews, we found that various sections were not completed. Specifically, we noted the administration cost section of the monitoring reports was incomplete for two day care home sponsors receiving $628,043 in funding and the food service operating costs and administrative cost sections of the monitoring reports were incomplete for three center sponsors receiving $320,689 in funding. In these sections, the monitoring report noted that CACFP staff will review and maintain documentation under separate cover. According to PDE management, these sections were not separately reviewed.

- For two independent center reviews, we noted that the administrative costs section of the monitoring document was marked as "no reimbursement expended on administrative cost" when budgets with administrative costs were submitted and approved by PDE in the amount of $4,072.

- Of the 56 reviews where deficiencies were cited and involved the need for PDE to prepare a CAP, 50 CAPs were prepared and closed timely (a considerable improvement from the prior year) and 6 CAPs or 11 percent were not closed within the required 120 day period. The six CAPs were closed between 9 and 65 days past due.

Finding 12-PDE-03: (continued)

We reviewed PDE's three year detail monitoring report for program years 2009, 2010, and 2011 and found that one subrecipient was not monitored in the three year period. For this subrecipient, PDE deleted the scheduling of this review due to its intent to terminate this subrecipient from the program because the subrecipient was in a seriously deficient status. This subrecipient subsequently implemented corrective action and remained in the program; however, PDE failed to add the subrecipient back to the monitoring schedule which resulted in the subrecipient not being monitored. This subrecipient received $136,002 in funding for the three year period.

Criteria: Federal Regulation 7 CFR 226.6 (m) (3) regarding review content for compliance states:

As part of its conduct of reviews, the State agency must assess each institution's compliance with the requirements pertaining to: (i) Recordkeeping; (ii) Meal Counts; (iii) Administrative Costs; (iv) Any applicable instructions and handbooks issued by FNS or the Department… (v) Facility licensing and approval; (vi) Compliance with the requirements for annually updating of enrollment forms; (vii) If an independent center, observation of a meal service; (viii) If a sponsoring organization, training and monitoring of facilities; (ix) If a sponsoring organization of day care homes, implementation of the serious deficiency and termination procedures for day care homes and, if such procedures have been delegated to sponsoring organizations in accordance with paragraph (l)(1) of this section, the administrative review procedures for day care homes;(x) If a sponsoring organization, implementation of the household contact system established by the State agency pursuant to paragraph (m)(5)of this section; (xi) If a sponsoring organization of day care homes, the requirements for classification of tier I and tier II day care homes; and (xii) All other program requirements.

Federal Regulation 7 CFR 226.6 (m) (6) regarding frequency of review for compliance states:

(i) Independent centers and sponsoring organizations of 1 to 100 facilities must be reviewed at least once every three years.

(ii) Sponsoring organizations with more than 100 facilities must be reviewed at least once every two years.

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, the failure to accurately address and complete the administrative and food service operating costs sections of the monitoring documents was due to miscommunication and misunderstanding of these sections by new program staff, contractors, and advisors. Management stated that action has been taken to correct these errors. In addition, according to management, one subrecipient was not monitored due to oversight and the delay in final closure of CAPs continued for subrecipients whose CAP process began prior to PDE instituting a timeline tracker used to monitor CAP activity.

Effect: Due to PDE's inadequate review and oversight, subrecipients were not properly monitored to ensure compliance with program regulations. Adequate review of monitoring documents is required to ensure they are complete and in accordance with federal regulations. When CAPs are not reviewed, approved, and closed by PDE timely, subrecipients may continue to operate in noncompliance 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.

Finding 12-PDE-03: (continued)

Recommendation: We recommend that PDE management increase their review and oversight to ensure program regulations are communicated and understood by monitoring personnel to ensure subrecipients are properly monitored and monitoring documents are complete and accurate in accordance with federal regulations. Also, PDE should continue to be proactive in their approach in resolving CAPs to ensure they are received, approved, and closed within the required 120 day period.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is assessing options to prevent recurrence of the finding related to incomplete administrative reviews. The DFN implemented corrective action during Fiscal Year 2011-2012 that will prevent or minimize reviews not being closed within the 120 day timeframe. This should be evident during the 2012-2013 audit review period.

Auditors' Conclusion: We acknowledge the positive actions taken by PDE management to correct deficiencies identified in the monitoring process. We are encouraged by the improvement PDE has made to close reviews within the 120 day time frame. Any corrective action will be reviewed 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.

Department of Education

Finding 12-PDE-04:

CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)

A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding 11-PDE-06)

Federal Grant Numbers: S010A090038, S010A100038, S010A110038, and S389A090038

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to Identifying Schools and LEAs Needing Improvement

Condition: Title I, Part A Cluster 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 schools and LEAs 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 those 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 the SRC, along with school district report cards and individual school report cards, federal regulations require PDE to be responsible to collect, compile, and determine the accuracy of information about the number and names of schools and LEAs (school districts) in need of improvement and to report this information on the CSPR and the SRC. While the majority of the information comes directly from the vendor, other reporting information comes directly from PDE.

To determine the accuracy of the CSPR and the 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. We also selected 15 school district report cards and 15 school report cards in order to test the respective AYP status on each of the report cards. 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, to determine the overall completeness and accuracy of the CSPR, the SRC, the school district report cards, and the individual school report cards, we compared similarly reported data in the CSPR and the SRC. Based on the results, we noted a reporting error, and PDE provided inadequate evidence of 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 the correct number of school districts on the CSPR. PDE reported 641 school districts, but this number was not adequately supported, and PDE personnel stated that this number was incorrect.

Finding 12-PDE-04: (continued)

- PDE did not report the AYP status of a school on the individual school's report card, but it did report this information on the respective school district's report card. Furthermore, PDE did not report the AYP status of a school district on the school district's report card, but it did 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 in the SRC, and we were unable to verify that the school district's AYP status was accurately reflected in the SRC.

- PDE uses a vendor as part of its data collection, accumulation, and reporting process. PDE indicated that it performs various review procedures to ensure the accuracy of the vendor data reported in the CSPR and the SRC, including 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, a comparison of the enrolled students to the number of students tested, was not performed according to PDE. The documentation provided to support the performance of the other two procedures, a comparison of the distribution of performance levels by district and school to the previous year's data, and a comparison of graduation data to the previous year's data, lacked evidence as to what comparisons of data were completed, what variances were investigated, and what were the results. Also, PDE represented that they are in the process of obtaining an auditor's report on controls over data collection by the vendor. However, this report was not available for review.

- Finally, the documentation provided to support the information contained in 34 out of the 35 fields selected from the CSPR and the SRC, the AYP status for the 15 school districts selected, and the AYP status for the 15 individual schools selected was supplied solely or partly from the outside vendor. Partial data for one of the 34 fields was obtained from PDE's Pennsylvania Information Management System (PIMS) database system. Although we were able to recalculate the data reported, Basic Financial Statement Finding 12-08, which was reported for the Commonwealth for the fiscal year ended June 30, 2012, disclosed information technology general control deficiencies existed within PDE's PIMS database system. Based on the deficiencies listed above, it does not appear that PDE has adequate manual compensating controls to ensure the accuracy of the outside vendor's data and the PIMS data. Therefore, PDE cannot be assured of the accuracy of the vendor data and the PIMS data being reported in the CSPR, the SRC, the school district report cards, and the individual school report cards.

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;

Finding 12-PDE-04: (continued)

(vii) information on the performance of local educational agencies in the State regarding making adequate yearly progress, including the number and names of each school identified for school improvement under section 1116; and

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

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

(E) the number and names of each school identified for school improvement under section 1116(c), the reason why each school was so identified, and the measures taken to address the achievement problems of such schools;

Cause: PDE depends heavily upon the outside vendor for the determination of districts and schools making AYP and the identification and reporting of school districts and schools in the improvement classification. PDE has made an effort to design procedures to improve the report compilation process and the accuracy of the reports. However, PDE's planned procedures were not all performed or were not adequately documented, and it appears that an inadequate supervisory review process existed to ensure that the procedures were completed.

Effect: The reports are required 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 PDE did not obtain an auditor's report on controls over data collection by the vendor, PDE cannot rely on the accuracy of the vendor supplied data, and PDE cannot ensure the accuracy of the CSPR, the SRC, the school district report cards, or the individual school report cards. Accordingly, the reports may be inappropriately used by USDE or the public to measure NCLB success.

Recommendation: PDE management should implement adequate documented procedures to ensure that data reported on the CSPR, the SRC, the school district report cards, and the individual school report cards is accurate. Also, PDE needs to ensure that reasonable documentation is maintained as evidence that procedures to ensure the accuracy of the reports have been completed. Procedures should include independent verification, supervisory review, and documented sign-offs. Audit trails should be improved to show how the individual school data rolls up into the summary data presented on the school district report cards, the CSPR, and the SRC.

Agency Response: PDE's response is keyed to the bulleted points in the finding:

- The omission of one school from the CSPR was due to it not being reported on the DRC file. That has been corrected for 2012. The situation is being addressed with further corrective action.

- As last year, PDE does not concur with 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." There is no requirement to place the AYP status of schools on School Report Cards or of districts on District Report Cards. The BAA complies with this guidance. The document is available upon request.

Finding 12-PDE-04: (continued)

- The PDE does not concur with this part of the finding. In Section C under State Report Card in "Review Procedures 2011", which was provided to the auditors, it states that the data provider should be contacted if there is a 25 percentage point change at the school or district level or a change of 15 percentage points for state level data. In column J of the graduation data file, the reasons for the changes of 25 percentage points or more are noted. This should meet the requirements for the graduation data. The two year comparison distribution of Proficiency Levels is found on the file titled "Grade 11 preliminary data check 2011" on the page "% prof lev subgr" that was also provided to the auditors. There were also grade 8 and 7 files provided to the auditors. There were no comparisons that showed a difference of 15 percentage points or more. These files should meet your requirements. The comparison of students enrolled and students tested was not completed because BAA has limited staff to complete all the data reviews and any other requests for PSSA data. The comparison of the 2012 is expected to be completed.

- The PDE disagrees with the statement, "…it does not appear the PDE has adequate manual compensating controls to ensure the accuracy of….the PIMS data."

  The deficiencies noted in the BFS Finding 12-08 of the GAAP Audit for the year ended June 30, 2012 that refer to the PIMS System deal with the need for an outside vendor to segregate duties of personnel with the ability to develop programs and move programs to the production environment. This deficiency deals with access to the system, not the data submitted in the system. This deficiency in no way impacts the quality of data in any PIMS collection in general, nor the accuracy of the Cohort Graduation Rate, specifically. The PIMS data is submitted by Local Education Agencies (LEA), who remains in control of all data for their LEA. The LEAs in the Commonwealth are under local control; they maintain control over their PIMS data. Moreover, the same report indicates, "Management's contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date..."

  The PDE has established manual compensating controls to ensure the completeness and accuracy of data submitted into PDE systems and used for program needs or to meet reporting requirements, including PIMS. Documentation of reports, accuracy certification statements, guideline documents, and phone calls to ensure the accuracy of student enrollment and cohort graduation rate data was provided during the course of the audit. Compensating controls include:

  - Manuals and How To Guides, providing directions that assist LEAs in submitting complete and accurate data, as well as, evaluating the accuracy of and correcting data
  - Trainings prior and during each data collection
  - Monthly Question and Answer webinars, where LEAs can address questions and concerns to data and program office staff
  - PIMS Application Support Service that provides individual assistance submitting data, evaluating the accuracy of data and correcting data
  - Numerous PIMS (Cognos) Reports that allow LEAs to evaluate both individual records, school level and LEA level aggregate data, including Accuracy Certification Statements
  - Numerous "State" reports utilized by PDE staff to evaluate data
  - Data is reviewed by PDE staff to check for completeness, reasonableness, large variances, etc. When discrepancies are suspected, the possible errors are brought to the attention of LEAs for correction, where appropriate
  - LEAs are sent, via mail merge, specifics on data issues with instructions on making corrections as well as contact information if additional assistance is needed
  - LEAs that do not respond to requests to correct data receive e-mails from PDE executive staff and phone calls
  - Data is run through additional edit checks prior to and after submission to the National Center for Education Statistics and again after submission to the Common Core of Data. The Commonwealth has the opportunity to make corrections at each point, if appropriate.

Finding 12-PDE-04: (continued)

It is important to note that the Cohort Graduation Rate Data audited during the Single Audit was not used to meet federal reporting requirements; the Leaver Graduation Rate was submitted to EDFacts and was used to meet all federal reporting requirements, including AYP. Preliminary Finding No. 84010A does not reference the Leaver Graduation Rate. Therefore, it is assumed there were no deficiencies in that data.

Finally, although data that is 100 percent accurate is optimal, the cost in both time and dollars is not feasible. There is a range of error that has to be allowed given the limits of resources and money. For example, variances of less than 10 percent may be overlooked to enable resources to devote time to LEAs with variances greater than 10 percent. Just as a small standard deviation does not nullify the results of research, a small margin of error does not negatively impact the use of data to evaluate programs.

Auditors' Conclusion: Regarding the inaccurate reporting of the number of school districts, PDE appears to be in agreement that this reporting was inaccurate, and PDE's reporting of this data needs improvement.

Regarding PDE's response related to the reporting of the AYP status, since the LEA Report Card reports AYP data which is summarized and not broken down by grade and the various categories of gender, ethnic background, learning disabilities, economically disadvantaged, etc., we were unable to determine whether the summary information was accurately reported. Although PDE is stating that they believe that this information is not required to be reported, there should be some audit trail between the individual school data and the summary school district data to enable the auditors to determine whether the summary information is accurately reported.

Regarding the inadequacy of PDE's procedures to ensure the accuracy of the vendor data reported in the CSPR and SRC, PDE appears to be in agreement that these procedures need improvement since PDE conceded that the comparison of students enrolled to students tested was not completed due to staffing issues. We also noted that PDE's comparison of the graduation data between 2009 and 2010 appears to be inadequate since PDE's explanation of "fewer students" was inconsistent with the *increase* in graduation rate being reported by PDE from 2009 to 2010 for two school districts' graduation percentages with variances which required investigation by PDE. In addition, it appeared that PDE did not investigate one charter school's graduation percentage which decreased 39 percentage points from 2009 to 2010, even though PDE's procedure was to investigate changes of 25 percentage points or more. Regarding PDE's comparison of the distribution of performance levels by district and school between years, this comparison appears to be inadequate because PDE's procedure does not include any variance level above which PDE is required to investigate any variances between years. We also noted that the "Grade 11 Preliminary Data Check 2011" file provided by PDE appeared to include summary statewide-level data, as opposed to performance levels by district and school which PDE is supposed to be using in its comparison.

Regarding the PIMS data cited in the above finding, the data field in question related to Grade 5 Homeless Youth Taking the Math Assessment, not the Cohort Graduation Rate data which is addressed in a separate Single Audit finding for the fiscal year ended June 30, 2012. There were no Accuracy Certification Statements provided by the LEAs to support this Homeless Youth data. As noted above, Basic Financial Statement Finding 12-08 cited information technology general control deficiencies which included 1) a lack of segregation of duties because two outside vendor employees have access into PIMS to both develop and promote program changes into production, and 2) 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, and emergency changes to the PIMS application. These control deficiencies could result in PIMS data being inaccurate, since the data could be manipulated without PDE management's knowledge or consent. Although the Basic Financial Statement Finding 12-08 Effect states that *Management's contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date*, it also notes that *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.* This statement does not imply that *all* computer control deficiencies are mitigated by manual compensating controls. The preparation of the CSPR and the SRC were not within the scope of the Basic Financial

Finding 12-PDE-04: (continued)

Statement Audit, and as noted above, the manual compensating controls over the CSPR and the SRC appear to be inadequate. PDE management needs to identify what control objectives are critical to ensuring the proper and accurate reporting of data on the CSPR and the SRC, and to ensure that procedures are established to ensure these control objectives are met.

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.

Department of Education

Finding 12-PDE-05:

CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)
CFDA #84.367 – Improving Teacher Quality State Grants

A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality State Grants Subrecipients (A Similar Condition Was Noted in Prior Year Finding 11-PDE-07)

Federal Grant Numbers: S010A090038, S010A100038, S010A110038, S367A090051, S367A100051, S367A110051, and S389A090038

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring, Special Tests and Provisions related to Participation of Private School Children

Condition: The Pennsylvania Department of Education (PDE) subgranted $596,754,442 and $98,167,140, respectively, to Local Educational Agencies (LEAs) under the Title I, Part A Cluster and the Improving Teacher Quality State Grants program out of total federal expenditures of $605,766,361 and $101,494,888, respectively, during the fiscal year ended June 30, 2012. During our audit of the Title I, Part A Cluster and the Improving Teacher Quality State Grants program administered by the PDE, we selected and tested 27 Title I, Part A Cluster and Improving Teacher Quality LEAs from 166 LEAs subject to program monitoring in the fiscal year ended June 30, 2012. As detailed below, of the 27 monitoring instruments tested, we noted that two were incomplete and lacked evidence of supervisory review, and a third failed PDE's established edit checks. PDE subgranted $168,687,182 and $13,435,823 under the Title I, Part A Cluster and the Improving Teacher Quality program, respectively, to these three LEAs during the fiscal year ended June 30, 2012.

The first monitoring instrument had ten incomplete sections which related to Fiscal Requirements (including requirements related to audits, supplementing/not supplanting, nonpublic school services, etc.), LEA Improvement, and Targeted Assistance. The second monitoring instrument had seven incomplete sections which related to Fiscal Requirements, Parent Involvement, School Choice, Supplemental Educational Services, Targeted Assistance, Comparability, and Improving Teacher Quality compliance requirements.

In addition, routing sheets for these two monitoring instruments, which provide evidence of PDE's supervisory review and approval, were not completed, nor could PDE provide any other documentation as evidence of a supervisory review and approval being performed.

With regard to the third monitoring instrument, PDE uses the FedMonitor System to track subrecipients that have been monitored, the overall completeness of the subrecipient's monitoring instrument, the subrecipient's compliance with applicable Federal requirements, and to document the corrective action plans for non-compliant subrecipients. The FedMonitor System has established system controls to ensure the accuracy and completeness of the monitoring instruments, including edits checks to prevent conflicting responses by the monitors. However, our testwork disclosed that for one monitoring instrument, although the monitor checked a box in the electronic monitoring document which indicated that the questions in the Nonpublic Schools section could be "skipped" if the subrecipient had no participating nonpublic schools, the monitor also input responses for the Nonpublic Schools section questions. These inconsistent actions were not prevented or detected by the FedMonitor edit checks, nor were they detected during PDE's supervisory review process, which caused inconsistent monitoring results. The Nonpublic Schools section questions are significant since they address the LEA's compliance with a Special Test and Provision related to the Participation of Private School Children, which is a compliance requirement concerned with ensuring that nonpublic (private) school students receive the same level of Title I services as public school students.

Finding 12-PDE-05: (continued)

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

34 CFR Section 76.702 Fiscal control and fund accounting procedures.

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

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's supervisory review and oversight of the monitoring instruments was not adequate to ensure the completeness and accuracy of the monitoring instruments. In addition, PDE management believed the FedMonitor System was adequately designed to only allow a section of the monitoring instrument to be either skipped or completed by the monitor, not both.

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 LEAs' 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.

Recommendation: We recommend that PDE personnel increase their review and oversight of PDE's 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 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. In addition, we recommend that PDE personnel take steps to ensure that the FedMonitor System is operating properly.

Agency Response: The Pennsylvania Department of Education, Division of Federal Programs (DFP) is working closely with Leader Services on the FedMonitor System in the development of rules for the monitoring instrument. Additionally, DFP staff is working on updating the monitoring document routing sheet to ensure further oversight and review of the final documents.

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.

Department of Education

Finding 12-PDE-06:

CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)

A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data

Federal Grant Numbers: S010A090038, S010A100038, S010A110038, and S389A090038

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

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

During the fiscal year ended June 30, 2012, PDE obtained the ADA data from PIMS and used the data to calculate its SPPE amount. Although the underlying revenue and expenditures used in the SPPE calculation appeared to be accurately reported by PDE on the NPEFS, Basic Financial Statement Finding 12-08, which was reported for the Commonwealth for the fiscal year ended June 30, 2012, disclosed that control deficiencies, such as a lack of segregation of duties and a lack of a formal program change methodology, existed within PDE's PIMS from which the ADA data is obtained. Since PDE does not appear to have adequate manual compensating controls to ensure the accuracy of the PIMS' ADA data, PDE cannot be assured of the accuracy of the SPPE amount reported on the NPEFS. We selected a sample of 40 LEAs' ADA data, and we were able to recalculate PDE's reported ADA. However, our additional analysis of 5 out of the 40 data fields disclosed that one LEA's reported ADA of 2,037.502 included 13 duplicate student numbers, resulting in an overstatement of that LEA's ADA and the state's reported ADA of 1,668,916.231.

In addition, in order to improve high school accountability, the USDE has established a uniform measure of the high school graduation rate that is comparable between states. As a result, PDE was required to begin annual reporting of high school graduation rate data for all public high schools in Pennsylvania at the school, LEA, and state levels using the 4-year adjusted cohort rate in conjunction with the 2010-11 school year State Report Card which was submitted to the USDE during the fiscal year ended June 30, 2012. PDE reported the 2009-10 school year graduation rate data since it was the most recent data available at the time of the 2010-11 State Report Card preparation which occurred during the current audit period. This data generally represents the number of students who graduate in 4 years with a regular high school diploma divided by the number of students who form the adjusted cohort for the graduating class. This data is required to be reported in the aggregate and also must be disaggregated by subgroups (for example, gender, ethnic group, etc.) resulting in thousands of fields of data reported at the school level, the LEA level, and the state level.

During the fiscal year ended June 30, 2012, PDE calculated the high school graduation rate data based on the LEAs' student data obtained from PDE's PIMS. We selected a sample of 65 data fields, which included state level, school district level, and individual school level high school graduation rate percentages for various subgroups, and we were able to recalculate PDE's reported percentages by using the PIMS data provided by PDE. However, our additional analysis of 4 out of the 65 data fields disclosed that 2 data fields selected (state level economically disadvantaged students and one school's special education students) included duplicate student numbers which were counted as high

Finding 12-PDE-06: (continued)

school graduates, and resulted in an overstatement of the high school graduation rate percentage reported by PDE for those 2 data fields. The state level economically disadvantaged students included 81 duplicate student numbers out of 34,384 students reported as graduates and the one school's special education students included 6 duplicate student numbers out of 57 students reported as graduates.

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

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

20 USC § 7801 states:

(1) Average daily attendance
(A) In general
Except as provided otherwise by State law or this paragraph, the term"average daily attendance" means –
(i) The aggregate number of days of attendance of all students during a school year; divided by
(ii) The number of days school is in session during that year.

(2) Average per-pupil expenditure" means, in the case of a State or of the United States –
(A) Without regard to the source of funds –
(i) The aggregate current expenditures, during the third fiscal year preceding the fiscal year for which the determination is made (or, if satisfactory data for that year are not available, during the most recent preceding fiscal year for which satisfactory data are available) of all local educational agencies in the State or, in the case of the United States, for all States…; plus
(ii) Any direct current expenditures by the State for the operations of those agencies; divided by
(B) The aggregate number of children in average daily attendance to whom those agencies provided free public education during that preceding year.

The OMB Circular A-133 Compliance Supplement for the Title I, Part A Cluster, Part L, Reporting, states:

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

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

(1) Graduation rate. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:
(i)(A) A State must calculate a "four-year adjusted cohort graduation rate," defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduation class.

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

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

Finding 12-PDE-06: (continued)

<u>Cause</u>: The revenue and expenditures reported on the NPEFS were subject to a supervisory review and approval process and appeared to be accurately reported. However, the ADA data used in the calculation of the SPPE amount on the NPEFS and the high school graduation rate data were both prepared by PDE via PIMS which has inadequate information technology general controls as reported in Basic Financial Statement Finding 12-08. PDE personnel could not explain why the data in question contained duplicate students, and PDE has not addressed these control deficiencies by implementing adequate documented manual controls to compensate for the inadequate information technology general controls or by requiring the PIMS vendor to obtain a service auditor's report.

<u>Effect</u>: Since the ADA data used in the SPPE calculation was inaccurate, PDE reported an incorrect SPPE amount to the federal government which could result in an inaccurate allocation of federal funds to PDE.

The high school graduation rate data reported by PDE is used by the USDE as a source of information on state activities and outcomes of ESEA programs, and the OMB Circular A-133 Compliance Supplement states that USDE intends to use the data to measure LEAs' Adequate Yearly Progress under the No Child Left Behind Act beginning with the 2011-12 school year. Since PDE overstated the high school graduation rate percentage, the inaccurate data may be inappropriately used by the USDE or the public to measure the ESEA programs' success.

<u>Recommendation</u>: PDE management should take the necessary action to resolve the various general computer control deficiencies cited in Basic Financial Statement Finding 12-08. In the meantime, PDE management should implement adequate, documented procedures to ensure that the ADA data used in the calculation of the SPPE amount on the NPEFS and the high school graduation rate data are accurate. Procedures should include independent verification, a search for duplicate student numbers, and other applicable computer edit checks to determine reasonableness, a supervisory review, and documented sign-offs. PDE should also consider requiring the PIMS vendor to obtain a service auditor's report.

<u>Agency Response</u>: PDE, Center for Data Quality and Information Technology (CDQIT), has determined that this is an incorrect assumption. The deficiencies in the GAAP Information Technology Audit do not impact the quality of data. It is not a reasonable conclusion that if eScholar has the same staff writing and deploying software source code, the data collected is unreliable.

As indicated in previous responses, PDE has established manual compensating controls to ensure the completeness and accuracy of data submitted into PDE systems and used for program needs or to meet reporting requirements. Documentation of reports, accuracy certification statements, guideline documents, and phone calls to ensure the accuracy of student enrollment and cohort graduation rate data was provided during the course of the audit review. Compensating controls include:

- Manuals and How To Guides, providing directions the assist LEAs in submitting complete and accurate data, as well as, evaluating the accuracy of and correcting data
- Trainings prior and during each data collection
- Monthly Question and Answer webinars, where LEAs can address questions and concerns to data and program office staff
- PIMS Application Support Service that provides individual assistance submitting data, evaluating the accuracy of data and correcting data
- Numerous PIMS (Cognos) Reports that allow LEAs to evaluate both individual records, school level and LEA level aggregate data, including Accuracy Certification Statements
- Numerous "State" reports utilized by PDE staff to evaluate data
- Data is reviewed by PDE staff to check for completeness, reasonableness, large variances, etc. When discrepancies are suspected, the possible errors are brought to the attention of LEAs for correction, where appropriate
- LEAs are sent, via mail merge, specifics on data issues with instructions on making corrections as well as contact information if additional assistance is needed

Finding 12-PDE-06: (continued)

- LEAs that do not respond to requests to correct data receive emails from PDE executive staff and phone calls
- Data is run through additional edit checks prior to and after submission to the National Center for Education Statistics and again after submission to the Common Core of Data. The Commonwealth has the opportunity to make corrections at each point, if appropriate.

The CDQIT concur there were duplicates in the cohort graduation rate file. Although we were not asked during the audit review process for the reason, we have reviewed and corrected the issue. Both programming and procedures were refined to address the duplicate issue for subsequent years. The root cause was a combination of two items. First, the file was created for DRC attribution with PSSA precode business rules to eliminate duplicates. Second, LEA's failed to correct records in PIMS or the DRC Graduate Attribution System. To correct the issue, PDE modified business rules for creating the PIMS data file that populates the DRC Graduation Attribution System beginning in SY 2010-11. Duplicate records are no longer excluded from that file, allowing LEAs the opportunity to identify and correct duplicates. PDE also modified reporting requirements for LEAs to prevent the duplicates caused by students enrolled in multiple LEAs, for example a part-time career and technical education center and a school district.

The CDQIT has explained multiple times throughout this audit review the Cohort Graduation Rate was not used for federal reporting or AYP. The Leaver Graduation was used for the last time to calculate SY 2009-2010 graduation rates used for both federal reporting and AYP. Errors had no impact on program evaluation. Duplicates did not exist in the Leaver Graduation Rate file, because there was no attribution.

The CDQIT has determined that reasonableness has been taken into consideration. A small margin of error is within a threshold that will not impact the value of data to evaluate programs any more than a small standard deviation impacts the value of research. With available resources six sigma level of perfection is not presently obtainable. However, CDQIT staff does procedurally review and cross-check each other's work products, with limited time allotments.

The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management (BBFM) disagrees with Single Audit Finding 84010C, specifically with the statements regarding the average daily attendance (ADA) calculated using data extracted from the Pennsylvania Information Management System (PIMS) and used to provide the Office of Comptroller Operations with information to calculate the State Per Pupil Expenditure (SPPE) for school year 2010-2011.

As stated in the finding, auditors selected a sample of 40 LEAs' ADA data and were able to recalculate PDE's reported ADA data. Out of the sample of the data tested, only one (1) LEA was found to possibly have duplicate records. On Friday, February 8, 2013, BBFM responded to the auditors' questions regarding the duplicate students on the report being reviewed. As indicated in that response, the report in question – Student Calendar Fact Template Detail (SCF) – was found by PDE staff to have an error in the procedure used to create the data report. Because the SCF Report is not used to provide ADA data, this error had no impact on the ADA provided to the Office of Comptroller Operations.

As background, information used to provide ADA data for the SPPE calculation comes from the No Child Left Behind (NCLB) Report. This report is populated from data reported in PIMS by LEAs on the School Calendar and Student Calendar Fact templates each year. The data on the report are aggregated at a building level within each LEA using data from these templates and additional information in the Student template. During the audit, three reports from each of 40 LEAs were requested to cross-check the ADA: the NCLB Report, the Instructional Time Summary—All Calendars Report, and the SCF Report. Auditors recalculated ADA using these reports and compared the results with both the NCLB and SCF Reports; out of the 40 LEAs and 120 reports, only one (1) LEA was found to have possible discrepancies. Upon request by the auditors, PDE staff reviewed the PIMS data for this LEA and, as reported in detail to the auditors on February 8, the SCF Report was found to have a technical error that caused a handful of students to be listed more than once. It should be noted that the students in question were not reported by the LEA multiple times; instead, the report duplicated the record as part of its generation procedure. In addition, when reviewing the data at a building level on the NCLB Report, there was no duplication and the correct ADA was provided and used to calculate the SPPE.

Finding 12-PDE-06: (continued)

Therefore, because there was no actual duplication of student data and the auditors were provided with this information, it is believed that no finding should have been issued concerning this information.

Again, as stated in the finding, the auditors indicated that "PDE does not appear to have adequate manual compensating controls to ensure accuracy of PIMS' ADA data." As indicated in previous PDE audit responses, PDE has established manual compensating controls to ensure the completeness and accuracy of data submitted into PDE systems and used for program needs or to meet reporting requirements. Information concerning procedures performed on outliers was provided during the audit. Compensating controls include:

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

Auditors' Conclusion: As noted above, Basic Financial Statement Finding 12-08 cited information technology general control deficiencies which included 1) a lack of segregation of duties because two outside vendor employees have access into PIMS to both develop and promote program changes into production, and 2) 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, and emergency changes to the PIMS application. These control deficiencies could result in PIMS data being inaccurate, since the data could be manipulated without PDE management's knowledge or consent.

PDE is in agreement that the high school graduation rate data and the ADA data contained duplicates. Since PDE was unaware of the duplicates until notified by the auditors, this indicates that PDE's procedures and manual controls were inadequate to detect duplicates and to ensure the accuracy of the high school graduation rate data and the ADA. There were no Accuracy Certification Statements from the LEAs to support the high school graduation rate data or the ADA. Further, when the auditor met with CDQIT personnel on December 13, 2012 and BBFM personnel on January 16, 2013, the CDQIT and BBFM representatives stated that no documentation of PDE's evaluation of the data was available. It also appears that many of the procedures PDE listed in the agency response above are LEA procedures, not PDE procedures.

PDE is disputing which set of graduation data was used for federal reporting. The auditor's responsibility was to perform the audit in accordance with the OMB Circular A-133 Compliance Supplement for the Title I, Part Cluster, June 2012, Compliance Requirement L - Reporting, which states: *Beginning with annual report cards providing assessment results for the 2010-2011 school year, a State and its LEAs must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate under 34 CFR section 200.19(b)(1)(i)-(iv)).* Therefore, the scope of the audit and PDE's reporting requirement related to the graduation rate data using the 4-year adjusted cohort rate which accompanied PDE's Annual Report Card for the 2010-2011 school year via a PDE website link, specifically the 2009-2010 cohort graduation rate data which was the most recent available at the time of PDE's preparation of the Annual Report Card. The Leaver Rate formula PDE refers to in the response above was used by PDE to determine the 2011 Adequate Yearly Progress (AYP), which is part of the Title I, Part A Cluster, Compliance

Finding 12-PDE-06: (continued)

Requirement N – Special Tests and Provisions – Identifying Schools and LEAs Needing Improvement, and this AYP was tested separately by the auditors and addressed in a separate Single Audit finding. We are encouraged that PDE CDQIT personnel stated that they have identified problems within the high school graduation rate data process and are implementing corrective action for the subsequent year's data. We will review any corrective action in the subsequent audit period.

PDE BBFM personnel stated that the ADA duplication was due to a report generation error in PIMS, not a reporting error at the LEA level, which further supports the fact that PDE's procedures and manual controls over PIMS data were inadequate to detect duplicates and to ensure the accuracy of the ADA. As noted in the finding Condition, the auditor only analyzed 5 of the 40 ADA data fields for duplicates, so it is possible that duplicates also occurred in other data fields which were not analyzed.

PDE BBFM personnel are disputing which data was used to report the ADA. The auditor made multiple requests and had meetings and discussions with PDE BBFM personnel in order to obtain the supporting documentation for the ADA used to calculate the SPPE amount in the NPEFS Report, and the auditor tested and reported deficiencies for the ADA data that PDE BBFM personnel represented was the support for the SPPE.

PDE management needs to identify what control objectives are critical to ensuring the proper and accurate reporting of the high school graduation rate data and the ADA data, and to ensure that procedures are established to ensure these control objectives are met.

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.

Department of Education

Finding 12-PDE-07:

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

A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Compliance With Earmarking Requirements, and Monitoring of Subrecipients

Federal Grant Numbers: S377A100039, S377A090039, and S388A090039

Type of Finding: Material Weakness, Material Noncompliance

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

Condition: The United States Department of Education (USDE) provides School Improvement Grants (SIG) Cluster funds to the Pennsylvania Department of Education (PDE) under the authority of the Elementary and Secondary Education Act (ESEA), as amended, for the purpose of turning around the academic achievement of students in the lowest-achieving schools through the implementation of four school intervention models (turnaround, restart, school closure, or transformation). PDE subgranted SIG Cluster funds in the amount of $48,581,793 out of total SIG Cluster expenditures of $51,325,854 to 37 Local Educational Agencies (LEAs) during the fiscal year ended June 30, 2012.

PDE uses a discretionary process to award SIG allocations to LEAs. This process involves the evaluation and scoring of each LEA's proposed SIG project by multiple grant readers who document the results of their evaluations on standard rubric forms and also recommend a dollar amount for each LEA's proposed project. The resulting scores are accumulated by PDE, arranged in order from highest to lowest, and SIG funds are allocated to LEAs until all SIG funds have been assigned. All 37 LEAs which received SIG funds in the current audit period were awarded funds by this process. Our current year procedures disclosed that there was no supervisory review and approval process in place over PDE's award of SIG allocations to LEAs. We also noted that for 1 out of 10 LEAs' allocations selected for testing, PDE could not provide the completed rubric form to support the applicable grant readers' scores. Finally, for all 10 LEAs tested, we were unable to determine the accuracy of the final scores used by PDE to allocate the SIG funds since the scores could not be recalculated or traced to the supporting rubric forms. Therefore, we were unable to determine the propriety and accuracy of the SIG allocations.

Our current year testing of PDE's process for ensuring compliance with three SIG earmarking requirements (described in the criteria below) disclosed that there was no supervisory review and approval process in place. In addition, our testing of one earmarking requirement, which specifies that an LEA with nine or more Tier I and Tier II schools may not implement the transformation model in more than 50 percent of those schools, only applied to 1 out of 10 test items. We noted that PDE did not ensure compliance with the requirement since the LEA in question implemented the transformation model in 13 out of 17 Tier I and Tier II schools, which was four more schools than the nine schools permitted by the earmarking requirement, which not only affects appropriateness of the earmarking, but could have affected the scoring of the proposals noted in the paragraph above. The LEA in question received $11,721,620 in SIG Funds during the fiscal year ended June 30, 2012. In addition, we noted that PDE's standard Master Agreement Rider for SIG LEAs did not contain any provisions requiring LEAs' compliance with earmarking requirements.

PDE performs on-site program monitoring of SIG schools, generally three times per year, and documents the results of the monitoring on standard forms. Our current year testing of on-site monitoring reports for a sample of 21 out of 80 individual schools disclosed that there was no supervisory review and approval process in place over PDE's on-site program monitoring of the schools.

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

Finding 12-PDE-07: (continued)

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

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

a. An SEA must allocate at least 95 percent of the SIG funds it receives in a given fiscal year directly to eligible LEAs that submit an approvable application to the SEA, consistent with the carryover requirements in Section II.B.9 of the SIG final requirements.

b. If an LEA has nine or more Tier I and Tier II schools, the LEA may not implement the transformation model in more than 50 percent of those schools (Section II.A.2(b) of SIG final requirements).

c. An SEA must award to an eligible LEA a total grant of no less than $50,000 and no more than $2,000,000 per year for each Tier I, Tier II, and Tier III school that the LEA commits to serve (Section 1003(g)(5)(A) of ESEA (20 USC 6303(g)(5)(A)); Section II.B.5 of SIG final requirements).

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

A pass-through entity is responsible for:

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

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

34 CFR Section 76.702 Fiscal control and fund accounting procedures.

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

34 CFR Section 80.20 Standards for financial management systems.

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

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

34 CFR Section 80.40 Monitoring and reporting program performance.

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

Finding 12-PDE-07: (continued)

Cause: Regarding the SIG allocations, it appeared that two PDE employees who were involved in the allocation process were no longer employed at PDE and had not adequately transferred their knowledge and pertinent documentation to the current employees. PDE personnel stated that they were aware of the earmarking requirements but could not provide an explanation for the noncompliance cited in the finding Condition above, which appeared to be adversely affected by the lack of a supervisory review and approval process over the earmarking requirements and the exclusion from the SIG Rider of a provision regarding earmarking requirements. Regarding the lack of supervisory review and approval of the on-site program monitoring reports, PDE personnel indicated that all SIG monitors except one are PDE employees and familiar with the SIG requirements, so PDE personnel did not believe it was necessary to route the monitoring reports through a supervisory review process.

Effect: Since PDE's oversight of the allocation process was not adequate, PDE cannot be assured of the propriety and the accuracy of the allocations, and lack of proper oversight could lead to qualified schools not receiving the appropriate share of the funds. Due to PDE's inadequate review and oversight over the earmarking requirements, PDE did not ensure compliance with the earmarking requirement pertaining to the 50 percent limit on transformation models for one LEA to which PDE subgranted material SIG funds during the current audit period. Since PDE's review and oversight of the on-site program monitoring was inadequate, PDE does not have assurance that subrecipients were in compliance with federal regulations.

Recommendation: We recommend that PDE personnel increase their oversight of awarding SIG allocations, earmarking requirements, and subrecipient monitoring by implementing and documenting a review and approval process to ensure that all SIG subrecipients are in compliance with federal regulations. PDE should consider adding provisions requiring subrecipients' compliance with earmarking requirements to the Master Agreement Rider for SIG LEAs. PDE should also ensure that supporting documentation is retained.

Agency Response: The Pennsylvania Department of Education, Bureau of Teaching and Learning, Division of Federal Programs (DFP) disagrees with certain aspects of this Finding. To review the monitoring instruments for the School Improvement Grant (SIG) Cluster funds, a debriefing is held regularly after each round of monitoring visits. A meeting is held with the Local Educational Agency (LEA) prior to each monitoring visit to discuss upcoming visits and any concerns from the previous visits. Any schools that were found to have weaknesses or compliance issues have funds suspended until the implementation of the proper corrections. The LEAs are also required to submit fiscal reports by school if there are questioned funding issues.

The DFP disagrees with the auditors' interpretation of the regulation regarding the number of schools implementing the transformation model.

Additional score sheets to assist with the determination of SIG allocations were provided to the auditors.

Auditors' Conclusion: Regarding the monitoring instruments, PDE could not provide any evidence that there was a review and approval process in place. PDE should implement a review and approval process to ensure that on-site monitoring is conducted as required, monitoring instruments are properly completed, and any necessary corrective action is taken. This process should be documented by PDE, and evidence of the review and approval should be retained for audit purposes.

Regarding the earmarking requirement pertaining to the 50 percent limit on transformation models, the agency response indicated disagreement but did not offer any specifics. The noncompliance with the earmarking requirement was discussed in detail with PDE management prior to the issuance of this finding, and PDE management did not indicate any disagreement at that time.

We reviewed the additional rubric provided for one school, noting that it pertained to an elementary school within a school district, not to the charter school with the missing rubric as cited in the finding Condition above.

Finding 12-PDE-07: (continued)

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

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

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

Department of Education

Finding 12-PDE-08:

CFDA #84.389 – Title I Grants to Local Educational Agencies (ARRA)
CFDA #84.391 – Special Education – Grants to States (ARRA)
CFDA #84.392 – Special Education – Preschool Grants (ARRA)
CFDA #84.394 – State Fiscal Stabilization Fund – Education State Grants (ARRA)

Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of ARRA Funds (A Similar Condition Was Noted in Prior Year Finding 11-PDE-09)

Federal Grant Numbers: S389A090038, H391A090093, H392A090090, S394A090039A

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During our audit, we tested the adequacy of the Pennsylvania Department of Education's (PDE) procedures pertaining to the monitoring of the ARRA funds subgranted to School Districts, Intermediate Units (IUs), Charter Schools and Early Intervention (EI) providers, collectively known as Local Educational Agencies (LEAs). PDE subgranted 100 percent of the $104.5 million State Fiscal Stabilization Fund (SFSF) ARRA expenditures for CFDA #84.394 and 100 percent of the $69 million Special Education ARRA expenditures for CFDA numbers 84.391 and 84.392 as reported on the Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2012. PDE also subgranted 92.2 percent of the $82.3 million Title I ARRA expenditures for CFDA #84.389 reported on the SEFA for the fiscal year ended June 30, 2012.

PDE contracted with a consultant to perform ARRA specific monitoring of the LEAs for the above mentioned programs. For the fiscal year ended June 30, 2012, we selected and reviewed 19 monitoring instruments of 73 completed by the consultant for these programs. Our testing disclosed several weaknesses relating to the consultant's monitoring and PDE's follow-up procedures on issues identified by the consultant as follows:

- We reviewed 14 school district monitoring reports out of 52 performed by the consultant. In one of the reports we reviewed, the consultant identified three findings in their report and recommended that PDE follow up and respond to the findings. When we asked PDE for their documentation to show follow-up was performed, including corrective action, PDE officials represented that although follow-up was conducted they could not find follow-up documentation pertaining to these findings.

- We reviewed three IU monitoring reports of 13 performed by the consultant. For one of the three monitoring reports reviewed, PDE could not provide documentation to show that corrective action had been taken by the IU on seven findings identified by the consultant. In addition, two of these seven findings that were originally classified as "Critical", were later downgraded to findings and a third finding was downgraded to an "Observation", however there was no documentation available to provide a reason why or of PDE's consent for these downgrades.

Finding 12-PDE-08: (continued)

- We reviewed two charter school monitoring reports of eight performed by the consultant. We found that the vast majority of the questions in both monitoring reports contained a default answer of "No Response". PDE management represented that the "No Response" comment was a default field automatically populated when the consultant input "No" as an answer to a monitoring report question. However, based on the monitoring documentation provided, we were unable to determine whether the "No Response" comment indicated that the questions were answered by the monitor or not, nor could we determine whether the monitoring was actually conducted. PDE provided additional documentation for one monitoring report, but this additional documentation contained a few handwritten notes which contained comments which were inconsistent with the monitoring report, and many questions in this additional form were not answered at all. Therefore, there was insufficient evidence that the monitoring was conducted for the two charter schools.

It should also be noted that all ARRA funds were passed through to subrecipients by December 31, 2011 and the PDE contract with the consultant for monitoring ARRA expenditures at the subrecipient level expired October 31, 2011.

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

A pass-through entity is responsible for:

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

The 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: PDE officials stated in response to the first two bullets in the Condition that follow-up may have been done by phone or email and they just did not adequately track what form of documentation was obtained which now makes it difficult for them to track down and provide to us. PDE officials also stated that they believe their subrecipient ARRA monitoring procedures were sufficient.

Regarding the charter school monitoring, it appeared that the monitoring was not conducted.

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, could not assess whether the decisions made were proper and done in a consistent manner. Additionally, failure by PDE to follow up on certain deficiencies may have resulted in subrecipients expending ARRA funds inappropriately and in noncompliance with federal regulations.

Recommendation: Due to the fact that all ARRA funds were expended by PDE by December 31, 2011 and the fact that these programs will not be active in the subsequent audit period, we defer recommendation to USDE and their follow-up on recommendations they made to PDE in their report mentioned in the Cause section above.

Agency Response: PDE disagrees with this finding. The PDE believes that a continuing relationship is maintained with the subrecipients, and all monitoring and follow-up activities were sufficient. Additionally, the audit review did not disclose any deficiencies with the actual LEA expenditures which provide evidence that PDE's monitoring process was effective.

Finding 12-PDE-08: (continued)

Auditors' Conclusion: PDE's response indicates that a continuing relationship was maintained with the subrecipients; however, for the issues noted in the finding, PDE could not provide evidence of such communication. In addition, PDE does not specifically refute the claim that we could not determine whether the charter school monitoring actually was conducted. Finally, the fact that the audit procedures did not disclose any deficiencies with the LEA expenditures does not negate the possibility that these deficiencies exist within the population of LEAs. As such, the finding remains 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.

Department of Health

Finding 12-DOH-01:

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

Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions and Vendor Overcharges

Federal Grant Numbers: 11111PA705W1006, 12121PA705W1006

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions related to Food Instruments and Cash-Value Voucher Disposition, Special Tests and Provisions related to Review of Food Instruments and Cash-Value Vouchers to Enforce Price Limitations and Detect Errors

Condition: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food instrument and cash-value voucher (FI) expenditures totaled $200.7 million for the fiscal year ended June 30, 2012. As part of our review of FI redemptions, we selected a sample of 25 days of FI payments totaling $18,884,889 and compared the total dollar amount of FI redemptions per the Commonwealth's SAP accounting system to the total dollar amount of FI redemptions recorded in the Department of Health's (DOH) WIC database system (known as Quick WIC) for that day. The Quick WIC system accounts for all FIs issued and redeemed while payments for the FI redemptions are processed through SAP. We adjusted the SAP expenditures to account for known errors identified by Quick WIC reports or bank documentation. However, based on our testing, 20 of the 25 days remained unable to be reconciled. DOH was unable to explain these remaining differences, and therefore, the unreconciled amounts result in questioned costs of $84,784.

To ensure proper recording of FI redemptions, DOH performs an annual reconciliation between SAP and the Quick WIC system. However, for the fiscal year ended June 30, 2012, DOH could not provide this reconciliation due to computer-related issues with the Quick WIC system. The difference between SAP and the Quick WIC system for the fiscal year ended June 30, 2012 was $500,949. The difference is usually due to a combination of timing variations between when the FI redemptions are recorded in the Quick WIC system and the date payment is made in SAP, as well as FI redemptions identified as errors. However, without DOH's reconciliation we are unable to determine how much, if any, of the $500,949 could result in questioned costs in addition to the $84,784 already questioned above.

Additionally, we tested a sample of 65 FI checks totaling $1,492 to determine whether the redemption amount of the FI check was less than the maximum amount allowable for the respective food items. We found that five of the 65 FI checks had vendor overcharges above the maximum allowable amount. For four of the five overcharges, DOH properly established a claim against the vendor and the overcharges were reimbursed to DOH. However, for one of the five overcharges, DOH did not properly establish a claim against the vendor. The amount on the check in question exceeded the maximum amount allowable by $0.32, thus representing a vendor overcharge. DOH's policy is that a claim is made against the vendor if the total amount of overcharges exceeds $10 for the respective quarter. DOH management provided data from the Quick WIC system which showed the respective vendor accumulated overcharges totaling $78 for the quarter ending September 30, 2011. However, the vendor never paid the overcharge amount back to DOH because DOH never established a claim against the vendor by sending the vendor a letter notifying it of the overcharges. Therefore, these unreturned overcharges result in questioned costs of $78.

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.

Finding 12-DOH-01: (continued)

In addition, 7 CFR 246.12(k) states:

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

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

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

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

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

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

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

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

(a) Determination of overpayment. In each calendar quarter, the Department will compare the maximum amount for which a WIC authorized store could have redeemed a WIC check, based upon the maximum allowable prices applicable to the store's peer group for foods authorized for purchase on the check, against the actual amount for which the WIC check was redeemed, to determine whether there was an overpayment.

(b) Pursuit of reimbursement. The Department will seek reimbursements from a WIC authorized store when the price comparison reveals overpayments to the store in excess of $10 in a calendar quarter.

(c) Reimbursement of overpayments. A WIC authorized store shall reimburse the Department for overpayments within 20-calendar days of the date on the Department's notice of the overpayment, unless the WIC authorized store disputes the determination of overpayment.

Cause: In regard to the differences we identified between the FI redemptions per SAP and the FI redemptions per DOH's Quick WIC system, DOH management stated that some of the differences could be caused by FI redemptions processed via an Automated Clearing House (ACH) transaction which the Quick WIC system shows the redemption date as being redeemed one day following the date of the ACH transaction. We attempted to adjust our differences based on these ACH timing differences and found inconsistent results, and in some cases our differences became larger, so we could not confirm management's assertion. Therefore, we did not adjust our total difference of $84,784 for our 20 test days in question for ACH timing differences. Additionally, DOH acknowledged that for each day of our 20 test days in question there are differences beyond the ACH timing issue that they cannot account for at this time.

Finding 12-DOH-01: (continued)

In regard to the annual reconciliation, DOH management stated the attempt to reconcile the SAP and Quick WIC systems was unsuccessful due to Quick WIC system report problems. Monthly error reports for three months during the fiscal year ended June 30, 2012 showed large amounts which created a reconciliation variance. Management stated these reports were not accurate and they are currently working with their IT department to correct the issue and produce accurate reports.

In regard to the vendor overcharges, DOH management stated its current IT contactor generates Price Adjustment System Reports from the check redemption data in the Quick WIC system. If a vendor does not appear on these reports, it is assumed the vendor did not have overcharges totaling $10 or more for the respective quarter. As a result of the vendor in question not appearing on the Price Adjustment System Reports, the vendor was not billed for its overcharges. DOH could not provide an explanation as to why this vendor did not appear on the Price Adjustment System Report for the quarter ended September 30, 2011 since overcharges totaled $78.

Effect: We question $84,784 in WIC FI payments which are not supported by the Quick WIC database redemption files and have not been properly investigated and explained, and are therefore unallowable. Without adequate controls related to the Quick WIC system and DOH review of redeemed FIs and vendor overcharges, DOH is not in compliance with WIC regulations and inappropriate FI redemptions could occur without DOH’s knowledge which could lead to unallowable costs being charged to the federal WIC grants.

Additionally, since DOH never established a claim for the vendor overcharges and the vendor never returned the amount overcharged, the vendor overcharges of $78 result in questioned costs.

Recommendation: DOH should ensure that FI redemptions reported on the daily bank statements, which are paid through SAP, are reconciled to the daily FI redemptions on the Quick WIC system. Any problems should be identified, timely followed up, and properly corrected. Also, DOH should determine why the letter for overcharges was never sent to the vendor, evaluate whether there is a systemic problem, and ensure this problem is rectified.

Agency Response: DOH agrees with the facts of the finding. DOH will prepare a Corrective Action Plan upon issuance of the final finding.

Questioned Costs: $84,784 for the unaccountable FI redemptions and $78 for the unclaimed vendor overcharge. Any additional amount of questioned costs from the $500,949 annual reconciliation difference cannot be determined.

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

Department of Health

Finding 12-DOH-02:

CFDA #93.917 – HIV Care Formula Grants

Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third-Party Subrecipient Contractor Results in an Undetermined Amount of Questioned Costs (A Similar Condition Was Noted in Prior Year Finding 11-DPW-15)

Federal Grant Number: 2X07HA00021-20, 2X07HA00022-20

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Activities Allowed or Unallowed, Eligibility, Program Income, Subrecipient Monitoring, Special Tests and Provisions related to Section 340B Drug Pricing Program

Condition: Within the HIV Care Formula Grants program, federal regulations established an AIDS Drug Assistance Program (ADAP) earmark, in which funds are to be used to provide therapeutics to treat HIV disease or prevent the deterioration of health arising from HIV disease in eligible individuals. The amount of the ADAP earmark is provided within the annual grant award. Each year the Department of Health (DOH), as lead agency for the HIV Care Formula Grants program, enters into an interagency agreement with the Department of Public Welfare (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 fiscal year ended June 30, 2012, $30.28 million in drug benefits costs, or 68.7 percent of the $44.10 million reported on the Schedule of Expenditures of Federal Awards (SEFA) was paid to one third-party subrecipient contractor (contractor).

When a person applies for ADAP assistance, they are required to submit a completed application and supporting documentation, which includes proof of Commonwealth of Pennsylvania (Commonwealth) residence, verification of income and copies of their HIV-related and other prescriptions for ADAP reimbursable drugs to the Commonwealth's contractor. The contractor reviews all of the documents to determine if the applicant is eligible to receive benefits. The contractor also administers all pharmacy benefit claims, the re-certification process, the third-party liability process, drug rebates and the 340B drug pricing program on behalf of the Commonwealth.

As part of our testing of the controls in place over this contractor, we found that there was no on-site monitoring performed of this contractor covering the HIV Care Formula Grants funding during the fiscal year ended June 30, 2012 to substantiate the contractor was administering the ADAP in compliance with grant laws and regulations. Also, we noted a service auditor's report (SOC 1) was not received to substantiate the adequacy of the controls over the IT systems in place at the contractor. While the Commonwealth obtained a financial audit of the contractor in accordance with *Government Auditing Standards* covering the fiscal year ended June 30, 2012, it did not contain a report on compliance with all requirements that are direct and material to the HIV Care Formula Grants.

Criteria: 45 CFR 74.26 Non-Federal audits, states in part:

(d)(1) Recipients and subrecipients that are commercial organizations (including for-profit hospitals) have two options regarding audits:

(i) A financial related audit (as defined in the Government Auditing Standards, GPO Stock #020–000–00–265–4) of a particular award in accordance with Government Auditing Standards, in those cases where the recipient receives awards under only one HHS program; or, if awards are received under multiple HHS programs, a financial related audit of all HHS awards in accordance with Government Auditing Standards; or

(ii) An audit that meets the requirements contained in OMB Circular A–133.

Finding 12-DOH-02: (continued)

45 CFR 92.40, applicable to HIV Care Formula Grants, states:

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

Universal Monitoring Standards for Ryan White Part A and B (HIV Care Formula Grants) Grantees under Section F Monitoring number 2 states:

Monitoring activities expected to include annual site visits of all Provider/Sub grantee.

Monitoring Standards: Frequently Asked Questions (FAQs) For Ryan White HIV/AIDS Program Part A and B (HIV Care Formula Grants) Grantees states in part:

10. ***What must the grantee collect to demonstrate to HRSA that it is in compliance with the Monitoring Standards?*** *Each standard lists the requirements needed to ensure compliance. They include actions and documents as proof of performance compliance. The grantee is expected to establish written tools, protocols, policies and procedures for conducting a monitoring visit. The procedures should describe the use of tools, protocols, and methodologies during the site visit; a report should be on file for every visit; and if needed, a corrective action plan should also be on file. The grantee must keep these documents available for the Project Officer or HRSA site visit team to review, in order to demonstrate compliance with subgrantee monitoring requirements.*

Cause: Regarding the lack of audit coverage of the contractor that administers the ADAP part of the HIV Care Formula Grants program, we noted the contract in place for the fiscal year ended June 30, 2012 did not contain an audit clause that required an audit of the HIV Care Formula Grants award, nor was there a clause requiring a SOC 1 report.

Commonwealth personnel indicated that on-site monitoring for the contractor was not performed during the fiscal year ended June 30, 2012; however, according to management, DOH recently hired an employee dedicated to performing the monitoring of this contractor.

Effect: Based on the lack of monitoring, not obtaining a SOC 1 report and lack of adequate audit coverage of the contractor, the Commonwealth cannot provide assurance on the propriety of HIV pharmacy benefit claims, the re-certification process, eligibility determinations, (including fraud prevention procedures related to eligibility determinations), the third party liability process, drug rebates and the 340B drug pricing. As a result of weaknesses related within the ADAP part of the HIV Care Formula Grants program, as a whole, it is likely that there are undetected questioned costs at the subrecipient level for the current year under audit.

Recommendation: The Commonwealth needs to establish procedures to ensure that:

- Monitoring is performed each year on the contractor to substantiate the contractor is administering the ADAP in compliance with grant laws and regulations.
- The contractor provides a SOC 1 report each year and the Commonwealth reviews the report to verify the adequacy of the controls over the IT systems in place at the contractor.
- The contractor provides a financial audit each year in accordance with *Government Auditing Standards* that is sufficient to determine that the contractor is administering the ADAP funding in compliance with all requirements that are direct and material to the HIV Care Formula Grants such as Activities Allowed or Unallowed, Eligibility, Program Income, and Special Tests and Provisions related to Section 340B Drug Pricing Program.

Finding 12-DOH-02: (continued)

Agency Response: The Department of Health (DOH) agrees with the facts of the finding that there was no on-site monitoring performed of the contractor administering the ADAP, and the service auditor's report was not received to substantiate the adequacy of the controls over the IT systems in place at the contractor. While the Commonwealth obtained a financial audit of the contractor in accordance with *Government Auditing Standards* covering the fiscal year ended June 30, 2012, it did not contain a report on compliance with all requirements that are direct and material to the HIV Formula Care Grant.

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.

Department of Labor and Industry

Finding 12-L&I-01:

CFDA #17.225 – Unemployment Insurance (including ARRA)

Deficiencies Noted During Re-Calculation of Experience Based Employer Tax Rate

Federal Grant Numbers: UI 15821-07-55-A-42, UI-16769-08-55-A-42, UI-18043-09-55-A-42, UI-19605-10-55-A-42, UI-21122-11-55-A-42, UI-22334-12-55-A-42

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to Employer Experience Rating

Condition: As part of our audit of the Unemployment Insurance program for the fiscal year ended June 30, 2012, we performed a computer assisted audit technique (CAAT) on data from the Unemployment Compensation Modernization System (UCMS) unemployment insurance application to recalculate "experience-based rates" for certain employers. The CAAT was performed as required by the Compliance Supplement, "Compliance Requirement N - Special Tests and Provisions". The suggested audit procedure states, in part, "… the auditor should have a thorough understanding of the operation of these systems, and is strongly encouraged to consider the use of computer assisted auditing techniques (CAATs) to test these systems." Our CAAT objective was to evaluate the accuracy of employers' annual unemployment insurance tax rates mailed to employers on February 29, 2012, for use on their 2012 forms in calculating unemployment tax due.

Our CAAT procedures involved obtaining a data file from the Department of Labor and Industry (L&I) of "experience-based" unemployment compensation (UC) tax rates sent to employers on February 29, 2012. An experience-based rate is obtained after an employer has provided covered employment and paid wages for approximately two complete calendar years. All other employers are subject to a new employer rate of 9.7 percent for construction employers and 3.5 percent for non-construction employers, or a standard rate for contributory employers who have a sporadic history (6.5632 percent for non-construction employers and 10.5835 percent for construction employers).

After starting our CAAT procedures and communicating preliminary error results, we learned that L&I provided the initial data file based on extract criteria that used an outdated field in UCMS. As a result, the file included incorrect data in the "contributions paid" fields for 2010 and 2011. Although L&I corrected the data extract criteria and provided us with a second data file, the initial data extraction process revealed a data redundancy error in which the "established date" field was included in two different tables with different values in the UCMS database.

The data file provided by L&I contained 230,859 records of employers who received experience-based rates; however, we learned that the file included 46,918 employers whose rates were corrected and reissued after February 29, 2012. Therefore, we started with a population of 183,941 records.

Using statistical sampling methodology, we selected a random sample of 1,132 employers. After meeting with key L&I program personnel and reviewing the L&I UC-748, UC-749, and UC-820 forms, we coded our audit software to recalculate the rates for 1,132 employers. We calculated the same rate as UCMS for 1,103 employers. We calculated a different rate for 29 employers (error rate of 2.6 percent). Those 29 exceptions were attributable to the following:

- In 17 cases, L&I used a data script to insert $1.00 in certain quarters of gross wages when the employer had reported no gross wages in an attempt to correct a known problem in UCMS. However, insertion of the $1.00 amounts caused UCMS to misclassify the employers as experienced employers. (Since none of these employers had taxable 2011 wages, we estimate the change in tax revenue to be zero).
- In one case, the employer was assigned an incorrect group number by UCMS. (Our recalculated rate was lower than the rate calculated by UCMS; therefore, we estimate the overcharge of tax revenue based on 2011 wages to be approximately $201).

Finding 12-L&I-01: (continued)

- For seven employers, a credit/refund to the Reserve Account Balance was not converted properly from the old legacy UC system to the new UCMS system. (Our recalculated rates were lower than the rates calculated by UCMS; therefore, we estimate the overcharge of tax revenue based on 2011 wages to be approximately $531).
- Four employers had data errors in the UC legacy system that remained uncorrected during the conversion to UCMS. (Our recalculated rates were lower than the rates calculated by UCMS; therefore, we estimate the overcharge of tax revenue based on 2011 wages to be approximately $378).

Our current audit of UC also included reviews of controls over the UC legacy mainframe system and the UCMS, the system being designed and implemented in a client server environment to replace the legacy system.

In the audit of the Commonwealth's Basic Financial Statements (BFS) for fiscal year ended June 30, 2012, certain general computer control weaknesses were reported for L&I in BFS Finding 12-08. These general controls weaknesses included, in part: no written systems development life cycle, including lack of testing documentation and controls over data migration; lack of segregation of duties between developers and those who can promote changes into production, including contractors with that ability; and unmonitored use of group userIDs for database administration. These weaknesses significantly contributed to the errors noted above.

Criteria: State unemployment tax systems fall under the Federal Unemployment Tax Act (FUTA). The FUTA requirements for a state's tax system have been paraphrased in the 2012 Compliance Supplement issued by the U.S. Office of Management and Budget:

Certain benefits accrue to States and employers when the State has a federally approved experience-rated UI tax system. All States currently have an approved system. For the purpose of proper administration of the system, the State Workforce Agency (SWA) maintains accounts, or subsidiary ledgers, on State UI taxes received or due from individual employers, and the UC benefits charged to the employer. The employer's "experience" with the unemployment of former employees is the dominant factor in the SWA computation of the employer's annual State UI tax rate. The computation of the employer's annual tax rate is based on State UI law (26 USC 3303).

Cause: L&I began developing UCMS in 2005 to eliminate reliance on an aging mainframe system. As part of the project, L&I reengineered some of the more complex processes, but management was still tasked with building a tax application based on complicated state law. Pennsylvania's Unemployment Compensation Law, as amended by Act 5 of 2005, requires the consideration of years worth of employment history, assignments to particular experience groups, consideration of report delinquencies, etc. During the development of the system, L&I not only needed to contend with developing complex program code, but also needed to convert a complex database of historical data to a new relational database structure. While testing scripts were developed to test the data prior to conversion, more scripts were needed to correct the numerous errors found after go-live. These scripts and "defect fixes" corrected some errors in the data prior to mailing rates to employers in February 2012. Other errors, primarily errors in delinquency determinations, were corrected after the initial mailing of the rates. Our test for the current audit indicates that more data cleansing is needed and possible program code changes required to ensure all employers' rates are calculated correctly.

For the 46,918 employers whose rates were corrected and reissued after February 2012, a large number of the rate corrections were needed because of a backlog of employer data (report filings, tax payments, etc.) waiting to be uploaded into UCMS that caused the rates to be issued in error. Once the backlog of employer documents was processed, the delinquencies were resolved and the Office of Unemployment Compensation Tax Services mailed corrected 2012 tax rates to the employers.

Regarding the incorrect initial data file provided to the auditors, we learned that the data extraction logic was based on the wrong "established date" (effective date) field. As noted above, we learned that the "established date" field was included twice in the UCMS database in two different tables with two different values. Use of the incorrect "established date" field to extract contributions from certain calendar quarters of data resulted in incorrect results. During a follow-up meeting with L&I, we determined that the "established date" field within UCMS should be synchronized between tables to ensure that the correct information is used for future data extracts or queries.

Finding 12-L&I-01: (continued)

Further, as noted in BFS Finding 12-08 mentioned above, specific control deficiencies related to the lack of a systems development life cycle contributed to the errors noted during our CAAT procedures, i.e., lack of testing documentation and lack of controls over data migration.

Effect: L&I sent revised tax rates to more than 46,000 employers during fiscal year ended June 30, 2012. Many of those tax rates were issued in error. Although most of the erroneous tax rates were corrected by L&I prior to the audit, our procedures found that 2.6 percent of the rates tested (29 out of 1,132) were incorrectly recorded in the database as of October 2012. We estimated the dollar impact of the errors to be $1,110 out of $10,716,441 tested (based on 2011 taxable wages). Further, the lack of effective systems development life cycle (SDLC) controls, which include requirements to document testing and to reconcile migrated data, may cause similar system implementation problems in future project deployments, such as the implementation of the UC Benefits portion of UCMS.

Recommendation: We recommend that L&I take the following actions to correct the deficiencies noted above:

- Submit defect fix requests to correct the specific errors in the data noted in this finding. Since these errors were identified in a sample, L&I should develop scripts to identify similar errors in the remaining population and send corrected rates to employers.
- Correct the information in the "established date" field in all tables where it appears. Where possible L&I should identify and eliminate all redundant data in tables. Where necessary to have redundant data, L&I should develop procedures for synchronizing these fields upon update.

Further, we recommend that L&I implement the recommendations in BFS Finding 12-08, including implementation of an effective systems development life cycle to prevent similar errors in future projects.

Agency Response: The Office of UC Tax Services (UCTS) agrees with the overall findings of the Single Audit regarding UC Tax Rates except for the two points noted below:

We disagree with the statement in the section "Cause" that, "more data cleansing is necessary and possible program code changes are required to ensure all employer's rates are calculated correctly." Because there will be no further UCMS Release 2 data conversions and no second mass rate run for 2012, no special data cleansing is warranted. The majority of rate related issues have been addressed and rates corrected. Any future data correction of employer accounts will occur through normal daily operations which include account review and correction as needed. There are no further program changes needed for 2012 rates. Rates are now calculated correctly when employer data is correct. The rates for 2013 have been run correctly and Pennsylvania passed the USDOL TPS Acceptance Sample review of 2013 Tax Rates; therefore, rate programming does not need to be changed.

We disagree with the statements that 46,918 employers received incorrect rates and that L&I sent incorrect tax rate notices to over 46,000 employers. Not all of the 46,918 rates issued that were subsequently changed were issued in error. A large number of these rates were issued correctly because the employer had a legitimate delinquency of some type. The rates were properly revised after the employer rectified the delinquency, but the initial rate was issued correctly according to the PA UC law and bureau procedures.

Auditors' Conclusion: Regarding L&I's contention that no further data cleansing or program changes are necessary in UCMS, we disagree. Discussions with L&I personnel to identify the exact causes of our differences indicated that there were still errors in the UCMS system as of October 2012, the date of the data extraction for the CAAT. We continue to recommend that L&I develop scripts to identify and correct errors remaining in the data and programs.

Finding 12-L&I-01: (continued)

Regarding L&I's statement that not all of the 46,918 changed rates were issued in error, we understand from our meetings that an employer's rate could have been changed subsequent to issuance if the employer resolves their reporting and payment delinquencies. L&I has not quantified the number of rates changed due to errors, data upload backlog, or legitimate delinquency resolution. We have revised wording in the finding above based on information in the management response; however, the evidence continues to suggest that a large number of employer tax rates were issued in error and subsequently corrected.

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.

Department of Labor and Industry (including ARRA)

Finding 12-L&I-02:

CFDA #17.225 – Unemployment Insurance (including ARRA)
CFDA #17.245 – Trade Adjustment Assistance
CFDA #17.258, 17.259, and 17.278 – WIA Cluster (including ARRA)
CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 11-L&I-01)

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

Type of Finding: Significant Deficiency

Compliance Requirement: Other

<u>Condition</u>: As part of our audit of the Department of Labor and Industry (L&I) major programs for the fiscal year ended June 30, 2012, 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 17 individuals with the Central Office Fiscal Administrator (COFA) role in the Office of Vocational Rehabilitation (OVR) which gave 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. Management partially remediated this prior year weakness in March 2012 by changing the COFA role to read-only and reducing the number of individuals with this role to three. However, OVR also established two new roles that allow users to maintain the fee schedule without supervisory review. The LI-OVR-FinancialAdmin role, assigned to four individuals, and the AP-SystemSuperUser role, assigned to five individuals, both have the ability to change established fees without a supervisory review. Further, the five individuals with the AP-SystemSuperUser role can also approve invoices. These role assignments result in a lack of segregation of duties because these individuals can change the fee schedule and then approve invoices based on the new fee.

The Bureau of Workforce Development Partnership (BWDP) uses CWDS to manage the Workforce Investment Act (WIA) and the Trade Adjustment Assistance (TAA) programs. In the prior audit, we noted that BWDP had inconsistent procedures for removing separated non-Commonwealth users' access from CWDS. Management in BWDP partially remediated this prior year weakness in March 2012 by implementing new policies designed to ensure removal of separated non-commonwealth employees from CWDS within two weeks of separation. However, the new policy was not operating as designed. When we tested this control during the audit by haphazardly selecting one non-commonwealth user separated during the audit period, the BWDP was able to provide documentation to evidence the user's access was disabled, but was unable to provide documentation to evidence the date the user separated.

Unemployment Compensation (UC) – L&I's Center for Workforce Information and Analysis (CWIA) uses data from the UC legacy mainframe system to prepare the ETA-227 – Overpayment Detection/Recovery Report. To prepare the ETA-581 – Contribution Operation Report, CWIA uses data from the Unemployment Compensation Modernization System (UCMS) and estimates based on amounts reported in prior years.

In the prior audit, we noted that CWIA received USDOL approval to use estimates to prepare the ETA-581 report because data output from UCMS were incomplete and unreliable. We also noted that CWIA used end-user computing applications to prepare the ETA-581 report and the ETA-227 report. Further, L&I did not have policies in place to address IT controls related to access, change control, development and backup of end-user computing programs and supporting data.

Finding 12-L&I-02: (continued)

In the current year, we noted that CWIA once again used estimates to prepare the receivables portion of the ETA-581 Report as of June 30, 2012, because data output from UCMS were still incomplete and unreliable. Further, both the ETA-581 report and the ETA-227 report were prepared again using end-user computing, and L&I had not yet issued policy over the end-user computing process.

In the audit of the Commonwealth's Basic Financial Statement (BFS) for the fiscal year ended June 30, 2012, certain general computer control weaknesses were reported that significantly impact the federal programs listed above:

- In BFS Finding 12-08, general controls weaknesses were reported citing L&I for a lack of a written systems development life cycle. The finding also reported a lack of adequate logical access controls and a lack of segregation of duties over the UC mainframe. In UCMS, the finding reported a lack of testing documentation and controls over data migration; lack of segregation of duties between developers and those who can promote changes into production, including contractors with that ability; and unmonitored use of group userIDs for database administration.

- In BFS Finding 12-04, general controls weaknesses were reported citing the Treasury Department for control weaknesses in their vendor-provided UC electronic disbursement system related to inadequate procedures for removing terminated user access and a lack of documentation for program changes.

- In BFS Finding 12-03, general controls weaknesses were reported regarding a lack of segregation of duties in the overall SAP computer environment. The SAP environment is the primary source of reporting program revenues and expenditures for the major programs listed above.

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

Cause: An application upgrade performed in March 2012 failed to implement planned system edits in CWDS designed to correct the segregation of duties conflicts between maintenance of the OVR Fee Schedule and the invoice approval process. The implementation of these edits was delayed until future upgrades.

Concerning the control weakness over removing separated non-commonwealth users, BWDP implemented policies and procedures in March 2012. However, the local WIA offices failed to follow the policy and did not maintain documentation that the user was removed within two weeks of separation.

Concerning the use of estimates to prepare the ETA-581 report, L&I management stated that developers have been unsuccessful in coding certain line items on this report within UCMS. L&I management also stated that UCMS still contained incomplete and unreliable data as of fiscal year end because of an uncorrected problem in collecting accurate data from imaged employer tax returns in UCMS. Once the coding has been completed and the backlog of tax returns has been resolved, management will file revised reports.

Concerning the lack of policies and procedures in place to address controls for the end-user application(s) in Microsoft Excel used to produce the ETA-581 and ETA-227 reports, L&I management stated that Office of Administration is currently working on policies and procedures for the entire Commonwealth. They also stated that once UCMS is fully implemented and processing data accurately, CWIA will no longer need spreadsheets to produce the ETA reports; reports will automatically be generated 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. The lack of controls over non-commonwealth separated users could result in unauthorized access to CWDS.

Finding 12-L&I-02: (continued)

Due to the incomplete and unreliable data in UCMS as of fiscal year end, CWIA was forced to use estimates to prepare the receivable portions of the ETA-581 report. Additionally, the contractor had not yet met system requirements to prepare federal reports through UCMS; therefore, CWIA manually prepared both the ETA-581 and ETA-227 in Microsoft Excel. The lack of policies and procedures for end-user computing, such as Microsoft Excel, could result in unauthorized changes and errors in the ETA-581 and ETA-227 reports.

Recommendation: (CWDS) We recommend that OVR management implement controls to ensure a proper segregation of duties over the maintenance of the Fee Schedule. At a minimum, role assignments should not allow the same person to change the Fee Schedule and approve invoices for payment. We recommend BWDP management reinforce the importance of following the March 2012 policies by stressing the importance of maintaining documentation to evidence the removing of all separated non-Commonwealth users' access to CWDS within two weeks of the event.

(UC) We recommend that management resolve the backlog of unprocessed employer tax returns in UCMS and correct the coding issues in UCMS to allow the ETA-581 report to be generated automatically from UCMS as intended in the system design. Further, management should implement standardized policies to address IT controls related to access, change control, development and backup of end user computing programs and supporting data.

Finally, we recommend that management address the control deficiencies noted in BFS Finding 12-08.

Agency Response: CWDS: As the Cause indicates, the implementation of the OVR Fee Schedule and invoice approval process edits was delayed. Release 7.4 (February 2013) changed the permissions of the Superuser removing the ability to edit the Fee Schedule. Currently, there is only one role that allows for the editing of the Fee Schedule and only two staff have this role.

BWDP agrees that the access policies for all CWDS users (including non-Commonwealth partner staff) should be reinforced.

UC: In regards to the backlog of tax returns and coding issues, L&I agrees with the auditors' observations.

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.

Department of Labor and Industry

Finding 12-L&I-03:

CFDA #17.245 – Trade Adjustment Assistance

Internal Control Weaknesses in Approving of the Trade Adjustment Assistance Training Payments

Federal Grant Numbers: TA-17874-09-55-A-42, TA-19728-10-55-A-42, TA-21240-11-55-A-42, TA-22679-12-55-A-42

Type of Finding: Significant Deficiency

Compliance Requirement: Allowable Costs

Condition: The Trade Adjustment Assistance (TAA) program was designed to provide assistance to workers adversely affected by foreign trade. Services provided under the TAA program enable individuals to return to the workforce as quickly as possible to work that will use the highest skill levels and pay the highest wages, given the workers' preexisting skills and education levels, as well as the condition of the labor market.

During our audit, we tested the adequacy of the Department of Labor and Industry's (L&I) Bureau of Workforce Development Partnership (BWDP) compliance and controls over approving payments to educational institutions accredited by L&I for providing training to TAA-eligible individuals. We tested a total of 26 payments totaling $62,910 from a total population of 12,267 payments totaling $36,984,359. These training payments represent approximately 86 percent of total program expenditures of $43,156,850.

The BWDP Desk Manual, also known as the TAA Invoicing Binder, dictates procedures to be followed by TAA personnel when inputting invoices received from educational institutions into the Commonwealth Workforce Development System (CWDS). These procedures state that the individual reviewing and inputting the invoice should circle the total amount on the invoice and put their initials next to it as a final step to document that they have reviewed the invoice, approved the charges, and verified that the invoice was accurately input to the CWDS system. Our testing revealed that for eight of these payments, which were allowable costs, BWDP did not follow its internal control protocol to document the review and approval of the payment being made to the educational institution.

Criteria: As part of prudent business practices, a strong system of internal controls would help ensure that invoices received from educational institutions are accurate and contain only allowable TAA expenditures. The BWDP Desk Manual procedures appear to be adequately designed; however, they are not being consistently followed.

In addition, the implementing regulations for operating instructions of the TAA program as contained in the United States Department of Labor (USDOL) Training and Employment Guidance Letter (TEGL) 22-08, Section I.2.(i) (1) states:

(i) Control Measures

> *(1) In General. - The secretary shall require each cooperating State and cooperating State agency to implement effective control measures and to effectively oversee the operation and administration of the trade adjustment assistance program under this chapter, including by means of monitoring the operation of control measures to improve the accuracy and timeliness of the data being collected and reported.*

Cause: L&I officials stated that the procedures for review and approval of invoices were in draft form for the fiscal year ended June 30, 2012; however, they did confirm that these procedures are part of their internal controls and must be done with no exceptions. The draft procedures will be revisited by L&I and finalized after CWDS system enhancements are complete.

Effect: Without appropriate review and approval of expenditures before payment, it is possible that unallowable TAA expenditures could be reimbursed to TAA-accredited educational institutions.

Finding 12-L&I-03: (continued)

Recommendation: We recommend that L&I finalize its procedures for review and approval of invoices and provide training to all employees who are authorized to approve invoices for payments to educational institutions to ensure procedures are being properly and consistently followed.

Agency Response: L&I disputes that the condition causes the effect as stated in the finding. L&I disagrees that this particular procedure gives rise to a significant deficiency given that additional internal controls are in place.

The basis for our disagreement is that additional internal controls in place ensure that the individual reviewing and inputting the invoices in the CWDS system has a digital signature and date stamp when they submit the invoice for approval. This submission verifies that the individual has reviewed the invoice, approved the charges, and verified that the invoice was accurately input to the CWDS system. This digital signature and date stamp provides the same internal controls that 'circling and initialing' the invoice has.

Auditors' Conclusion: We acknowledge the information L&I provided in its response with respect to its internal control procedures for review, approval and input of the invoice received from the educational institution within the CWDS system. However, due to inadequate general computer controls over the CWDS system, reported in a separate finding, we cannot rely on any electronic approval controls in this system. Also, with regard to the circling and initialing the invoice total, L&I management recently reminded staff to follow this procedure as documented without exception. Furthermore, L&I has now decided to sample invoices to ensure that this process is being consistently followed.

We suggest that the draft procedures be finalized by L&I after the CWDS system enhancements are complete. Due to inadequate general computer controls over the CWDS system, we believe the compensating manual control of circling and initialing the invoice total should be continued. We will review and evaluate the internal control procedures followed by TAA personnel when inputting invoices received from educational institutions into the CWDS system in the subsequent audit period.

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.

Department of Labor and Industry

Finding 12-L&I-04:

CFDA #17.258, 17.259, and 17.278 – WIA Cluster (including ARRA)

Control Weaknesses Exist in the Department of Labor and Industry's Subrecipient Monitoring of Eligibility Determinations for Individuals (A Similar Condition Was Noted in Prior Year Finding 11-L&I-02)

Federal Grant Numbers: AA-17144-08-55 (includes ARRA), AA-18664-09-55, AA-20216-10-55, AA-21418-11-55, and AA-22958-12-55

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Eligibility determinations of individuals for the Workforce Investment Act (WIA) Program Cluster are performed by the Local Workforce Investment Boards' (LWIB) subrecipients (Title I providers and youth service providers). Either a local case counselor or data entry clerk will enter WIA participant information into the Department of Labor and Industry's (L&I) statewide Commonwealth Workforce Development System (CWDS). The participants' physical case files, including source documentation supporting the eligibility determinations, are maintained at the local level.

During our prior year audit, we found that L&I did not adequately 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 considered this to be a material weakness.

Our follow-up to prior year finding 11-L&I-02 revealed that L&I implemented additional monitoring procedures for program year 2011, ending June 30, 2012, related to review of participant eligibility, including revising its monitoring tool. These procedures include ensuring through a desk review process that the LWIB has a written policy requiring a supervisory review for all eligibility determinations which has been communicated to all the LWIBs' subrecipients and that the LWIB monitoring of its subrecipients includes a review of the subrecipients' procedures for eligibility verification and review. Although L&I now monitors the eligibility determination policies and procedures at the local level, L&I does not ensure that these policies and procedures are actually functioning as designed. L&I management stated that an onsite review will be added to its procedures to verify that the LWIBs are following their policy and procedures for the monitoring of program year 2012, subsequent to our audit period ended June 30, 2012. Therefore, for the fiscal year ended June 30, 2012, the weakness continues to exist and L&I's monitoring procedures as they relate to participant eligibility determinations are not considered adequate. L&I's additional monitoring procedures to be implemented for program year 2012, after June 30, 2012, will be evaluated during our subsequent audit.

WIA Program Cluster expenditures totaled $94.5 million during the fiscal year ended June 30, 2012, of which $87.8 million was paid to LWIBs as state 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:

Finding 12-L&I-04: (continued)

(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.

Furthermore, as part of administering WIA programs, good business practices dictate that L&I should have adequate controls in place to ensure applicants requesting WIA services are eligible. Adequate written procedures, training, documented supervisory review and approval, and monitoring are essential to ensure that applicant information and documentation are sufficient and maintained to determine eligibility in compliance with applicable regulations.

Cause: L&I is in the process of improving its monitoring procedures of local eligibility determinations; however, new procedures were not all implemented by June 30, 2012. Therefore, the weakness in L&I monitoring of subrecipients continues to exist for the fiscal year ended June 30, 2012.

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 adequate monitoring and oversight to ensure that eligibility is properly determined by LWIBs' subrecipients and this determination is adequately documented.

Agency Response: L&I disagrees that a weakness in monitoring of subrecipients continued during the fiscal year ended June 30, 2012.

L&I does review the policy, procedure, and actual monitoring conducted by Local Areas of their subrecipients to ensure that their monitoring of eligibility determinations is adequate. As noted in the "condition" above, during the fiscal year ended June 30, 2012 desk reviews for Local Board compliance and oversight, L&I confirmed that Local Boards developed policies and procedures. Additionally, L&I does and will continue to ensure that these policies and procedures are actually functioning as designed through review of Local Board monitoring. As indicated in the corrective action plan for last year's finding, additional questions relating to participant eligibility were added to the monitoring tool including, as noted, whether a secondary review of eligibility is conducted locally. There was no indication that an onsite review would be conducted as indicated in this year's finding. As such, the Commonwealth and its Local Areas are in compliance with 20 CFR 667.410.

An example of implementation of this policy and procedure, and the follow-up to ensure that eligibility is properly determined is as follows:

Below, you will find Southern Alleghenies' response to this question and documentation to support their responses. The Local Board confirms that an appropriate second level eligibility review has occurred and that all necessary documentation is in place.

Finding 12-L&I-04: (continued)

Review and verification of eligibility determinations for WIA participants. *(Email April 27, 2012 from BWDP, subject: WIA Eligibility Reviews)*				
A. Is there a written policy that "requires a supervisory/second level review and eligibility determination for all WIA participants by subrecipients"?	Yes			Reviewed memo sent from Local Board to subcontractors. Also, reviewed *Policy Directive: Supervisory/Second Level Eligibility Review*.
i. If yes, list the date when the policy was sent to BWDP's resource account RA-LI-BWDP-PCS@pa.gov *(Due May 11, 2012)*	Submitted to RA-LI-BWDP-PCS resource account on May 2, 2012. Reviewed e-mail confirmation.			
B. Has the written policy been shared with all subrecipients? If yes, please note in comments how and when the policy was shared with subrecipients.	Yes			Memo sent from the Local Board to subcontractors noting policy and providing copy of policy. Policy was distributed to subcontractors on May 2, 2012.
C. Has the LWIB monitoring guide and/or monitoring tool been updated to include review of the subrecipient's process for reviewing and verifying eligibility of all WIA participants? If yes, please describe the process in comments.	Yes			During file review, Local Board staff checks to ensure that the secondary sign-off is included in all files.

Additionally, please refer to the separate attachment [omitted] that documents Southern Alleghenies Regional's secondary review policy as referenced above.

Auditors' Conclusion: As stated in the Condition, we acknowledge that for the fiscal year ended June 30, 2012 L&I revised its LWIB monitoring procedures and monitoring tool to ensure a secondary review of eligibility is conducted locally. We commend L&I for implementing these procedures. However, our review revealed that L&I's monitoring of the LWIBs related to participant eligibility was limited and L&I did not review the LWIBs' actual monitoring of their subrecipients to ensure that their participant eligibility determinations are accurate. Therefore, we believe that L&I should strengthen its monitoring and oversight of LWIBs to ensure that eligibility is properly determined and documented. L&I's response stated that there was no indication that an on-site review would be conducted as stated in our finding; however, according to an email dated July 26, 2012 from L&I in response to the prior year finding 11-L&I-02, L&I management stated, "For program year 2012, an onsite review will be added to verify that the LWIAs are following policy and process." We believe that by doing so L&I would strengthen its monitoring and oversight to ensure participant eligibility is being determined accurately at the subrecipient level. Therefore, the finding and recommendation remains as stated above.

Questioned Costs: Unknown impact of inadequate monitoring on eligibility.

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

Department of Labor and Industry

Finding 12-L&I-05:

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

A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations

Federal Grant Numbers: H126A120056, H126A110056, H126A100056, and H390A090056 (ARRA)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Eligibility

Condition: As part of the Vocational Rehabilitation Cluster, the Office of Vocational Rehabilitation (OVR), Pennsylvania Department of Labor and Industry, purchases vocational rehabilitation services from vendors to be provided to OVR clients. During our audit we randomly selected a sample of 49 payments to vendors and to the Hiram G. Andrews Center made for the benefit of OVR clients totaling $52,708 (federal portion only) of the $68,174,556 charged to the VR Cluster under federal grant numbers H126A120056, H126A110056, and H390A090056 in the fiscal year ended June 30, 2012. Our review of the 49 OVR client case files disclosed that for four clients for whom VR Cluster payments were made, although the clients were eligible for participation in the VR Cluster, OVR personnel did not make eligibility determinations within 60 days after the VR Cluster application date or by the agreed upon extension date as required by federal regulations. Eligibility determinations for the four clients in question occurred 35, 44, 74, and 74 days, respectively, after the 60-day eligibility determination period or agreed upon extension period expired, which was in violation of federal regulations.

Criteria: USDE Regulation 34 CFR 361 regarding the State Vocational Rehabilitation Services Program states in part:

Section 361.41 Processing referrals and applications.

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

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

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

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

Cause: OVR personnel were unable to provide an explanation for the late eligibility determinations.

Effect: Since OVR personnel do not have adequate procedures in place to ensure that client eligibility determinations are made within 60 days of the application date or within the specific time period extension agreed upon by the client, OVR is not in compliance with federal regulations and a control deficiency exists. Also, there is limited assurance that OVR clients are receiving necessary VR Cluster services on a timely basis. Since no OVR clients were determined to be ineligible, no costs are questioned for this finding.

Finding 12-L&I-05: (continued)

Recommendation: We recommend that OVR personnel establish procedures to ensure that client eligibility determinations are made within the 60 day period subsequent to the application date or within the specific time period extension agreed upon by the client to ensure compliance with federal regulations.

Agency Response: The Department acknowledges the finding and would suggest that the deficiency is largely based on the volume of determinations that are required rather than an inadequacy in procedures. Quarterly reports are sent out to the district offices for review. However, in an effort to improve upon current methodologies and comply with the 60 day determination period, a new Ad hoc report has been developed and will be shared on a Webinar to the district offices on January 15, 2013. A demonstration will be made on how it works and how their offices should run it. The importance of moving cases appropriately and timely will be reiterated as well as an emphasis made for the individual offices to develop specific plans in order to meet eligibility deadlines. Further, discussion is being held internally to have reports sent monthly for review rather than quarterly.

Auditors' Conclusion: We will review the 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.

Department of Labor and Industry

Finding 12-L&I-06:

CFDA #96.001 – Social Security – Disability Insurance

Internal Control Weakness in the Preparation, Review, and Approval of the Quarterly Form SSA-4514 Reports Submitted to the Social Security Administration

Federal Grant Numbers: C04010, C14011, C24012

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: The Pennsylvania Bureau of Disability Determination (BDD), Department of Labor and Industry, reports hours charged to the Social Security – Disability Insurance program (SSDI) on Form SSA-4514, *Time Report of Personnel Services for Disability Determination Services* on a quarterly basis. During the fiscal year ended June 30, 2012, we noted that the hours were incorrectly reported to the Social Security Administration (SSA) on Form SSA-4514 for both of the two quarters selected for testing. Hours reported by BDD for the SSDI program on Form SSA-4514 for the quarters ended December 31, 2011 and June 30, 2012 for Medical Consultants were 16,763.25 and 16,987.75, respectively, versus hours as determined by our testwork of 17,023.50 and 18,230.25, respectively. This represents understatements of 260.25 hours, or 1.6 percent, and 1,242.50 hours, or 7.3 percent, of hours reported for Medical Consultants for the quarters ended December 31, 2011 and June 30, 2012, respectively. Total hours reported on the Form SSA-4514 for the quarters ended December 31, 2011 and June 30, 2012 were 336,381.66 and 330,537.84, respectively.

Criteria: Good internal controls dictate that review and approval procedures over reports submitted to the federal government should be adequate to prevent and detect errors, and ensure that the errors are corrected before reports are submitted.

OMB Circular A-133 Compliance Supplement states: "SSA-4514, *Time Report of Personnel Services for Disability Determination Services,* is due quarterly to account for employee time (Program Operations Manual System {POMS} POMS DI 39506.230)."

POMS DI 39506.230 states: "SSA-4514 is required quarterly from each agency."

Cause: The BDD stated that erroneous information contained within the Form SSA-4514 reports was caused by a combination of the following factors:

- The BDD noted that the 260.25 hours, which were understated on the Form SSA-4514 for the quarter ended December 31, 2011, resulted from the hours for Medical Consultants reported by one of its branches being determined using the wrong calendar quarter calculation.

- The BDD noted that the 1,242.50 hours, which were understated on the Form SSA-4514 for the quarter ended June 30, 2012, resulted from an understatement of 1,305.50 hours for Medical Consultants reported for one of its branches due to a wrong formula used in its source file and an overstatement of 63.00 hours reported for Medical Consultants for another of its branches due to a typographical error.

Effect: When information reported in the required Form SSA-4514 contains errors, BDD is not in compliance with reporting requirements as stated in the OMB Circular A-133 Compliance Supplement or POMS DI 39506.230 to accurately report employee hours.

Finding 12-L&I-06: (continued)

Recommendation: We recommend that the BDD amend the Forms SSA-4514 for the quarters ended December 31, 2011 and June 30, 2012 to provide the correct number of hours as noted in this finding, review and verify that the hours submitted on Form SSA-4514 for the quarters ended September 30, 2011 and March 31, 2012 were accurate, and enhance the existing procedures over the review of hours submitted by the branches to ensure future reports provided to the Social Security Administration are submitted with accurate information.

Agency Response: BDD concurs with this finding. BDD acknowledges that internal control weaknesses existed with the preparation, review, and approval of the quarterly SSA 4514 report submitted to the Social Security Administration. BDD accepts the audit recommendations as stated.

BDD recognizes that recording, maintaining, and approving Branch Unit Medical Consultant hours is a requirement that must be corrected. A corrective action plan to ensure reporting compliance has been prepared and 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.

Department of Military and Veterans Affairs

Finding 12-DMVA-01:

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

Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of $35,422 (A Similar Condition Was Noted in Prior Year Finding 11-DMVA-01)

Federal Grant Numbers: DAHA360221001, DAHA360321021, DAHA360341002, DAHA360341003, DAHA360341021, DAHA360351024, DAHA360361002, DAHA360421007, DAHA360421021, DAHA3604H1001, DAHA360521021, DAHA3605H1001, DAHA360621001, DAHA3606H1001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360771021, DAHA3607H1001, DAHA360821021, DAHA3694H0001, W912DY-08-2-0006, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-09-2-9025, W912KC1021001, W912KC1021002, W912KC1021003, W912KC1021004, W912KC1021005, W912KC1021007, W912KC1021010, W912KC1021021, W912KC1021023, W912KC1021024, W912KC1021040, W912KC1021041, W912KC1025001, W912KC1121004, W912KC1121005, W912KC1121021, W912KC1121024

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Cash Management, Matching, Period of Availability

Condition: The Department of Military and Veterans Affairs (DMVA) has a Master Cooperative Agreement (MCA) with the National Guard Bureau (NGB) to provide support to the Army and Air National Guard in minor construction, maintenance, repair or operation of facilities. Individual appendices to the MCA contain terms and conditions applicable to a particular functional area, such as policy, administrative procedures, scope of work, authorized and unauthorized activities/charges, budget information, and funding limitations. The MCA states that the program operates on the basis whereby the DMVA expends state government funds first and then submits requests (vouchers) for reimbursement from the NGB for allowable costs. Each month the Bureau of Federal Accounting, Office of Comptroller Operations, prepares a SF-270 Form to request reimbursement for the applicable federal share of the incurred costs recorded in SAP for each appendix under the MCA. The DMVA had 46 appendices for which costs were incurred during the period under audit. For all 40 out of the 40 SF-270s sampled, we were unable to review documentation to verify that control procedures were performed to ensure that state funds were expended prior to the request for federal reimbursement being submitted.

Each appendix (grant) under the MCA covers a one year period (10/1/XX through 9/30/XX) which determines the period of availability for which costs may be charged to the program. For 1 of the 80 items sampled, which totaled $1,546 out of a total of $927,223 tested, we noted the incorrect grant year was charged and the costs were outside the period of availability.

Within 90 days after the end of the federal fiscal year, the DMVA must provide to the United States Property and Fiscal Office (USPFO) a MCA closing figures report for each appendix. This report should include all un-disbursed obligations under the MCA at December 31. For 4 of the 80 items sampled, which totaled $33,862 out of a total of $927,223 tested, we noted the costs were un-liquidated by the State Treasury within 90 days after the federal fiscal year, and were not included on the listing provided to the USPFO as required to be reimbursable costs.

A “Facilities Inventory and Support Plan” (FISP) dictates the level of federal reimbursement authorized for each real property facility through Federal Financial Participation (FFP) rates. The DMVA operates the National Guard Military Operations (NGMO) program at the Fort Indiantown Gap (GAP) which has numerous facilities covered by the FISP at various FFP rates. The payroll costs for the employees involved in maintaining and repairing these facilities at the GAP are allocated to the different facilities utilizing the FFP rates using the SAP Plant Maintenance System (SAP). This system is used by the DMVA to track the employees’ time by facility and an after-the-fact adjustment is required to be made at the end of each month in SAP to redistribute the employees’ costs, where applicable, to the facilities based on the actual hours charged. During our testing, we noted that the building code in plant maintenance for 1 of the 16 work orders sampled did

Finding 12-DMVA-01: (continued)

not agree to the coding on the FISP resulting in an incorrect FFP rate being used for the adjustment of that work order. The building in plant maintenance was coded as 100 percent federal, but the FISP coding was 75 percent federal and 25 percent state which resulted in $14 being incorrectly charged to the federal government.

Criteria: National Guard Regulation 5-1 (NGR 5-1), Chapter 11-4, *Payment Processing,* states:

a. *The NGB Cooperative Agreement program operates on the basis that the grantee expends State government funds first and then submits request (vouchers) for reimbursement from NGB for allowable CA costs. All approved CA agreement payments (to include Advances) made to grantee by NGB are reimbursable payments. To process reimbursement payments the grantee shall provide on OMB Standard Form (SF) 270 (Request for Advance or Reimbursement) with supporting documentation to the CA PM. The supporting documentation will itemize, by AMSCO and EEIC, the amount of funds expended and the corresponding grantee accounting classification to be reimbursed.*

2 CFR section 215.28, *Period of Availability of Funds*, states:

a. *Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.*

NGR 5-1, Chapter 11-10, *Final Accounting and Settlement*, states:

1. *If un-liquidated claims and un-disbursed obligations arising from the grantee's performance of the agreement appendix will remain 90 days or more after the close of the fiscal year, the grantee shall provide to the USPFO (NLT 31 Dec) a written request to keep the agreement appendix funding open. The request will include a consolidated, detailed listing of all un-cleared obligations and a projected timetable (date) for their liquidation and disbursement. The USPFO shall then set an appropriate new timetable for the grantee to submit final accounting and settlement. Subsequent requests will be submitted by the grantee every 90 days or so thereafter as long as there are un-liquidated claims or un-disbursed obligations. The USPFO, with proper justification, can choose to not extend the timetable and require that the remaining agreement appendix funding be de-obligated.*

Appendix 1, Section101, b, (2) states the following with respect to the FFP rate for the operation and maintenance of authorized facilities coded on the Facilities Inventory and Support Plan (FISP):

4. *NGR 420-10 requires that the Grantee share in 25 percent of certain expenses for operating and maintaining licensed readiness centers. When the State provides this contribution, NGR 420-10 authorizes NGB to contribute 75 percent of these expenses in Federal funds.*

Cause: The Bureau of Federal Accounting, Office of 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 report 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 item described above, the coding was incorrectly entered in SAP, and therefore the expenditure was charged to a previous year's grant. DMVA does have controls in place regarding the review of period of availability to ensure the correct grant is charged based on the dates of service; however, the control's operation failed to detect this error.

DMVA prepares the detailed listing of un-disbursed obligations using an "Open Commitments by Document Number" report from SAP. Based on this report as soon as an invoice receipt is entered into SAP, the expenditure shows as being liquidated in SAP and does not appear on the report regardless of whether or not the State Treasury paid the vendor. This caused 4 of the 80 items tested to be omitted from the listing.

Finding 12-DMVA-01: (continued)

DMVA personnel indicated that the support codes of buildings located at the GAP are changed on an ongoing basis by the federal government. Once a change occurs, the updated information is provided to DMVA so the necessary changes can be made to SAP Plant Maintenance. Because of the timing of the change during the audit period, plant maintenance was not updated for the work order tested and therefore the adjustment made for that work order was not correct. As a result, DMVA charged the federal program 100 percent of the work order. The correct FFP rate for the building was 75 percent.

Effect: The Bureau of Federal Accounting, Office of Comptroller Operations, and DMVA did not have procedures in place to ensure that expenditures were paid prior to the request for reimbursement (SF-270 report) being submitted for payment.

Questioned costs of $14 related to an incorrect FFP rate being charged, $1,546 related to the incorrect grant being charged and $33,862 related to the omission of items on the detailed listing of uncleared obligations could result in these expenditures not being eligible for reimbursement from the federal government.

Recommendation: We recommend that the Bureau of Federal Accounting, Office of 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. In addition, we recommend requesting more timely updates when a change is made to the FFP rate of any authorized facility under this program. This will allow timely updates to be made to the SAP Plant Maintenance System. We also 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.

Office of the Budget, Bureau of Accounting and Financial Management (BAFM) Response:

We disagree with this finding. In accordance with National Guard Regulation 5-1 (NGR 5-1), Chapter 11-4, *Payment Processing*; BAFM provides an OMB Standard Form (SF) 270 (Request for Advance or Reimbursement) in order to process reimbursement payments for DMVA. The requested reimbursement, for an applicable period, only includes amounts that have been expended as supported and documented by the Commonwealth's accounting records.

The SF-270 Requests for Reimbursement are prepared 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.

DMVA Response:

With regard to the cash management portion of this finding, DMVA is not in agreement. This part of the finding focuses on the term "expended" and the auditors and DMVA have a difference in the definition of expended. The auditors view an item as expended after the vendor has been paid for their services. The SAP system, which is DMVA's financial system, treats an item as expended after the invoice receipt (IR) is entered into SAP. It is at that point when the commitment is liquidated and becomes an expense and an accrued payable is generated. We acknowledge that the vendor will not be reimbursed until the goods receipt (GR) is also entered but from a system standpoint the item is treated as expensed as soon as the IR has been entered. As a result, we do not agree that a change to our procedures is required to ensure that cash is paid to the vendor prior to submitting the SF-270 to the USPFO for reimbursement. Furthermore, if any of the items having an IR entered which were billed to the federal government for reimbursement were to be reversed, a credit would be issued in the system which would offset the original expense and the federal government would receive that credit.

Finding 12-DMVA-01: (continued)

Accordingly, the federal government will not have reimbursed an expense that is not ultimately paid to the vendor. It is our position that because SAP treats these items as expenses once the IR is entered, we are compliant in requesting reimbursement from the federal government and that there is no requirement to change our procedure of how SF-270's are prepared.

With regard to the period of availability part of the finding, DMVA is in agreement that the $1,546 expenditure was charged to the incorrect federal fiscal year (FFY). DMVA would, however, like it noted that our handwritten comments on the invoice, as well as the lines of the funds commitment that were liquidated, reflected the correct FFY. The error occurred when the coding for payment was keyed into the system. As mentioned in the finding, "DMVA does have controls in place regarding the review of period of availability", however, the control failed to detect this error. Because this control involves human intervention, there is a chance that this type of error can occur although the control does greatly minimize the possibility. Unfortunately, there is no systematic way to full proof this control.

With regard to the allowable costs portion of the finding, we are not in agreement. In the "condition" for this finding the audit indicates "this report should include all un-disbursed obligations under the MCA at December 31." When referring to the written request the actual wording in the regulation indicates "the request will include a consolidated, detailed listing of all un-cleared obligations and a projected timetable (date) for their liquidation and disbursement." The finding indicates that 4 of the 80 items sampled had costs that 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. This issue of not appearing on the un-cleared obligations listing ties back to the cash management part of this finding that was discussed earlier. DMVA only lists items on the un-cleared obligations listing that are un-cleared obligations. The four items referred to in the audit did clear and that is why they were not listed on the report. The issue is that the auditors are only considering these obligations cleared when the vendor is paid, however, DMVA's financial system treats them as cleared when the IR is entered and the obligation clears and becomes an expense. In all four of the examples listed in the finding, the reason the items were not on the end of year report is because they all had IRs entered into the system before the report was generated. As a result, there was no un-cleared obligation to report as the obligation had already become an expense. The end of year report which is provided to the USPFO does include a total expense amount as of the time the report is generated and that expense amount included the expenses for all four items. It is DMVA's position that these items were not open commitments (un-cleared obligations) and were in fact expenditures, and should not be included on the un-cleared obligations listing.

With regard to the matching finding, DMVA is in agreement that the $14 expenditure was incorrectly charged to the federal government. We would like it noted, however, that the issue that led to this incorrect charge was identified prior to the audit and was adjusted from that point forward. As the finding notes, DMVA does have a procedure in place to be notified when changes that affect funding are made on the federal side. This procedure requires the individuals making the changes to send DMVA's budget office written documentation of the change. Additionally, DMVA initiated an additional procedure this past October to identify any adjustments that may have been made on the federal side for which the written documentation was omitted. This additional procedure extracts the current funding authorization from the federal system and then compares it to DMVA's financial system to ensure every facility is coded correctly. Any discrepancies that are found are then updated to reflect the change. This additional procedure is what allowed us to discover the issue prior to the finding. Additionally, we have met with the office that prepares the written documentation and have reiterated the importance of providing the adjustments timely.

In summary, we are in agreement with two of the four parts of this finding and are not in agreement with the other two. We agree with the period of availability and matching parts of the finding but do not agree with the cash management and allowable costs portion of the finding. Of the $35,422 in questioned costs, we agree that the $14 cost tied to the matching portion and $1,546 cost tied to the period of availability portion should be considered questioned costs but do not agree with the $33,862 that was tied to the allowable costs portion being considered questioned costs.

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 drawdowns still needs to comply with NGR 5-1, Chapter 11-4 ensuring funds have been expended and paid prior to submitting a request for reimbursement. Management has not provided documentation to support that controls are in place to prevent drawdowns from occurring prior to program expenditures being paid by the State. In addition, we acknowledge the difference in opinion in regards to the

Finding 12-DMVA-01: (continued)

definition of an un-cleared obligation, however as noted in the criteria above "*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.*" We believe that for an item to be a cleared obligation as of the date of the report, cash should have been disbursed to the vendor. It is noted that the regulations distinguish between an item being liquidated and disbursed as noted above. Therefore, our finding and recommendations remain as previously stated.

Questioned Costs: $35,422

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

Department of Military and Veterans Affairs

Finding 12-DMVA-02:

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

Noncompliance and Internal Control Deficiencies Related to Equipment Management and Accountability

Federal Grant Numbers: DAHA360221001, DAHA360321021, DAHA360341002, DAHA360341003, DAHA360341021, DAHA360351024, DAHA360361002, DAHA360421007, DAHA360421021, DAHA3604H1001, DAHA360521021, DAHA3605H1001, DAHA360621001, DAHA3606H1001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360771021, DAHA3607H1001, DAHA360821021, DAHA3694H0001, W912DY-08-2-0006, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-09-2-9025, W912KC1021001, W912KC1021002, W912KC1021003, W912KC1021004, W912KC1021005, W912KC1021007, W912KC1021010, W912KC1021021, W912KC1021023, W912KC1021024, W912KC1021040, W912KC1021041, W912KC1025001, W912KC1121004, W912KC1121005, W912KC1121021, W912KC1121024

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Equipment and Real Property Management

Condition: The Department of Military and Veterans Affairs (DMVA) purchases equipment using National Guard Military Operations and Maintenance (NGMO) program federal funding for use in maintaining and operating facilities for the program. Program regulations NGR 5-1, Chapter 8 defines equipment as tangible, nonexpendable, personal property (excluding military supplies) having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. In addition, it states that equipment property records will be maintained and reported to the United States Property and Fiscal Office (USPFO) and will include certain information relevant to each piece of equipment. Our testing disclosed that the equipment property record that DMVA reported as of September 30, 2011, to the USPFO included the following exceptions:

- 1,447 reported items out of a total of 3,766 totaling $1,192,167 in value did not meet the definition of equipment (acquisition cost less than $5,000 per unit).
- 2,094 reported items out of a total of 3,766 did not include information regarding an acquisition date, cost of property, or percentage of Federal participation in the cost of the property.
- None of the items reported indicated a serial number or other identification number, who held title to the equipment, the use and condition of the property, or the date of disposal and sale prices of the property, if applicable.

Lastly, we noted that as a result of the DMVA not providing an equipment property records listing for the period ended September 30, 2010 to the USPFO as noted in our prior year finding, a physical inventory of the property was not completed and reconciled to the September 30, 2011 equipment property record as required.

Criteria: The NGR 5-1, Chapter 8, section 2, c states Grantee purchased equipment, unless otherwise prohibited by State law, will be accounted for as follows:

(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.*
(2) *A physical inventory of the property will be taken and the results reconciled with the previous grantee property records reported to the grantor.*

Finding 12-DMVA-02: (continued)

(3) A control system must be developed by grantee recipients to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated and reported.
(4) Adequate maintenance procedures must be developed by grantee recipients to keep the property in good condition.

Cause: The DMVA does not have sufficient controls in place to ensure that all equipment having a useful life of more than one year and an acquisition cost of $5,000 or more per unit purchased throughout the year is accurately reported to the USPFO, along with necessary required information. In addition, the DMVA does not have sufficient controls in place to ensure that a complete physical inventory of the property is taken and the results reconciled with the previous grantee property records reported to the USPFO.

Effect: The DMVA has not provided the USPFO with a complete property report related to equipment nor performed a complete inventory of NGMO program property and reconciled the results to its records for the fiscal year ended June 30, 2012.

Recommendation: The DMVA should strengthen its controls and procedures to ensure that a complete and accurate report of NGMO program property is provided to the USPFO on an annual basis as required. In addition, the listing should only include property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit purchased by the NGMO program with federal funds. Lastly, the DMVA should establish procedures to ensure a full inventory of NGMO program federally purchased property is completed annually of all property reported to the USPFO which has been reconciled to the previously reported property listing.

Agency Response: With regard to the noncompliance and internal control deficiencies related to the equipment management and accountability finding, DMVA is in agreement that, per the regulation, additional information needs to be captured on the equipment report that is provided to the USPFO. Many of the missing fields indicated in the audit report are actually fields in the database that the report is generated from they just were omitted when the report was provided. Additionally, many of the fields on the report that were missing information were for items that were purchased prior to the current database being created. Because the prior system did not capture the same fields as the new database, these fields transferred blank. Many of those items are under $5,000 and should have been filtered anyway. With respect to the specific issue of who held title to the piece of equipment, we would argue that in each case DMVA holds title to the equipment as the regulation indicates that for equipment purchased by the grantee title will be vested with the grantee. Regarding the issue of only reporting those pieces of equipment with an acquisition cost of $5,000 or more, DMVA can filter its current database to only report those specific items. Our agency has chosen to track items of lesser value for our own purposes and do not feel it prudent to maintain two separate databases to capture the same information. With respect to completing a full inventory of items over $5,000, we agree that a full inventory of all items listed should be completed.

In summary, we are in agreement with this finding and will implement a corrective action plan to address the deficiencies that have been highlighted. DMVA will reach out to the auditors to assure that all of their concerns are met when the corrective action plan is developed.

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.

Pennsylvania Emergency Management Agency

Finding 12-PEMA-01:

CFDA #97.067 – Homeland Security Grant Program

Material Weakness and Material Noncompliance Over Equipment and Real Property Management

Federal Grant Numbers: 2007-GE-T7-0044, 2008-GE-T8-0050, 2009-SS-T9-0040, 2010-SS-T0-0037, and EMW-2011-SS-00092-S01

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Equipment and Real Property Management

Condition: The Pennsylvania Emergency Management Agency (PEMA) is the State Administrative Agency (SAA) for the Homeland Security Grant Program (HSGP) in Pennsylvania. As such, PEMA is responsible for oversight with respect to the management of equipment purchased by other Commonwealth of Pennsylvania (Commonwealth) agencies for the HSGP. PEMA has established internal policies regarding equipment management as documented in its Federal Grant Programs Administrative Manual (Manual). The Manual requires that accurate property and equipment records be maintained. These property and equipment records shall include: (a) Description of the property (including make and model), (b) Manufacturer's serial number or other identification number, (c) Vendor (source of property), (d) Acquisition date, (e) Cost of the property, (f) Percentage of federal participation in the cost of the property, (g) Location of the equipment, (h) Condition of the equipment as of the date the information is reported, and (i) Disposition date: Date of disposal and sales price. Each Commonwealth agency receiving HSGP funding maintains a property record for equipment by grant year. We obtained the property records for five separate Commonwealth agencies and grant years. Four of these property records did not contain the required information as stated in the Manual. For those four agencies, none of the property records reviewed contained the percentage of federal participation in the property and the property records were missing one or more of the required data fields, such as serial number, unit cost, manufacturer, or condition of the property.

Additionally, the Manual requires that Commonwealth agencies submit a physical equipment inventory report each year that reconciles to the equipment purchased. One of the five agencies' equipment records contained an unreconciled difference of $154,505 to the SAA's record of the purchases or 8 percent of that agency's total purchased equipment.

Criteria: 44 CFR Section 13.32 Equipment states:

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Cause: Inadequate staffing has prevented PEMA from reviewing the property records submitted by other Commonwealth agencies to ensure that they reconcile to total purchases and contain all of the required information.

Effect: Equipment property records are not maintained in accordance with Federal requirements.

Recommendation: We recommend that PEMA review the equipment property records for all Commonwealth agencies who have made equipment purchases with HSGP funds and require those agencies to reconcile the record to total purchase and expand their property records to include all of the required information.

Finding 12-PEMA-01: (continued)

Agency Response: PEMA agrees with the finding and will take recommended actions to satisfy the auditor's recommendation of the finding. PEMA will inform its state agency subgrantees via letter of the requirement to reconcile their equipment records to identify total purchase prices and expand their equipment records to include all of the required information. The required information will include the following:

Agency Name
Grant Program
Grant Year
Purchase Order Number
Purchase Order Line Number
Purchase Order Line Status
Manufacturer
Vendor
Description of the Equipment
Serial Number
Property ID Number
Quantity
Unit Cost
Federal Cost
Match Cost
Total Cost
Date Received
Final Location to include department, city and county
Annual Inventory Status

The state agencies will be given six months to complete this requirement and to provide it to PEMA.

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.

Pennsylvania Emergency Management Agency

Finding 12-PEMA-02:

CFDA #97.067 – Homeland Security Grant Program

Material Weakness and Material Noncompliance Over Subrecipient Monitoring

Federal Grant Numbers: 2007-GE-T7-0044, 2008-GE-T8-0050, 2009-SS-T9-0040, 2010-SS-T0-0037, and EMW-2011-SS-00092-S01

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2012, the Pennsylvania Emergency Management Agency (PEMA) reported subrecipient expenditures for the Homeland Security Grant Program (HSGP) of $37,523,501, which represented approximately 79 percent of total HSGP expenditures on the Schedule of Expenditures of Federal Awards (SEFA). Under the HSGP, PEMA, the State Administrative Agency (SAA) for the grant program, has nine regional task forces that are subrecipients. These task forces are comprised of local governments that are responsible for carrying out program initiatives. PEMA has established internal policies regarding during-the-award monitoring as documented in its Federal Grant Programs Administrative Manual (Manual). The Manual states that PEMA is to perform on-site monitoring for each subrecipient each year; however, during the fiscal year ended June 30, 2012, PEMA conducted site visits for only three (South Central, South Central Mountain, and Northeast) of the nine regional task forces. There were no formal monitoring procedures performed on the remaining six task forces; however, PEMA does provide guidance to all subrecipients on an on-going basis related to consultations on allowable costs with respect to program expenditures.

Additionally, the Manual requires that subrecipient monitoring reports, including notification of the need to perform corrective action, be issued within 30 days of the site visits and that corrective action plans be received within 30 days of receipt of notification of the need to perform corrective action. For the three subrecipients for whom site visits were performed, none of the monitoring reports were issued within 30 days of the site visit. Specifically, the monitoring reports were issued 155, 55, and 61 days after the site visits were conducted for the South Central, South Central Mountains, and Northeast Regional Task Forces, respectively. All three of these subrecipients required corrective action; however a corrective action plan was only received from one of the three subrecipients which was received 59 days after the site visit report was issued.

Criteria: 44 CFR Section 13.40, *Monitoring by grantees*, requires grantees to monitor subgrantees to ensure compliance with Federal regulations. Additionally, the OMB Circular A-133 Compliance Supplement Part 3, M. Subrecipient Monitoring, states:

A pass-through entity is responsible for:

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

Cause: Inadequate staffing has prevented PEMA from fully implementing its internal policies related to subrecipient monitoring.

Effect: The monitoring procedures performed do not allow PEMA to assess subrecipient compliance with Federal requirements.

Finding 12-PEMA-02: (continued)

Recommendation: We recommend that PEMA perform on-site monitoring of its subrecipients as stipulated in federal guidelines and the Manual and issue required site visit reports within the established time frame. Additionally, subrecipients should be held accountable to provide corrective action plans within the proper timelines. Personnel resources should be evaluated and supplemented, as needed, to ensure compliance with subrecipient monitoring.

Agency Response: PEMA concurs with this finding. Inadequate staffing did not allow for PEMA staff to perform on-site monitoring visits for each subrecipient during the state fiscal year ended June 30, 2012. However, PEMA staff did monitor all subrecipients' use of Homeland Security Grant Program funds through regular contact during the fiscal year. As noted in the Condition, PEMA staff routinely provided subrecipients with guidance on allowable program costs. PEMA staff also offered technical assistance, provided available balances, and responded to inquiries for each subrecipient as related to the Homeland Security Grant Program.

PEMA created the Compliance Review Division in August 2012. The primary function of the Compliance Review Division is subrecipient monitoring. On-site monitoring will be performed for Homeland Security Grant Program subrecipients as required during the state fiscal year ended June 30, 2013. Deficiencies discovered during monitoring are being tracked to ensure timely corrective action is taken.

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.

Pennsylvania Emergency Management Agency

Finding 12-PEMA-03:

CFDA #97.067 – Homeland Security Grant Program

Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement

Federal Grant Numbers: 2007-GE-T7-0044, 2008-GE-T8-0050, 2009-SS-T9-0040, 2010-SS-T0-0037, and EMW-2011-SS-00092-S01

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to Subgrant Awards

Condition: The Pennsylvania Emergency Management Agency (PEMA) is the State Administrative Agency (SAA) for the Homeland Security Grant Program (HSGP) in Pennsylvania. As such, PEMA makes an application to the Federal Emergency Management Agency (FEMA) for homeland security grant funding on behalf of all HSGP programs within the Commonwealth of Pennsylvania (Commonwealth). FEMA issues one award package to PEMA; however, funding is allocated separately for each program under the HSGP umbrella, which includes State Homeland Security Grant Program (SHSP), Urban Areas Security Initiatives (UASI), Operation Stonegarden (OPSG), Citizens Corp Program (CCP), and Metropolitan Medical Response System (MMRS).

Once the award package is received from FEMA, PEMA makes subawards to nine regional task forces, which are instrumentalities of government formed by mutual aid agreements of counties that carry out homeland security initiatives. These agreements are required to be executed within 45 days of issuance of the grant agreement. PEMA issues a separate subgrant agreement for each program under the HSGP umbrella for which the task force is receiving grant funds. In 2012, there were 14 subgrants awarded, however, only 13 of the agreements were executed during the audit period. For these 13 subawards it took between 244 and 371 days to execute the agreements and provide obligation authority to the subgrantees. The fourteenth subaward agreement was not executed because FEMA had not approved the project. As a result, none of the agreements issued were executed and obligated within the 45-day requirement.

Criteria: 6 USC Section 605 (c)(1) states:

Not later than 45 days after receiving grant funds, any State receiving a grant under this section shall make available to local and tribal governments, consistent with the applicable State homeland security plan -

(A) not less than 80 percent of the grant funds;

(B) with the consent of local and tribal governments, items, services, or activities having a value of not less than 80 percent of the amount of the grant; or

(C) with the consent of local and tribal governments, grant funds combined with other items, services, or activities having a total value of not less than 80 percent of the amount of the grant.

Part 4 of the OMB Compliance Supplement for CFDA #97.067 Section N, Special Tests and Provisions – Subgrant Awards states:

Under the FY 2008-through FY 2011 awards for the SHSP and UASI programs, and, in addition, for FYs 2010 and 2011, OPSG, States must obligate funds for subgrants within 45 days after the date of the grant award (6 USC 605(c)(1)). "Obligate" has the same meaning as in Federal appropriations law, i.e., there must be an action by the State to establish a firm commitment; the commitment must be unconditional on the part of the State; there must be documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable accepted by the grantee.

Finding 12-PEMA-03: (continued)

Cause: Within the Commonwealth, the approval process for subgrant agreements requires several levels of approval. Once the SAA determines the allocations and provides grant agreements to the subgrantees, they must be approved by the subgrantee (regional task forces) and returned to the SAA to undergo the Commonwealth's administrative approval process for executing grant agreements. This process requires the returned agreement to be reviewed and signed by five Commonwealth agency officials: the State Administrative Agency's Director and Chief Counsel, the Commonwealth's Offices of the Comptroller, General Counsel, and the Attorney General. Commonwealth law also permits each of the Offices of the General Counsel and Attorney General up to 30 days to review and sign these grant agreements, which is in addition to the time allowed to the other agencies for their review and approval.

Effect: As a result of the established approval timelines within the Commonwealth, PEMA's ability to execute subgrants within the required 45-day timeframe is restricted. In turn, this compromises the subgrantees' ability to effectively plan and expend funds to accomplish the goals of the program and expend funds within the period of performance of the grant.

Recommendation: We recommend that the Commonwealth reevaluate its current review and approval process for awarding subgrants to enable PEMA to obligate the funds within 45 days after the date of the grant award.

Agency Response: PEMA agrees with the finding and will take recommended actions to satisfy the auditor's recommendation of the finding. PEMA is under the constraints put in place by Office of Administration Management Directive 305.20 that increases the time it takes to execute grant agreement that gives the sub grantee spending authority. The Management Directive does not identify time limitations on the actions of each individual agency under the Governor's Office thereby causing an incremental increase to the time the process takes. PEMA will work with its legal staff to determine if there is any way that we may shorten the Commonwealth signature process. The subgrantees are required to sign the document prior to the Commonwealth signature process; there may be delays in the return of the signed document from the subgrantees that are out of the control of PEMA.

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.

Pennsylvania Infrastructure Investment Authority

Finding 12-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 Annual Report Submitted to the Environmental Protection Agency for the Clean Water State Revolving Fund (A Similar Condition Was Noted in Prior Year Finding 11-PENNVEST-01)

Federal Grant Numbers: CS-42-0001-11 and 2W-420002-09 (ARRA)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: The Pennsylvania Infrastructure Investment Authority (PENNVEST) is required to submit an Annual Report to the Environmental Protection Agency (EPA) for the Clean Water State Revolving Fund (CWSRF). The Annual Report details many aspects of the PENNVEST program including various charts depicting pertinent information, such as state match obligations, binding commitment requirements, etc. PENNVEST submitted the fiscal year ended June 30, 2012 Annual Report as required. However, our examination of the Annual Report found numerous errors. PENNVEST's internal controls designed to ensure the accuracy of the Annual Report did not prevent and detect these errors prior to submission. We noted the following errors:

- 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
Constructed and In Operation (ARRA only) Number of Projects	35	55	(20)
Paid in Full (All loans)	$ 283,497,581	$ 275,068,776	$ 8,428,805

- Chart 11 represents the Intended Use Plan – Sources and Uses and Chart 12 represents the Intended Use Plan Summary – Sources and Uses. We found that 22 construction projects (Section 212 projects) totaling $43,429,789 were incorrectly reported as Brownfields projects (Section 319 projects) on both charts.

- 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 regarding Brownfields projects contained errors. Specifically, the narrative reported the projects' total dollar amount, the number of projects, and number of projects in repayment, as $102.4 million, 16, and 3, respectively. However, the correct information with regard to the projects' total dollar amount, the number of projects, and number of projects in repayment was $89.9 million, 17, and 6, respectively.

  Additionally, we found that the number of projects that Initiated Operations was inaccurately reported as 594 which did not agree to the accurate number reported as 643 in the Addendum.

Finding 12-PENNVEST-01: (continued)

- For our testing of Chart 1, we reviewed 12 projects that closed during fiscal year 2011-2012 and noted that the closed principal forgiveness amount did not agree to the project documentation for 5 of these projects. Chart 1 reported $16.9 million, collectively, for these 5 projects, but the project documentation totaled $20.3 million, or an understatement of $3.4 million.

Criteria: 40 CFR 35.3165 (a) and (b) mandate that PENNVEST must submit an Annual Report as follows:

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

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

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

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

Cause: According to PENNVEST management, the mistakes on the Annual Report for 2012 were the result of a high degree of activity due to preparations for a Board of Directors meeting and preparation of the budget at the same time the Annual Reports needed to be completed. All of those activities require a significant amount of number generations which resulted in human errors in completing the Annual Report.

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 the fiscal year ended June 30, 2012 to the EPA to correct the errors 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.

Pennsylvania Infrastructure Investment Authority

Finding 12-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)

Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 11-PENNVEST-03)

Federal Grant Numbers: FS-993577-11; 2F-093577-09 (ARRA); CS-420001-11; 2W-420002-09 (ARRA)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Pennsylvania Infrastructure Investment Authority (PENNVEST) requires Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (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 recipients' financial statements to an independent accounting firm who reviews them in detail to determine if there are any adverse conditions indicating potential problems with any 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 independent accounting firm's reviews. 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 incomplete. According to documentation received by the auditors, there are 618 CWSRF loans in repayment for which annual financial statements should be submitted. PENNVEST's tracking list contained only 444 loans, incorrectly omitting 174 loans. For the DWSRF, there are 243 loans in repayment. PENNVEST's tracking list contained only 207 loans, incorrectly omitting 36 loans. Loans omitted from the tracking list represented both state and federal loans. In addition to being incomplete, we found that the tracking list is also inaccurate. In our test of 40 CWSRF loans in repayment status from the Office of Comptroller Operations Loan Accounting System, we found that 9 loans were missing and 16 loans contained inaccurate data. Of the 39 DWSRF loans tested, 3 were missing and 10 contained inaccurate data.

Additionally, we found that current year financial statements are not being submitted by all the loan recipients. In our test of 40 CWSRF and 39 DWSRF loans in repayment status (with balances of $109,814,536 and $57,513,508, respectively) from the Office of Comptroller Operations Loan Accounting System, we found that 13 CWSRF and 4 DWSRF loan recipients (each representing one loan in our sample, with loan balances of $30,881,742 and $1,742,702, respectively) had not submitted current year financial statements for review. In addition, of the 27 CWSRF and 24 DWSRF loan recipients (representing 27 CWSRF and 35 DWSRF loans, respectively) that submitted current year financial statements, 3 CWSRF and 1 DWSRF loan recipients had adverse conditions identified by the independent CPA firm during their review. Of those four recipients that had adverse conditions, two recipients had repeated adverse conditions that were previously addressed by PENNVEST from a prior year's financial statement review; and therefore, further follow-up was not necessary. With respect to the remaining adverse conditions for the other two CWSRF loan recipients, with loan balances from our sample totaling $278,205 and $21,001,308, respectively, PENNVEST received these reviews from the independent CPA firm in December 2012, and as of February 12, 2013, PENNVEST has not yet followed up on these conditions.

Finding 12-PENNVEST-02: (continued)

<u>Criteria</u>: According to OMB Circular A-133, pass-through entities must perform program monitoring of subrecipient activity. Monitoring is essential in ensuring the program is functioning as designed. In addition adequate internal controls should include procedures to ensure corrective action is taken if a loan recipient fails to submit financial statements or if adverse conditions are noted by the independent accounting firm.

<u>Cause</u>: According to management, PENNVEST has worked extensively with their information technology (IT) staff to resolve the issues with the database and the workflows. The current information system needs to be replaced and the IT staff plans to build a new system and new reports to compile the information. Regarding follow up of adverse conditions, PENNVEST stated that the responsible Loan Service Officer has not been able to timely follow up due to excessive work load.

<u>Effect</u>: 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 detect loan recipients that encounter adverse conditions. In addition, failure to adequately track and monitor adverse conditions timely may jeopardize the timely and complete repayment of the PENNVEST loan.

<u>Recommendation</u>: We recommend that PENNVEST develop a system to ensure that applicable loan-tracking lists are complete and accurate. We also recommend that PENNVEST perform timely follow-up for loan recipients that have not submitted financial statements or have identified adverse conditions.

<u>Agency Response</u>: We are in agreement that there have been many issues with receipt and review of financial statements; however, as noted in the quarterly status reports on last year's finding, we are working to resolve the problems with our tracking system, some of which are just now coming on line and others that will be in place this summer. While this is occurring, our loan service officer is manually marking a list we have created of active projects for the current year (working on the prior year as well) when she receives the financial statements. This significantly helps address this issue while the system changes are being developed. In addition, we have an open position for an additional loan service officer to help deal with this and other situations related to loan performance monitoring and resolution. We anticipate having that position filled no later than three months from now. This, in addition to our tracking system improvements, will go a long way towards our eliminating this problem in the near future.

<u>Questioned Costs</u>: 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.

Pennsylvania Infrastructure Investment Authority

Finding 12-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)

Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding 11-PENNVEST-02)

Federal Grant Numbers: FS-993577-11; 2F-093577-09 (ARRA); CS-420001-11; 2W-420002-09 (ARRA)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: As part of our audit of the Pennsylvania Infrastructure Investment Authority (PENNVEST) major programs for the fiscal year ended June 30, 2012, we performed certain information technology (IT) general controls review procedures for the significant applications (Online Funding Request [OFR], Funds Disbursement [FD] and OnBase). 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 in the OFR and FD applications. During our current procedures, we found the following control weaknesses existed during the audit period:

- One individual with the ability to develop and maintain programs continued to have the ability to promote programs into production. This individual also had administrative rights to the OFR and FD applications, as well as the ability to change job schedules in the FD application. Further, management did not have sufficient compensating controls in place to monitor all changes to the production environment for unauthorized program changes.

- Until he resigned in October 2011, one individual had the ability to develop programs and promote them into production.

- Management partially remediated prior year control weaknesses related to adding new users and removing terminated users. In April 2012, management issued policies governing the addition and removal of agency employees, contractors, and supporting agency personnel with access to PENNVEST applications and databases. However, these policies do not include specific procedures for the addition and timely removal of public users.

- Management remediated a prior year weakness related to physical access to the SharePoint servers. In May 2012, management reduced the number of employees that have access to the server room, locked the server racks, and accounted for all key cards to the server room.

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. PENNVEST has been working diligently to develop controls over the situation, including implementation of RSA Envision software to monitor access to the production environment. We understand that the segregation of duties issue was resolved after fiscal year end, and we will review the implementation of the new control system in the subsequent audit.

PENNVEST has informal procedures for adding and removing public users from the PENNVEST applications; however, these procedures have not been formally disseminated to project/application owners who grant and remove access to public users.

Finding 12-PENNVEST-03: (continued)

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 the Environmental Protection Agency (EPA) grants awarded under ARRA. Since this is a web-based application/system, IT general controls are paramount to effective internal controls.

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.

We recommend that PENNVEST develop and formally disseminate policies for adding and removing public users to PENNVEST web-based applications. Policies for new users should require documentation of approval for access, and policies for removal of users should ensure terminated users are removed from the system within two weeks of the event.

Agency Response: PENNVEST's management response is stated below and specifically addresses the findings for control weaknesses found in the stated audit period.

PENNVEST does not fully agree with the statement below. Although the issue of a single individual segregation of duties and permissions existed for the audit period, this has been corrected subsequent to the audit period. PENNVEST does actively monitor accesses to their production environment for unauthorized changes; however, additional management controls specific to program changes will be addressed in a Corrective Action Plan.

- One individual with the ability to develop and maintain programs continued to have the ability to promote programs into production. This individual also had administrative rights to the OFR and FD applications, as well as the ability to change job schedules in the FD application. Further, management did not have sufficient compensating controls in place to monitor all changes to the production environment for unauthorized program changes.

PENNVEST is in agreement with the bulleted statement below. A Corrective Action Plan will address administration of policy to public users of PENNVEST applications.

- Management partially remediated prior year control weaknesses related to adding new users and removing terminated users. In April 2012, management issued policies governing the addition and removal of agency employees, contractors, and supporting agency personnel with access to PENNVEST applications and databases. However, these policies do not include specific procedures for the addition and timely removal of public users.

PENNVEST is in agreement with the bulleted statements below. These weaknesses were corrected during or subsequent to the stated audit period. A Corrective Action Plan will not be required in response.

- Until he resigned in October 2011, one individual had the ability to develop programs and promote them into production.

- Management remediated a prior year weakness related to physical access to the SharePoint servers. In May 2012, management reduced the number of employees that have access to the server room, locked the server racks, and accounted for all key cards to the server room.

Auditors' Conclusion: We acknowledge the corrective actions taken after fiscal year end and will evaluate them during 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.

Pennsylvania Infrastructure Investment Authority

Finding 12-PENNVEST-04:

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

Internal Control Weakness Over Matching Requirement Resulted in Material Noncompliance and Questioned Costs of $6,313,514

Federal Grant Numbers: FS-993577-11

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Matching

Condition: Pennsylvania Infrastructure Investment Authority (PENNVEST) is required to meet a 20 percent state match on the Federal Capitalization Grant for Drinking Water State Revolving Funds. To monitor the required match percentage, PENNVEST utilizes a spreadsheet to track the percentage of state match on an ongoing basis. Given this federal grant has certain activities that do not need to be matched with state funding, the needed proportionality percentage was 20.82 percent as of June 30, 2012. The calculation on the spreadsheet indicated that the proportionality percentage was 21.41 percent, indicating that PENNVEST was in compliance at June 30, 2012. However, we noted that PENNVEST's spreadsheet contained formula errors. Once the formula errors were corrected, it was found that the proportionality percentage was only 19.13 percent, resulting in the state funding only $71,460,415 when it should have funded $77,773,929, a shortage of $6,313,514 at June 30, 2012.

Criteria: 40 CFR 35.3550 mandates that PENNVEST must provide a state match as follows:

(g) Provide State Match. A state must agree to deposit into the Fund an amount from State monies that equals at least 20 percent of each capitalization grant payment.

(2) A State must deposit the match into the Fund on or before the date that a State receives each payment for the capitalization grant, except when a State chooses to use a letter of credit (LOC) mechanism or similar financial arrangement for the State match. Under this mechanism, payments to this LOC account must be made proportionally on the same schedule as the payments for the capitalization grant. Cash from this State match LOC account must be drawn into the Fund as cash is drawn into the Fund through the Automated Clearing House (ACH).

In addition, PENNVEST must have sufficient internal controls in place to ensure that the above match requirements are met.

Cause: PENNVEST management did not appropriately test the accuracy of the match percentage calculations on the spreadsheet.

Effect: The failure to maintain the proportionality percentage caused PENNVEST to be in noncompliance with match requirements resulting in matching expenditures being underspent and we are questioning costs of $6,313,514.

Recommendation: We noted that PENNVEST modified its spreadsheet that tracks the state match subsequent to the formula errors being identified during the audit. As such, we recommend that PENNVEST periodically test the spreadsheet formulas to ensure that the formulas contain no errors.

Finding 12-PENNVEST-04: (continued)

Agency Response: PENNVEST is generally in agreement with this preliminary finding; however, we feel that the "Questioned Costs: $6,313,514 in overspent federal funds" is a mischaracterization. What really happened is that we initially did not put in sufficient state match for the federal funds that we were given. We did not over spend the latter, we just under matched it. The current wording would make it appear that we spent federal funds that were not ours to spend.

As noted in the Recommendation section we have already made changes to how the calculation is being done. A further explanation will be provided when the Corrective Action Plan is provided.

Auditors' Conclusion: With regard to PENNVEST's response, we disagree with its comment regarding the mischaracterization of overspent funds. If sufficient state matching funds have not been spent in proportion to federal funds, then federal funds have been overspent. We are not implying that PENNVEST has spent unauthorized federal funds. As noted in the heading, the finding is related to the Matching Compliance Requirement.

Questioned Costs: $6,313,514 in overspent federal funds

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

Department of Public Welfare

Finding 12-DPW-01:

CFDA #10.551 and 10.561 – SNAP Cluster
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement (including ARRA)
CFDA #93.575 and 93.596 – CCDF Cluster
CFDA #93.658 – Foster Care – Title IV-E (including ARRA)
CFDA #93.659 – Adoption Assistance (including ARRA)
CFDA #93.720, 93.775, 93.777 and 93.778 – Medicaid Cluster (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 11-DPW-01)

Federal Grant Numbers: Commodities, G1102PATANF, G1202PATANF, 1104PA4004, 1104PA4002 (ARRA), 1204PA4004, G1101PA1401, G1101PA1402 (ARRA), G121PA1401, G1101PA1407, G1101PA1403 (ARRA), G1201PA1407, 1105PA5028 and 1205PA5028

Type of Finding: Supplemental Nutrition Assistance Program - Material Weakness, Material Noncompliance; Remaining Programs Listed: Significant Deficiency

Compliance Requirement: Supplemental Nutrition Assistance Program - Special Tests and Provisions related to ADP System for Supplemental Nutrition Assistance Program; Remaining Programs Listed: Other

Condition: The following general Information Technology (IT) control weaknesses exist at Department of Public Welfare (DPW) (as noted in Basic Financial Statement Finding 12-08):

1. A 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 for all significant applications, servers, and databases to verify that access rights are appropriate and segregation of duties conflicts do not exist. DPW's policy issued in May 2011 requires an annual review of user IDs.
2. Generic user IDs exist within OpCon/xps (job scheduling software) to promote programming changes to production for DPW-maintained applications; therefore, proper segregation of duties cannot be established. Management does not have additional compensating controls in place to monitor the program code for unauthorized program changes.
3. Mainframe password settings for the Client Information System (CIS) application do not comply with *Information Technology Bulletin – Minimum Standards for User IDs and Passwords* (ITB) ITB-SEC007.

The above-listed IT general control deficiencies and multiple deficiencies noted in the SOC 1 examinations of service providers that are integral to the IT control environment of DPW's Supplemental Nutrition Assistance Program (SNAP) programs are noted in the Basic Financial Statement Finding 12-08. Due to the control deficiencies in DPW's IT environment and the environments of their significant service providers, 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 special tests and provision 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.

Finding 12-DPW-01: (continued)

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 Temporary Assistance for Needy Families (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 SOC 1 Reports for the service providers that support the PACSES system (Unisys/IBM, Deloitte, and ACS/Xerox), we noted that the SOC 1 reports 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 related to various service organizations integral to DPW's data processing environment. Deficiencies were noted for the following service providers:

- Unisys Corporation and IBM Corporation - Providers of managed services and support for most of DPW's major business applications (Control exceptions noted in SOC 1 report)
- JP Morgan Treasury Services – Provider of EBT processing services for major DPW programs (Control exceptions noted and opinion qualified in SOC 1 report)
- Fiserv, Inc. Card Services – a subservice organization of JP Morgan Treasury Services that is contracted to provide EBT transaction processing (Control exceptions noted in SOC 1 report)
- Hewlett Packard – Provider of Medicaid transaction processing services (Control exceptions noted in SOC 1 report)
- Unisys Global Outsourcing and Infrastructure Services – Provider of Medicaid rebate processing services (Control exceptions noted and opinion qualified in SOC 1 report)
- Hewlett Packard Enterprise Services - Subservice organization of JP Morgan Chase that is responsible for the implementation, operation, backup, and support services of the data warehouse that is used for the electronic benefit transaction (EBT) processing of DPW's SNAP, TANF, and LIHEAP programs (no SOC 1 report provided)

DPW did not conduct a formal analysis of the impact associated with deficiencies at the service organizations, therefore, the overall impact and risk to DPW is undetermined.

Finding 12-DPW-01: (continued)

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 Statement Finding 12-08.

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.

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). 5.0, 2012.

Cause: This finding was caused by an inability to implement and operate effective IT general controls 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 programs 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:

Finding 12-DPW-01: (continued)

1. Regularly review user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access.
2. 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.
3. 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.
4. Ensure that all DPW systems meet Commonwealth password policies.
5. Perform a risk analysis and system security review of all major DPW applications, including service providers, to ensure that IT risks are documented and analyzed for compliance with applicable regulations and general best practices.
6. Consider appointing a Chief Information Security Officer reporting to the Chief Information Officer to address security policies and controls in the DPW environment.

Department of Public Welfare Response:

Bureau of Information Systems Response: (Numbers coincide with the numbers in the Condition of the finding.)

1. DPW agrees with the finding. DPW uses automated provisioning solution, IBM Tivoli Identity Manager (ITIM), to assign required roles to the users based on their job classification assigned by HR in the SAP system. ITIM is configured to look up the HR feed file on a scheduled basis and accordingly grant the roles as per the provisioning roles defined for each job classification. ITIM also removes the access once the relationship is terminated between DPW and the individual user.
2. DPW disagrees with this finding. All users of OpCon/xps are identified by individual name and password as well as their assigned privileges. A report was sent to the auditors on September 12th to support the named users' access.
3. DPW agrees with this finding. A plan has been established and the plan will be implemented in 2013 to ensure all users, both Commonwealth employees and business partners, will be using IDs and passwords that meet the ITB-SEC007 policy.

Bureau of Child Support Enforcement Response:

The PACSES security plan includes the documented and established Commonwealth policies established through information Technology Bulletins (ITBs), DPW security standards and guidelines. These standards are based on leading industry standards such as ISO 27001 and NIST standards. DPW uses Intrusion Prevention System (IPS) and perimeter Firewalls to help monitor network activity. PACSES mainframe logs are generated daily that records user's access within the system. These logs are reviewed periodically to check for unauthorized access attempts. The department is integrating the infrastructure/system logs with the Security Information and Event Monitoring (SIEM) solution. Using the SIEM solution, the department monitors system use and generates alerts on potential malicious events.

The policy and procedures are maintained by the Commonwealth's Governor Office of administration through management directives. DPW's HR follows Commonwealths guidelines and ensures removal of system access, exit interview and return of all information system related property. DPW's security account administration team uses the IBM Tivoli Identity Management (ITIM) to manage user de-provisioning.

PACSES policy requires worker passwords expire every 60 days. PACSES has also instituted additional controls. The Bureau of Child Support Enforcement (BCSE) in 2011 required counties to have visitor access logs to monitor access to subrecipient agencies using PACSES computers. Further, PACSES IT controls are reviewed during annual Federal Data Reliability Audits, Internal Revenue Service Audits, and ongoing BCSE subrecipient performance audits.

Finding 12-DPW-01: (continued)

Auditors' Conclusion: Regarding DPW's disagreement with Condition #2, during our meeting with DPW management on June 29, 2012, DPW was not able to generate a listing of the users with access to move changes to production through OpCon/xps. As noted in DPW's response, the list was generated and provided to the auditors on September 12, 2012. We inspected the list and noted that two generic user IDs that were not identifiable to a specific person were included on the list of IDs with access to schedule changes to move to production. In a subsequent communication, DPW management did not provide a rationale for allowing the generic IDs to access the system and indicated that they would be removed. Therefore, the finding and recommendation remains as stated above.

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.

Department of Public Welfare

Finding 12-DPW-02:

CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.778 – Medical Assistance Program

Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Known Questioned Costs of $33,272 (A Similar Condition Was Noted in Prior Year Finding 11-DPW-05)

Federal Grant Numbers: 1002PATANF, 1102PATANF, 1202PATANF, 1105PA5ADM and 1205PA5ADM

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs

Condition: Within the Temporary Assistance for Needy Families program (TANF) and State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Admin), the Department of Public Welfare (DPW) provides special allowance (SPAL) payments to participants for clothing, books/supplies, emergency shelter, transportation, equipment, automobile related expenses, etc. to assist the participant in their employment and training activities. Also, within the Medical Assistance (MA) program, SPAL payments could be issued for transportation to and from medical providers. We noted that $15.8 million in federal funds were posted to SAP for SPALs during the fiscal year ended June 30, 2012 ($3.0 million for SNAP, $10.8 million for TANF and $2.0 million for MA).

Additionally, SPAL payments were paid to TANF and SNAP participants by employment and training (E&T) entities under contract with 23 Local Workforce Investment Authorities (LWIAs) that DPW funds through the Pennsylvania Department of Labor and Industry (L&I). DPW indicated that, as of October 2011, LWIA subrecipients were no longer authorized to issue any SPAL payments. However, since the Commonwealth (DPW and L&I) did not break out and record on SAP or CIS how much in SPAL payments were made to TANF and SNAP participants by LWIA subrecipients, we could not determine the amount of SPAL payments made by LWIA subrecipients during the fiscal year ended June 30, 2012, nor could we determine if LWIA subrecipients stopped making SPAL payments in October 2011. Also, while the Commonwealth performed on-site monitoring of LWIAs during the fiscal year ended June 30, 2012, such monitoring did not include testing of SPAL payments issued by LWIAs, which would include testing to ensure LWIAs stopped issuing them beginning in October 2011.

We followed up on the prior year weaknesses related to SPAL issuances cited in prior year Finding 11-DPW-05 by performing a walkthrough of SPAL payments issued to one haphazardly-selected recipient at the Berks County Assistance Office (CAO). Our testing of two SPAL payments, issued to the recipient's electronic benefits transfer (EBT) account for monthly bus passes, benefit #30145566, dated July 2, 2011, for $105 and benefit #32072543, dated August 25, 2011, for $101, found that they were not supported by adequate documentation. The SPAL Verification Form (PA 1883) identified that the recipient was to attend an E&T activity but did not identify the program, activity or site. Also, after issuance of the SPAL payment, no documentation existed verifying that the recipient attended the E&T activity, nor were any receipts available to support purchase of the monthly bus passes. Further, there was no documentation that the CAO requested an overpayment reimbursement from the recipient. As a result, we question the $206 of SPAL issuances tested for this recipient.

As part of our fiscal year ended June 30, 2012 Single Audit, we reviewed a performance audit report of seven CAOs issued in August 2012 by the Office of the Budget, Bureau of Audits (BOA), related to Emergency Fund Advancement Accounts (EFAA) that are used to issue certain SPAL payments. The report identified various weaknesses over SPAL payments as follows:

Finding 12-DPW-02: (continued)

1. Inconsistencies in policies and procedures, including the types of disbursements each CAO considers allowable;

2. DPW did not have any documented policies and procedures related to EFAAs for CAOs to follow;

3. Lack of documentation of adequate bank account reconciliations over EFAAs;

4. Issuance of checks for non-emergency situations;

5. Issuance of checks in excess of dollar limits for training and transportation dollar limits;

6. The issuance of multiple checks for the same client and benefit to circumvent the established dollar limits on types of benefits; and

7. CAO personnel were not obtaining valid receipts from clients as evidence that EFAA checks were used for their intended purposes.

While the EFAA audit covered the period from July 1, 2009 to March 31, 2011, we noted that DPW's response to the audit stated that only two actions were taken: 1) The Director of Operations issued an Information Memorandum on November 3, 2010 to the CAOs providing direction regarding appropriate use and management of the EFAAs; and 2) when notified of any compliance issues with CAOs related to EFAAs, DPW is working with the CAOs to clarify any issues, and monitor to ensure CAOs remain in compliance.

Also, as part of our review of SPAL payments we noted multiple issuances of MA transportation to one recipient totaling $33,066 that were paid during the fiscal year ended June 30, 2012. Our review of the documentation within this recipient's case file disclosed that the individual needed exceptional transportation service due to extraordinary medical circumstances to travel to and from medical appointments. As a result, the CAO, with the consent of headquarters, engaged the services of an ambulance company that was an enrolled provider in the MA program. When the ambulance company submitted a billing to the CAO, a PW 764 Form was completed and the funds were issued as a SPAL payment to the recipient's EBT account. Our review of one of the PW 764 Forms dated July 27, 2011 disclosed that the ambulance company charged $750 for basic life support, non-emergency transport, procedure code A0428, plus $126.50 for mileage ($11.50 per mile), procedure code A0425, for a one way trip, or a total of $876.50 for an 11 mile trip. Further, we noted that a receipt was not obtained to support that the ambulance provider was paid these funds that were placed on the recipient's EBT card for this SPAL. As a result, we question $876.50 for this SPAL issuance. Also, as an MA-enrolled ambulance provider we noted that ambulance service, basic life support, non-emergency transport should be paid at a rate of $120 a trip plus $2 per mile beyond the first 20 loaded or unloaded miles of round trip. Therefore, any costs paid in excess of the MA-enrolled provider rates is questioned as excessive and contrary to what a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

Further, while DPW has procedures in place to require the completion of PW 764 Forms or PA 1883 SPAL Verification Forms for the issuance of SPAL payments, we noted that no reconciliation procedure exists to ensure the amount of SPAL payments issued by clerks each day agrees to the amounts authorized by case workers each day.

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. . .

Finding 12-DPW-02: (continued)

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.

Regarding exceptional transportation under the Medical Assistance Program, no fee schedule or payment guidelines were established; however, DPW's Medical Assistance Bulletin 26-07-01 contains the Fee Schedule applicable to Ambulance Services for enrolled providers that set fees for basic life support, non-emergency transport, procedure code A0428, at $120 and $2 per mile beyond the first 20 loaded or unloaded miles of round trip, procedure code A0425.

Also, Government Auditing Standards issued by the General Accountability Office of the United States provides in part:

4.07 Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

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 has issued new Operations Memorandums and policy changes to strengthen the verification process, our testing disclosed that DPW failed to fully implement actions to correct the weaknesses noted in prior Single Audits or the BOA audit issued subsequent to the fiscal year ended June 30, 2012.

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, the DPW Special Allowance guidelines are complex, require frequent clarifications, are subject to misinterpretation, and do not include adequate reconciliation procedures. Also, no payment guidelines were set for exceptional transportation under the Medical Assistance Program.

Effect: While DPW's management has issued policies and procedures in an effort to implement proper controls, our current year audit procedures disclosed that SPAL payments are not always supported by adequate documentation and can be subject to abuse. In addition, the current testing disclosed that corrective action was not fully implemented during the fiscal year ended June 30, 2012. As a result, there is limited assurance that SPAL payments have been appropriately authorized and approved, and have been spent for their intended purpose in accordance with regulations.

Finding 12-DPW-02: (continued)

In addition, the risk of employee or recipient fraud or abuse increases with regard to individuals circumventing and taking advantage of weak SPAL controls. As a result, there is an unknown total amount of questioned costs for inappropriate SPAL payments made by DPW CAOs during the fiscal year ended June 30, 2012, although the three items we tested are all questioned and amount to $33,272. Also, 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 related to SPAL payments;
- Continue to improve its oversight and monitoring of SPAL payments;
- Strengthen its system of internal controls over maintaining case file documentation to support allowability of TANF, SNAP Admin and Medical Assistance SPAL payments, including obtaining receipts for all SPAL payments;
- Provide better guidance to CAOs to ensure that the CAOs are effectively operating the program; and
- Oversee and monitor all aspects of SPAL issuance at CAOs to include the potential for employee circumvention of controls and fraud and abuse by recipients.

Agency Response: The following are the Department of Public Welfare's (DPW) responses to the issues identified in this finding.

SPAL payments through Local Workforce Investment Authorities (LWIAs)

DPW requested the Bureau of Financial Operations (BFO) to 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.

SPAL Issuance Weakness

AG: The audit finding included a deficiency identified through the haphazardly selected recipient in the Berks CAO. The deficiency concluded that two SPAL payments issued to the recipient's Electronic Benefits Transfer (EBT) account for monthly bus passes, benefit #30145566, dated July 2, 2011, for $105 and benefit #32072543, dated August 25, 2011, for $101, were not supported by adequate documentation. The SPAL Verification Form (PA 1883) identified that the recipient was to attend an Employment & Training (E&T) activity but did not identify the program, activity or site. Also, after issuance of the SPAL payment, no documentation existed verifying that the recipient attended the E&T activity, nor were any receipts available to support purchase of the monthly bus passes. Further, there was no documentation that the CAO requested an overpayment reimbursement from the recipient. As a result, the audit questioned the $206 of SPAL issuances tested for this recipient.

DPW Response: DPW agrees in part. DPW agrees that benefit #30145566 should not have been issued. DPW partially agrees on benefit #32072543 as it was issued correctly but was not verified as used for the intended purpose. Overpayments have been processed for both of these payments. The walkthrough examined only one recipient and for quantitative reasons should not be construed to be representative of a complete program weakness.

Finding 12-DPW-02: (continued)

Emergency Fund Advancement Account (EFAA) Audit

AG: As part of the audit finding, the AG reviewed the BOA final audit report (which covered the period July 1, 2009 to March 31, 2011) issued August 17, 2012, which identified various weaknesses found in EFAA policies, procedures and monitoring. The AG notes that DPW's response to the BOA audit only included 2 actions taken. The AG states that DPW failed to implement actions to correct weaknesses in the audit period ended June 30, 2012.

DPW Response: DPW's actions in response to the BOA audit were specified in the Corrective Action Plan (CAP) submitted to the BOA on November 26, 2012. The actions identified on the CAP are scheduled for implementation/completion by July 1, 2013. DPW could not implement corrective actions in the audit period as the final report was issued after this period.

In response to the audit of the EFAA account used to issue certain SPAL payments, OIM is taking the following actions to strengthen policies and procedures to further increase controls:

- Office of Income Maintenance - Bureau of Policy (OIM/BOP) is developing an Operations Memorandum containing all policy and procedures related to EFAA for CAOs to follow.

- Clarified for the CAOs those circumstances in which a check from the EFAA may be issued for non-emergency situations.

- OIM/BOP will be providing a clear definition on emergency as it relates to issuing a SPAL from EFAA.

- Clearly defined procedures that outline maximum payment amounts for the various reason codes will be given to the CAOs.

- CAOs will be instructed to obtain receipts of all EFAA disbursements.

- Reiterating CAO responsibility to contact banking institutions regarding violations of check endorsement procedures.

- Establishing program guidelines for exceptional transportation under the Medical Assistance Program.

- OIM/BOP will increase the controls and accountability by instituting validations/verifications of One-Time Issuances (OTI) that do not conform to OIM policies.

DPW is proactive in its continuing efforts to ensure that EFAA accounts used correctly, as evidenced by the following Information Memorandum issued on November 3, 2010 to the CAOs providing direction regarding appropriate use and management of EFAAs, and continuing to work with CAOs to clarify any issues and monitor to ensure CAOs remain in compliance.

MA Transportation Issuances

The audit finding noted several deficiencies with issuances of MA transportation to one recipient totaling $33,066 that were paid during the fiscal year ended June 30, 2012. The following are responses to the cited deficiencies.

1. **AG:** An ambulance that was an enrolled provider in the Medical Assistance (MA) program was paid in excess of the established MA-enrolled provider rates for both basic life support, non-emergency transport (procedure code A0428) and mileage (procedure code A0425). The established rate for an MA-enrolled provider's basic, non-emergency transport is $120 per trip, plus $2 per mile beyond the first 20 loaded or unloaded miles of a round trip. The CAO issued $750 for basic life support, non-emergency transport and the equivalent of $11.50 per mile for mileage.

Finding 12-DPW-02: (continued)

DPW Response: DPW disagrees with this finding. The Office of Medical Assistance Programs (OMAP) cannot pay an MA-enrolled ambulance provider for an ambulance service that is non-compensable, such as ambulance transportation to a physician's office. Because OMAP will not pay the provider in this situation, DPW cannot limit the ambulance provider's compensation to the OMAP fee schedule. Furthermore, non-emergency ambulance transportation is exempt from regulation by the PUC in PA. This means that DPW cannot limit the ambulance provider to PUC rates when a medical transportation allowance for the individual's non-emergency transportation. The CAO was justified in paying the amount that the ambulance company charged for the client's medical transportation in this situation.

The information on exemption from PUC regulations can be found at 66 Pa. C.S.A § 102 and http://www.pabulletin.com/secure/data/vol41/41-24/971.html

2. **AG:** A receipt was not obtained to support that the ambulance provider in the above scenario was paid the funds that were placed on the client's EBT card for the SPAL.

DPW Response: DPW disagrees with the finding. Neither the Cash nor MA handbooks inform the CAO to obtain a receipt verifying that medical transportation special allowance funds were used to pay for the medical transportation service it was intended for, thus the CAO was following procedure in place during the audit period.

Timely Processing of SPALs

AG: The finding states that DPW's emphasis is in getting the special allowance processed timely rather that clearly determining whether the payment should be made in the first place.

DPW Response: DPW works to ensure that clients are given special allowances in a timely fashion that does not impact the Department's ability to verify the need for the special allowance. Providing the special allowance to the client in a timely fashion is what allows them to participate in an activity. Were DPW to arbitrarily delay the providing of the special allowance, it would not have the desired effect of allowing the client to participate in the activity. The Department requires all documents to be provided before the issuance of the special allowance. A SPAL verification form (PA 1883) must be completed and the client is required to provide all relevant documentation showing that the special allowance is needed for participation and the amount of the special allowance. After the client uses the employment and training special allowance funds, they are required to provide a receipt showing that the funds were used for the intended purpose. The Bureau of Program Evaluation reviews special allowance issuances from the CAOs and conducts monthly calls with the CAOs to ensure that DPW staff is following all of the policy and procedures surrounding the issuance of a special allowance.

Fraud and Abuse

AG: The Audit report also addresses the risk of increasing employee or recipient fraud and abuse with regard to individuals circumventing and taking advantage of weak SPAL controls.

DPW Response: DPW takes the issue of employee and client fraud and abuse very seriously. There are several safeguards in place that are designed to prevent fraud and abuse. Each CAO has a SPAL management plan that establishes operational control for the issuances of special allowances in the CAO. A SPAL verification form (PA 1883) must be completed for each issuance, along with additional documentation showing the cost and need for the special allowance. The forms and management plan, along with supervisory oversight, helps ensure that the special allowance is issued for the correct amount and for a necessary reason related to participation. A client is required to provide a receipt showing that the allowance was used for its intended purpose. If fraud or abuse is suspected, the Department can also review EBT card usage to ensure that the card information matches the information provided on the PA 1883 and the receipt. The Bureau of Program Evaluation also conducts ongoing oversight of special allowances in the CAOs to ensure that all policies and procedures are followed with the issuance of the allowance. These procedures help ensure that funds are issued in accordance with all applicable policies and regulations.

Finding 12-DPW-02: (continued)

Summary

DPW continually monitors its policies and procedures and 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.
- Require receipts for all SPALs, including MA transportation special allowances.

Auditors' Conclusion: We acknowledge the actions DPW is taking to improve the issuance and monitoring of SPALs; however, as our test of SPALs issued to one recipient, the EFAA Audit and the MA transportation SPALs have shown DPW has not fully implemented corrective action for the fiscal year ended June 30, 2012.

Regarding the DPW response to the MA transportation SPALs, we do not believe it is reasonable or prudent to pay an MA enrolled ambulance provider to transport a client to and from physicians appointments at a rate 5 to 6 times higher than would be paid to the same provider if the transport were basic life support, non-emergency transport provided under the MA program. Further, the PUC exemption from regulating non-emergency ambulance transport does not relieve DPW from the responsibility to pay transportation rates that are reasonable and prudent. Also, while DPW does not agree that receipts verifying that medical transportation special allowance funds were used to pay for the medical transportation service were necessary due to a lack of policy in place at the time, DPW indicated a policy will be implemented to require receipts for all SPALs, including MA transportation special allowances.

Also we noted DPW did not respond to the lack of reconciliation procedures to ensure the amount of SPALs issued by clerks each day agrees to the amounts authorized by case workers each day. We believe this is a necessary control that should be implemented to reduce the chance of errors or employee fraud.

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

Questioned Costs: The amount of known questioned costs is $33,272.

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

Department of Public Welfare

Finding 12-DPW-03:

CFDA #93.558 – Temporary Assistance for Needy Families

Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 11-DPW-07)

Federal Grant Numbers: 1002PATANF and 1102PATANF

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

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 October 2011. We selected a sample of 65 out of the 255 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. Based upon review of the TANF Work Verification Plan, our testing disclosed reporting errors and/or documentation discrepancies to support the hours reported on the ACF-199 for 5 of the 65 cases, or 8 percent, as follows:

- Four of the 28 cases that contained work activity, or 14 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 - Adult #1	25	26	1
A - Adult #2	40	38	2
C - Adult #2	12	8	4
D - Adult #1	32	31	1
E - Adult #2	35	37	2

  Also, for Case A – Adult #1 DPW had to obtain actual hours worked from the employer after we requested documentation of the estimated hours reported.

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

Case	Hours Reported On ACF-199	Hours of Vocational Education Per Documentation	Difference
B - Adult #1	20	22	2

Finding 12-DPW-03: (continued)

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

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

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

(III) Unsubsidized employment
(V) Job Search
(VI) Job skills training or on-the-job training
(VII) Vocational Education

(xii) Information necessary to calculate participation rates under section 407.

In addition, 45 CFR Part 265.3 states:

(b) TANF Data Report. The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.

(1) Disaggregated Data on Families Receiving TANF Assistance – Section one. Each State must file disaggregated information… such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.

Also, DPWs federally approved TANF Work Verification Plan states:

I. Countable Work Activities

A. Unsubsidized Employment

1. Definition

The Commonwealth of Pennsylvania (Commonwealth) identifies unsubsidized employment as full- or part-time employment in the public or private sector, including self-employment, apprenticeships, internships, work study and employment resulting in income-in-kind compensation, in which neither the employer nor employee receives a subsidy from TANF or other public funds.

2. Countable Hours of Participation

Unsubsidized Employment
The number of countable hours of Unsubsidized Employment counted towards participation is determined based on the hours of work, including any paid breaks built into the schedule and any paid leave time, including personal, vacation and holiday time, granted by the employer.

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;*

Finding 12-DPW-03: (continued)

- *Time sheets as verified by the employer;*
- *A letter stating the details of the work provided as income-in-kind;*
- *Collateral contacts including employee's supervisory or management staff but not a co-worker; or*
- *Independent verification sources including the Commonwealth-contracted verification provider, Inspiritec and The Work Number.*

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

H. Vocational Educational Training

2. Countable Hours of Participation

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

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

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

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

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

<u>Cause</u>: 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.

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

<u>Recommendation</u>: DPW should strengthen its existing procedures over their review of the monthly sample of cases to ensure that all reported work activities are properly documented, supported, and classified in accordance with the HHS-approved TANF Work Verification Plan. 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.

Finding 12-DPW-03: (continued)

Agency Response: DPW disagrees with the errors cited in this finding, as detailed below.

In all cases, the AG claims that DPW reported unsubsidized employment or vocational education hours that were not properly calculated. All individuals or two-parent families are meeting the requirement for work participation for federal reporting. Two of the cases have only one hour error difference. For Cases C and D, DPW used a pay stub and an Employment Verification Form to verify work activity to arrive at a different weekly average, and both types of verification are allowed in our TANF Work Verification Plan. However, none of the differences changed the Work Participation Status of the case and/or individual since all individuals were accurately reported as either Work Participation Status (WPS) code 18, Required to Participate but not Meeting Minimum Participation Requirements or WPS code 19, Required to Participate and Meeting Minimum Participation Requirements. Remedial review of calculation of hours was held in April 2012 and calls are held with the supervisory units to ensure that there is consistency in calculation, evaluation and reporting of cases reported to the Administration for Children and Families (ACF). Also, as a Corrective Action Plan, Pennsylvania is reviewing ten percent of the cases with work activities of employment and educational calculations to ensure reporting consistency. Pay periods with overtime hours and vocational education schedules for reporting to ACF are frequently not aligned with employer or vocational education reporting periods since ACF uses Saturdays to determine the number of reporting weeks each month. Many unsubsidized employers and vocational education schedules use a reporting period ending other than Saturday which requires precise calculation in different situations and makes this type of calculation subject to different averaging methods.

Additionally, in accordance with 45 C.F.R. § 261.61, a State must describe in its Work Verification Plan the documentation it uses to verify hours of participation in each activity. For an employed individual, the documentation may consist of, but is not limited to pay stubs, employer reports, or time and attendance records substantiating hours of participation. DPW has advised the AG several times that HHS has approved our TANF Work Verification Plan, and DPW is in fact verifying and calculating work participation activities by our approved Plan and therefore disagrees that the hours submitted are not properly calculated. The audit finding also states that DPW obtained actual hours from the employer for Case A - Adult #1 after the audit request for this case was made. DPW disagrees with this statement because our annual reporting deadline is December 31 each year and we annually re-review cases at this time each year. We reviewed several hundred cases late in 2012 to ensure accurate reporting for this fiscal year as part of our Corrective Action Plan. DPW has strengthened its existing procedures over the last several years to ensure that all reported work activities are properly documented, supported and classified.

DPW continues to strive to provide outstanding service to an increasing number of clients by providing newer tools to get clients the services they need. Improvements for clients and DPW include instituting Customer Service Centers with Customer Service Representatives, expanding COMPASS (our on-line client self-service system), updates to our Client Information System (CIS) with the addition of programming CIS IV-B introduced into all County Assistance Offices in 2012, and providing simplified notices to clients informing them of the status of their benefits. We also revised our Employment and Training policies and procedures again in July of 2012 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 with economy fluctuations and to provide tools for our staff to make it easier for them to meet these needs and ensure that resources are managed effectively.

Auditors’ Conclusion: We acknowledge the significant improvement made by DPW in reporting unsubsidized employment or vocational education hours; however, we noted some cases in our sample where hours were not calculated in accordance with the TANF Work Verification Plan. With regard to the Employment Verification Form referred to for Cases C and D, the hours reported on these forms were expected hours of employment not actual hours, and the pay stubs obtained by DPW supported less hours worked than expected.

Regarding Case A, at the time of our audit request DPW did not have documentation of the actual hours worked. It was not until December 20, 2012, or 13 months after the October 2011 reporting period, that DPW obtained verification of hours worked from the employer.

Finding 12-DPW-03: (continued)

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

Questioned Costs: None

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

Department of Public Welfare

Finding 12-DPW-04:

CFDA #93.558 and 93.714 – TANF Cluster (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 #93.720, 93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)
CFDA #93.767 – Children's Health Insurance Program

U.S. Department of Health and Human Services Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Public Welfare and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding 11-DPW-08)

Federal Grant Numbers: G1102PATANF, G1202PATANF, 1104PA4004, 1204PA4004, 1004PA4002 (ARRA), G-12B1PALIEA, G-11B1PALIEA, G-10B1PALIEA, G-08B1PALIEA, G1101PA1401, G1201PA1401, G1101PA1402 (ARRA), G1101PA1407, G1201PA1407, G1101PA1403 (ARRA), 1101PASOSR, 1201PASOSR, 1105PA5028, 1205PA5028, 05-1105PA5021

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to ADP Risk Analysis and System Security Review

Condition: The Commonwealth of Pennsylvania's Department of Public Welfare (DPW) did not conduct an Automatic Data Processing (ADP) risk analysis and system security review for the Temporary Assistance for Needy Families Cluster (TANF), Child Support Enforcement program (CSE), Low-Income Home Energy Assistance program (LIHEAP), Foster Care – Title IV-E program (FC), Adoption Assistance program (AA), Social Services Block Grant program (SSBG), and Medicaid Cluster (MA). In addition, the Pennsylvania Insurance Department (PID) did not conduct an ADP risk analysis and system security review for every application utilized to support the Children's Health Insurance Program (CHIP). 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.

It should be noted that PID partially remediated the prior year finding by performing an ADP risk analysis and system security review of one of the three applications used to support the CHIP. In addition, DPW remediated the prior year finding for the systems related to the CCDF Cluster (CFDA #93.575 - Child Care and Development Block Grant (CCDBG) and CFDA #93.596 - Child Care Mandatory and Matching Funds).

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. Information Technology (IT) control deficiencies were noted in these service organizations' SOC 1 examination reports. Control deficiencies resulted in an opinion qualification for Unisys Global Outsourcing and Infrastructure Services. Specifically related to LIHEAP and TANF, DPW relies on JP Morgan Chase Treasury Services to process electronic benefit transactions, and Unisys/IBM to host and support their IT infrastructure to support these programs. Control deficiencies also resulted in an opinion qualification for JP Morgan Chase Treasury Services. Additional details and management responses related to the results of the service provider examination are included in Basic Financial Statement Finding 12-08. Since DPW did not conduct an ADP risk analysis for these programs and analyze the overall impact associated with deficiencies at the service organizations, the overall impact and risk to DPW is undetermined.

Finding 12-DPW-04: (continued)

Criteria: DPW is required to conduct an ADP risk assessment and system security review for TANF, CSE, LIHEAP, CCDBG, FC, AA, SSBG, and MA; and the PID is required to conduct an ADP risk assessment and system security review for the CHIP program according to the provisions of 45 CFR Part 95.621, Subpart F which requires a biennial review for existing systems that received 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 U.S. Department of Health and Human Services (HHS) on-site reviews (45 CFR Section 95.621).

As part of complying with the above requirement, a State may obtain a 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 SSAE 16 Type I report however, 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: Because DPW did not perform an ADP Risk Assessment for the programs listed in the Condition during the prior 24 months, 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 continue to implement the 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. For programs that are supported by service organizations, the review should extend to the control environment of the service organization either through formal documented review and evaluation of the SOC 1 report or independent testing by DPW.

Department of Public Welfare (DPW) and Pennsylvania Insurance Department (PID) Response: DPW agrees with the finding. DPW stood up the RSAs Archer GRC tool in FY2012 which will be used to perform Risk/Security assessments for the applications listed in this finding. 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.

Department of Public Welfare

Finding 12-DPW-05:

CFDA #93.568 – Low-Income Home Energy Assistance

Noncompliance and Internal Control Deficiencies in the Department of Public Welfare's Administration of Low-Income Home Energy Assistance Program Cash and Crisis Benefits Resulting in Questioned Costs of $490 in the Low-Income Home Energy Assistance Program (A Similar Condition Was Noted in Prior Year Finding 11-DPW-10)

Federal Grant Numbers: G-12B1PALIEA, G-11B1PALIEA, G-10B1PALIEA, G-08B1PALIEA

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Eligibility

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 Low-Income Home Energy Assistance (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 personnel 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 few of the prior year deficiencies were not entirely resolved.

DPW administered LIHEAP cash and crisis payments through its 67 County Assistance Offices (CAOs) and four crisis contractors for the fiscal year ended June 30, 2012. 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 the fiscal year ended June 30, 2012 were $150,527,101 out of total LIHEAP expenditures of $179,961,699 reported on the current year Schedule of Expenditures of Federal Awards (SEFA).

Our sample of 65 LIHEAP cash or crisis benefit transactions disclosed exceptions for two totaling $490 out of a sample population of $16,224, or 3 percent of benefit payments sampled, which we believe may be unallowable. These exceptions included:

- One applicant's case file lacked support/proof of a crisis situation and the corresponding LIHEAP application was not certified/signed by the applicant; and

- One applicant, who was denied LIHEAP benefits in the prior year because the applicant and the applicant's landlord lived in the same household, received current year LIHEAP benefits. The landlord was not included on the current year LIHEAP application although the applicant resided at the same address. Prior to approving current year LIHEAP benefits, DPW should have verified that the applicant and the landlord were not currently living in the same household.

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.

Finding 12-DPW-05: (continued)

(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.

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: There is a high degree of manual effort and judgment by program personnel to monitor the eligibility for the high number of LIHEAP applications received each year, which increases the risk that ineligible participants may not be identified. DPW management believes that adequate internal controls are in place to ensure that applicant information and supporting documentation are sufficient to limit the risk that payments will be paid to ineligible participants.

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

Recommendation: We recommend that DPW:

- Continue to reinforce policy through annual LIHEAP training and monitoring;
- Ensure adequate supervisory reviews exist at CAOs and crisis contractors during application processing; and
- Require CAOs to review applicant records including eCIS comments during application processing, especially in instances where the claimant had a denial in the previous year. The CAO should ensure the reason for denial does not continue to exist for the application being processed.

Agency Response: DPW disagrees with all but one of the elements in this finding. Below are specific comments on the issues contained in this finding.

1. Deficiency: One applicant's case file lacked support/proof of a crisis situation and the corresponding LIHEAP application was not certified/signed by the applicant.

Finding 12-DPW-05: (continued)

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. In this instance, there was a crisis claim filed (see Attachment A) by the vendor that has verification that service was disconnected. 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.

Per DPW policy, all applications are required to be signed by the applicant. Applications that are received without signature must be held pending for the return of the certification page signed by the applicant. If the application is not returned after 15 days, the application should be rejected. No application is required for crisis, however and the error cited is for the crisis benefit. DPW will be reinforcing the policy that all LIHEAP applications must be certified/signed by the applicant before benefits can be issued.

2. Deficiency: One applicant received current year LIHEAP benefits that was denied LIHEAP benefits in the prior year because the applicant and the landlord lived in the same household, but the landlord was not included on the LIHEAP application. Since DPW denied the benefit in the previous year and the applicant lived at the same address, DPW should have verified that the same situation did not exist prior to approving LIHEAP benefits in 2011-12.

DPW Response: On the LIHEAP application, the applicant is required to list everyone that is residing with them at their address. In this instance, the applicant only listed herself on the application and provided a copy of her fuel bill showing that she had a heating responsibility. The applicant is responsible for informing DPW who resides at their residence. Per DPW policy, if the information provided by the applicant is incomplete, unreasonable or inconsistent with known facts, the worker will require additional verification to clarify the situation. DPW will be reinforcing the policy that all LIHEAP applications that have information that is inconsistent with known facts will be required to provide further verification. DPW believes that, due to the circumstances involved in this case, this is not representative of cases on a statewide level and is an unusual instance. In this case, DPW will make a referral to OIG for their review to determine whether an overpayment exists.

CAUSE and EFFECT

AG: There is a high degree of manual effort and judgment by program personnel to monitor the eligibility for the high number of LIHEAP applications received each year, which increases the risk that ineligible participants may not be identified. DPW management believes that adequate internal controls are in place to ensure that applicant information and supporting documentation are sufficient to limit the risk that payments will be paid to ineligible participants. 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.

DPW Response: DPW disagrees that there is a high degree of manual effort and judgment by program personnel to monitor the eligibility for LIHEAP. System improvements over the last several years have drastically reduced the manual effort and judgment that is needed by program personnel to process LIHEAP applications. With the full implementation of eCIS, all known and pending information is entered into the system. The system then determines what information is necessary to process the case, and if all information is received, it determines eligibility and the correct benefit amount the client is entitled to receive. When reviewing cases, supervisors use an automated tool that allows them to easily identify issues and assists them in the review of applications on a weekly basis. The Bureau of Program Evaluation (BPE) reviews over 2,600 LIHEAP applications annually that are selected through data mining techniques that allow them to target cases that have certain characteristics that have historically shown an increased risk of errors.

DPW believes that adequate internal controls are in place to operate effectively. Based on the deficiencies noted, DPW has taken action to strengthen the existing process. The LIHEAP User Manual and LIHEAP training received by all LIHEAP workers instructs them to make sure the Crisis cases have support/documentation and if they are unclear as to the household composition they should request additional information.

Finding 12-DPW-05: (continued)

Workers are thoroughly trained prior to each LIHEAP season 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 taxpayer dollars.

DPW is continuously making system enhancements to eCIS that help reduce the number of errors and the incidence of potential fraud and abuse in the system. This is evidenced by the fact that this review did not find deficiencies that were noted in audits from previous years. Unlike previous audits, income calculations have been improved and were not cited in this audit. Additional changes such as alerting workers when an address is used in more than one LIHEAP case for the LIHEAP season and an address GIS validation that cross-references the address given by the client to verify it is an actual physical street address has resulted in no findings involving issues where more than one household received LIHEAP benefits at the same address.

SUMMARY

DPW continues to strive to improve programs each year and remains committed to administering the LIHEAP program with the highest possible degree of accuracy and efficiency. While we disagree with the findings of the 2010-11 AG Single Audit Finding, that audit showed an error rate of 11 percent. As noted, this audit found DPW has reduced the error rate within the LIHEAP program to 3 percent (though we believe this is high based on the results of our own monitoring program that shows an error rate of slightly above 1 percent), reflecting a 72.7 percent reduction in errors in a one year period. DPW believes this indicates the level of commitment being undertaken by the Department to ensure an accurate and efficient administration of the LIHEAP program.

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.

Auditors' Conclusion: We are encouraged by management's commitment to improve the LIHEAP program and administer the program with the highest possible degree of accuracy and efficiency. In addition, we acknowledge that DPW has made improvements over past heating seasons by taking action to strengthen the existing process through changes to the eCIS system, monitoring procedures, and training. However, our finding remains as stated because of the continued existence of errors identified as a result of our audit that went undetected by DPW. Furthermore, DPW's own monitors, through its targeted monitoring process, continue to identify several errors with the processing of LIHEAP.

The audit exceptions identified in the finding pertaining to applications and documentation 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 the LIHEAP program, although showing improvement, continues to lack adequate internal controls.

Management has indicated disagreement with one of the two errors identified in the finding regarding the crisis benefit. DPW indicated the primary reason for its disagreement is that no application is required for a crisis benefit. However, the eligibility of the applicant in this case was based on the eligibility determination for the cash benefit filed prior to the crisis. As DPW indicates in the response, DPW policy requires all applications to be signed by the applicant. Based on our review of the LIHEAP application for the cash benefit, a signed application was not documented and could not be located. As a result, DPW could not support that the crisis payment was made to an eligible applicant. In addition, in reviewing the applicant's file, it did not support that proof of a crisis was determined prior to approving the payment. DPW's response to our inquiry for proof of a crisis situation indicated that "county could not locate signed application or client on a utility file transfer request form from PECO."

Finding 12-DPW-05: (continued)

Management asserts that adequate internal controls are in place to operate effectively. Our audit results indicate that improvements have been made in the process; however, errors continue to occur that go undetected by management. The finding and recommendation remain as stated.

Questioned Costs: $490

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

Department of Public Welfare

Finding 12-DPW-06:

CFDA #93.575 and 93.596 – CCDF Cluster

Noncompliance and Internal Control Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 11-DPW-11)

Federal Grant Numbers: G1001PACCDF, G1101PACCDF, G12011PACCDF

Type of Finding: Material Weakness, Material Noncompliance

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

Condition: The Department of Public Welfare's (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.

Our prior audit disclosed material deficiencies in DPW's internal controls designed to provide timely on-site inspection of child care providers and to issue child care certificates to ensure an entity is maintaining the proper health and safety requirements. DPW has added personnel to the Office of Child Development and Early Learning (OCDEL) to address this issue and has improved the number of child care certificates that are past due from a high of 25 percent in November 2010 to a high of 7 percent in October 2011. Although DPW has made improvements in this area, we identified exceptions in our current year testing. For 6 of the 65 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 8 and 154 days for these 6 providers.

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.

Finding 12-DPW-06: (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 have made it difficult to conduct timely on-site inspections.

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

Recommendation: We recommend that OCDEL ensure that all on-site inspections are conducted prior to the expiration of a child care provider's certificate of compliance/registration.

Finding 12-DPW-06: (continued)

Agency Response: OCDEL is in agreement with the preliminary finding. There were several vacancies due to a high turn-over rate and long term medical leave. As stated in OCDEL's correction plan for the similar prior year finding (11-DPW-11), two wage positions were added to our complement and staff were hired in August 2012. By that time, the overdue inspection rate had been reduced to 4 percent and that percentage rate was maintained until OCDEL's complement was reduced by one salaried Certification Representative in September 2012 and another staff person began an extended SPF/maternity leave in November 2012. With a full complement, OCDEL is confident that timely inspections are achievable; however, maintaining a full complement has been challenging.

Questioned Costs: The value of services provided to childcare facilities without current inspections 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.

Department of Public Welfare

Finding 12-DPW-07:

CFDA #93.667 – Social Services Block Grant
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

Weaknesses in the Department of Public Welfare Program Monitoring of Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 11-DPW-12)

Federal Grant Numbers: 1101PASOSR, 1201PASOSR, T1010044-12, and T1010044-11

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

Compliance Requirement: Cash Management, Subrecipient Monitoring

Condition: For the twentieth 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 $41.0 million (or approximately 42 percent) of total SSBG program expenditures of $97.7 million on the current Schedule of Expenditures of Federal Awards (SEFA), for compliance with applicable federal regulations during the award since during the award monitoring including on-site visits by state officials did not occur. In addition, we determined that the same Homeless Services program subgrantees that received SSBG funding, and were not adequately monitored by DPW personnel, also received $1,983,000 in Block Grants for Prevention and Treatment of Substance Abuse (SAPT) funding during the fiscal year ended June 30, 2012. Total SAPT expenditures on the current SEFA were $59.2 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 $38.1 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 fiscal year ended June 30, 2012.

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

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.

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

Finding 12-DPW-07: (continued)

45 CFR 92.37, Subgrants, states:

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

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

In addition:

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

Cause: DPW management indicated that on-site monitoring was not performed due to staffing issues. However, DPW was in the process of forming a new division that will perform monitoring for all subgrantees, including SSBG and SAPT. DPW management stated the new division should be established and monitoring related to SSBG and SAPT subgrantees would be performed during the fiscal year ended June 30, 2013.

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, 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 some on-site during-the-award monitoring procedures for SSBG and SAPT subgrantees to ensure timely compliance with all applicable federal regulations. On-site monitoring visits by state officials should be supported by documentation showing the monitoring performed, areas examined, conclusions reached, and performed in compliance with applicable regulations. Also, we suggest that DPW ensure it coordinates the monitoring of SSBG subgrantees with other program funding received by the same subgrantees when the new monitoring division is established.

As recommended in previous Single Audits and supported by U.S. Department of Health and Human Services, 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

Finding 12-DPW-07: (continued)

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. The pilot for the new block grant program has been approved and is in the process of being implemented. A Monitoring section will be created for the block grant program, as well as the SSBG funding.

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

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

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 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.

Department of Public Welfare

Finding 12-DPW-08:

CFDA #93.778 – Medical Assistance Program

Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 11-DPW-14)

Federal Grant Numbers: 1205PA5028, 1105PA5028

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Activities Allowed, Allowable Costs, Eligibility

Condition: The objective of the Department of Public Welfare's (DPW) Medical Assistance (MA) Program is to provide payments for medical assistance to certain low-income persons. For the fiscal year ended June 30, 2012, of the $11.1 billion expended reported on the Schedule of Expenditures of Federal Awards (SEFA), $10.5 billion (95 percent) was provided to individuals.

We selected one payment each from 95 individuals collectively totaling $295,770, and performed procedures to ensure that the individuals were eligible for MA at the time the service(s) were rendered. Of the 95, six case files, or 6.3 percent, totaling $1,012 in benefit payments contained exceptions as follows:

- Three case files did not contain the reapplication document that was due prior to the date of services. Therefore, documentation did not exist to substantiate that the individuals were eligible for MA at the time these services were rendered.

- One case file did not contain documentation that was due prior to the date of services to verify that the individual was disabled. Therefore, documentation did not exist to substantiate that the individual was eligible for MA at the time these services were rendered.

- Two case files contained information obtained subsequent to the application for MA that disclosed the individuals were not eligible to receive benefits and DPW properly closed the case; however, DPW did not initiate any attempt to recoup the MA overpayments.

Criteria: 45 CFR 435.913 Case documentation states in part:

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

55 PA Code Section 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.

Finding 12-DPW-08: (continued)

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

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

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

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

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

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

Cause: With regard to the lack of documents, DPW management at the respective CAOs indicated that the documents could not be found, were not necessary, or a case was closed as a result of a reapplication not being returned by an individual. Regarding the lack of recoupment of MA overpayments, DPW management indicated that funds could not be recouped due to untimely agency action.

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. Also, failure to recoup overpayments allows individuals to obtain services for which they were not eligible to receive.

Recommendation: We recommend that DPW:

- Ensure that all eligibility documentation is retained in the individual's case record;
- Ensure that if reapplications are not submitted, the medical assistance benefits are stopped; and
- Ensure that overpayment referrals are completed for all payments made on behalf of individuals that were not eligible to receive MA.

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

1. Exception: Three case files did not contain the reapplication document 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 exception. Regarding the two Philadelphia cases, for one case, the exception is cited for no renewal form due in August 2011; however, the benefit yearly renewal was not due until December 31, 2011. The Semi-Annual Renewal (SAR) was due in July 2011 and was scanned into the electronic record on July 20, 2011. For the second case, DPW acknowledges that the documentation for this SAR is not in the record. For the Allegheny case, DPW acknowledges that the documentation for this renewal is not in the record.

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

Finding 12-DPW-08: (continued)

<u>DPW Response</u>: DPW agrees with this exception. DPW acknowledges that the documentation for the client's disability is not in the record.

<u>3. Exception</u>: Two case files contained information obtained subsequent to the application for MA that disclosed the individuals were not eligible to receive benefits and DPW properly closed the case; however, DPW did not initiate any attempt to recoup the MA overpayments.

<u>DPW Response</u>: DPW agrees with this exception. In both case files cited by the AG, the CAO failed to initiate any overpayment investigations.

<u>AG</u>: 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. Also, failure to recoup overpayments allows individuals to obtain services for which they were not eligible to receive.

<u>DPW Response</u>: In an attempt to enhance the monitoring of reapplications, policy has been updated to emphasize the timeliness of reapplications. Additionally, instruction has been provided to complete "Ex Parte" reviews to verify information electronically, when available, to simplify and expedite the process of completing reapplications for both the individual and the caseworker. Also, due to the volume of records, a greater emphasis has been placed on scanning documentation into CIS. This will cut down on misplaced and duplicated verification and allow easier access to these items. During the past year, policy has been updated regarding MA overpayments to place a greater emphasis on pursuing recoupment of MA overpayments in a timely fashion.

All 95 case records examined in the audit were reviewed by DPW. The necessary documentation was found in 92 (97 percent) of the 95 cases and all documentation has been scanned into the CIS imaging repository. The benefit payment amount associated with the 5 cases that DPW agrees with is only $897 of the $295,770 total benefit payments, or only .3 percent. The impact of this amount is negligible.

<u>Auditors' Conclusion</u>: Regarding the exception that DPW does not agree with, we note that the initial application for Medical Assistance was dated in August 2010; therefore, an Annual Renewal was due within August 2011 and was not obtained. The Annual Renewal would contain non-financial eligibility information not required on the Semi-Annual Renewal that could affect the eligibility to receive Medical Assistance.

Also, we disagree with DPW's claim that the impact of the errors is negligible. Six of 95 cases tested contained errors which affected the eligibility of the individuals to receive benefits. We believe this 6.3 percent error rate in eligibility determinations is material. The dollar impact related to the 6 errors may be higher than just the payments noted in the condition as additional payments may have been made after the date of the payment we selected in our testing.

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

<u>Questioned Costs</u>: 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.

Department of Transportation

Finding 12-PennDOT-01:

CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)

Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (A Similar Condition Was Noted in Prior Year Finding 11-PennDOT-03)

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Our prior year Single Audit of the Highway Planning and Construction (HPC) Cluster administered by the Pennsylvania 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, management strengthened and re-emphasized its policy to the district offices in October 2011. To evaluate the corrective actions, 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 $38.2 million of the $201 million paid to PennDOT subrecipients. Of these 65 projects, we found that 25 projects (that incurred expenditures of $6,128,979) 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 21 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 Publication 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.

Finding 12-PennDOT-01: (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 Publication 39, Part B, Section 1, page 4-1, 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.

PennDOT Publication 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. As part of the corrective action process the Publication 2 requires the use of the monitoring checklist.

Cause: The district offices located across the state, responsible for completing these procedures, have limited resources and staffing shortages that have contributed to these internal control weaknesses.

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.

Recommendation: We recommend that PennDOT ensure that its 11 district offices strictly adhere to the requirements and policies within Publication 39 and Publication 2 to prevent control deficiencies related to local project oversight and ensure compliance with federal regulations.

Agency Response: The requirements and policies implemented by PennDOT are designed to ensure compliance with federal regulations related to locally sponsored projects. We 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 projects without monitoring documentation was $6,128,979.

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

Department of Transportation

Finding 12-PennDOT-02:

CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)

Internal Control Deficiencies Related to Buy American ARRA Provisions (A Similar Condition Was Noted in Prior Year Finding 11-PennDOT-01)

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Procurement and Suspension and Debarment

Condition: During our prior-year Single Audit of the Highway Planning and Construction (HPC) Cluster administered by the Pennsylvania Department of Transportation (PennDOT), prior year Finding 11-PennDOT-01 reported internal control deficiencies related to Buy American ARRA provisions. This provision is applicable to ARRA-funded construction projects, which totaled over $133.5 million. During the current-year Single Audit of the HPC Cluster, PennDOT management indicated that corrective action became effective in April 2012. To correct the deficiency, PennDOT strengthened its procedures by requiring the PennDOT Inspector-In-Charge to review invoices, bills of lading, and mill certifications for unidentifiable or fabricated steel products to ensure that the steel was melted and manufactured in the United States. Furthermore, Form CS-4171 was revised to improve documenting the certification of steel for Buy American, whereas prior to this revision, the documentation obtained was not sufficient to certify the steel.

As part of the current year audit we tested a sample of 40 construction expenditures. Ten of the 40 expenditures sampled were subject to the new procedures for Buy American. Based on our testing of these ten items and our review of the new procedures implemented by PennDOT, we believe the new procedures are adequately designed and operating effectively. However, since the procedures were implemented in April 2012 and were not in effect for the entire audit period, we have reissued the finding for the current audit period.

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 (USC). Therefore, the Federal Highway Administration (FHWA) applies the Buy American provisions per 23 USC 313, and the implementing regulations and policies, to all ARRA 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 Constructions 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 product is identifiable on its face (e.g., stamped Made in the 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.

Finding 12-PennDOT-02: (continued)

Cause: PennDOT's previous Form CS-4171 failed to require additional documentation when steel was not identifiable on its face.

Effect: Prior to corrective actions in April 2012, the potential existed that steel not made in America was being used in FHWA construction projects.

Recommendation: Based upon the revisions of Form CS-4171, no further corrective action is necessary.

Agency Response: We agree that this finding has been corrected. Our modifications to the Publication 408 and Project Office Manual, implemented with the April 2012 revision to those Publications, completed our corrective action for the possibility that steel not made in America could be used in FHWA construction projects.

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.

Department of Transportation

Finding 12-PennDOT-03:

CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)

Deficiencies in Information Technology Controls in the Engineering and Construction Management System (A Similar Condition Was Noted in Prior Year Finding 11-PennDOT-02)

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: A large majority (approximately 75 percent) of Pennsylvania Department of Transportation's (PennDOT) $1.6 billion in federally reimbursable Highway Planning and Construction (HPC) Cluster highway and bridge expenditures, including ARRA, flow through PennDOT's Engineering and Construction Management System (ECMS). The ECMS 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 Highway Administration (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. Also, we noted that there was a segregation of duties weakness in ECMS, in which certain individuals could both prepare and approve invoices. In addition, we noted that PennDOT did not have formal policies and procedures for revoking signature authority granted to individuals.

During the current audit, we reviewed PennDOT's corrective actions. We also reviewed a sample of 65 invoices. Of those 65 invoices, we tested 49 that were processed through ECMS. We found the following control weaknesses:

- Management was unable to provide a complete list of all roles that have invoice approver (final approver) authority.

- Two of 49 ECMS final approvers tested also had the Inspector-In-Charge (IIC) role in ECMS, which allows them to create invoices; these roles are incompatible because the person can create and approve invoices.

- Management does not have procedures in place to maintain fiscal oversight over ECMS transactions processed by individuals with incompatible roles as required by Management Directive 205.37.

- Management remediated a prior year weakness by developing written procedures for granting access to ECMS using the ECMS USERID form; however, these policies were finalized after the audit period.

- Management has not developed formal procedures to revoke Signature Authority Forms (STD-275) on file with OB-OCO upon employee termination or when an employee's job responsibilities change.

- Management has not developed formal procedures to periodically review the Signature Authority Forms (STD-275) on file with OB-OCO to verify that signature authority remains appropriate and segregation of duties conflicts do not exist.

Finding 12-PennDOT-03: (continued)

In the audit of the Commonwealth's Basic Financial Statements (BFS) for the fiscal year ended June 30, 2012, certain general computer controls weaknesses related to ECMS were reported in BFS Finding 12-08. The finding reported the use of local shared administrator accounts, which may be used to promote system changes, as well as the lack of a systematic audit trail of the individuals who promoted system changes. In addition, internal control weaknesses regarding segregation of duties in the overall SAP computer environment were reported in BFS Finding 12-03.

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 OB-OCO release 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.

Management Directive 205.37, *Role Assignment, Security, and Internal Control Maintenance*, establishes the procedures to ensure adequate separation of duties via role assignment and ensure adequate safeguards are in place for those situations requiring an exception. The objective of the management directive is to provide a uniform process of requesting and assigning roles and to therefore provide appropriate system authorization and access to data contained in any Commonwealth owned information system. Paragraph 6h(2)(a) states, *"Agency Managers/Supervisors will: Ensure segregation of duties and assign roles to positions in a manner which avoids role conflicts. In situations requiring role conflict exceptions, develop organization safeguards to avoid the ability to conceal errors or inappropriate transactions."* Also, paragraph 6h(3)(b) states, "*Agency Managers/Supervisors will: Maintain fiscal oversight of transactions to ensure fraud, waste, and abuse are prevented. Procedures include, but are not limited to: Identify areas that could potentially cause problems and periodically review them for inappropriate transactions."*

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: In July 2012, management implemented formal procedures in which they attempted to identify which ECMS roles should be mutually exclusive, i.e., an individual should not have both the IIC role to create invoices and the invoice approver role to approve invoices. However, we learned during our current audit procedures that they did not identify all roles that can approve invoices. Consequently, not all roles that should be mutually exclusive were identified. Further, management indicated that they sometimes have a business necessity to grant certain individuals for no more than six months the Inspector-In-Charge (IIC) role along with the ability to approve invoices. Management justifies this need to compensate for personnel shortfalls in remote areas. Management also stated that corrective action included a review of inactive ECMS user accounts. Further, management took steps to ensure that staff was informed/re-informed that no changes to roles (including termination) would be performed without a properly completed "Request for ECMS USERID" form.

As stated above, our current audit testing revealed that PennDOT's revised procedures did not identify all the individuals with the authority to both create and approve invoices, as required by Management Directive 205.37. Management maintained that all ECMS invoices need final approval from PennDOT District Engineers, District Administrators and certain designees. However, current year testing identified two project managers with the ability to perform final approval of an invoice, as well as the ability to create an invoice for engineering consultant agreements (the IIC role). Management's monthly reviews to identify conflicting roles did not identify the project managers as invoice approvers. Further, PennDOT does not have procedures in place to maintain fiscal oversight over these transactions processed by employees with conflicting roles to prevent fraud, waste, and abuse in accordance with Management Directive 205.37.

Finding 12-PennDOT-03: (continued)

Procedures also did not include a review of transactions performed by individuals with role conflicts in order to ensure that organizational safeguards exist to avoid the ability to conceal errors or inappropriate transactions as required by Management Directive 205.37.

Regarding controls over the Signature Authority Forms (STD-275) on file with OB-OCO, it appears that PennDOT management did not have a complete understanding of the importance of these forms to OB-OCO personnel. OB-OCO relies solely on the presence of a Signature Authority Form (STD-275) in their files to release the approved invoices for payment. If the approver on the ECMS invoice has a valid signature card on file, OB-OCO pre-audits and releases the invoice for payment in SAP, and the payment request is sent to the Pennsylvania Treasury.

Effect: The users who have the combination of the IIC role (invoice creation role) and the invoice approver role in ECMS represent a segregation of duties conflict that could lead to improper payments to construction contractors and engineering consultants. Also, the lack of procedures to revoke signature authority forms on file with OB-OCO when appropriate and the lack of a periodic review of these forms could lead to inappropriate payments being approved in SAP and paid by Treasury. The deficiencies noted above in information technology (IT) general controls and the segregation of duties weakness increase the risk of unauthorized payments.

Recommendation: We recommend PennDOT management take the following actions to correct the deficiencies noted above and to comply with Management Directives 205.37 and 205.4:

- Develop a complete and accurate listing of all positions with the ability to approve invoices;
- Develop formal procedures to remove the IIC role (invoice creation role) in ECMS when individuals are given the ability in ECMS to approve invoices for payment;
- Perform a comprehensive review to identify all individuals with conflicting roles and periodically review transactions approved by these individuals;
- Implement formal procedures to revoke Signature Authority Forms (STD-275) when an individual separates employment or changes job responsibilities and inform OB-OCO timely of the revocation; and
- Implement formal procedures to conduct a periodic review of Signature Authority Forms (STD-275) on file with OB-OCO to determine continued appropriateness of approving authority.

See additional auditor recommendations to improve IT general controls in BFS Finding 12-08 for PennDOT agency systems and BFS Finding 12-03 for the statewide SAP accounting system.

Agency Response: PennDOT agrees with the findings as stated and continues to implement procedures to be in compliance with Management Directives 205.37 and 205.4.

PennDOT has communicated in the past the need to allow "acting roles" for short periods of time to meet business objectives. PennDOT understands that the Auditor General's office has expressed concern with this. To mitigate Auditor General's concerns, PennDOT will ensure documented business needs are captured and adequate management controls are in place.

Approval for signature policies has been received from the Comptroller's Office and PennDOT will be implementing procedures. PennDOT is enforcing the ECMS policy with coordinators that completed paperwork must be submitted for role changes.

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.

Finding 12-OB-01:

CFDA #14.228 and 14.255 – Community Development Block Grants – State Administered CDBG Cluster (including ARRA)
CFDA #17.258, 17.259, and 17.278 – WIA Cluster (including ARRA)
CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)
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 #84.367 – Improving Teacher Quality State Grants
CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)
CFDA #84.389 – Title I Grants to Local Educational Agencies (ARRA)
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 #93.778 – Medical Assistance Program (including ARRA)
CFDA #93.917 – HIV Care Formula Grants
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and At The Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 11-OB-02)

Federal Grant Numbers: 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-10-DC-42-0001, B-11-DC-42-0001, B-09-DY-42-0001, B-08-DN-42-0001, B-11-DN-42-0001, AA-17144-08-55, AA-18664-09-55, AA-20216-10-55, AA-21418-11-55, AA-22958-12-55, N78000, N78ARR, CS-420001-11, 2W-42000209, FS-993577-11, 2F-09357709, S367A110051, S367B110033, S389A090038A, S377A090039, S377A100039, S388A090039, 1102PATANF, 1202PATANF, 1104PA4004, 1204PA4004, 1101PA1401, 1201PA1401, 1101PA1402, 1101PA1407, 1201PA1407, 1101PA1403, 1101PASOSR, 1201PASOSR, 1105PA5028, 1205PA5028, 6X07HA00021-21, 6X07HA00021-22, TI010044-10, and TI010044-11

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring, Special Tests and Provisions related to Awards with ARRA Funding

Condition: For the major federal programs listed above, the state agencies did not identify federally-required information in subrecipient award documents and at the time of disbursement of ARRA 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 Schedules of Expenditures of Federal Awards (SEFAs). 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.

Finding 12-OB-01: (continued)

Program	Amount Passed to Subrecipients (in thousands)	CFDA Title	CFDA Number	Award Name	Federal Grant Number	Federal Awarding Agency
CDBG	$51,481	-	-	-	No	-
CDBG – ARRA	$564	-	-	-	No	-
WIA Cluster	$87,841	-	No*	-	No*	No*
HPC Cluster	$170,921	No	No	-	-	-
CWSRF	$62,066	-	-	-	No	No
CWSRF - ARRA	$7,617	-	-	-	No	No
DWSRF	$57,252	-	-	-	No	No
DWSRF - ARRA	$3,229	-	-	-	No	No
Title I – ARRA	$80,688	-	No	No	No	No
Improving Teacher Quality	$97,516	-	No**	-	-	-
School Improvement	$13,138	-	No**	-	No	No
School Improvement - ARRA	$36,444	-	No**	-	No	No
TANF – L&I	$87,138	-	-	No	No	No
TANF - Child Welfare	$44,520	No	No	No	No	No
CSE	$106,151	-	No	No	No	No
Foster Care	$179,016	No	No	No	No	No
Foster Care - ARRA	$3,889	No	No	No	No	No
Adoption Assistance	$89,075	No	No	No	No	No
Adoption Assistance - ARRA	$473	No	No	No	No	No
SSBG – Child Welfare	$12,021	No	-	No	No	No
SSBG – Mental Health	$10,366	-	-	No	No	No
SSBG – Mental Retardation	$6,500	No	-	No	No	No
SSBG – Homeless Services	$4,183	-	-	No	No	No
SSBG – Domestic Violence	$5,686	-	No	No	No	No
SSBG – Family Planning	$2,000	-	-	No	No	No
SSBG – Rape Crisis	$1,721	-	No	No	No	No
SSBG – Legal Services	$5,049	No	No	No	No	No
MA	$948,443	No	No	No	No	No
HIV Care Formula Grants – DOH	$12,357	-	-	No	No	-
HIV Care Formula Grants - DPW	$30,284	No	No	No	No	No
SAPT – DOH/DDAP	$48,639	-	-	-	No	-
SAPT - DPW	$1,983	-	-	No	No	No

* - For the WIA Cluster, we found that the Department of Labor and Industry (L&I) did not provide subrecipients with the federal grant number at the time of award for 55 of 65 expenditures tested, L&I provided the wrong CFDA number on the Notice of Obligation to the subrecipients for 7 of 65 expenditures tested, and L&I did not provide subrecipients with the federal awarding agency on award documents for any of our test items.

** - The incorrect CFDA number was included in the subrecipients' award documents.

Finding 12-OB-01: (continued)

In addition, state agencies did not provide the required ARRA award information to its subrecipients at the time of disbursement, as shown (i.e., No) on the following chart.

Program	Federal Grant Number	CFDA Number	Amount of ARRA Funds
HPC Cluster - ARRA	-	No	-
CWSRF – ARRA	No	No	No
DWSRF – ARRA	No	No	No
Title I – ARRA	No	-	-
School Improvement Grants - ARRA	No	-	-
Foster Care - ARRA	No	No	No
Adoption Assistance - ARRA	No	No	No

Criteria: The OMB Circular A-133 Compliance Supplement, Part 3, Section M, related to Subrecipient Monitoring by pass-through entities, states:

A pass-through entity is responsible for:

Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number, award name and number; if the award is research and development, and name of Federal agency) and applicable compliance requirements.

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003… have met the audit requirements of OMB Circular A-133…

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

The OMB Circular A-133 Compliance Supplement, Part 3, Section N, related to Special Tests and Provisions, states:

As provided in 2 CFR section 176.210, Federal Agencies must require recipients to…separately identify to each subrecipient, and document at time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA Funds; and provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

The OMB Circular A-133 Compliance Supplement Appendix VII, Other OMB Circular A-133 Advisories, states:

Responsibilities for Informing Subrecipients:

Recipients agree to separately identify to each subrecipient, and at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.

Finding 12-OB-01: (continued)

<u>Cause</u>: In general, state agencies believed that federal award information historically provided on award documents was sufficient; however, all required information as noted above was not being provided to the subrecipients at the time of the award. Likewise, for ARRA grants the required information as noted above was not being provided to the subrecipients at the time of disbursements. Respective state agencies which included the incorrect CFDA numbers on the subrecipient award documents stated this was an oversight, or an explanation was not provided.

<u>Effect</u>: Failing to include the federal grant award information at the time of award and at the time of disbursement may cause subrecipients and their auditors to be uninformed about specific program and other regulations that apply to the funds they receive. There is also potential for subrecipients to have incomplete SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds may not be properly audited at the subrecipient level in accordance with the Single Audit Act and OMB Circular A-133.

<u>Recommendation</u>: The Commonwealth Office of the Budget should develop a statewide policy and reporting mechanism to ensure all required federal award information is disseminated to all subrecipients both at the time of award and at the time of disbursement for ARRA programs to ensure subrecipient compliance with applicable federal regulations and OMB Circular A-133. In addition, state agencies should correspond with applicable subrecipients to ensure that they are aware of the correct CFDA numbers. State agencies should also review applicable award documents prior to issuance to ensure federal information, including CFDA numbers, is correct.

<u>Office of the Budget, Bureau of Accounting & Financial Management (BAFM) Response</u>:

The Office of the Budget, BAFM disagrees that subrecipients are not provided information related to the award identification. The auditor's testing concluded that there were no noted instances of omissions or improper identification of program expenditures by subrecipients on their Single Audit SEFAs. Therefore, subrecipients are being properly informed of the applicable federal award information related to their subawards.

The Commonwealth complies with the requirements of OMB Circular A-133 Compliance Supplement that states w*hen 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 from which the funding is being disbursed.

<u>Department of Labor and Industry (L&I) Response</u>:

In July 2012, the Commonwealth Workforce Development System (CWDS) was enhanced to include the Federal Agency, CFDA title, and award name and number on the Notice of Obligation (NOO). This enhancement was incorporated to further solidify our response to finding OB-1 of the Federal Award Findings dated February 1, 2013 that require L&I to identify the Federal award number and CFDA number, particularly at the time the award is made and when funds are disbursed. The NOO that includes the required information is available for review upon request.

As previously indicated, local areas access their contract and NOO information via CWDS. Screenshots are available upon request to illustrate how all the pertinent information is available, particularly at the time a request for funds is made.

<u>Department of Transportation (PennDOT) Response</u>:

The Commonwealth disagrees that subrecipients are not providing 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.

Finding 12-OB-01: (continued)

Department of Public Welfare (DPW) Response:

The Department of Public Welfare (DPW) 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 testing. DPW complies with the requirements of OMB Circular A-133 Compliance Supplement that states when ARRA funds are sub awarded 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 DPW and the subrecipient identifying all of the relevant information such as the source of funding. As disbursements are made to the subrecipient, a remittance advice is provided to the subrecipient that identifies the disbursement and references the subgrant agreement. 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 from which the funding is being disbursed.

Department of Health (DOH) Response:

The Department of Health (DOH) has reviewed the Preliminary single audit Finding OB-1 specific to the DOH program cited in the finding (HIV Formula Care Grants – DOH).

DOH agrees with the facts of the finding. DOH acknowledges that it did not comply with the criteria cited by the auditors (i.e., OMB Circular A-133 Compliance Supplement Part 3, Section M., related to Subrecipient Monitoring by pass-through entities) by not identifying in its subrecipient award documents the applicable federal award names and federal grant numbers. However, DOH is in compliance with Management Directive 305.21, *Payments to Local Governments and other Subrecipients,* wherein we must identify the amounts of Federal and state funding we provide to Grantees. This identification includes the breakdown of Federal and state dollars provided and the related Federal and state financial assistance program name and number.

The Department of Drug and Alcohol Programs (DDAP), as the former Bureau of Drug and Alcohol Programs within the Department of Health, does not agree to the issuance of Finding No. OB-1, as it applies to the Substance Abuse Prevention and Treatment (SAPT) Block Grant under CFDA No. 93.959. It is the practice of the Department of Drug and Alcohol Programs, as was the practice of the Bureau of Drug and Alcohol Programs under the Department of Health, to identify federal funds by the Program Title, the Federal Fund Source and the Catalog for Federal Domestic Assistance (CFDA) Number. Specific to the SAPT Block Grant, these funds are identified within the boiler plate of the original five-year grant agreement, as well as any subsequent amendments that alter such funds through the duration of that agreement. The contents of the contract or grant agreement distributing the funds, as well as any manuals or attachments incorporated into those contractual documents, define to the funded recipient all applicable requirements and prohibitions associated with the SAPT Block Grant.

Funds under any single SAPT Block Grant are available for a two year expenditure period, defined by the federal fiscal year and overlapping three state fiscal years. For the majority of funds issued in any given state fiscal period, two grant awards are included in the funds received by a recipient. The amount of funds specific to one award versus another are controlled at the state level through the commitment and posting of expenditure process, with consideration of the period of fund availability for any particular grant. Since assignment to grant award is assigned at the state level, and since the requirements of the block grant are consistent from one award period to the next as defined under the federal legislation and regulations and captured under the CFDA Number, it is not deemed necessary or fruitful to specifically identify the Award Number of each block grant contained in the five-year award. Also, it is not considered practical, since award identification is not generally available at the time of issuance for the five-year grant agreements, or even necessarily at the time of any subsequent amendments.

Department of Education (PDE) Response:

The Pennsylvania Department of Education agrees with the finding and will address any necessary corrective action for PDE's portion of Finding OB-1 in the corrective action plan.

Finding 12-OB-01: (continued)

Department of Community and Economic Development (DCED) Response:

DCED agrees with the condition for the CDBG Cluster (including ARRA) for CFDA numbers 14.228 and 14.255.

Pennsylvania Infrastructure Investment Authority (PENNVEST) Response:

Pennvest disagrees with its programs being listed in this finding. PENNVEST received correspondence from EPA OIG indicating that they find what PENNVEST does to identify award information acceptable in regards to this finding.

Auditors' Conclusion: L&I, DOH (for the HIV program), PDE, and DCED agree with the condition of this finding related to the programs they administer. Any corrective action will be evaluated in our subsequent audit.

OB, PennDOT, DPW, DDAP/DOH (for the SAPT program), and PENNVEST disagree with the condition of this finding for the programs they administer. OB, PennDOT, and DPW believe that since we did not find any instances in our testwork in which subrecipients are improperly omitting or identifying program expenditures on their SEFAs that the subrecipients are being properly notified of the required federal award information. We disagree. Our review of the agencies' subrecipient award and disbursement documentation found that subrecipients are not being properly notified of the federal award information in compliance with federal regulations which raises the risk that subrecipients may be uniformed about specific program regulations that apply to the funds they receive and that subrecipients could have incomplete SEFAs or funds may not be properly audited as stated in the Effect section of this finding.

Additionally, the Commonwealth believes that in regard to 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. 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 the fiscal year ended June 30, 2012. Therefore, no audit trail exists to test this process.

Furthermore, DDAP believes that it is not necessary or practical to provide subrecipients with the federal grant numbers at the time of award for the SAPT program due to the fact that the agency enters into five-year grant agreements with its subrecipients and the award identification is not available at the time of issuance of the five-year agreement or time of amendments. Also, these agencies believe it is not practical to provide the federal grant numbers to subrecipients because in any given state fiscal year two federal grant awards are included in the funds received by the subrecipient, and the amount specific to a certain grant award is controlled at the state level. However, we disagree that these complexities within the DDAP's contracting and payment processes exempt them from providing their subrecipients with required award information which includes the federal grant number.

Finally, it should be noted that PENNVEST has begun to properly identify subrecipients with the required federal award information beginning with loans closed during the fiscal year ended June 30, 2012. However, the majority of expenditures reported on the Commonwealth's fiscal year ended June 30, 2012 SEFA for the CWSRF and DWSRF programs applied to loans closed in prior periods. For these loans, subrecipients were not properly informed of all required federal award information. Therefore, these programs are included in the Condition of the finding for the fiscal year ended June 30, 2012.

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.

Finding 12-OB-02:

CFDA #10.555 – National School Lunch Program
CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)
CFDA #81.042 – Weatherization Assistance for Low-Income Persons (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 and 93.596 – CCDF Cluster
CFDA #93.658 – Foster Care – Title IV-E (including ARRA)
CFDA #93.659 – Adoption Assistance (including ARRA)
CFDA #93.767 – Children's Health Insurance Program
CFDA #93.778 – Medical Assistance Program (including ARRA)

Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 and at Least a $198,529 Known Understatement of the Cash Management Improvement Act of 1990 Interest Liability (A Similar Condition Was Noted in Prior Year Finding 11-OB-03)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Cash Management

<u>Federal Grant Numbers</u>: 11111PA345N2535, 12121PA345N2535, 11111PA705W1003, 11111PA705W1006, 11111PA705W5003, 12121PA705W1003, 12121PA705W1006, 12121PA705W5003, 11111PA405S2519, 12121PA405S2519, CS-420001, DE-EE0000290, DE-EE0000135 (ARRA), S010A090038, S010A100038, S010A110038, H027A090093, H027A100093, H027A110093, H126A100056, H126A110056, H126A120056, S367A090051, S367A100051, S367A110051, G1102PATANF, G1202PATANF, 1104PA4004, 1204PA4005, G10B1PALIEA, G11B1PALIEA, G12B1PALIEA, 1201PACCDF, 1101PACCDF, G1102PATANF, G1202PATANF, G1101PA1401, G1101PA1402 (ARRA), G1201PA1401, G1101PA1407, G1101PA1403 (ARRA), G1201PA1407, 50125PA5021, 50115PA5021, 1105PA5028, 1205PA5028

<u>Condition</u>: The Commonwealth of Pennsylvania (Commonwealth) has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement, the Commonwealth has developed policies and procedures contained in the Comptroller Operations' Directive #540.1 and has developed the CMIA Grant Drawdown System (GDS) which calculates and provides recommended drawdown amounts for most federal programs using the Average Daily Clearance (ADC) method.

As in prior years, we noted various weaknesses in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns, as follows:

Finding 12-OB-02: (continued)

- Although the Office of Comptroller Operations (OCO) 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 Pennsylvania Treasury for payment, is a SAP-generated date. Due to the weakness in IT General Controls (ITGC) noted in the SAP system as reported in findings in our current-year audit of the Commonwealth's Basic Financial Statements, there is a possibility that system generated dates could be modified and not detected, and therefore, we cannot place any reliance on dates posted on SAP.

- Within the Rehabilitation Services program, CFDA #84.126, we noted that the OCO posted one expenditure adjustment #7803528385 in September 2011 totaling $4,961,723, to transfer federal expenditures to the state ledger. This transfer was made to increase underfunded state expenditures to the required state match percentage for the Rehabilitation Services grant that was closing out on September 30, 2011. 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, 2012, or nine months later, the required state match for the two open Rehabilitation Services grants was still underfunded by approximately $5.6 million, so the excess federal cash remained on hand. Although this is a violation of CMIA, the GDS 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. Office of Comptroller Operations (OCO) believes that the auditors are misinterpreting the federal regulations. 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. However, OCO provided no documentation from USDE or U.S. Treasury to support OCO's interpretation. As a result, an unknown amount of CMIA interest is owed on this excess Rehabilitation Services federal cash for the fiscal year ended June 30, 2012 to be remitted during the fiscal year ended June 30, 2013.

Also, the state interest liability on the CMIA Annual Report for the fiscal year ended June 30, 2011, which was submitted to the U.S. Treasury during our current audit period fiscal year ended June 30, 2012, was understated by a minimum of $198,529 as follows:

- Within the Medical Assistance program, Department of Public Welfare's (DPW's) PROMISe system processed $157.5 million in school-based medical claims for the fiscal year ended June 30, 2012. Since the Pennsylvania Department of Education (PDE) administers the school-based medical program, DPW pays PDE for claims processed and PDE subsequently reimburses the school districts ($159 million during the fiscal year ended June 30, 2012) for services provided. Based on our review of the federal restricted receipts account used by PDE to reimburse the school districts, there is a carry-forward balance from the prior fiscal year of $169 million and a balance of $173 million as of June 30, 2012, which means PDE is not reimbursing the school districts prior to OCO's drawdown of federal funds. We also reviewed the GDS-301 Report which disclosed that the Commonwealth did not pay any interest on the balance of federal funds maintained within this account. As a result, the state's interest liability was understated by an estimated $198,529 for the Medical Assistance program, CFDA #93.778.

Criteria: 31 CFR 205.20 provides the following regarding clearance patterns:

States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

a. A clearance pattern must be auditable.

b. A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

c. A clearance pattern must include seasonal or other periodic variations in clearance activity.

Finding 12-OB-02: (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.

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.3 related to Application of Funding Techniques to Programs states:

6.3.1 The State shall apply the following funding techniques when requesting Federal funds for the component cash flows of the programs listed …

93.778 Medical Assistance Program
Component: Vendor Payments/Payments to Service Providers/Payroll
Technique: Average Clearance
Clearance Pattern: 10 Days

Cause: The OCO disagrees with all issues in the Condition and believes no corrective action is required.

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 the fiscal year ended June 30, 2011 are not accurate. Our testing disclosed a minimum estimate of $198,529 in understatements in the state interest liability to the federal government.

Finding 12-OB-02: (continued)

Recommendation: We recommend that OCO:

- Modify the drawdown system or have OCO 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; and

- Calculate any prior year additional June 30, 2011 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 the U.S. Treasury which would include obtaining written documentation that all issues in the condition are in compliance with cash management regulations, and no corrective action is required.

Agency Response: The Office of Comptroller Operations (OCO) disagrees with the condition that computer control weaknesses prevented the auditor from relying on the dates posted in SAP. The dates used to determine the day invoices are sent to Treasury for payment are system generated and cannot be edited by users. These facts provide assurance to the auditors that dates cannot be modified.

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 law, state education agencies are eligible for federal reimbursement for the health related services provided to children who are eligible for Medicaid. The PDE developed the School Based ACCESS program (SBAP) as a method to identify and collect eligible claims related to services provided to Medical Assistance eligible students. Due to the complexity of the program, the PDE has contracted with a service provider to enroll and train LEAs and to periodically collect and submit the claims to the Department of Public Welfare. Through this process Local Education Agencies are provided training which explains 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 the states interest liability was understated by $198,529.

Auditors' Conclusion: With regard to management's disagreement with the same identified weaknesses from the prior year, we contacted the CMIA program representative from the U.S. Treasury Department during the prior year audit and discussed whether or not to retain the identified weaknesses. The CMIA program representative requested that we forward the draft findings and agency response for review, which we did. Consequently, the CMIA program representative noted that he had no basis to recommend that we remove the conditions from our finding. Further,

Finding 12-OB-02: (continued)

management provided no current year documentation from federal officials to support the removal of any of 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: $198,529

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

Finding 12-OB-03:

CFDA #17.207, 17.801, and 17.804 – Employment Service Cluster
CFDA #17.245 – Trade Adjustment Assistance Program
CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)

General Information Technology Control Weaknesses Affecting the Payroll Process

Federal Grant Numbers: TA-17874-09-55-A-42, TA-19728-10-55-A-42, TA-21240-11-55-A-42, TA-22679-12-55-A-42, DV-19664-10-55-5-42, ES-17584-08-55-A-42, ES-19225-09-55-A-42, ES-20772-10-55-A-42, ES-22086-11-55-A-42, FS-993577-11

Type of Finding: Significant Deficiency

Compliance Requirement: Allowable Costs (Effort Reporting)

Condition: The Employment Service (ES) Cluster and Trade Adjustment Assistance (TAA) programs at the Department of Labor and Industry (L&I) and the Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) program at the Pennsylvania Infrastructure Investment Authority (PENNVEST) process payroll transactions through an automated workflow in SAP in which the internal controls are embedded in the automated system, such as the automated supervisor approval of employee hours worked. As noted in the Basic Financial Statement (BFS) Findings 12-03 and 12-08, deficiencies in the general controls of the SAP environment were identified. As a result, the operating effectiveness of the automated controls in the SAP payroll system could not be relied upon for these programs to support employee effort reporting. Additionally, there were no manual controls identified outside of the automated system to support the effort reporting of these federal programs.

As part of our audit of ES, TAA, and DWSRF, we audited payroll transactions for compliance with federal requirements (i.e., allowability). The samples included 40, 29, and 25 payroll transactions for ES, TAA, and DWSRF, respectively. For all transactions tested, there was appropriate supervisory approval of employee hours worked within the automated SAP workflow. However, due to the weaknesses identified in the SAP general controls environment, the effectiveness of these supervisory approval controls within the system could not be relied upon. Payroll transactions represent 37.25 percent, 3.65 percent and 3.26 percent, respectively, of the ES, TAA and DWSRF expenditures.

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

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the following standards: (a) they must reflect an after the fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee.

AICPA Professional Standards indicates in AU314.94 that "General controls are policies and procedures that relate to many applications and support the effective function of application controls by helping to ensure the continued proper operation of information systems. General controls commonly include controls over data center and network operations; system software acquisition, change, and maintenance; access security; and application system acquisition, development, and maintenance. While ineffective general controls do not, by themselves, cause misstatements, they may permit application controls to operate improperly and allow misstatement to occur and not be detected." According to AU314.96 "The auditor should consider whether the entity has responded adequately to the risks arising from Information Technology (IT) by establishing effective controls, including effective general controls upon which application controls depend."

Finding 12-OB-03: (continued)

Cause: General control deficiencies in the SAP environment reduce the operational effectiveness of automated internal controls in the SAP payroll workflow. Sufficient manual controls were not present to compensate for the general control deficiencies.

Effect: Lack of effective information technology general controls could result in inappropriate payroll costs to be charged to these federal programs if information technology access or segregation of duties control weaknesses are exploited.

Recommendation: The Commonwealth of Pennsylvania (Commonwealth) through their Office of Information Technology should continue their efforts to remediate the IT General Controls (ITGC) weaknesses and Commonwealth agencies should review and adopt user protocols to comply with ITGC policies and procedures. If deemed cost beneficial by management, Commonwealth agencies could develop manual compensating controls (for example: a quarterly or more frequent manual certification from the supervisors confirming their electronic approvals for the period) to ensure payroll is properly processed and approved until the deficiencies identified in the SAP general controls environment have been remediated.

Office of the Budget, Bureau of Accounting & Financial Management (BAFM) Response: We disagree with this finding. For the programs identified in this finding, the employees devoting time on the respective programs record their work time using the timesheet process defined for the Statewide accounting system. Subsequently, the employees' supervisors independently review the time reported by employees and approve/reject the time as reported by the employees. The supervisors draw conclusions on the validity of the time reported independent of the employees reporting the time. While we agree the Commonwealth can and is continuing to improve internal controls related to segregation of duties and role assignments as discussed in Finding 12-03, there are no specific conditions identified as weaknesses in the Commonwealth's payroll system in either that finding or Finding 12-08. In striving to build efficiencies in the Commonwealth's accounting system, our policies advocate agencies' compliance with standard accounting processes applied uniformly throughout the Commonwealth. Developing manual processes to supplement or replace the Commonwealth's policy for employees' time reporting and supervisory reviews/approvals is not efficient or cost beneficial given that no instances of noncompliance have been identified.

Auditors' Conclusion: The agency response indicates that the BFS Findings 12-03 and 12-08 do not specifically identify weaknesses in the Commonwealth's payroll system. As cited in the criteria, AICPA standards indicate that general controls are policies and procedures that relate to many applications and support the effective function of application controls helping to ensure proper operation of the information systems. As such, although not specifically cited in the two BFS findings, the ITGC deficiencies of SAP impact the application controls in the Commonwealth's SAP payroll system. The Commonwealth should continue its efforts to correct the ITGC deficiencies of SAP. Furthermore, we acknowledge it may be counterproductive to gaining efficiencies from automation to consider implementing manual procedures; however, the Commonwealth should consider the necessity and cost benefit to do so until such time that the deficiencies identified in the SAP general controls environment have been remediated.

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.

Finding 12-OB-04:

CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.558 – Child and Adult Care Food Program
CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)
CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)
CFDA #81.042 – Weatherization Assistance for Low-Income Persons (including ARRA)
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #84.394 – State Fiscal Stabilization Fund – Education State Grants (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 #93.767 – Children's Health Insurance Program
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
CFDA #93.917 – HIV Care Formula Grants
CFDA #97.067 – Homeland Security Grant Program
CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster
CFDA #14.228 and 14.255 – Community Development Block Grants – State-Administered CDBG Cluster (including ARRA)
CFDA #17.258, 17.259, and 17.278 – 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 Cluster (including ARRA)
CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)
CFDA #93.044, 93.045, and 93.053 – Aging Cluster
CFDA #93.558 and 93.714 – TANF Cluster (including ARRA)
CFDA #93.575 and 93.596 – CCDF Cluster
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 Findings 11-OB-04 and 11-DPW-16)

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

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Under the Commonwealth of Pennsylvania's (Commonwealth) implementation of the Single Audit Act, review and resolution of OMB Circular A-133 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

Finding 12-OB-04: (continued)

OB-BOA, the reports are transmitted to the various funding agencies in the Commonwealth and each agency in the Commonwealth's resolution system must make a management decision on each finding within six months of receipt by the Commonwealth to ensure corrective action is taken by the subrecipient. The agency is also responsible for reviewing financial information in each audit report (e.g., Schedule of Expenditures of Federal Awards {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 six month time frame required by OMB Circular A-133. Based on detailed testing of 40 subrecipient audit reports with findings at a sample of four different funding agencies (Department of Health (DOH), Labor and Industry (L&I), Department of Public Welfare (DPW), and Pennsylvania Infrastructure Investment Authority (PENNVEST), we noted that 39 out of 40 audit reports with findings at DOH, L&I, DPW, and PENNVEST were untimely processed and resolved between approximately 6.8 months to over 25 months after originally received by OB-BOA.

- DPW: The time period for making management decisions on findings ranged from approximately 7.8 months to over 17 months for all 44 subrecipient audit reports with findings on DPW’s audit report tracking list. We also noted that for 26 out of 29 subrecipient audit reports tested, the management decisions had not been made. It should be noted that DPW combines all federal and state funding together when awarding subgrants to counties and not-for-profit entities. In lieu of SEFA reconciliations, DPW places reliance on the Agreed Upon Procedures, which accompany the subrecipient Single Audits, to reconcile to adjustments determined from the cost settlement process. However, DPW’s cost settlement reconciliation process is not sufficient to determine the accuracy of each subrecipient’s federal expenditures reported on the SEFA in order to ensure the adequacy of each subrecipient’s Single Audit coverage.

- DOH: The time period for making a management decision on findings was approximately 6.5 months to over 15 months for 12 out of 13 subrecipient audit reports with findings. There were also delays in the completion of SEFA reconciliations at DOH.

- L&I: The time period for making a management decision on findings ranged from approximately 7 months to approximately 9 months for 3 out of 4 audit reports with findings. There was also a delay in the completion of the SEFA reconciliation for 1 out of 4 audit reports with findings.

- PENNVEST: The time period for making management decisions on findings ranged from 6.5 months to over 18 months for 10 out of 19 subrecipient audit reports with findings. There were also delays in the completion of SEFA reconciliations at PENNVEST.

- Pennsylvania Department of Education (PDE): The time period for making a management decision on findings was approximately 6.5 months to over 17 months for 122 out of 125 subrecipient audit reports with findings. There were also delays in the completion of SEFA reconciliations at PDE.

- Pennsylvania Department of Aging (Aging): The time period for making management decisions on findings ranged from approximately 7 months to over 9 months for 3 out of 12 audit reports with findings.

Our testing of subrecipient audit reports received by OB-BOA during the fiscal year ended June 30, 2012 disclosed that for 1 out of 41 subrecipient audit reports tested, OB-BOA did not identify the audit report as having a federal award finding and requiring a desk review, until being notified by the auditor, which resulted in the desk review not being conducted for over 10 months from the date that OB-BOA received the audit.

Finding 12-OB-04: (continued)

As part of our audit of OB-BOA's statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient dollars for each of the 27 major programs or clusters with material subgranted funds recorded on OB-BOA's subrecipient universe in the prior fiscal year (the fiscal year ended June 30, 2011) for which audits were required to be submitted in the current year (the fiscal year ended June 30, 2012). Our test work disclosed that for 4 out of the 27 major programs/clusters, unaudited dollars were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133, and 14 out of 27 major programs/clusters did not have unaudited dollars. However, for 9 out of 27 major programs/clusters, unaudited dollars were considered material to the program/cluster and the related audits should have been submitted, as follows:

		Fiscal Year Ended June 30, 2011 Expenditures		
CFDA #	Program Name	Total Subgranted Funds Per OB-BOA Universe	Total Subgranted To Entities Without Audits *	Number of Unaudited Subrecipients
10.558	Child and Adult Care Food Program	$ 90,083,493	$ 8,127,484	2
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	425,398,364	72,528,359	5
66.458	Capitalization Grants for Clean Water State Revolving Funds	154,911,531	7,164,525	8
66.468	Capitalization Grants for Drinking Water State Revolving Funds	65,814,174	23,835,813	4
84.010, 84.389	Title I, Part A Cluster	784,806,315	295,726,897	7
84.027, 84.173, 84.391, 84.392	Special Education Cluster	618,703,519	61,590,724	1
84.367	Improving Teacher Quality Program	119,235,559	23,634,652	7
84.377, 84.388	School Improvement Grants Cluster	16,306,498	7,994,615	2
84.394	State Fiscal Stabilization Fund	742,896,223	151,793,733	1

* Totals subgranted to entities without audits only include entities receiving $500,000 or more which were required to submit audits in our current audit period.

Finding 12-OB-04: (continued)

<u>Criteria</u>: 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 representative of state payment records each year, and that the related federal programs have been properly subject to Single Audit procedures.

OMB Circular A-133, Section 320, Report Submission, states the following:

(a) <u>General.</u> 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, <u>Remedies for Recipient Noncompliance with Audit Requirements</u>, 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.

Finding 12-OB-04: (continued)

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. We noted a significant improvement in the overall timeliness of OB-BOA's audit report processing in the current audit period, and the processing delays noted in the first bullet of the Condition appeared to be mainly caused by untimely processing of the audit reports by the respective agencies, not OB-BOA.

Regarding the one audit received by OB-BOA which was not properly identified as requiring a desk review, OB-BOA personnel indicated that this was an isolated occurrence, and they initiated follow up of the audit report after being notified of the issue by the auditor.

Regarding the unaudited subrecipients, some of the unaudited dollars identified were subgrants to the School District of Philadelphia which received $722,336,964 from the Commonwealth during the fiscal year ended June 30, 2011. OB-BOA personnel stated that they believed they fulfilled their responsibilities by sending dunning letters to the unaudited subrecipients in May 2012 and by transmitting the unaudited subrecipients' information to the respective lead agency personnel for follow up in July 2012. As a result of this action, the lead agency personnel at PDE, PENNVEST, and DPW would be responsible for implementing remedial action procedures. PDE personnel noted that 2 additional staff members were hired after the end of the audit period. PDE personnel also stated that they were corresponding with the subrecipient in order to obtain the required audit report, and PDE's Remedial Action Policy does not require the subrecipient's funding to be discontinued as long as the subrecipient is maintaining contact with PDE. DPW stated that they have remedial procedures in place, including the withholding of state funds. No additional explanation was provided by PENNVEST other than staffing issues.

Some of the unaudited dollars identified under the Child Nutrition Cluster and the Capitalization Grants for Drinking Water State Revolving Funds Program were subgrants to the City of Philadelphia which received $301,045,879 from the Commonwealth during the fiscal year ended June 30, 2011. DPW was the lead agency for follow up on this audit report. Despite the Commonwealth's receipt of this subrecipient's Single Audit in late January 2013, 10 months after the March 31, 2012 due date, these two federal programs/clusters and immaterial funds under the CDBG Cluster were deemed to be unaudited since they were not included on the subrecipient's audit report SEFA.

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 reviews which are not being performed timely and late audit report submissions, there is an increased risk that subrecipients could be misspending and/or inappropriately tracking and reporting federal funds over multiple year periods, and these discrepancies may not be properly monitored, detected, and corrected by agency personnel on a timely basis as required.

Since the Commonwealth did not obtain and review the required audit reports, and federal funds were excluded from one material subrecipient's audit report, material federal funds in the major programs and clusters listed above were not audited, resulting in noncompliance with OMB Circular A-133. In addition, a weakness exists since PDE, PENNVEST, and DPW were not following their respective remedial action plans or the plans were inadequate. Material dollars may be unaudited in the future without effective remedial action from PDE, PENNVEST, and DPW to enforce compliance.

Recommendation: We recommend that the above weaknesses that cause untimely OMB Circular A-133 audit resolution, including untimely review of the SEFA, 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.

Finding 12-OB-04: (continued)

We also recommend that PDE, PENNVEST, and DPW continue their efforts to obtain A-133 audits from the unaudited entities and ensure audit coverage of the unaudited federal funds. Finally, PDE, PENNVEST, and DPW should adhere to the steps and timeframes in their respective remedial action plans and consider withholding funding on a timely basis from subrecipients which do not comply with audit submission requirements.

BOA Response: BOA acknowledges that for 1 out of 41 subrecipient audit reports the AG tested BOA did not identify the audit report as having a federal award finding and requiring a desk review. This was an oversight on the part of BOA. We have completed our desk review of this report; the results of our desk review will be communicated the week of February 18, 2013.

In an attempt to assist the agencies in meeting the six month timeframe mandated by OMB, BOA is in the process of modifying certain weekly report listings it sends to the agencies. These report listings are used to notify the single audit contacts about the reports uploaded each week to the collaboration site. The agencies will now be able to determine which reports contain federal award findings once they view these weekly report listings. This listing will now include a column indicating whether the subrecipient's single audit report has findings by indicating "Y=Yes" or "N=No." This added feature will make it readily apparent to the Commonwealth agencies which reports have findings. They can then process those reports immediately to ensure timely audit resolution of the findings.

DPW Response: The DPW concurs with this finding and we are working to rectify the issues identified by the auditors.

DOH Response: DOH agrees with the finding.

L&I Response: L&I agrees with the finding. Procedures to expedite subrecipient audit reports with findings were not consistently applied during the audit period.

PENNVEST Response: PENNVEST agrees with the finding.

PDE Response: The PDE, Bureau of Budget and Fiscal Management has assigned a position to be responsible for the review of the Subrecipient Audit Reports and implementation of the Remedial Action Process for Subrecipients that have not submitted their Audit Reports in accordance with OMB Circular A-133 as stated in the Corrective Action Plan for Prior Year Finding 11-OB-04.

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

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

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

Summary Schedule of Prior Audit Findings

Commonwealth of Pennsylvania

Finding	State Agency/Finding	Comments

FINDINGS FOR THE YEAR ENDED JUNE 30, 2011:

OFFICE OF THE BUDGET (OB)

Finding	State Agency/Finding	Comments
11-OCO-01	Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports (Prior Year Finding #10-42)	Corrective action was taken.
11-OCO-02	Inaccurate Reporting on the SF-425 Report	Corrective action was taken.
11-OB-01	Lack of Documentation to Support Contracting and Procurement (Prior Year Findings #10-17 and 10-95)	Corrective action was taken.
11-OB-02	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)	Disagreement was expressed in the audit report in regard to providing award information at the time of disbursement, and no changes are planned in the disbursement process. However, positive discussions have been held in meetings with the auditors and individual agencies about providing appropriate award information on the subrecipient award documents.
11-OB-03	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)	Corrective action was taken for those parts of the finding with which there was agreement. As noted in the audit report, there is continued disagreement in regard to a number of other issues, and no corrective action plan was determined to be required by the Office of Comptroller Operations (OCO) for those.

Finding	State Agency/Finding	Comments
OFFICE OF THE BUDGET (OB) (Continued)		
11-OB-04	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #10-102)	Corrective action was taken by most of the agencies involved in this finding. The remaining agencies are the Department of Public Welfare (DPW) and the Department of Health (DOH). The DPW, Audit Resolution Section has developed procedures to reduce the scope of the review for agencies that receive less than $300,000 in pass-through funding from the DPW (which includes many of the school districts) and we anticipate that these steps will help to bring us into compliance with the 6 month requirement. The DPW is also focusing on Single Audits that contain findings. For the SEFA reconciliations, 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. 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.
11-OB-05	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	It is BOA's understanding that this issue was discussed with the independent auditors during PDE's SAS 99 meeting. This finding was not repeated during the current audit.
DEPARTMENT OF AGING (PDA)		
11-PDA-01	Pennsylvania Department of Aging Monitoring of Area Agencies on Aging Subrecipients Needs Improvement (Prior Year Finding #10-73)	Corrective action was taken.
11-PDA-02	Pennsylvania Department of Aging's Procedures for Calculating the Allocations Under the Nutrition Services Incentive Program Grant Awards to Areas on Aging Needs Improvement	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF AGRICULTURE (AGRI)		
11-AGRI-01	Internal Control Weaknesses and Noncompliance with Recordkeeping and Reporting to Verify Commodity Receipts and Distributions	The Bureau of Food Distribution started documenting all variances and resolutions from reconciliations.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
11-DCED-01	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #10-38)	Staff has been in training and will continue to be trained. Other options for alleviating the backlog are being pursued at this time.
11-DCED-02	Internal Control Deficiency Over Period of Availability Requirement (Prior Year Finding #10-36)	Corrective action was taken.
11-DCED-03	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)	A Directive addressing Eligibility, Client Prioritization, and the Weatherization Service List is near completion and will be issued in July. The Directive will cover the following policy/process changes: 1. An Income Eligibility Verification Sign-Off is required. 2. Eligibility Time Periods have been defined and clarified. 3. LIHEAP clients are not automatically eligible for weatherization. 4. Verification of identity is required. 5. Information on rent being paid by clients must be collected. 6. Additional documentation regarding rental units is required. 7. LIHEAP High Energy Use lists are an optional resource, not a requirement. 8. The Weatherization Service List has been broadly updated. This directive and the changes within it are a direct result of the audit and monitoring findings of the Pennsylvania Weatherization Assistance Program by the Department of the Auditor General and the Department of Energy. Required webinar training on the directive is scheduled for August.

Finding	State Agency/Finding	Comments
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED) (Continued)		
11-DCED-04	Deficiencies in Information Technology Controls at the Department of Community and Economic Development (Prior Year Finding #10-54)	Corrective action was taken.
DEPARTMENT OF CORRECTIONS (DOC)		
11-DOC-01	Noncompliance and Weak Internal Controls Over Department of Corrections' Payroll Leads to $11,317 in Questioned Costs (Prior Year Finding #10-71)	Corrective action was taken.
DEPARTMENT OF EDUCATION (PDE)		
11-PDE-01	Internal Control Deficiency in Pennsylvania Department of Education Monitoring of School Food Service Accounts	The PDE does not agree with Finding #11-PDE-01 based on regulations and USDA guidance. This finding was not repeated during the current audit.
11-PDE-02	Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding #10-22)	The PDE has implemented corrective action on an on-going basis. The following are the roll out phases of the .net platform: CACFP, September 4, 2012; SFSF, March 2013; and School Nutrition Programs, May 2013. The tentative schedule for the Deployment Log/Serve Log Comparison is November 16, 2012. However, the item from the original Finding recommending "Review Log Option with DFN Staff" had been completed July 2010; this Finding continuously evolves each audit year. The PDE is awaiting USDA's Program Determination Letter.
11-PDE-03	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding #10-28)	New procedures have been implemented for audits of FFYE September 30, 2011. The backlog of audits from the previous year was eliminated.
11-PDE-04	Internal Control Deficiencies in Pennsylvania Department of Education Monitoring of Child and Adult Care Food Program Subrecipients (Prior Year Finding #10-29)	PDE implemented a new policy and process that were approved by USDA.
11-PDE-05	Pennsylvania Department of Education Approved an Institution to Participate in the Child and Adult Care Food Program That Did Not Meet Eligibility Requirements	The PDE does not concur with Finding #11-PDE-05 and is awaiting USDA's Program Determination Letter. This finding was not repeated during the current audit.

Finding	State Agency/Finding	Comments
DEPARTMENT OF EDUCATION (PDE) (Continued)		
11-PDE-06	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)	The Bureau of Assessment and Accountability is using a revised set of procedures and forms for the SRC and CSPR processes.
11-PDE-07	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)	PDE updated the monitoring routing sheet to add additional steps to the review process. PDE performed on-site visits October 24, 2011 and the week of February 13, 2012.
11-PDE-08	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)	Corrective action was taken.
11-PDE-09	Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of ARRA Funds (Prior Year Findings #10-60 and 10-68)	The PDE does not concur with Finding #11-PDE-09 and is awaiting USDE's Program Determination Letter.
DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)		
11-DEP-01	Noncompliance and Internal Control Weakness Over ARRA-Funded Pennsylvania Sunshine Program Rebates at Department of Environmental Protection Results in Questioned Costs of $29,920	Corrective action was taken.
11-DEP-02	Noncompliance and Internal Control Weakness Over Department of Environmental Protection's System of Cash Management and Reporting of Expenditures	DEP disagrees with this finding. As indicated in DEP's Corrective Action Plan, DEP consulted with the Department of Energy and concluded that all the submitted SF-425 reports were complete and accurate. All cash management best practices were followed and as such no corrective action was necessary. This finding was not repeated during the current audit.

Finding	State Agency/Finding	Comments
DEPARTMENT OF GENERAL SERVICES (DGS)		
11-DGS-01	Lack of Documentation to Support Contracting and Procurement	Corrective action was taken.
DEPARTMENT OF HEALTH (DOH)		
11-DOH-01	Noncompliance and Internal Control Weaknesses Related to Erroneous Food Instruments (Prior Year Finding #10-25)	Corrective action was taken.
11-DOH-02	Noncompliance and Internal Control Weaknesses Related to Rebates (Prior Year Finding #10-24)	Corrective action was taken.
11-DOH-03	Unsupported Payroll Costs (Prior Year Finding #10-74)	Corrective action was taken.
11-DOH-04	Inadequate Program Monitoring of Department of Health Substance Abuse Prevention and Treatment Subrecipients (Prior Year Finding #10-99)	Corrective action was taken.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)		
11-PID-01	Internal Control Weakness in the Review of Subrecipient Monitoring Reports	Corrective action was taken.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
11-L&I-01	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #10-40)	A CWDS user review was conducted earlier this year in which access records were requested and reviewed. Additionally, an email was sent out to all field staff on March 19, 2012 reminding them of the proper procedures to observe when someone no longer needs access to CWDS and how they should be removed on the last day of work. Lastly, BWDP will be conducting train-the-trainer sessions over the next couple months addressing security access issues. Every PACL and LWIA will be represented in these sessions in addition to BWDP and partner staff (approximately 150 staff).

Finding	State Agency/Finding	Comments
DEPARTMENT OF LABOR AND INDUSTRY (L&I) (Continued)		
11-L&I-02	Control Weaknesses Exist in Labor & Industry's Subrecipient Monitoring of Eligibility Determinations for Individuals (Prior Year Finding #10-41)	L&I has updated the monitoring tool to include procedures to ensure LWIAs have a written policy that requires review of participant eligibility determinations and questions if the LWIB's monitoring tool includes the review of the subrecipient's process for reviewing and verifying participant eligibility. The new monitoring steps will be in place for the monitoring of the 2011-12 year which begins in August 2012.
11-L&I-03	Control Weaknesses at Labor and Industry Regarding Subrecipient Expenditure Monitoring (Prior Year Finding #10-43)	Corrective action was taken.
11-L&I-04	Noncompliance Related to Period of Availability for Local Areas Resulting in Questioned Costs of $155,590	As noted in the Single Audit report, L&I disagrees with this finding. L&I has made attempts to contact USDOL to obtain its opinion on the interpretation of the regulation but no response has been received to date. In the interim the PY 2009 LWIA closeout packages are complete. L&I will ensure that funds will be recaptured from the LWIAs at the end of the first 2 years of the grant period. The PY 2010 LWIA closeout packages are due from the LWIAs in August 2012. This finding was not repeated during current audit.
11-L&I-05	Inadequate Monitoring of the ETA-9149 entitled, "Youth Served With WIA Recovery Resources Monthly Report" (Prior Year Finding #10-44)	Corrective action was taken.
11-L&I-06	A Material Weakness Exists in Labor and Industry's Procurement System Related to Debarment and Suspension (Prior Year Finding #10-62)	Corrective action was taken.
11-L&I-07	Labor and Industry Did Not Comply With Maintenance of Effort Requirements Resulting in Questioned Costs of $19,763	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
11-DMVA-01	Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of $60,435 (Prior Year Finding #10-35)	Corrective action was taken by DMVA for their portion of this finding. As noted in the Single Audit report, Comptroller Operations disagrees with the portion of the finding that pertains to them.
11-DMVA-02	Equipment Management Internal Control Deficiencies and Noncompliance (Prior Year Finding #10-34)	Corrective action was taken.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
11-PENNVEST-01	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)	Changes were made to the report. EPA accepted the CWSRF Annual Report and had no issues in the Annual PER.
11-PENNVEST-02	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding #10-53)	IT has implemented the following controls to address segregation of duties: (1) more defined policies to address separation of duties during operations and procedures; (2) specific workflow approval and reviews for production change management; and (3) independent monitoring of production environments and databases to ensure permissions and controls are in adherence to separation of duties governed by more defined policy and procedures.

Finding	State Agency/Finding	Comments
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST) (Continued)		
11-PENNVEST-03	Internal Control Improvements Needed in Subrecipient Loan Monitoring System	Additional system issues with OnBase have surfaced and a decision has been made to life cycle the program and streamline the system. This update should be completed by December 2012. A determination of the missing financial statements will be made and the borrowers contacted to submit the financial statements by the end of November 2012 rather than the original planned completion date of April 2012. 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 December 2012 rather than mid-summer. The person tracking these audits is catching up with the backlog that had developed. An additional staff position is approved to work on Loan Servicing; however, PENNVEST is working with HR on the job classification. Once that is resolved, the position will be advertised and filled. This is estimated to be completed by about January 2013.
DEPARTMENT OF PUBLIC WELFARE (DPW)		
11-DPW-01	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)	The DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts to comply with the password policies.
11-DPW-02	Internal Control Deficiencies and Noncompliance at Department of Public Welfare Related to Returned Electronic Benefits Transfer Cards (Prior Year Finding #10-18)	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
11-DPW-03	Internal Control Deficiency and Compliance Finding at Department of Public Welfare Related to Timely Filing of Monthly and Quarterly Reports	Corrective action was taken.
11-DPW-04	Internal Control Deficiency and Compliance Finding at DPW Related to Electronic Benefit Transfer Daily Reconciliation	Corrective action was taken.
11-DPW-05	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #10-30)	Changes have been made to the procedures for processing SPALs and who processes them. Increased monitoring has been put in place for the SPAL payments.
11-DPW-06	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)	Corrective action was taken.
11-DPW-07	Inaccurate Reporting on the Temporary Assistance for Needy Families' ACF-199 Data Report (Prior Year Finding #10-78)	DPW disagreed with this finding. ACF is reviewing this finding and will make a decision.
11-DPW-08	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)	DPW started to perform the assessments on the applications. 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.
11-DPW-09	Unallowable Contract Expenditures Resulted in $507,835 in Questioned Costs (Prior Year Finding #10-83)	DPW disagrees with this finding, and has initiated opening dialogue with HHS/ACF via email to discuss the finding. We have not received a response as to whether they have reviewed the finding at this time. The finding was not repeated during the current audit.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
11-DPW-10	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)	Changes have been made in the eCIS to prevent people with the same address from applying. As of the beginning of the 2011-2012 LIHEAP season, the eCIS 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. DPW disagrees with the other portions of the finding.
11-DPW-11	Noncompliance and Internal Control Weakness Over Health and Safety Requirements	On April 8, 2012, OCDEL was approved for two additional wage positions. Positions were posted April 23, 2012 to May 7, 2012. Both Certification Offices had their selected candidates denied by Civil Service for not meeting new minimum employment and training requirements. This caused a delay as they worked to identify the next eligible candidates. The two additional staff will be on board by August 20th.
11-DPW-12	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)	The pilot for the new block grant program has been approved and is in the process of being implemented. A Monitoring section will be created for the block grant program, as well as the SSBG funding.
11-DPW-13	Inadequate Controls Related to the Charging of Youth Development Services Personnel Costs (Prior Year Finding #10-92)	Corrective action was taken.
11-DPW-14	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses	A response was sent to CMS on July 2, 2012 explaining why DPW disagreed with the finding. DPW is awaiting CMS's decision.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
11-DPW-15	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)	1. As noted in the Single Audit report, the SPBP disagrees with the AG'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. 2. Corrective action is in process. 3. Corrective action is in process. 4. Corrective action was taken. In addition to the completion of the identified action steps the SPBP is working with the PDA to ensure a separate financial schedule and separate reports on internal controls and compliance are included in the independent audit performed on the vendor. (The SPBP holds an MOU with the PDA for processing services completed by the PDA's contracted vendor on behalf of the SPBP.)
11-DPW-16	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)	The DPW, Audit Resolution Section has developed procedures to reduce the scope of the review for agencies that receive less than $300,000 in pass-through funding from the DPW (which includes many of the school districts) and we anticipate that these steps will help to bring us into compliance with the 6 month requirement. The DPW is also focusing on Single Audits that contain findings. For the SEFA reconciliations, 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.
DEPARTMENT OF TRANSPORTATION (PennDOT)		
11-PennDOT-01	Internal Control Deficiencies Related to Buy American ARRA Provisions (Prior Year Finding #10-46)	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF TRANSPORTATION (PennDOT) (Continued)		
11-PennDOT-02	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding #10-45)	On July 24, 2012, PennDOT was notified by Comptroller Operations that each PennDOT Deputy may continue to delegate signature authority to their respective staff. The Department is in the process of re-reviewing all documents that require signature authority. Once completed, organizations will be asked to put new signature authorization cards in place for their employees who need such authorities. Current signature cards will be revoked. The Department has developed a new database to house this information and to provide reporting information to organizational leaders as needed. Comptroller Operations will continue to receive the original signature authorization cards per the Management Directive.
11-PennDOT-03	Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects (Prior Year Finding #10-47)	Publication 2 has been updated. PennDOT has issued a Strike Off Letter 420-11-08 on 10/11/11 to address the finding. Pub 2 was updated and issued in March 2012. Pub 39 was updated in October 2011. Agency has filed for a resolution letter with FHWA. FHWA is currently reviewing the CAP.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2010:

OFFICE OF THE BUDGET (OB)

10-28	Lack of Staffing Resources Results in For-Profit Subrecipients Not Being Properly Audited	Refer to finding 11-PDE-03 for the status of this issue.
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. Since OCO properly prepared requests for reimbursement, no Corrective Action Plan was prepared to address reimbursement requests made prior to Treasury payment.
10-42	Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports	Corrective action was taken.
10-45	Material Weaknesses Exist Due to the Lack of Reconciliations Between SAP and PADOT's ECMS System and Poor IT General Controls	Refer to finding 11-PennDOT-02 for the status of this issue.

Finding	State Agency/Finding	Comments
OFFICE OF THE BUDGET (OB) (Continued)		
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	Corrective action was taken.
10-87	Noncompliance and Internal Control Weakness in Subrecipient Monitoring	Corrective action was taken.
10-97	Lack of Timely Periodic Reconciliations of the PROMISe Provider Payment System to the SAP General Ledger Accounting System	A discussion between key Auditor General staff and Comptroller Operations staff to revisit and demonstrate the adequacy and support of the present controls that are in place within OCO to validate and reconcile the program payments made via the PROMISe system to the summary records in the SAP Commonwealth ERP system occurred during the last quarter. As a result of those discussions the Auditor General staff agreed that the controls demonstrated were adequate and the issue would be resolved pending their review. However, we are still awaiting an official response from the Auditor General.
10-102	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #09-73 and #09-74)	Refer to finding 11-OB-04 for the status of this issue.
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)	Refer to finding 11-OB-03 for the status of this issue.

Finding	State Agency/Finding	Comments
DEPARTMENT OF AGING (PDA)		
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 was taken.
10-73	PDA Monitoring of AAA Subrecipients Needs Improvement (Prior Year Finding # 09-49)	Corrective action was taken.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
10-36	Internal Control Deficiency Over Period of Availability Requirement	Corrective action was taken.
10-38	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #09-29)	Refer to finding 11-DCED-01 for the status of this issue.
10-54	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #09-39)	Refer to finding 11-DCED-03 for the status of this issue.
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	DCED originally disagreed with much of this finding. After the finding was issued, DCED continued to provide back-up documentation to the AG in process to the disagreement/discrepancies to this finding. DCED did not initially take action (with aspects of this finding that we disagreed to) until the AG provided DCED an updated conclusion based upon further back-up documentation that was provided to the Auditor General from DCED. A Special Report was not issued by the Auditor General's office until February 2012. DCED provided an extensive update to the Bureau of Financial Management regarding our corrective action plan on 5/21/2012 which was included in a collective Commonwealth response to HHS on 6/12/12.

Finding	State Agency/Finding	Comments
DEPARTMENT OF CORRECTIONS (DOC)		
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 was taken.
DEPARTMENT OF EDUCATION (PDE)		
10-21	PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents	The PDE did not concur with Finding #10-21 and is awaiting USDA's Program Determination Letter. This finding was not cited in PDE's subsequent Single Audit review for the year ended June 30, 2011.
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)	Refer to finding 11-PDE-02 for the status of this issue.
10-29	Internal Control Deficiencies in PDE Monitoring of CACFP Subrecipients	Refer to finding 11-PDE-04 for the status of this issue.
10-57	Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #09-41)	Refer to finding 11-PDE-06 for the status of this issue.
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	Refer to finding 11-OB-02 for the status of this issue.
10-59	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #09-40)	Corrective action was taken.
10-60	Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #09-42)	Refer to finding 11-PDE-07 for the status of this issue.

Finding	State Agency/Finding	Comments
DEPARTMENT OF EDUCATION (PDE) (Continued)		
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.
10-68	Noncompliance and Internal Control Deficiencies in PDE Monitoring of State Fiscal Stabilization Fund Subrecipients	Refer to finding 11-PDE-09 for the status of this issue.
DEPARTMENT OF GENERAL SERVICES (DGS)		
10-33	Lack of Documentation to Support Contracting and Procurement	Corrective action was taken.
10-70	Noncompliance With Allowability Requirements Results in $111,548 In Questioned ARRA Costs	DGS still disagrees with all findings and maintains that payments made to the Chief Accountability Officer under the SFSF Government Services Program were allowable and are supported. As a result, no Corrective Action Plan is required.
DEPARTMENT OF HEALTH (DOH)		
10-23	Weaknesses in Department of Health Monitoring of WIC Local Agencies (Prior Year Finding #09-24)	Corrective action was taken.
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	Corrective action was taken.
10-74	Unsupported Payroll Charges Results in $2,513,164 in Questioned Costs	Corrective action was taken.
10-99	Inadequate Program Monitoring of Department of Health SAPT Subrecipients (Prior Year Finding #09-70)	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF HEALTH (DOH) (Continued)		
10-100	Noncompliance and Internal Control Weaknesses Result in $16,520 in Questioned Personnel Costs (Prior Year Finding #09-71)	Corrective action was taken.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
10-40	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #09-35)	Refer to finding 11-L&I-01 for the status of this issue.
10-41	Control Weaknesses Exist in Eligibility Determinations for Individuals	Refer to finding 11-L&I-02 for the status of this issue.
10-43	Control Weaknesses at L&I and Noncompliance Regarding Subrecipient Expenditures Resulting in Questioned Costs of at Least $80,924	Corrective action was taken.
10-62	A Material Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #09-46)	Corrective action was taken.
10-64	Noncompliance Exists Due to the Lack of Federal Review and Approval of the Hiram G. Andrews Center Cost Allocation Plan	L&I disagreed with this finding and feels that no corrective action is necessary. USDE indicated in their May 31, 2012 Program Determination Letter that they are in agreement with L&I and therefore USDE considers this finding to be resolved.
10-65	A Material Weakness Exists in L&I's Procedures for Performing Eligibility Determinations (Prior Year Finding #09-47)	Corrective action was taken.
10-66	A Material Weakness Exists Over the Preparation and Submission of the Annual RSA-2 Report	The revised manual was run by 9/30/11, the Division Chief had reviewed all federal reports prior to their final by 11/1/11 and a revised report to USDE after consulting and complying with RSA's guidelines was completed by 6/15/11. A task timeline and progress reports for submission of all federal reports to the Bureau Directors is still ongoing due to the resignation of key staff and vacancies in those positions. Work is expected to continue on them as updates on the reports and manuals progress.

Finding	State Agency/Finding	Comments
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
10-32	Internal Control Deficiencies in Federal Reporting and Cash Management (Prior Year Finding #09-27)	Corrective action was taken.
DEPARTMENT OF TRANSPORTATION (PennDOT)		
10-46	Internal Control Deficiencies Related to Buy American ARRA Provisions	Corrective action was taken.
10-47	Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects	Refer to finding 11-PennDOT-03 for the status of this issue.
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. US DOT issued a letter wherein they consider this finding to be resolved and closed.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)		
10-95	Lack of Documentation to Support Subrecipient Contracting and Procurement	The Department has provided the AG with all the documents but with names redacted on the final scoring sheets. This is the standard position all Commonwealth Agencies are using and we believe that the issue is resolved. There is no resolution documentation from a federal agency that pertains to this finding. This is consistent with OGC and BFM direction concerning the names of the evaluators. The Department will allow the Auditor General to review the unredacted documents at the Department but will not permit the unredacted version to be copied or taken out of the Department. We anticipate this being resolved by 9/30/12.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
10-49	PENNVEST Did Not Specify Required Federal Award Information in Subrecipient Award and Disbursement Documents Resulting in Noncompliance With OMB Circular A-133	Refer to finding 11-OB-02 for the status of this issue.

Finding	State Agency/Finding	Comments
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST) (Continued)		
10-50	Material Weaknesses Cause Errors in the CWSRF Annual Report Submitted to EPA (Prior Year Finding #09-37)	Refer to finding 11-PENNVEST-01 for the status of this issue.
10-52	Control Deficiencies Exist in PENNVEST's Subrecipient Audit Resolution Process	Corrective action was taken.
10-53	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding #09-38)	Refer to finding 11-PENNVEST-02 for the status of this issue.
DEPARTMENT OF PUBLIC WELFARE (DPW)		
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. This finding was not repeated in the subsequent Single Audit.
10-18	Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #09-21)	Corrective action was taken.
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	Refer to finding 11-DPW-01 for the status of this issue.
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. This finding was not repeated in the subsequent Single Audit.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
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)	Refer to finding 11-DPW-05 for the status of this issue.
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. This finding was not repeated in the subsequent Single Audit.
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)	Refer to finding 11-DPW-07 for the status of this issue.
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 was taken.
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)	Refer to finding 11-DPW-08 for the status of this issue.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
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. This finding was not repeated in the subsequent Single Audit.
10-82	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #09-56)	Refer to finding 11-DPW-10 for the status of this issue.
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. Refer to finding 11-DPW-09 for a status update.
10-84	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of $64,781 in LIHEAP (Prior Year Finding #09-57)	Refer to finding 11-DPW-10 for the status of this issue.
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. This finding was not repeated in the subsequent Single Audit.
10-89	Internal Control Weaknesses Exist Over DPW's Subrecipient Expenditures Claimed For Federal Earmarking Requirements	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
10-91	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #09-64)	Refer to finding 11-DPW-12 for the status of this issue.
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. This finding was not repeated in the subsequent Single Audit.
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. ACF is reviewing this finding and will make a decision. This finding was not repeated in the subsequent Single Audit.
10-96	DPW Failed to Obtain an Outside Service Auditor's Report for a Third Party Drug Rebate Processor (Prior Year Finding #09-67)	Refer to finding 11-DPW-08 for the status of this issue.
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)	Refer to finding 11-DPW-15 for the status of this issue.
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)	Refer to finding 11-DPW-16 for the status of this issue.

Corrective Action Plans

Commonwealth of Pennsylvania

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-01	**PennDOT**	Kathryn Barone, Finance Operations Chief, Bureau of Fiscal Management	**Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (A Similar Condition Was Noted in Prior Year Finding 11-03)** PennDOT will continue to work with OB-BAFM to implement procedures to identify when a material portion of an infrastructure asset has been replaced. Phase 1 Retire the six FY 2011 infrastructure projects identified as capitalized in SAP in accordance with GASB Statement 34 by March 31, 2013. Phase 2 Review FY 2012 infrastructure projects to identify those capitalized in SAP in accordance with GASB Statement 34 and retire any that are identified by June 30, 2013. Phase 3 Apply the methodology when capitalizing infrastructure assets effective July 1, 2013.	**07/01/2013**
12-02	**OB-BPS**	Deb Chernicoff, Director	**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 11-09)** 1. A workgroup continues to discuss policy relating to one-time vendors.	**12/31/2013**
			2. Current SAP functionality does not exist to perform this check electronically. This will be incorporated into the new policy.	**12/31/2013**
			4. Current SAP functionality does not exist to perform this check electronically. This will be incorporated into the new policy.	**12/31/2013**
			5. If a one-time vendor is entered by a Comptroller Office Supervisor, the Manager, Assistant Director, or Director will be required to unblock the invoices to separate the entry and approval process.	**06/30/2013**
	OB-BAFM	Brian Seno, Assistant Director	3. DPW Third Party Liability (TPL) Refunds: A batch number is provided with the supporting documentation that accompanies each batch of refunds checks received. This batch number is uniquely traceable to the origin claim/payment within the non-	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-02 (cont'd)		Cathy Kelly, Commonwealth Accountant Manager	SAP, agency-owned system. In addition to attaching any supporting documentation that may be applicable to the SAP refund transaction, a step in this particular refund business process within the OCO/BAFM has been further added to include the batch number(s) in the text field of the SAP refund transaction.	
			Low Income Home Energy Assistance Payments (LIHEAP) Refunds:	**06/30/2013**
			Currently select energy suppliers (vendors) provide supporting documentation with COPA issued refunds that reflect a vendor number within the supplier's business records (this is not to be confused with an SAP vendor number). This vendor number is uniquely traceable to the origin recipient claim/payment within the non-SAP, agency-owned eCis system. The OCO/BAFM staff is presently working with the DPW program staff to reach out to all suppliers in an effort to ensure the necessary vendor information is provided with all refunds and thus to ensure a traceable trail to the origin claim/payment. The vendor number(s) will be added to a worksheet corresponding with each recipient name and amount of refund. This worksheet, along with any other documentation that may have been forwarded by the supplier, will be attached to the SAP refund transaction.	
			Other:	**Completed**
			Any additional refunds (applicable to other non-SAP system generated payments) that may be received in the future will be carefully investigated to ensure there is an appropriate link that identifies the refund with the origin non-SAP system payment. If a link is not identified, OCO/BAFM staff will partner with the appropriate program office to obtain and consistently apply such link to the SAP refund transaction(s).	
12-03			**Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 11-07)**	
	OA	Colby Smith, IES Director Kinzer Shearer, IES Assistant	1. Resolved with the implementation of the GRC firefighter process at IES.	**May 2012**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-03 (cont'd)		Director for Technical Operations John Clark, Special Assistant to the Secretary of Administration		
	OB-BPS	Deb Chernicoff, Director	3.a. Access was removed. 3.d. 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. 3.e. The Bureau of Quality Assurance is coordinating the GRC project to review all SAP roles. 3.f. 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. We are updating the Advancement Account Directive and Manual and exploring transitioning the check printing to the agency.	**Completed** **N/A** **06/30/2013** **12/31/2013**
	OB-BQA	Joshua Naylor, Assistant Director	Other Items: The Bureau of Quality Assurance continues to implement the Governance, Risk and Compliance (GRC) module of SAP. GRC will be utilized to identify user level segregation of duty risks. The project team's goal is to address a substantial majority of user risks by June 30, 2013.	**06/30/2013**
12-04	**Treasury**	Cynthia Cranmer, Comptroller	**General Computer Controls in the PA Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 11-06)** 1. 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. BUCD will document vendor access using MicroSoft Outlook calendar function to document vendor access and purpose. Also, BUCD has created a *Manager Log* folder which will be completed by users after every instance and periodically reviewed by the BUCD director. 2. BUCD operates a call center for claimants. Access is granted as domain administrator to provide the	**03/31/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-04 (cont'd)			call center personnel with access to payment information including check issuance, check clearing and eligibility information. The previous versions of OnBase had security issues which unfortunately necessitated the current configuration. BUCD recently upgraded to a newer version of OnBase which now allows the modification of the user rights to a stricter, more appropriate security setting. The modifications required are currently being analyzed and documented. If this effort is reasonable, BUCD will begin testing user access changes. Once testing is approved, the changes will be implemented into production. 3. 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 172 officials (163 capitol and state police, 9 DGS fire and safety personnel) as required by Labor and Industry. These individuals have been established as a separate access group. Since December 2010, BUCD conducts regular reviews of authorized users with Department of General Services. 4. Treasury BUCD is not a client of the Treasury Department network, but is a client of the Department of Labor and Industry (L&I) network. All password requirements of the L&I network apply to users of BUCD. On or about August 15, 2012 L&I OIT issued a Security Awareness Program (Program) bulletin that updated its Information Technology Acceptable Use Policy. BUCD will adapt aspects of the Program bringing BUCD into substantial alignment with Treasury's strong password policy, as well as utilizing newly available encryption for transmission of sensitive data. OnBase passwords are required after network login and consist of 6 alphanumeric characters. These expire every 30 days. The newest version of OnBase enables strong password policies, which are being evaluated by Treasury's CIO for implications at an enterprise level. 5. BUCD has no control over this functionality, but acknowledges that this is a limitation of the software. In lieu of system generated logs, BUCD maintains change logs to document system changes and updates. 6. Although comprehensive documentation of the test results of the upgrade were not maintained, we retained the automatically-generated activity during the upgrade and verified that the upgrade was successful.	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-04 (cont'd)			7. Treasury agrees that some data is kept on spreadsheets. These spreadsheets are in secured folders on Treasury servers. The security is set such that only those needing access to the information have access to the folder. Typically, only bureau members have access to folders located within the bureau folder, however, specific individuals can have additional file security. Access to these folders requires network logon to which strong passwords are applied and which are required to change every 60 days. 8. Although Treasury executed the contract with Xerox and L&I, Treasury has no access to the Linux system referred to in this finding. Treasury does not have super user authority and does not manage users or traffic on this system.	
12-05	**OB-BAFM**	Heather Morgan, AO4, Federal Accounting, Employment Security	**Material Weakness Over Financial Reporting in the Unemployment Compensation Fund** To ensure that the Cash with Fiscal Agents yearly accounting entry will be input correctly for 2012-2013 and in future year UC Combination GAAP Packages, ES Federal Accounting has accurately documented how this entry should post. This yearly entry will post to the Cash with Fiscal Agent GL (7101000) and the corresponding Accrued Expenditure GL (7620000). Going forward, the ZH document type will be used when posting this entry at year end. By using the ZH document type, the entry will no longer automatically reverse the activity in the subsequent year and provide a clearer representation when analyzing the annual activity. This CAP will be implemented upon the preparation of the UC Combination GAAP Package in August 2013.	**August 2013**
12-06	**L&I**	Kevin Cicak, Director, Office of UC Benefit Policy	**Internal Control Weaknesses Resulting in Overpayments of Unemployment Compensation Benefits (A Similar Condition Was Noted in Prior Year Finding 11-04)** **<u>1. Revising the Procedures for the State and National Directories of New Hires</u>** Both the State and the National Directories of New Hires cross matches are effective tools in detecting overpayments at an early stage. One result of the Pennsylvania Department of Labor & Industry's participation in the UI Integrity Task Force Initiative was improving the procedures for conducting these cross matches. These improvements are resulting in quicker detection of potential overpayments. The UCAP mainframe computer system first puts a stop on a claim once the cross match generates a new hire "hit" from an employer who:	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			➢ reports a hiring date for the claimant and ➢ the claimant has filed for UC benefits subsequent to the date of hire. The department then issues Form UC-767, the New Hires Form, to the employer asking questions about the claimant's employment and weekly earnings. Staff also mail Form UC-1010, Important Notice Regarding Your Unemployment Compensation (UC) Benefits, to the claimant. The UCAP computer system generates both documents automatically. The first part of Form UC-1010 notifies the claimant about a pending overpayment and informs him/her that claimants who do not provide the requested employer and earnings information may lose their benefits. The second part of Form UC-1010 is a questionnaire that focuses on the new employer and the claimant's wages from this employer. If the claimant does not respond to the written notice, an examiner from the Unemployment Compensation (UC) Service Center or the Harrisburg Overflow Center calls the claimant to gather the needed information. He/she then renders a disqualifying determination and an overpayment determination, if appropriate. These procedures enable staff to detect and establish overpayments more quickly in an attempt to prevent further overpayments from occurring. Each UC Service Center and the Harrisburg Overflow Center currently have staff reviewing the completed new hires forms from the employers, contacting the claimants, and establishing the overpayments. Having each facility handle new hires issues should help staff increase the number of New Hires overpayments that they establish. As of September 13, 2012, staff at the UC Service Centers and the Harrisburg Overflow Center had 8,333 UC-767 forms to review. Although staff attempt to review these forms as quickly as possible, high call volumes and conflicting priorities make it difficult for these individuals to complete this assignment as quickly as possible. OUCBP's Benefit Payment Control (BPC) unit will continue to monitor the UC Service Centers and the Harrisburg Overflow Center to ensure that: ➢ they are reviewing the UC-767 forms as quickly as possible and ➢ establishing as many overpayments as possible.	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			**2. Expanding the Incarcerated Claimants Cross Matches** Due to improvements in the Justice Network (JNET) computer system, staff in the BPC unit began reviewing the records of inmates in county prisons during early June 2012. The purpose of these reviews is to determine if any claimants incarcerated in county jails collected unemployment compensation, thereby causing an overpayment. BPC staff focused on inmates in the Philadelphia prison system and Pennsylvania's prisons during the summer of 2012. Examiners at the UC Service Centers and the Harrisburg Overflow Center issued the necessary overpayments to the claimants. After Pennsylvania Department of Labor & Industry officials resolved a number of procedural issues concerning JNET records from county prisons, the BPC unit began comparing claimant data to inmate records from additional county prisons. With the assistance of the Pennsylvania Department of Corrections, BPC staff have continued a long-standing policy of reviewing the claims of state prison inmates to determine if they have any overpayments. Examiners at the UC Service Centers and the Harrisburg Overflow Center also have responsibility for issuing overpayment determinations to this group of claimants. As of December 7, 2012, the BPC unit was reviewing inmate records from the City of Philadelphia, 40 counties in western and central Pennsylvania, and the Commonwealth of Pennsylvania. The unit is planning to review inmate records from all 67 Pennsylvania counties and the Commonwealth's prison system of as January 9, 2013. To prevent overpayments, an ICC Local office stop is placed on any claims involving incarcerated claimants. Consequently, this step is helping the department prevent more overpayments that it currently is recouping. BPC and Harrisburg Overflow Center staff have identified 2,442 incarcerations of UC claimants as of January 7, 2012. As of this date, staff have detected 151 overpayments totaling $496,878.00 through the JNET cross match alone. There are an additional 104 claim records that these employees will be reviewing in the near future.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			The department's long-term goal is to review the JNET records of every county and state inmate in Pennsylvania to determine if he/she has any overpayments of federal or state UC benefits. **<u>3. Initial Claim Fraud Prevention</u>** Whenever claimants file initial claims for benefits via telephone, an automatic request is sent to the Social Security Administration containing the claimant's Social Security number, name, and date of birth. The purpose of this cross match is to verify this information with pertinent Social Security Administration records. If there is no identity issue, UC Service Center and Harrisburg Overflow Center staff will process the claim according to normal procedures. If the Social Security Administration returns a mismatch result, an additional screen will be populated for telephone initial claims. If a mismatch results while the claimant is on the telephone, the interviewer will verify the claimant's Social Security number, name, and date of birth again. If the information stays the same, the interviewer will ask the claimant to mail copies of his/her Social Security card and driver's license to verify his/her identity. Payments are held until staff review the documents and confirm the claimant's identity. The department also compares Social Security numbers, names, and dates of birth of claimants who file Internet initial claims with pertinent data from the Social Security Administration. If a mismatch occurs once the claim is processed, staff ask the claimant to mail copies of his/her Social Security card and driver's license to verify his/her identity. Payments are held until staff review the documents and confirm the claimant's identity. **<u>4. Initial Claims Script Revisions</u>** On December 14, 2012, the OUCBP and the Office of Unemployment Compensation Service Centers (OUCSC), which oversees the UC Service Centers, implemented a new initial claims script. A key improvement to this script was reemphasizing the claimants' legal responsibility to provide accurate, honest information to the claims takers. Claimants are advised that if they do not provide accurate, honest information, they are committing fraud and face a number of potential penalties. These penalties include: ➢ fines, ➢ imprisonment,	 **Completed** **Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			➢ loss of future benefits, ➢ prosecution, and ➢ restitution. Another improvement to the script was to ask the claims takers to ask the claimants why they are not working. Moreover, claims takers must ask the claimants for the employers' reasons for their separations. Claims takers must ask a sufficient number of probing questions to determine if an employer does not have work for a claimant or laid the person off. The goal behind this modification was to obtain more truthful answers from the claimants. Greater honesty on the claimants' part can decrease the number of overpayments due to unreported or misleading separation information.	
			<u>5. Reviewing Initial and Continued Claims from Other Nations</u> During March 2012, the OUCBP and the OUCSC prevented claimants from filing Internet initial or continued claims from other nations. The only exceptions would be if the claimants were filing their claims from: ➢ Canada, ➢ Guam, ➢ the Northern Mariana Islands, ➢ Puerto Rico, ➢ the U.S. Minor Outlying Islands, or ➢ the U.S. Virgin Islands. On October 1, 2012, both agencies modified this policy so that the computer system would put an OOC Local Office stop on any Internet initial claims that claimants filed from other countries. An attempt is made to verify that each claimant was out of the country. Based on their reasoning, a determination is made stating that the claimant is eligible or ineligible for benefits. According to this determination, claimants are ineligible for benefits because: ➢ they filed invalid initial claims for benefits, ➢ they are unable to work and not available for work in their local communities, and	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			➢ they did not file their claims properly. The only exceptions would be for claimants who file in Canada, the United States, or one of the above territories. According to current procedure, the computer system will not pay any benefits to claimants who are filing continued claims outside of Canada, the United States, or its territories. A specialist from OUCBP's UI Adjudication Services Section must verify that the claimant is eligible for benefits during a particular week. Otherwise, neither the OUCBP nor the OUCSC can pay anything to the claimant for this week. The goals behind these procedures are to prevent and/or detect as many improper payments as possible. The OUCBP and the OUCSC have written 271 determinations and established $29,603.00 in overpayments as of early January 2013.	
			<u>6. Fact-finding Training for Examiners</u> The UI Adjudication Unit of the OUCBP has conducted three training programs involving the adjudication process, which should decrease the number of errors that the examiners at the UC Service Centers and the Harrisburg Overflow Center are making. A reduction in errors should decrease the number of overpayments and the amount of overpaid benefits that claimants receive. During November 2011 and December 2011, the UI Adjudication Unit conducted UI Performs, Meeting the Requirements training to all UC Service Center and Harrisburg Overflow Center managers and supervisors. The objective of this training was to ensure that these managers and supervisors completely comprehend the requirements of the U.S. Department of Labor (USDOL). The trainers used a PowerPoint presentation and handouts to teach the managers and supervisors on how to grade the examiners' cases properly for UI Performs standards. At the conclusion of this training session, all supervisors are required to review a sample selection each month from their examiners. Examiners at the UC Service Centers and the Harrisburg Overflow Center must complete a review sheet to help ensure that they have conducted all aspects of the fact-finding process.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			The May 2012 and June 2012 training focused on reasonable assurance issues. Trainers from the UI Adjudication Unit discussed all aspects of state UC law, UC regulations, policies, and procedures pertaining to this issue to every examiner in Pennsylvania. Training materials consisted of handouts and a PowerPoint presentation. The third training session, which began during the first week of November 2012, emphasized the fact-finding process for every examiner in the Commonwealth. UI Adjudication staff, who conducted this training until the second week of December 2012, established small groups of examiners to provide individualized training to them. Training topics consisted of the following. 1) Students learned about the October 2012 updates to the new UI Performs guidelines, which appear in the sixth edition of DOL Handbook. 2) The objective of the fact-finding training was to teach the examiners about the different types of facts and their importance during the fact-finding process. Examiners were able to review handouts listing the pertinent questions for discharge and voluntary quit separations. 3) During the interviewing skills training session, UI Adjudication Unit staff reviewed the correct techniques for preparing for a fact-finding interview. Subtopics consisted of: ➢ beginning an interview properly (greeting), ➢ verifying claimants' identities and other information (verification), ➢ opening phases of the interview, ➢ exploration techniques, ➢ understanding and dealing with difficult callers, ➢ clarification and rebuttal phases, and ➢ concluding the interview. 4) The objective of the weighing the evidence module was to teach the examiners on the proper methods for reviewing the claimants' and employers' evidence and determining which party has more credibility. Examiners were able to review handouts on rating evidence from the most credible to the least credible.	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			5) Topic Number Five involved the written decisions that the examiners mail to the claimants and the employers. Trainers reviewed the following items in this module: ➢ the three main parts of the determination, ➢ listing the pertinent facts for the issue, ➢ citing the correct section or sections of law, ➢ whether the claimant is eligible or ineligible for benefits, and ➢ the reasons for his/her eligibility or ineligibility. 6) Both the trainers and the examiners reviewed precedent court cases to ensure they understood why the department is bound to rule a certain way in particular situations. Examiners reviewed the material for sample cases and wrote determinations. Both trainers and examiners discussed the reasoning for their decisions before the training classes reviewed the precedent court cases. The end result is that the examiners learned how to issue determinations involving claims similar to the precedent cases.	
			7. The 756 Processing Overpayment Determinations Pilot Program The objective of the 756 Processing Overpayment Determinations Pilot Program is to increase the numbers of overpayments that the OUCBP and the OUCSC establish due to the Border State, Interstate, and Intrastate cross matches. To achieve this goal, participants in the pilot program are using more effective fact-finding techniques to obtain pertinent information from the employers. Specific steps consist of: ➢ reviewing Form UC-756A, Employer Inquiry Notice; ➢ calling the employer on the telephone; ➢ communicating with the person who has information about the claimant's earnings; and ➢ faxing a form to the company representative asking for the claimant's daily or weekly earnings. Examiners at the Harrisburg Overflow Center conduct rebuttals with the claimants and issue the overpayment determinations. One member of OUCBP's Benefit Accuracy Measurement unit spent 83.5 hours from December 16, 2012, to January 4, 2013, on this project. As of January 8, 2013, this person has found 20 claimants who	**April 2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-06 (cont'd)			have $91,898.00 worth of potential overpayments. These figures translate to $1,102.00 in potential overpayments per labor hour. Two other people will start on this project on January 9, 2013, in an attempt to increase the numbers of potential overpayments that the examiners at the Harrisburg Overflow Center will write. The pilot program ends in late March 2013 or early April 2013.	
12-07	**Treasury**	Cynthia Cranmer, Comptroller	**Ineffective Methodology in Estimating Escheat Liability** Treasury recently upgraded the UPS2000 application version to include software enhancements. We will review new functionality to determine if the software can provide useful information about property payouts by year or property type. Treasury will work to develop a methodology based on property year payout rates by property type.	**03/31/2013**
12-08	**OA**	Colby Smith, IES Director Kinzer Shearer, IES Assistant Director for Technical Operations John Clark, Special Assistant to the Secretary of Administration Lanny Black, Director,	**General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 11-08)** 1. The IES interface list was updated as of May 2012. The IES Finance Team is also working with Comptroller Operations to identify and maintain an accurate Special Ledger interface listing. Further interface information will be provided by the submitting agencies to assist in determining the source of the transactions. 2. Management Directive is currently in draft. Working jointly with the Office of the Budget to finalize. 3. Required action was taken to resolve the AIX user account deficiencies. Regular reviews of AIX accounts are being conducted by the DPH and IES Management. Use of the generic database ID is required by the SAP/Oracle software. Access to the ID is restricted to IES Database Administration staff and the log is regularly reviewed by the IES Database Team Manager. 4. Current procedures are under review. Target response to address noted deficiencies is the end of March 2013.	**Completed** **06/30/2013** **06/30/2013** **Completed** **03/31/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Enterprise Strategic Delivery Services		
	DOR-Lottery	Douglas Miller, IT Manager 1 Kevin Sarnowski, Senior Applications Developer Brent Zeiders, ITG Administrator 1 Jayanth Venkatadri, Lottery Security Office	1. Corrective action was implemented in November 2011 and May 2012. Further, management remediated a prior year weakness in which the Back Office application lacked a monitoring process to detect changes moved into production that did not follow the standard process. A monitoring process was implemented in December 2011. 2. A monitoring process was implemented in June 2012 to monitor user activity. DOR will disable remote login to privileged accounts and group userids. 3. A monitoring process was implemented in June 2012 to monitor user activity. DOR will require incident documentation for all production system logins, application monitoring and maintenance. Signoff documentation authorizing promotion of changes to production will be required. 4. DOR will implement server changes to enforce password complexity, password aging, and minimum number of days between password changes to comply with ITB-SEC007. 5. The deficiency was corrected at the time it was discovered by disabling the firewall rule referenced in the finding.	**Completed** **03/31/2013** **03/31/2013** **03/31/2013** **Completed**
	L&I	David Andrews, Director of App Development Steve Yurich, Security Division Chief	1. Evaluation of potential resolutions is underway. 2. 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. 3. It has been determined that to develop special operations and policies for the remaining limited time	**06/30/2013** **N/A** **N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			in service may have a detrimental impact; therefore no action will be taken until such time that this program will be retired.	
		Josh Thomas, IT Generalist Administrator; William Piatak, UC Comp Tax Regional Director	4. Work has begun on this review which will be done from this point forward on a semiannual basis. We are in the preliminary stages and plan to have this completed prior to the end of this fiscal year. The Security Admin/Change Control Group (OIT-BES) will work with Josh Thomas (OIT-BBAD) to identify Admin and Delegated Admin roles within the various directories, (ie. CWOPA & Managed). Lists will be pulled with assistance from IAM Admin Group (OIT-BES) – Peter Dundas of the specified roles and users. Bill Piatak (UCTS) will review roles to users for appropriateness and determine if changes are required.	**06/30/2013**
			5. The users' ability to be builders and deployers was removed from their capabilities last year. This information was forwarded to the auditors for their review May 29, 2012 and further clarified June, 6 2012.	**06/06/2012**
		William Piatak, UC Comp Tax Regional Director	6. Evaluation of potential resolutions is underway.	**06/30/2013**
		Tim Williams, Accountant III, UC	7. The documentation provided confirmed that UCMS Release 2 (R2) converted data contained substantial errors. The problems experienced by L&I in the process of R2 data migration were identified and addressed in the data within UCMS after conversion. A corrective action plan is not applicable because the data migration was a one-time event and, while it had problems, it was completed and there will be no future migrations for R2. The data for R2 was corrected through various means since go-live and as of December 2012, Statements of Account and Rates were correctly calculated and issued so no further action will be taken to correct data beyond the normal day-to-day process of administering employer accounts. The data converted for UCMS R2 was employer financial and UC Tax data unique to UC Tax Services and R2. UC Benefits Release 3 (R3) data conversion is not comparable, therefore no joint action or R3 corrective action plan is warranted.	**Completed**
		Marie Ryan, Project Mgr 3,	8. L&I did respond to various findings cited by the IV&V vendor as they came up but did not prepare a formalized CAP to the final report as the contract ended with this vendor. The Department has	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		UC Benefits	entered into a contract with Carnegie Mellon University-Software Engineering Institute (CMU-SEI) to review the UCMS project. It is a one-time contract to assess the project and provide recommendations to the Secretary.	
		Steve Yurich, Security Division Chief	9. As noted, corrective action was implemented in June 2012.	**Completed**
			10. As indicated in prior year's findings, the building is under the auspice of the Department of General Services; any moderation would have to be coordinated with their approval. Further, our Department is part of a Commonwealth-wide Data Center Consolidation Systems project in which data systems may be consolidated into one area which may render this finding moot if our data program is no longer housed within our building.	**Not Determined**
	L&I-SWIF	Mary Calomino, BBAD SWIF Apps Manager	1. Evaluation of potential resolutions is continuing. The vendor will be consulted concerning resolutions.	**Not Determined**
			2. As noted in the finding response, the monitoring process has been fully implemented as of the first quarter of the current fiscal year.	**Completed**
		David Andrews, Dir of App Dev	3. At this time the area responsible for defining this process has not provided the formal procedures.	**12/31/2013**
		Mary Calomino, BBAD SWIF Apps Manager	4. As defined in the finding response, the number was reduced at the end of the auditing period.	**Completed**
		Ciff Van Scyoc, Chief Info Security Off, Bureau of Info Systems	5. Users are required to be logged in with their CWOPA credentials to access these applications. The CWOPA username and passwords meet the requirements laid out in ITB SEC-007. This is further being discussed with OA to discern whether a waiver will be warranted.	**06/30/2013**
		Mary Calomino,	6. As defined in the finding response, the number was reduced at the end of the auditing period. This was corrected in June 2012.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		BBAD SWIF Apps Manager		
		Ciff Van Scyoc, Chief Info Security Off, Bureau of Info Systems	7. Users are required to be logged in with their CWOPA credentials to access PowerComp. Again, further discussion regarding this is pending.	**06/30/2013**
		Mary Calomino, BBAD SWIF Apps Manager	8. Periodic Access Review Procedures have been implemented to conduct reviews on the occurrence of specific events: employee transfer or termination, change in an employee's job duties, or a system upgrade related to user access. Written procedures are available upon request.	**Completed**
			9. As defined in the finding, the number was reduced at the end of the auditing period.	**Completed**
		David Andrews, Director of App Development	10. A team from the L&I OIT Bureaus of Architecture and Application Development will be coordinating the formalization of this document.	**12/31/2013**
	PennDOT	Matt Weitzel, Division Chief Communication	1. PennDOT will develop a policy and the associated procedure(s) to issue the RACF user attributes SPECIAL, OPERATIONS and AUDITOR. As part of the procedure(s), evaluation criteria will be developed to document the justification and/or business needs provided to validate the issuance of RACF attributes for SPECIAL, OPERATIONS and/or AUDITOR. After which, the same criteria will be used to validate the existing users that have been issued the user attributes SPECIAL, OPERATIONS and/or AUDITOR. PennDOT will revoke the attributes SPECIAL, OPERATIONS and/or AUDITOR from any user that does not meet the established criteria or does not have valid business justification. For auditability purposes, the created procedure(s) will define a repeatable process that will be executed based on an established recurrence timeframe dictated by the policy.	**06/30/2013**
		Scott Keister, Manager, Network Administration Division	2. PennDOT disagrees that system logging is not enabled. The standard Windows logging is enabled for system access and operating system level changes. For environment level changes in both Lotus Domino and IBM WebSphere logging is enabled. PennDOT agrees that there are shared system administrative accounts that are used to promote	**06/30/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		ECMS Application team: Paul Joseph (Consultant) Mark Behringer (Consultant) Wann Harris (Consultant) Paul Morgan (Consultant) Gregg Miller (Consultant)	system changes. When the shared system administrative account is used there are no systematic audit trails of the individuals. To remedy this situation, user accounts will be created for each engineer accessing the system and stored in an Active Directory domain. Additionally, the shared administrator account will be disabled and the password will reside with the PennDOT security team. PennDOT disagrees that we do not have controls in place for the development of the code. Version control is a function of Clear Case. PennDOT agrees that there is not a process in place to monitor code for unauthorized program changes, but code deployed in the WebSphere Environment for ECMS is performed by individuals who have their own login, so each deployment can be tracked to a single user. The request for deployment can be tracked to the developer using the SRS system. After the code is promoted into production, there is no routine activity to ensure that the version of the code is only changed with the proper approvals. However, production deployments require approval, through the Environment Committee, through SRS system for acceptance of the release changes, and through the ECMS application team for scheduling the outage outside of our normal maintenance window. These deployments are also logged under normal WebSphere logging practices. No routine work is performed outside of this process and any attempts outside of this scope are logged by WebSphere. In order to address the need to systematically monitor files for unauthorized changes, PennDOT is developing a plan which takes a proactive approach to monitoring our log files within Windows and WebSphere with automated tools. Due to the size and complexity of both Windows and WebSphere logs, we will evaluate products PennDOT currently utilizes, including SCOM, Tripwire, and Tivoli, to determine if they meet our monitoring needs. We will also research products not currently utilized at PennDOT to determine if we can benefit from incorporating them into our monitoring practices. Once PennDOT has completed researching these automated tools, a plan will be developed to incorporate the designated tool(s) into our overall server administration practices. This will include determining which files need to be monitored as well as changes which will trigger an automated alert for management review. This process will be evaluated regularly to ensure it adequately meets our monitoring needs.	
		Doreen M. Wallen, dotGrants IT Application	3. Corrective action was implemented in November of 2011. This was included in the 6/30/11 finding CAP and was recognized in the finding. 4. dotGrants employs a system of agency administered user accounts. In other words, each agency	**Completed** **06/30/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Manager	outside PennDOT has a designated user who is responsible for the administration of user accounts for their agency. It is their responsibility to activate and deactivate user accounts. The dotGrants IT Application Manager will review documentation sent to those agency account administrators to ensure it includes their responsibilities regarding user account activation and deactivation. This will happen in FY 12-13 4th Quarter (April – June 2013).	
		Evan T Nugent, Chief Information Security Officer	5. A comprehensive project plan has been developed to address the areas of non-compliance noted in the Payment Card Industry (PCI) Gap Assessment report. PennDOT is actively working this plan. Based on an internal estimation, 70% of the issues have already been remediated. Key milestones include: • Completing all Policies and Procedure documentation - 6/11/2013. • Segment eGov network to isolate credit card related transactions - 6/11/2013. • Initiate Report on Compliance by an external Qualified Security Assessor - 7/1/2013.	**07/31/2013**
	DPW	Pamela Skelton, ISS 2	1. DPW is evaluating an IBM tool to pull summary reports of user's roles to assist management in verifying appropriate access of users. DPW is also working to increase awareness and enforce the User and Access Certification Standard that is currently in place.	**September 2013**
		Pamela Skelton, ISS 2	2. DPW disagrees with this portion of the finding. The DPW upgraded the OpCons application on March 4, 2011. This upgrade also included the elimination of shared user IDS. Anyone that has access to use this application now has their own user account created.	**N/A**
		Pamela Skelton, ISS 2	3. DPW is currently evaluating how to enforce ITB-SEC007 on it legacy mainframe system.	**December 2013**
		Joseph Keslar, Director of Technology, Production Assurance Division	4. (First and Third Exceptions) a. The database system functional accounts are only intended to be used by the application to interface with the database: to prevent inappropriate access the passwords were changed and encrypted (where required to be referenced in the application code). b. To further segregate, restrict and identify update access to the Security Gateway database, a unique break-glass functional account was created with a reduced number of authorized users.	**06/30/2012**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Denise Luce, Welfare Program Executive 1 John Gallas, Systems	This database contains the application user profiles and entitlements for FEB (and several other in-scope applications). c. Technical production support user IDs have been reviewed to confirm all staff have" read-only" accounts assigned. Any production incident requiring update access requires the use of a break-glass account. d. Senior Management has issued a statement to remind all Technologists it is against J.P. Morgan Chase Policies and Standards to share passwords and failure to adhere to these policies is punishable up to and including termination. e. Organizational changes were made among the staff and management of the Production Support group responsible for this exception. f. A quarterly review of application user access is being performed to ensure users are granted access to our applications only by formal access request. (Second Exception) – As stated in the exception, access was subsequently recertified as appropriate. Beginning with the next recertification cycle, all nonstandard access will automatically be revoked if no response is received from managers. 5. On a weekly basis, a system change log is generated by the Computer Operations Lead to determine if any Stratus code libraries have been modified (i.e. if any changes have been made). Any output is mapped to an approved change ticket and the weekly system log is signed and retained. As of the April-June quarter of 2011, a periodic user access review of the Linux environment was implemented to review access and confirm that user access to the environment is authorized per business need. In some instances, backup restorations are performed upon user request rather than scheduled periodically and ad hoc backup restores occurred during the report period. As of June 14, 2011, new code was implemented to address the read feature and a role redesign was performed; the unnecessary access was removed and only users belonging to the Adjustments department maintained adjustment access through SPC.	**Completed** **Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Manager, HP Terry Findling, Program Manager, Unisys	6. HP PROMISe™ does acknowledge that this was a valid audit finding prior to May, 2012. This finding has been resolved as of May 8, 2012 and password history is now enabled on the UNIX environment. This should no longer be a finding in future audits. 7. Unisys agrees with this finding. The PRIMS application is maintained by a small number of individuals that work for Molina. Unisys has worked with Molina to develop a process that we believe allows for sufficient segregation of duties between PRIMS application developers and production controls to the extent possible. Unisys agrees with this finding, control totals were not available. The issue was corrected in February 2012.	**Completed** **Completed** **Completed**
		Andy Tiazkun, Financial Planning Manager	8. Though we have not received the SOC 1 at this time, DPW disagrees with this finding. Based on the past SSAE 16/SOC 1 report which did not include any findings, and the fact that DPW did not make any major changes to the procedures of these programs, DPW does not believe there is a reasonable basis for the issues asserted by the auditor in the finding above. DPW will review the SOC 1 when it is available in February 2013 and take any appropriate actions, if necessary.	**N/A**
	DOH	Karen Ford, IT Manager (Acting) George Nace, Database Administrator Patricia Hopple, Network Administrator 2/LAN Team Manager	1. <u>Regarding User IDs for two terminated employees</u>: Two employees (Rod Norton and Steve Fleagle) have been removed. There are two processes in place that should mitigate this risk in the future. We have a Remedy process that is used to add and delete users from servers and this also maintains a tracking history. All Admin requests will go through the Remedy Process. In addition, there is also a new system, Tivoli Identity Manager (TIM), which provides notification of any employee leaving or transferring. This information is used to remove these previous employees from administrator admin groups thereby removing any access. Applicable managers have been directed to perform periodic audits to verify that accounts are deactivated for prior employees. <u>Regarding generic user IDs having access to Domain and Server administration</u>:	**Completed** **Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			The DHProdAdmin account identified in conjunction with the GAAP audit has been deactivated. There is "Service Accounts" in-place used by the Server/LAN Team to facilitate application-to-application access requirements. Applicable managers have been directed to implement policy, directing staff not to use service accounts to login, staff must use named accounts. Server/LAN Team Managers have been directed to monitor accounts periodically to verify policy compliance.	
			<u>Regarding generic user IDs having access to Women, Infants and Children (WIC) database administration</u>: Regarding WIC Database Administration, there is "Service Accounts" in-place to facilitate application-to-database access requirements. There are also generic accounts used by the WIC Applications Staff and Database Administrators. Applicable staff to meet on a periodic timetable to address necessary corrective actions.	**03/29/2013**
		Scott Kister, Application Development Administrator Kevin Geist, Senior Application Developer	2. The issue is resolved. Performed analysis and requirements: 4/2011 Performed general and detailed design: 5/2011 Performed system development: 8/2011 Performed system testing: 9/2011 Performed user acceptance testing: 10/12/2011 Release to production: 10/19/2011	**Completed**
		Karen Ford, IT Manager (Acting) William Cramer, Acting	3. The majority of users are created by the Local Agency security officer for the QuickWIC system. 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 BIT staff. When new user requests are made for BIT staff (state and contractor), DOH will continue to follow the existing IT policy, requiring the request to be submitted via the Remedy System. The Remedy	**June 2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Director, Division of WIC	System is used to submit requests for new BIT users of the QuickWIC system. Local Agencies have a lot of clinic staff that require access to QuickWIC. Policy & Procedure 8.02, QuickWIC Security, has been updated. Local Agency staff must formally request access for new and reinstated employees to the State Agency office using the Request for Access to WIC MIS System Form. Security Officers will still fill out the required items on the User Basic Info tab, Clinic Membership tab and the Groups Membership tab. Then, the Request for Access to WIC MIS System Form will need to be filled out and sent in to the State Agency office. Staff will authorize the user in QuickWIC and send an email making the Security Officer aware that the authorization has been approved. A change to the MIS system is being made so local agency Security Officers can add new users, but they will be placed in a pending status. After DOH receives the Request for Access to WIC MIS System Form, DOH staff will review the form. If approved, DOH staff will change the user access from pending to active in the MIS system. In order to complete this CAP, the amended P&P 8.02 and its new attachment will need approved by USDA. This will require up to 60 days. In addition, changes to the MIS system will need to be made to accommodate the Pending Status of new users. Once this occurs, a memo will be sent to the Local Agencies to highlight the changes in procedure.	
		Mike Matter, ITG Administrator	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 has access to provide unplanned, accompanied access during after-hours responses. The number of badges with data center access reduced to 42.	**Completed**
	PDE	Division Chief, Subsidy Data and Admin, Bureau of Budget and Fiscal Management	1. In the Auditor's Conclusion section of Finding #12-08, note was made that "PDE stated that they have instructions for the users of the BEF user-developed application; however, these instructions were not provided during the current audit. We will evaluate any documentation or instructions available in the subsequent audit." In fact, instructions were provided during previous audits and were not requested again during this audit. Also, as indicated in our response, procedures have now been put into place to modify the passwords	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			for the calculation and payment spreadsheets every two months according to requirements in ITB-SEC007.	
		Division Chief, Data Quality, Center for Data Quality and Information Technology	2. The eScholar's Director of Product Development assists PDE with complex application issues on an as-needed basis, and has a CWOPA user ID only to access PIMS servers at the request of PDE or by formal e-mail request. The eScholar's Project Manager for PIMS has a CWOPA user ID. The PDE will discuss with eScholar the criticality of the Project Manager's server accesses. Each server that the Director and the Project Manager can access is monitored by the COPA Enterprise Data Center (EDC) and PDE, using network logs and user access log found on each server. Specific steps to be taken are as follows:	
			Begin producing monthly user log report for PIMS production servers.	**Completed**
			Begin monthly review of user log report in Data Quality Division.	**Completed**
			Conference call with eScholar to review findings, develop suggestions for corrections, and request confirmation of user access needs.	**02/28/2013**
			Complete draft of updated program change methodology, including existing protocols by reference where needed, and documenting eScholar and PDE responsibilities per the finding.	**04/15/2013**
			Review draft with eScholar and revise as necessary.	**05/15/2013**
			Obtain documentation of eScholar agreement.	**05/31/2013**
			Publish and implement the eScholar agreement.	**06/30/2013**
		Division Chief, Data Quality, Center for Data Quality and	3. The PDE does have a formal program change methodology in effect. The PDE's Data Collection Protocol process standardizes all requests from PDE offices/bureaus for additions and modifications to PIMS data collections.	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Information Technology	The eScholar Data Manager (eDM) software installed on the servers is updated only once per calendar year. Deployments for emergencies/bug fixes are rare (two occurrences over the past five years). When they do occur, eScholar schedules these deployments with PDE.	
			Specific steps are the same as in item two above.	
		Division Chief, IT Support, Center for Data Quality and Information Technology	4. During the meeting to review Preliminary Findings, the IT Audit Team confirmed that PDE's AFR V2 System has a high number of privileged access users, and that the Basic Instructional Subsidy System hosted on CDQ&IT servers had an annuitant user.	
			Specific steps to be taken are as follows:	
			Review and update plan for initiating annual access review, including needed actions to generate user lists for systems undergoing their first review.	**02/28/2013**
			Meet with staff of Comptroller Office to review and document security roles and confirm business need for each current user's access.	**03/15/2013**
			Meet with staff of Bureau of Budget and Fiscal Management to review and document annuitant's access and confirm business need for this access.	**03/15/2013**
			Determine any changes and actions needed based on the previous two steps, and write a plan to implement these.	**03/31/2013**
			Generate test user lists for review.	**03/31/2013**
			Draft covering email to user managers with review instructions.	**03/31/2013**
			Resolve any issues from test lists and re-test as needed.	**04/15/2013**
			Generate final user lists and distribute to program offices.	**04/30/2013**
			Receive and begin review of returned user lists.	**05/31/2013**
			Complete any necessary security access and/or role terminations based on returned user lists.	**06/30/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Division Chief, IT Support, Center for Data Quality and Information Technology	5. The PDE has an established process for conducting the periodic access reviews, and during the first review cycle in 2010-2011 it was found to meet the audit requirements. The PDE will resume the annual review process in 2012-2013. Specific steps are the same as in item four above. 6. No corrective action is necessary. The prior year weakness has been remediated per the finding.	**N/A**
	DOR	Christopher Dressler, IT Manager	1. It must be noted that in the imaging/scanning environment, the promotion of Formware changes is more complex than simply copying program files to production. Promotion requires detailed technical knowledge of the code, because a series of code or configuration changes have to be made at different parts of the environment. On 01/03/2010 DOR implemented a compensating control 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 March 2013, with other systems following later as the project progresses, ending in July 2015 with Miscellaneous Tax.	**07/01/2015**
		Michael Dailey, IT Manager	2. The finding has been corrected. To resolve SoftTrac login/password issues, we have created required groups in SoftTrac, namely: "Administrators", "Supervisors", and "Operators." Changes have been made to the SoftTrac password configuration settings so that passwords will comply. We will investigate whether the TMS system will allow similar configuration. It should be noted that SoftTrac and TMS are installed on specific DOR PCs, and any user must first login into the PC with an individual account that meets CWOPA login/password guidelines.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			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.	
		Michael Dailey, IT Manager	3. DOR has addressed this finding and completed new password parameters that meet requirements for IFTA and CigTax. DOR has implemented single sign on with CWOPA credentials in IFTA and CigTax.	**Completed**
		Christopher Dressler, IT Manager	4. DOR implemented an access review procedure in August 2011 and has piloted the procedure with selected client/server systems. DOR continues to expand the periodic access review procedure to the remaining in-scope systems. Three systems have been completed (PariMutuel, Malt Beverage and Vehicle Rental Tax). All other in-scope systems are in various stages of the review process, but remain works in progress and will be completed as resources and time allow.	**07/01/2013**
		Rodney Hawk, IT Manager Michael Dailey, IT Manager	5. DOR's Infrastructure and Operations Division (IOD) has documented the backup audit tracking procedure in order to provide the ability to show the status of the daily backup schedules and problem resolution. 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.	**07/01/2013**
		Christopher Dressler, IT Manager Michael Dailey, IT Manager Bernard Stakem, Director,	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.	**Not Determined**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)		Bureau of Imaging and Document Management	Specifically with respect to the SoftTrac Imaging equipment, certain additional protections are available. SoftTrac is third party software the only function of which is to administer and run IBML scanners. You cannot manipulate any other parts of our system through it. To open SoftTrac, you have to login into a PC that is configured with that software. Login to those IBML PCs follows CWOPA login/password guidelines. IBML scanners are located in a scan room, with a supervisor present in that room most of the time. Scan operators, supervisors, and developers are the only people who access those scanners physically. You have to be in the scan room to operate those scanners. There are windows into the scan room so outsiders could also see if someone enters the room that should not be there. Any changes made to a scan job with malicious intent will be caught immediately because of other parts of the system that look for particular format, locations, names etc. BIDM has begun the process of identifying the 8 employees with duplicated badge access. Once identified, we will remove all duplicates. Going forward, we will work with Administrative Services to develop safeguards to prevent this type of error. Completion of the above items is dependent on executive management direction and department budget.	
		Michael Dailey, IT Manager	7. To resolve SoftTrac login/password issues, we have created required groups in SoftTrac, namely: "Administrators", "Supervisors", and "Operators". We have now added Administrator group to SoftTrac databases. Those have individual user names. We have instructed all admin users to start using their user names and passwords.	**Completed**
		Michael Dailey, IT Manager	8. DOR disagrees with the finding and the finding is misleading. BIDM operations require that all jobs be available to all users for keying. They need the flexibility to move people around and cross-train them. 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. 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. An employee is assigned to a	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			group role. However, each individual must first log into the CWOPA domain with user-specific credentials before accessing Formware functions through an assigned group ID.	
		Michael Dailey, IT Manager	9. DOR disagrees with the finding. DOR has documentation in the form of our System Implementation Document (SID) and email approvals for application changes. Approvals to begin work are provided by either the Revenue project request system, or via a ticket entered into Remedy Incident Response system. On 01/03/2010 DOR implemented a compensating control 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.	**N/A**
		Michael Dailey, IT Manager	10. DOR will work to ensure that staff responsible for these system changes and programs document changes through the Revenue project request system or the Remedy Incident Response system.	**Completed**
		Michael Dailey, IT Manager	11. Due to operational needs, peaks, volumes, and problems we need to be able to change the times at which certain jobs run. For instance, the bank deposit job is scheduled to run at 2 PM but if there is a network problem, we have to schedule it to run at 2:30 instead. Unlike the Mainframe environment where there is a fully dedicated operational staff the client server environment at BIDM does not have one. There is not enough staff to create an independent operational group at BIDM. The reason why we have staff aug performing outside agency work in the first place is that DOR BIS resources are unable to support outside agency work due to internal staffing levels. The staff aug provides the operational scheduling support that BIDM requires and they make changes as needed at the request of BIDM and BIS.	**N/A**
		Michael Dailey, IT Manager	12. Due to operational needs, peaks, volumes, and problems we need to be able to change the times at which certain jobs run. There are 35 client server systems/processes that this group maintains. There are many reasons why a schedule change is needed: late vendor files, network problems, FTP problems, dependency on another system running data by a certain time, tax bureau request, etc. Each of the seven developers is responsible for their systems including operational changes. They get approval to make operational changes from their supervisors, if applicable. Unlike the Mainframe environment where there is a fully dedicated operational staff, the client server environment at DOR does not have one. There is not enough staff to create an independent	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			operational group at DOR to perform all scheduling changes.	
		Bernard Stakem, Director, BIDM	13. BIDM has developed an employee user sheet to be completed by BIDM supervisors/managers for new employees and when current employees' security levels need to be changed or removed. BIDM has developed a TMS user log to record the information from the employee user sheets.	**Completed**
		Bernard Stakem, Director, BIDM	14. BIDM has developed a signoff sheet that will be completed for all changes to the TMS and Check 21 systems. It will include blocks for test batch number, tax system, output type and host output. Signoff approval will be required from BIS personnel at BIDM, host system programmers, and requesting agency/tax system.	**Completed**
	PLCB	Brian Coons, IT Manager, Business Process Division	1. Each user has been provided with their own username and password so that activity can be tracked. Direct login to the application service accounts (a.k.a. "generic" accounts) has been disabled. Usernames and passwords for all users of the IBMS servers, including the database administrators, are tied to CWOPA, the Microsoft Active Directory domain managed and maintained by the Office of Administration's Office of Information Technology (OA/OIT). Username and password authentication is done through CWOPA. Because the IBMS servers use the CWOPA password, password policies (length, complexity, expiration, etc.) are those of CWOPA. The process, procedures, tools and technology for changing passwords are also those of CWOPA. In addition, user login activity on each server is tracked and logged using standard Unix/Linux access logging functionality.	**Completed**
			2. Existing policy is to review access into IBMS systems quarterly. The security team runs 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 last review occurred on October 2, 2012. Reports have been requested for the January 2013 review. The review process is contained in the policy document "Granting Access to PLCB systems".doc.	**Completed**
			3. This issue will be resolved when single IBMS logon is implemented on RMS, EBS, SIM and RDW as part of the IBMS Upgrade project. That project will go live the weekend of February 16, 2013.	**February 2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-08 (cont'd)			Single IBMS logon authenticates users through OA/OIT's CWOPA, the same as the IBMS servers in finding 1. Because RMS, EBS, SIM and RDW will use the CWOPA password, password policies (length, complexity, expiration, etc.) are those of CWOPA. The process, procedures, tools and technology for changing passwords are also those of CWOPA. No IBMS application facilities are provided, nor needed.	
			4. This issue was reviewed at the GAAP Audit FYE 11/12 Exit Conference. This was a one-time issue and should not be an item that continuously occurs. To resolve it we added a system check that ensures the payment switch is not restarted unless the purge process has completed. The PLCB also is investigating the possibility of moving the payment switch to a service provider that will supply 24/7 real time monitoring and would identify problems such as this immediately.	**Completed**
			5. RIMS servers have been configured to send logs to our Cinxi system. We are treating these systems in a similar fashion to our PCI systems in how alerts are presented to IT Security personnel. Just to be clear, the RIMS systems do not collect or transmit credit card data.	**Completed**
			6. The PLCB follows Commonwealth procurement standards for the purchase of software, hardware and services. The PLCB is formalizing a document that outlines the use of these standards.	**06/30/2013**
			7. IBMS applications, with the exception of Hyperion and RPAS, will conform to ITB SEC007 when the single logon system is put into place as described in the response to Finding 3 above. Hyperion and RPAS do not support single logon at the present time. We will make the password policy comply as much as possible with ITB SEC007 and ask for a waiver. Compensating controls may be needed in order to meet ITB SEC007. Warehouse management application will be required to meet ITB SEC007 upon their replacement. This will occur when the warehouse consolidation takes place.	**February 2013**
			8. POS does deploy secure encryption key management on the POS and payment card systems. We have met the requirements from our PCI auditors for the proper management of encryption keys. In addition, the PLCB is investigating a new method of payment card architecture that will allow a more efficient deployment of encryption keys management.	**Completed**
			9. PLCB agrees with the auditors that the finding is already resolved.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-AGRI-01	**AGRI**	Nancy Derr, Commodity Processing Specialist	**Internal Control Weaknesses and Noncompliance With Recordkeeping and Reporting to Verify Commodity Receipts and Distributions (A Similar Condition Was Noted in Prior Year Finding 11-AGRI-01)** Bureau staff exports the Sales Order Status Report from WBSCM by month and then exports the receipts that are imported monthly from Pa Meals and compares the two to make sure that there are no discrepancies.	**Completed**
12-DCED-01	**DCED**	Ed Geiger, Director, Center for Community Financing Donna Enrico, Division Chief, Community Development Operations	**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 11-DCED-01)** Once again with the shortage of staff, the backlog of monitoring will remain and be addressed over time. DCED implemented the strategies outlined below. Also, DCED will begin incorporating desk reviews to maintain adequate oversight of its sub-grantees. Staff will continue to conduct on-site monitoring as well, but the backlog will remain until the strategies below are fully implemented and in place. 1. DCED has made changes to the organizational structure of the Center for Community Financing (CCF). The Homeless Programs are now under the supervision of the Division Chief responsible for the Technical Support and Compliance. With this shift in the program, DCED has also shifted the application reviews and monitoring of the homeless programs to staff under this Division. In addition, DCED has requested the addition of three new staff for the Technical Support and Compliance Division. One of the three new staff is in place as of November 2012. Additionally, the contracting functions under the Technical Support and Compliance Division have been reassigned to a new contracting unit formed within DCED. The Grant Managers under the Community Development Operations Division Chief will now have responsibility for the CDBG and HOME Programs only. This division of work will alleviate some of the workload and allow existing staff to focus on monitoring in calendar year 2013. 2. DCED has hired two new Grant Managers to help administer the CDBG-DR (Disaster Recovery) program. The addition of these new positions will not burden existing staff with additional work. These two positions begin February 19, 2013.	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DCED-01 (cont'd)			3. The Center for Community Finance (CCF) is also utilizing staff from other areas of the Department to assist in the long term on-site as well as desk monitoring of grantees. We are working with Weatherization staff for on-site monitoring of the HOME program contracts. CCF staff has provided training to the Weatherization staff and the two offices are currently in discussions on the monitoring schedule for the HOME contracts in 2013. CCF staff is also working with the Financial Management Center (FMC) staff for financial management monitoring. FMC began monitoring CDBG and HOME grantees in 2012 to ensure that the sub-grantee financial management systems comply with the federal Uniform Administrative Requirements for administering the grants. 4. CCF staff is currently working with a Technical Assistance provider which HUD identified to assist the Center in developing strategies and tools for additional desk audit reviews.	
12-DCED-02	**DCED**	Lynette Praster, Director, Center for Community Services	**Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (A Similar Condition Was Noted in Prior Year Finding 11-DCED-03)** DCED agrees with this finding. We realize that this finding reflects operational and policy areas of the Weatherization Assistance Program that needed to be addressed, specifically: 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. 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. In response to these findings, DCED WAP issued Directive #2012-05: Eligibility, Client Prioritization, and the Weatherization Service List, on 7/16/12. Required webinar training on the directive was held with the Weatherization agencies on August 15, 2012.	**06/30/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DCED-02 (cont'd)			The Directive covers the following policy/process changes which address the findings and is effective September 3, 2012: 1. An Income Eligibility Verification Sign-Off is required. 2. Eligibility Time Periods have been defined and clarified. 3. LIHEAP clients are not automatically eligible for weatherization. 4. Verification of identity is required. 5. Information on rent being paid by clients must be collected. 6. Additional documentation regarding rental units is required. 7. LIHEAP High Energy Use lists are an optional resource, not a requirement. 8. The Weatherization Service List has been broadly updated. The WAP conducts full program reviews each fiscal year on all agencies in the network and therefore will specifically check for the implementation of these new procedures through the use of required monitoring checklists. As a result, we will have a clear view of agencies' implementation of the Directive policies during the 2013-14 program year; if an agency has not correctly implemented, they will be found out of compliance and required to correct their activities within a specified time period according to the WAP Performance Standards.	
12-DCED-03	**DCED**	Erich Loych, Director, DCED Information Technology Lynette Praster, Dep Director, Energy Conservation & Weatherization	**Deficiencies in Information Technology Controls at the Department of Community and Economic Development (A Similar Condition Was Noted in Prior Year Finding 11-DCED-04)** DCED implemented corrective action in February 2012.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PDE-01			**Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 11-PDE-02)**	
	PDE	Division Chief, Division of Food and Nutrition, Bureau of Budget and Fiscal Management	The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) has implemented the deployment log which tracks vendor's access to the system. The vendor will continue to have around the clock access.	**Completed**
			The .NET implementation continues which meets security parameters and provides limits to the number of staff that has "administrative rights" as defined by the auditors.	**May 2013**
12-PDE-02			**For-Profit Subrecipients Are Not Being Audited in a Timely Manner (A Similar Condition Was Noted in Prior Finding 11-PDE-03)**	
	PDE/ OB-BOA	Division Chief, Division of Food and Nutrition Pennsylvania Department of Education Allison Morgan, Division Chief Central Audits, Bureau of Audits	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. 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. BOA will be testing two program years at once (10-11 and 11-12) for the For-Profit Entities reviewed during SFY 2012-13. Agreed-upon procedure engagements will be conducted of the For-Profit entities expending less than $500,000 (selected based on risk assessment). BOA will continue to conduct performance audits of For-Profit entities expending federal funding in the amount of $500,000 or more. These procedures are being implemented in order to address the backlog noted in the finding.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PDE-02 (cont'd)			DFN will continue to explore alternate solutions that will prevent the recurrence of this finding.	
12-PDE-03			**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 11-PDE-04)**	
	PDE	Division Chief, Division of Food and Nutrition, Bureau of Budget and Fiscal Management	The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) plans to continue with the policy that had been implemented during this audit review period (2011-2012) which indicates significant progress in closing reviews within the 120 day timeframe. However, it must be noted that the **120 day timeframe is not a regulatory timeframe**. **It is a self-established guideline.** There will be instances where it is not possible to close the review within 120 days, but these exceptions should be minimal.	**Completed**
			The DFN will develop a system that will include a second verification of the entities that are to be scheduled for review within the required time frame.	**05/01/2013**
			The DFN, Field Staff will now review the Administrative Costs during the Administrative Review with the exception of sponsors that have large detailed administrative budgets, i.e., the Archdiocese of Philadelphia and Congregation Beth Solomon.	**05/01/2013**
12-PDE-04			**A Material Weakness Exists Over PDE's Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding 11-PDE-06)**	
	PDE	Chief, Division of Performance Analysis and Reporting, Bureau of Assessment and Accountability	The Pennsylvania Department of Education, Bureau of Assessment and Accountability (BAA) will compare the schools and districts with AYP statuses submitted by DRC to the list of schools and districts on the Education Name and Address List (EDNA), the official list of schools and districts, as a corrective action measure to determine the number of schools and districts.	**11/01/2013**
			The BAA will have the AYP status for the district listed on the District Report Cards and the AYP status for each school listed on the School Report Cards to allow the auditor the capability of determining if all schools are listed on the district AYP files.	**Completed**
		Manager, Division of	The BAA will implement a comparison between the enrollment file and the tested student file as a	**08/31/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PDE-04 (cont'd)		Data Quality, Center for Data Quality and Information Technology	corrective action measure to determine the testing of all students. A new management review was implemented, in November 2012, of the two year comparisons of attendance, graduation, highly qualified teachers and PSSA scores to improve management oversight. The Pennsylvania Department of Education, Center for Data Quality and Information Technology (CDQIT) intends to use the development and deployment controls recently implemented by another vendor-maintained system as a template for the documentation and controls for PIMS deployment. The CDQIT is currently working with the vendor to implement the new development and deployment methodology.	**11/01/2014**
12-PDE-05	**PDE**	DFP Monitoring Co-Manager Division Chief	**A Material Weakness Exists Over PDE's During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality State Grants Subrecipients (A Similar Condition Was Noted in Prior Year Finding 11-PDE-07)** The Pennsylvania Department of Education, Division of Federal Programs (DFP) will collaborate with Leader Services to ensure the monitoring instrument has the proper business rules in place to prevent oversights. Additionally, DFP will update the monitoring document routing sheets to include the signature of the Division Chief. As a result, each monitoring document and accompanying corrective action plan will be reviewed by four (4) different individuals.	**07/01/2013**
12-PDE-06	**PDE**	Chief, Division of Subsidy Data and Administration, Bureau of Budget and Fiscal Management Manager, Division of	**A Significant Deficiency Exists Over PDE's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data** As stated in our Preliminary Response, the Pennsylvania Department of Education, Bureau of Budget and Fiscal Management (BBFM) disagrees with the finding. As also indicated in our Preliminary Response, no duplicate student records were ultimately found in the ADA data that were used in the calculation of the SPPE. The auditors stated that analysis was only performed on "5 of the 40 ADA data fields." However, it should be noted that there were not 40 *data fields* but, instead, 40 *LEAs* for which data was requested to analyze. The BBFM's understanding is that the auditors utilized all data fields on the files provided in their attempt to recalculate ADA for comparison to BBFM's calculated ADA. The auditors' further conclusion that "it is possible that duplicates also occurred in other data fields" could be interpreted as "in other LEAs" and makes the assumption that, because no errors were ultimately uncovered in the tested ADA data for the requested LEAs, other errors must exist. The absence of data errors in a sample does not constitute sufficient proof that errors exist as a whole.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PDE-06 (cont'd)		Data Quality, Center for Data Quality and Information Technology	In addition, the auditors' conclusion states that "PDE BBFM personnel are disputing which data was used to report the ADA." This is incorrect as BBFM clearly identified to auditors, on more than one occasion, the exact reports from which data was extracted to be used in the calculation of the SPPE. The auditors did not request any additional reports to verify the accuracy of ADA data. As additional assurance that LEAs understand the importance of ADA data, BBFM will add ADA data to the Accuracy Certification Statement (ACS) submitted by each individual LEA following its submission of end-of-year attendance and membership data to BBFM. This will result in each LEA's Chief School Administrator officially attesting to the accuracy of the submitted data. The Pennsylvania Department of Education, Center for Data Quality and Information Technology (CDQIT) intends to use the development and deployment controls recently implemented by the another vendor-maintained system as a template for the documentation and controls for PIMS deployment. The CDQIT is currently working with the vendor to implement the new development and deployment methodology.	**June 2013** **11/01/2014**
12-PDE-07	**PDE**	SIG Program Manager, Division of Federal Programs, Bureau of Teaching and Learning	**A Material Weakness Exists in PDE's Subrecipient Allocation Process, Compliance With Earmarking Requirements, and Monitoring of Subrecipients** The Pennsylvania Department of Education, Division of Federal Programs (DFP) will implement a process whereas after all School Improvement Grants (SIG) monitoring visits are complete, the DFP Reviewers will debrief and then the appropriate information will be entered into Fedmonitor. At the end of the SIG school year, all SIG review instruments will be printed and routed to the Division Chief for signature.	**07/01/2013**
12-PDE-08	**PDE**	Director, Race to the Top	**Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of ARRA Funds (A Similar Condition Was Noted in Prior Year Finding 11-PDE-09)** The Pennsylvania Department of Education disagrees with this Finding. Additionally, as noted in the Recommendation of the Finding, "ARRA funds were expended by PDE by December 31,	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PDE-08 (cont'd)			2011…[and]…these programs will not be active in the subsequent audit period". Please refer to PDE's Response in the body of the Finding.	
12-DOH-01	**DOH**	William Cramer, Acting Director, WIC Chris Harr, Public Health Program Manager	**Noncompliance and Internal Control Weaknesses Related to FI and Cash-Value Voucher Redemptions and Vendor Overcharges** 1. Unreconciled amounts result in questioned costs of $84,784: The amounts in question are a result of two phenomena: a. The daily bank SAP Payment Amount is based upon the WIC Recap and daily paid file provided by Fulton. Fulton's daily paid file includes redemptions for multiple days of processing. The QuickWIC total for a day's redemptions will not match the SAP payment amount because the SAP payment amount includes payments for other days. The daily payment file from Fulton includes some processing for prior days which is not accounted for in the Daily Reconciliation SAP to FI Data File. 1) WIC is having a data extraction run which will compare the daily SAP payment with the sum of the daily bank redemption files. The totals should match. 2) In addition, WIC is having a data extraction from each day's Fulton redemption file and comparing that to the total amount of the FIs that are updated with payment amounts in QuickWIC. If there are any differences, the FIs that are not being updated with redemption amounts in QuickWIC will be identified. There are many types of FIs, so there may be one category that got missed in the daily bank process updates. b. The daily ACH Payment is made up of the previous day's Community Action Program of Lancaster County (CAP Lancaster) Special Infant Formula orders that have been filled. The payment date for the FIs in QuickWIC is set to occur one day after the actual ACH occurs. There is a Change Request that has been submitted to BIT to make the payment date of the CAP Lancaster FIs correspond to the date the ACH is paid by Fulton. In addition, the new ACH process began mid-January 2012. There were initial problems with the process and the ACH files were not being sent to the bank timely. During the Audit Period, there were days when the ACH Payment occurred up to a few weeks after the QuickWIC payment date was set for the CAP Lancaster FIs. The very large discrepancies identified are a result of these late payments. WIC is	**04/30/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DOH-01 (cont'd)			running a report to compare the CAP Lancaster FI total redemption value for each day with the ACH payment amounts to confirm that the totals match, despite them being on different days. 2. The difference between SAP and the Quick WIC system for SFYE June 30, 2012 was $500,949: When the new ACH process was implemented in January of 2012, the process did not update the payment dates for the CAP Lancaster FIs in QuickWIC. The QuickWIC system has a process where FIs are auto-voided if they are not redeemed. When the script was run to update the payment dates for the CAP Lancaster FIs, many of the CAP Lancaster FIs had already been auto-voided by QuickWIC, so the script did not update the pay dates for many of the CAP Lancaster FIs. It took some time to identify the problem. Updating the auto-voided CAP Lancaster FIs eliminated most of the $500,949 reconciliation problem. Any remaining issues will be identified with the CAP identified above. 3. Unreturned overcharges result in questioned costs of $78: When the Price Adjustment System Report was run for calendar quarter ending 09/30/2011, the report did not pick up the retail store that was identified by the auditors. WIC staff is dependent upon staff in the IT Department to run reports. The PAS Reports are being run again for the calendar quarter ending 09/30/2011 and will be compared to the originally run reports. The reason(s) for the exclusion of the store in question will be identified and information will be placed on record to assure the future script used to run the PAS reports does not have this same problem.	
12-DOH-02	**DOH**	Cheryl Henne, SPBP Program Manager Jennifer Poeschl, SPBP Data Specialist	**Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third-Party Subrecipient Contractor Results in an Undetermined Amount of Questioned Costs (A Similar Condition Was Noted in Prior Year Finding 11-DPW-15)** The Department agrees with the finding and proposes the following resolution: Special Pharmaceutical Benefits Program (SPBP) will hire a full time data specialist. A major component of this position will be to establish and complete the monitoring of the SPBP eligibility and claims processing activities as performed by the Pennsylvania Department of Aging's (PDA) vendor on behalf of the SPBP. This includes: • The identification and collection of all Health Resources and Services Administration (HRSA) performance and monitoring standards as well as internal department standards to be incorporated	**06/01/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DOH-02 (cont'd)			into an SPBP Quality Management (QM) Plan. • The collection and review of vendor data reports specific to program performance standards, HRSA monitoring standards, and quality measures. • The collection and review of vendor policies applicable to the activities performed on behalf of the SPBP. • The management of the Decision Logic Tables (DLTs) utilized by the vendor to interpret program guidelines in the processing of SPBP enrollment and re-enrollment forms. • Periodic on-site review of vendor processes. • Periodic sample reviews completed on work processed by the vendor on behalf of the SPBP. • Periodic review of recordings of processor telephone contacts with SPBP cardholders as appropriate. • Development of tracking tools specific to the collection of data to track performance over time. • Communication of any concerns or findings to the vendor through the PDA and the identification and development of any re-training necessary to resolve those concerns. • The collection of corrective action plans specific to identified processing concerns and the oversight to ensure implementation and completion of identified corrective actions. • Participation in the identification of system enhancements to support corrective actions identified if appropriate. • The development of a data base to log and track calls received through the SPBP Customer Service Line. The ability to monitor and query client concerns will provide an additional check and balance to the vendor's activities on behalf of the SPBP. • Participation in program and vendor status meetings.	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DOH-02 (cont'd)			• Completion of a monitoring status report in concert with periodic data collection. The report is to be provided to the Program Manager for review. • Review of the QM Plan and monitoring status reports with the SPBP team to assess the effectiveness of the plan and evaluate the need for new or revised performance measures. • Development of a Customer Satisfaction tool to evaluate program performance. The review and incorporation of information from the evaluation into the QM plan as appropriate. • The SPBP QM Plan is to be a "living" document. The plan and monitoring activities will evolve to be responsive to changing federal guidance and requirements, Department guidance, as well as program and service delivery changes. Additionally, this department holds a Memorandum of Understanding (MOU) with the PDA for the use of the PDA's vendor to process claims and enrollment/re-enrollment activities for the SPBP. The SPBP will add language to the MOU for the requirement of the annual audit performed on the PDA's vendor to include an acceptable sample size of the activity performed by the vendor on behalf of the SPBP. The auditor's final report generated from the audit is to include an SPBP specific finding resulting from the SPBP specific sample. The SPBP has hired a data specialist with a start date of March 11, 2013. Providing some time to become acclimated to the program, this CAP will be the first task assigned. Various steps will be implemented in a progressive order. The SPBP anticipates having the QM Plan and the key components of the monitoring and oversight in place by June 1, 2013. Additional steps to follow as appropriate.	
12-L&I-01	**L&I**	Tim Williams, Program Integrity, UC Tax Services	**Deficiencies Noted During Re-Calculation of Experience Based Employer Tax Rate** Because there will be no further UCMS Release 2 data conversions and no second mass rate run for 2012, no special data cleansing is warranted. The majority of rate related issues have been addressed and rates corrected. Any future data correction of employer accounts will occur through normal daily operations which include account review and correction as needed. There are no further program changes needed for 2012 rates. Rates are now calculated correctly when employer data is correct. The rates for 2013 have been run correctly and Pennsylvania passed the USDOL TPS Acceptance Sample review of 2013 Tax Rates; therefore, rate programming does not need to be changed.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-L&I-02			**Deficiencies in Information Technology Controls at the Department of Labor & Industry (A Similar Condition Was Noted in Prior Year Finding 11-L&I-01)**	
	L&I	Ryan Hyde, Division Administrator Budget, Grants, Contracts, and CWDS, Office of Vocational Rehabilitation	CWDS OVR: Release 7.4 (February 2013) changed the permissions of the Superuser removing the ability to edit the Fee Schedule. There is only one role that allows for the editing of the fee schedule and only two staff – Chris Morgan (Central Office Fiscal Technician) and Ryan Hyde (Division Administrator, Budget, Contracts, Grants, and CWDS) have those roles. For all new services Chris must submit the new fee information and it must be approved within the system by Ryan. For all existing fee code increases an email approval is required from Ryan to Chris until the system can be further updated to include an approval process for those existing fees. This process is documented in OVR's draft Fiscal Procedures and Chris is keeping all supporting emails.	**July 2013**
		Michael Fuller, Division Chief – Performance (BWDP)	CWDS BWDP: BWDP will issue a reminder e-mail to all offices stressing the importance of maintaining documentation to evidence the removing of all separated users' (including non-Commonwealth users) access to CWDS within two weeks of the event. In addition, BWDP will continue to conduct random sample reviews of office documentation to ensure compliance.	**03/08/2013**
		John Long, Descriptive Statistical Supervisor, Center for Workforce Information and Analysis	UC: The Department in cooperation with UCMS contractors have worked to address the backlog of processing and to perform system upgrades. The production of accurate tax reports is being created and tested currently. With the completion of the federal reports within the UCMS system, accurate reports will be produced and revised reports for the previously submitted reports will be generated.	**Not Determined**
12-L&I-03			**Internal Control Weaknesses in Approving of TAA Training Payments**	
	L&I	Scott Hetrick, Budget Analyst, Bureau of Financial Management	No further information provided. See Agency disagreement in the response to the finding. Note: The initial agency response to the auditors included attachments in support of their disagreement.	**N/A**

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - June 30, 2012

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-L&I-04	**L&I**	Scott Hetrick, Budget Analyst, Bureau of Financial Management	**Control Weaknesses Exist in L&I's Subrecipient Monitoring of Eligibility Determinations for Individuals (A Similar Condition Was Noted in Prior Year Finding 11-L&I-02)** L&I disagrees with this finding. No further information provided. See Agency Response in the body of the finding.	**N/A**
12-L&I-05	**L&I**	Ryan Hyde, Division Administrator, Program Operations, OVR	**A Control Deficiency Exists in L&I's Procedures for Performing Eligibility Determinations** As indicated in the Department's response, a new Ad Hoc report has been developed and was shared in a Webinar with the District Offices on January 15, 2013. A demonstration was made on how it works and how their offices should run it. Additionally, the importance of moving cases appropriately and timely was reiterated as well as an emphasis placed on individual offices developing specific plans to meet eligibility deadlines. Lastly, the reports that had been sent out quarterly for review will now be sent out monthly.	**Completed**
12-L&I-06	**L&I**	Cathy DiLeonardo, Director Diane Nacko, Deputy Director	**Internal Control Weakness in the Preparation, Review, and Approval of the Quarterly Form SSA 4514 Reports Submitted to the Social Security Administration** a) Amend SSA 4514 - Correct results and resubmit SSA 4514 for quarters ending December 31, 2011 and June 30, 2012. b) Enhance existing procedures - Review and analyze root cause with Director, discuss as-is process, formulate to-be process. c) Design and implement consolidated 'psych hours' MS Excel model: • Design MS Excel model delivered through MS SharePoint for Branch data input. • Create separate MS SharePoint edit and review roles for security control. • Participate on SharePoint message board to communicate all reporting requirements. • Maintain master data at State Office location by Budget Analyst (most data fields can't be edited by user). • Provide data input indicators (yellow/red lights) to flag incomplete record entry by users. • Provide data entry locks and archive quarterly results after the close of a quarter. d) Deliver end-user training to all Administrators and Branch users via MS LiveMeeting:	**Completed**

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12-L&I-06 (cont'd)			• Review SharePoint and file access. • Discuss input timings and quarterly due dates. • Review model functionality. • Review 'how to submit' quarterly Branch inputs to State Office. e) Initiate Branch Administrator review process: • Require MS Outlook confirmation by Branch Administrators to State Office before posting results into MS Access model. f) Post input with IT Department: • Input quarterly values and generate 'final' 4514 report. g) Final Director sign-off: • Meet with Director and Deputy Director for final review and sign-off.	
12-DMVA-01	**DMVA**	Greg Spittle, Budget Analyst	**Noncompliance and Internal Control Deficiencies over Costs Requested for Reimbursement Results in Questioned Costs of $35,422 (A Similar Condition Was Noted in Prior Year Finding 11-DMVA-01)** Regarding the cash management and allowable costs portion of this finding, no CAP is being established as we are not in agreement with the finding. DMVA's case was stated in our agency's response to the preliminary finding, and we stand by our reasoning as to why this should not be part of the finding. In addition and in follow-up to the "auditors' conclusion" that was made part of the final finding, the auditors are confusing terminology. The regulation does not state funds must be paid prior to seeking reimbursement. It simply indicates that funds have to be expended. In our accounting system an expense occurs when an invoice receipt is entered, not when payment is actually made. Additionally, the auditors have confused what the term disbursed means as it relates to federal terminology. A disbursement on the federal side is defined the same as an expense on the state side. It does not mean a vendor was paid, only that the obligation has been liquidated and an accounts payable has been generated. As a result our agency does not feel a CAP is appropriate. Regarding the period of availability part of the finding, there is a current procedure in place by way of controls to minimize the error rate. The controls in place address the finding and, other than re-emphasizing the importance of these controls with staff; we recognize that there is no way to eliminate all errors when the controls involve human intervention. We find the risk relative to this finding to be minimal.	**Completed**

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12-DMVA-01 (cont'd)			Regarding the matching part of the finding, we have an existing policy in place that defines the notification process when facility coding is changed. That policy was reiterated with staff recently and it was made clear that it needed to be followed. Additionally, we have added a procedure whereby the federal support codes will be validated against the state's records on a yearly basis, as a second check, to ensure all updates were made. Again, because this involves human interaction there is the possibility, although minimal, that errors will occur. We find the risk relative to this finding to be minimal.	
	OB-BAFM	Danny Novak, Assistant Director, Federal Accounting	Corrective action is not necessary. Refer to the agency response within the audit finding to view details regarding our disagreement.	**N/A**
12-DMVA-02	**DMVA**	Mandy Kroh, Director, Bureau of Office Services	**Noncompliance and Internal Control Deficiencies Related to Equipment Management and Accountability** 1. We will meet with the IT programmer that developed the equipment database to have the missing fields added to the database. 2. We will modify the report that is generated from the database to include only items over $5,000 and to include all information specific to the piece of equipment that the audit indicated was missing and is required by regulation. 3. We will query all items that were transitioned into this database from a prior database at $0 and identify all items that had an original purchase price of over $5,000 and update those pieces of equipment with the correct pricing. 4. We will generate a report of all items over $5,000 by location and send those reports out to each location to verify (by signature) the equipment is there and to secure any information, regarding the piece of equipment, which is missing from the report. 5. We will then review the information that is returned (initialing off on the document that is returned) and then update the database accordingly. 6. Any missing equipment or information will be followed up on to determine its status. 7. A new complete report will be generated and provided to the USPFO by September 30, 2013. 8. In addition to the steps above, we will review our process for adding equipment to the database to ensure we have the best procedure in place to capture all equipment meeting the requirement. 9. For future years, after the initial inventory of equipment is performed, we will reconcile each year's	**09/13/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DMVA-02 (cont'd)			report to the previous year to ensure all items are accounted for.	
12-PEMA-01	**PEMA**	Mimi Myslewicz, Division Chief, Grants Management Division, Bureau of Financial Management	**Material Weakness and Material Noncompliance Over Equipment and Real Property Management** PEMA will inform its state agency subgrantees via letter of the requirement to reconcile their equipment records to identify total purchase prices and expand their equipment records to include all of the required information. The required information will include the following: Agency Name, Grant Program, Grant Year, Purchase Order Number, Purchase Order Line Number, Purchase Order Line Status, Manufacturer, Vendor, Description of the Equipment, Serial Number, Property ID Number, Quantity, Unit Cost, Federal Cost, Match Cost, Total Cost, Date Received, Final Location to include department, city and county, Annual Inventory Status. The state agencies will be given six months to complete this requirement and to provide it to PEMA.	**08/01/2013**
12-PEMA-02	**PEMA**	Jeffrey Boyle, Auditor Supervisor	**Material Weakness and Material Noncompliance Over Subrecipient Monitoring** Inadequate staffing has prevented PEMA from fully implementing its internal policies related to subrecipient monitoring. In state fiscal year ended June 30, 2013, PEMA addressed the staffing shortage by hiring two auditors to staff the newly created the Compliance Review Division. A third auditor will be hired in early calendar year 2013. The primary function of the Compliance Review Division is subrecipient monitoring. On-site monitoring will be performed for Homeland Security Grant Program subrecipients as required during the state fiscal year ending June 30, 2013. Having a dedicated monitoring staff will allow for site visit reports to be issued within the established timeframe. Deficiencies discovered during monitoring are being tracked to ensure timely corrective action is taken.	**Completed**
12-PEMA-03	**PEMA**	Mimi Myslewicz, Division Chief, Grants Management	**Subgrant Awards are Not Executed or Obligated Within the 45-Day Requirement** PEMA is under the constraints put in place by Office of Administration Management Directive 305.20 that increases the time it takes to execute a grant agreement that gives the subgrantee spending authority. The Management Directive does not identify time limitations on the actions of each individual agency under the Governor's Office, thereby causing an incremental increase to the time the process takes. PEMA will work with its legal staff to determine if there is any way that we may shorten the	**08/01/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PEMA-03 (cont'd)		Division, Bureau of Financial Management	Commonwealth signature process. The subgrantees are required to sign the document prior to the Commonwealth signature process; there may be delays in the return of the signed document from the subgrantees that are out of the control of PEMA.	
12-Pennvest-01	**Pennvest**	Beverly L. Reinhold, Dep Executive Director for Financial Management	**Internal Control Weaknesses in the Preparation, Review, and Approval of the Annual Report Submitted to Environmental Protection Agency for the Clean Water State Revolving Fund (A Similar Condition Was Noted in Prior Year Finding 11-PENNVEST-01)** The errors in the Annual Report have been corrected and a revised report was sent to EPA. Revisions to the structure of the Narrative and Charts, where the same data is reported both places, will be made to avoid having the same data in two places. A reference to the Chart will be made in the Narrative with the next Annual Report. More testing will be done on an oversight basis to avoid having wrong data fields pulled that result in wrong numbers or incorrect identification of Project Types.	**10/01/2013**
12-Pennvest-02	**Pennvest**	Beverly L. Reinhold, Dep Executive Director for Financial Management	**Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 11-PENNVEST-03)** A manual tracking system is being used until a replacement automated system can be put in place. The current automated system is functioning partially, but it is not identifying the financial statements that have not been received. A new database system is scheduled to be built and implemented in late Spring/Summer 2013 that should provide better, timelier, and more easily reportable information on the Annual Financial Statements and their reviews. We have an additional position that we are working to reclassify and fill that will provide relief for the person who is responsible for tracking the receipt and processing of the Annual Financial Statements. This position should be filled by summer 2013.	**Summer 2013**

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12-Pennvest-03	**Pennvest**	Laura Lewis, Deputy Executive Director for Information Technology Beverly L. Reinhold, Deputy Executive Director for Financial Management	**Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding 11-PENNVEST-02)** PENNVEST has already incorporated changes to separate development responsibilities from production control by removing permissions from developers from those individuals with the ability to promote changes to production. In addition, PENNVEST will implement software products to control, monitor, and automate the release of changes to production application software. PENNVEST will modify the existing applications for Funds Disbursement (FD) and Online Funding Request (OFR) to require public users to acknowledge policy for adding and removing user that allow access to records owned by the public user. This application policy will only address the shared permission to view and/or edit data records created by the public users, and will not provide policy for adding or terminating user password/userid accounts which are not controlled by PENNVEST.	**06/30/2013** **10/31/2013**
12-Pennvest-04	**Pennvest**	Beverly L. Reinhold, Dep Executive Director for Financial Management	**Internal Control Weakness Over Matching Requirement Resulted in Material Noncompliance and Questioned Costs of $6,313,514** As noted in the Finding Recommendation, we have already corrected the formulas and added a new double check column to the Proportionality Chart on February 1, 2013. As part of the overall submission review, these will be checked again as well.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DPW-01			**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 11-DPW-01)**	
	DPW	Clifton Van Scyoc, Chief Information Security Officer	DPW is evaluating an IBM tool to pull summary reports of users' roles to assist management in verifying appropriate access of users. DPW is also working to increase awareness and enforce the User and Access Certification Standard that is currently in place.	**September 2013**
			The DPW upgraded the OpCons application on March 4, 2011. 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.	**Completed**
		Pamela Skelton, ISS 2	The DPW Security Team is currently in the development phase of a project that will allow Managed domain accounts (business partners) to access the CIS Mainframe using credentials that meet the Commonwealth ITB standard for password policies. Estimated go-live of this password improvement project is currently set for June 2013.	**June 2013**
		Donna Argenio, Audit Specialist 3, CSE	PACSES policy requires that worker passwords expire every 60 days. PACSES has also instituted additional controls. The Bureau of Child Support Enforcement (BCSE) in 2011 required counties to have visitor access logs to monitor access to subrecipient agencies using PACSES computers.	**Completed**
12-DPW-02			**Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Known Questioned Costs of $33,272 (A Similar Condition Was Noted in Prior Year Finding 11-DPW-05)**	
	DPW	Linda Webber, Division Director, Bureau of Policy, Office of Income	DPW agrees with certain elements of this finding, but disagrees with the overall finding, especially the $33 thousand in questioned MA transportation costs.	
			<u>SPAL Issuance Weaknesses, Timely Processing of SPALs, and Fraud and Abuse</u> - DPW has existing policy and procedures to monitor the accuracy and timely issuance of SPALS. DPW will be implementing additional system enhancements to control and validate SPAL issuances that will be in	**04/29/2013**

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12-DPW-02 (cont'd)		Maintenance	effect by April 29th, 2013. Additional procedures will be published and training provided to coincide with the system enhancements. These system enhancement controls are also designed to prevent fraud and abuse. Steps for improving SPAL issuance are also included in the EFAA corrective actions. Emergency Fund Advancement Account (EFAA) - DPW submitted a CAP to the Bureau of Audits (BOA) on Nov. 26th, 2012, with the corrective actions scheduled for implementation July 1st, 2013. DPW could not implement corrective actions during the single audit period as the BOA final audit report was issued after the audit period. MA Transportation Issuances - DPW followed the established policy / procedure. This payment was processed correctly.	 **07/01/2013** **N/A**
12-DPW-03	**DPW**	Suzanne Connolly, Director, Bureau of Program Evaluation, Office of Income Maintenance	**Weakness in Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 11-DPW-07)** DPW disagrees with this finding. In the cases identified by the AG as having reporting errors and/or documentation discrepancies, none of the differences changed the Work Participation Status of the case and/or individual. DPW has advised the AG several times that HHS has approved our TANF Work Verification Plan and DPW is in fact verifying and calculating work participation activities by our approved Plan and therefore disagrees that the hours submitted are not properly documented. In May of 2012, ACF reviewed our cases and supporting documentation and clarified that Employment Verification Forms can only be used if they contain actual, not estimated, hours. DPW implemented this change immediately for all future reviews. DPW has strengthened its existing procedures over the last several years to help ensure that all reported work activities are properly documented, supported, and classified, such as re-reviewing cases that did not meet the federal work participation requirements. In April of 2012, DPW started re-reviewing ten percent of all cases with work activities of employment and educational calculations to ensure reporting accuracy and consistency.	**N/A**

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12-DPW-04	**DPW**	Clifton Van Scyoc, Chief Information Security Officer Pamela Skelton, IT Generalist 2	**U.S. Department of Health and Human Services Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Public Welfare and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding 11-DPW-08)** 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 06/30/13. 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.	**06/30/2013**
12-DPW-05	**DPW**	Catherine Buhrig, Director, Division of Federal Programs and Program Management, Bureau of Policy, Office of income Maintenance	**Noncompliance and Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits Resulting in Questioned Costs of $490 in LIHEAP (A Similar Condition Was Noted in Prior Year Finding 11-DPW-10)** DPW disagrees with this finding. DPW believes that adequate internal controls are in place to operate effectively. DPW will continue to reinforce existing policy related to the one case deficiency agreed upon. The LIHEAP User Manual and LIHEAP training received by all LIHEAP workers instructs them to request additional information if they are unclear as to the household composition. Workers are thoroughly trained prior to each LIHEAP season 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 is continuously making system enhancements to eCIS that help reduce the number of errors and the incidence of potential fraud and abuse in the system. This is evidenced by the fact that this review did not find deficiencies that were noted in audits from previous years. Unlike previous audits, income calculations have been improved and were not cited in this audit. Additional changes such as alerting workers when an address is used in more than one LIHEAP case for the LIHEAP season and an address GIS validation that cross-references the address given by the client to verify it is an actual physical street address has resulted in no findings involving issues where more than one household received LIHEAP	**N/A**

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12-DPW-05 (cont'd)			benefits at the same address. DPW continues to strive to improve programs each year and remains committed to administering the LIHEAP program with the highest possible degree of accuracy and efficiency. While we disagree with the findings of the 2010-11 Single Audit Finding, that audit showed an error rate of 11%. As noted, this audit found DPW has reduced the error rate within the LIHEAP program to 3% (though we believe this is high based on the results of our own monitoring program that shows an error rate of slightly above 1%), reflecting a 72.7% reduction in errors in a one year period. DPW believes this indicates the level of commitment being undertaken by the Department to ensure an accurate and efficient administration of the LIHEAP program.	
12-DPW-06	**DPW**	Jennifer Lau, Bureau Director, Certification Services	**Noncompliance and Internal Control Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 11-DPW-11)** OCDEL is in the process of changing business practices that require a renewal application to be filed prior to an annual inspection. Under current business practices, the annual/renewal inspection is tied to the filing of an application – an indication that the facility wishes to continue business. As a result, OCDEL does not schedule an inspection date until a renewal application is received. This is problematic when a legal entity files the renewal application very close to the expiration date of their certificate of compliance. Pennsylvania law requires that OCDEL annually inspect each child care center and group child care home. The law does not require that the annual inspection must be tied to the application for renewal of a certificate of compliance. Changing the current business practice will give OCDEL control over the scheduling of the annual inspection. The plan outlined below illustrates a high level look at the proposed business practices. The plan was developed based on discussion with legal counsel. <u>Annual inspection</u> – Change the business practice for scheduling and conducting an annual inspection as follows: • Schedule an annual inspection to occur during a one year period and prior to the certificate renewal date. • Receipt of a renewal application is not needed to schedule or conduct the annual inspection. <u>Certificate of Compliance</u> – Change the business practice regarding issuing a certificate of compliance	**06/30/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-DPW-06 (cont'd)			and renewing the certificate as follows: • Issue a certificate of compliance designating the following: ▪ Date of issuance. There will no longer be an expiration date on the certificate. ▪ Legal entity ▪ Name and address of the facility ▪ Type of service provided i.e. child care center or group child care home ▪ Maximum capacity ▪ Title and chapter of the applicable regulations and the date the regulations were adopted ▪ Certificate number ▪ MPI number ▪ Restrictions, if applicable. The certificate of compliance is produced in hard copy and mailed to the legal entity. In order to make the certificate less subject to fraudulent reproduction, it is suggested that the certificate be embossed with a seal as a form of authentication. Embossers can be designed and ordered through Staples. We will need one embosser for each office for a total of 6 at a one-time cost of approximately $250. The design is identical on all six embossers. • The legal entity will be required to file a renewal application in order to remain certified. Upon receipt of a renewal application, OCDEL will issue to the legal entity a notice stating the facility may continue operating another year from [date] to [date]. This notice may be sent via email. <u>Provisional Certificate of Compliance</u> – If, based on an inspection, a decision is made to issue a provisional certificate of compliance, the following will occur: • A provisional notice will be generated and mailed with the negative sanction letter. The notice will include the dates of the provisional status and the words "PROVISIONAL" in large letters. • The letter will include instructions to the legal entity that the negative sanction letter and provisional notice must be posted in the facility beside the facility's certificate of compliance. The above changes will afford staff more flexibility in grouping inspections by geographic areas both for annual inspections and for follow-up inspections to verify correction of violations. This will help reduce travel costs and staff time spent traveling. Giving OCDEL control of determining inspection dates will eliminate overdue inspections and solve the overdue problem cited through the CCDF audits. Cost savings will be realized by issuing one certificate of compliance that must be produced in hard copy and mailed to the legal entity rather than producing a certificate of compliance each year. All renewal	

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12-DPW-06 (cont'd)			correspondence will be issued via electronic communication with the legal entity.	
12-DPW-07	**DPW**	Amanda Newman, HSDF/SSBG Program Administrator	**Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (A Similar Condition Was Noted in Prior Year Finding 11-DPW-12)** 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 for DPW Human Resources to fill this vacancy. The pilot for the new block grant program has been approved and implemented. A Monitoring section will be created for the block grant program, as well as the SSBG funding. Currently, the SSBG Monitor 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.	**06/30/2013**
12-DPW-08	**DPW**	Richard Wallace, Acting Director of Operations, Bureau of Operations, Office of Income Maintenance	**Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 11-DPW-14)** While DPW agrees with certain elements in this finding, DPW disagrees that there are "Material Noncompliance and Internal Control Weaknesses". In an attempt to enhance the monitoring of reapplications, policy has been updated to emphasize the timeliness of reapplications. Additionally, instruction has been provided to complete "Ex Parte" reviews to verify information electronically, when available, to simplify and expedite the process of completing reapplications for both the individual and the caseworker. Also, due to the volume of records, a greater emphasis has been placed on scanning documentation into CIS. This will cut down on misplaced and duplicated verification and allow easier access to these items. During the past year, policy has been updated regarding MA overpayments to place a greater emphasis on pursuing recoupment of MA overpayments in a timely fashion.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PennDOT-01	**PennDOT**	J. Michael Long, P.E. Chief, Contract Management Section, Highway Delivery Division, Bureau of Project Delivery	**Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (A Similar Condition Was Noted in Prior Year Finding 11-PennDOT-03)** • PennDOT's policies related to monitoring locally-sponsored subrecipient projects include monitoring checklists and approvals of local inspection staffing. These policies were strengthened and re-emphasized during the fiscal year ended June 30, 2012. Effective October 2011, use of the monitoring checklist became mandatory. • It is important to note that in certain phases of locally-sponsored subrecipient projects these internal control policies are not applicable in situations where the project has not advanced to the stage where the use of these controls would be applicable. The assigned phase of each project is recorded in the Electronic Construction Management System (ECMS). The phases for which the internal control policies are not applicable are as follows: o Design phase o Interim stage (post-design but prior to the commencement of construction) o The end of the construction phase; i.e. construction is complete but the project has not moved to the post-construction phase o Post-construction phase • PennDOT will develop internal quality review procedures to ensure the consistent application throughout the districts of the monitoring checklists and approvals of local inspection staffing policies related to locally-sponsored subrecipient projects.	**03/31/2013**
12-PennDOT-02	**PennDOT**	Rebecca Burns Chief, Innovation and Support Services Division, Bureau of Project Delivery	**Internal Control Deficiencies Related to Buy American ARRA Provisions (A Similar Condition Was Noted in Prior Year Finding 11-PennDOT-01)** PennDOT has implemented changes since the last finding was issued. The actions completed were: 1. BOCM spoke with the AG's office to understand the finding. The AG auditor indicated the finding is that the Department did not comply with Pub 408 for unidentified steel. 2. Met with PennDOT OCC to determine appropriate definition of unidentified steel. 3. Proposed Publication 408 change to insert definition of unidentified steel if approved by OCC. 4. Proposed Pub 2. Project Office Manual (POM) change(s) to address unidentified steel required	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PennDOT-02 (cont'd)			documentation. 5. Circulated Pub changes in Clearance Transmittal (CT) process. 6. Collected comments on CT and revised Publications 408 and 2. All actions were completed by April 2012.	
12-PennDOT-03	**PennDOT**	Kevin Connors, Highway Applications Division Chief, Bur. Of Business Solutions and Services Roger Riley, Director, Bureau of Business Solutions and Services Deborah Reihart, Chief, Systems Management, Bureau of Project Delivery	**Deficiencies in Information Technology Controls in the Engineering and Construction Management System (A Similar Condition was Noted in Prior Year Finding 11-PennDOT-02)** 1. PennDOT will develop a complete and accurate listing of all positions with the ability to approve invoices. (Completed) 2. PennDOT has a business necessity to allow 'acting' roles for short periods of time. 'Acting' roles are necessary for periods of time when personnel depart and a vacant position is temporarily filled. PennDOT understands that the AG is agreeable to this need provided that requests are necessary to continuing business operations, are temporary, and adequate management controls are set in place. PennDOT will and/or has already implemented the following measures to ensure the requirement of 'adequate management controls' is being met: a. A line has been added to the ECMS User Access Form to request temporary exclusion to the mutually exclusive roles of Invoice Creator and Invoice Approver. No exception will be made without this information being provided. This will need to have supporting business documentation justifying the need for this temporary exclusion. (Completed) b. An automated report will be produced each month identifying all users with mutually exclusive Invoice Creator and Invoice Approver roles. These reports will be reviewed by Systems Management and temporary exclusions will only be permitted for a six month period after which an applicant will need to reapply for the exclusion. If the request is not received and/or reviewed/approved within the six month timeframe, one of the mutually exclusive roles will be removed. (Completed) c. Reports detailing the transactions approved by individuals with the temporary exception role will be produced by Systems Management on a quarterly basis. This information will be passed along to the Assistant District Executive for Construction in the districts where these transactions	**June 2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-PennDOT-03 (cont'd)		Diane Chamberlain, Director, Bureau of Office Services	occurred for approval that the transactions were proper. Systems Management will maintain all documentation on this process. (Process will begin on April 1, 2013 and continue on a quarterly basis.) 3. Deputy Secretaries approve/delegate signature authorizations not Bureau Directors. Bureau Directors make recommendations to their Deputy. OB-Legal has confirmed that all deputy secretaries are authorized to delegate signature authority within PennDOT. All individuals requiring signature authority will be required to complete a new STD-275, Signature Authorization Form. This is expected to be initiated in April 2013 with completion by June 2013. A database has been developed and will serve as the 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 Authorization Forms and to initiate periodic reviews of the Signature Authorization Forms.	
12-OB-01			**State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and At The Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 11-OB-02)**	
	OB-BAFM	Danny Novak, Assistant Director, Federal Accounting	Corrective action is not necessary. Refer to the agency response within the audit finding to view details regarding our disagreement.	**N/A**
	L&I	David Bohanick, Chief, Grants and Fiscal Operations BWDP	In July 2012, the Commonwealth Workforce Development System (CWDS) was enhanced to include the Federal Agency, CFDA title, and award name and number on the Notice of Obligation (NOO). This enhancement was incorporated to further solidify our response to finding OB-1 of the Federal Award Findings dated Feb 1, 2013 that require L&I to identify the Federal award number and CFDA number, particularly at the time the award is made and when funds are disbursed. The NOO that includes the required information is available for review upon request.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-OB-01 (cont'd)			As previously indicated, local areas access their contract and NOO information via CWDS. Screenshots are available upon request to illustrate how all the pertinent information is available, particularly at the time a request for funds is made.	
	PennDOT	Gary Kleist, Section Chief, Bureau of Project Delivery	PennDOT disagrees with the finding. PennDOT has communicated to the auditors that subrecipients do indeed receive information related to the award identification. This information is presented on the signature page of the reimbursement agreement which indicates award amount, federal award number, and the CFDA number.	**N/A**
	DPW	David R. Bryan, Manager, Audit Resolution Section	The Department of Public Welfare (DPW) 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 testing. DPW complies with the requirements of OMB Circular A-133 Compliance Supplement that states when ARRA funds are sub awarded 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 DPW and the subrecipient identifying all of the relevant information such as the source of funding. As disbursements are made to the subrecipient, a remittance advice is provided to the subrecipient that identifies the disbursement and references the subgrant agreement. 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 from which the funding is being disbursed.	**N/A**
	DOH	Terri A. Matio, Director, Bureau of Administrative and Financial Services Robin L.	DOH complies with the requirements of Management Directive 305.21, *Payments to Local Governments and other Subrecipients*, wherein we must identify the amounts of Federal and state funding we provide to Grantees. This identification includes the breakdown of Federal and state dollars provided and the related Federal and state financial assistance program name and number. DOH will continue to comply with the requirements of the most current version of Management Directive 305.21.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-OB-01 (cont'd)		Rothermel, Director, Bureau of Communicable Diseases Kenneth E. McGarvey, Director, Division of HIV/AIDS		
	DDAP	Terry Matulevich, Chief, Fiscal Section	Refer to the agency response within the audit finding to view details regarding the agency's disagreement.	**N/A**
	PDE	Federal Funds Manager, Division of Federal Programs, Bureau of Teaching and Learning	The Pennsylvania Department of Education, Division of Federal Programs (DFP) will ensure the rider KK and all grant award approval letters include the necessary CFDA information for each grant administered by DFP.	**07/01/2013**
	DCED	Ed Geiger, Director, Center for Community Financing Donna Enrico, Division Chief, Community	DCED's Center for Community Financing already includes the CFDA title and number as well as the award name on all contracts. DCED will include the federal agency award number on all contracts in the future. Starting immediately, the federal award number will be placed on the signature page with the CFDA number.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-OB-01 (cont'd)		Development Operations		
	Pennvest	Laura Lewis, Deputy Executive Director for Information Technology Beverly L. Reinhold, Deputy Executive Director for Financial Management	EPA Guidance did not indicate the requirement to include this information in the award documentation and by the time the OMB Circular A-133 came out all ARRA projects had completed settlement without the documentation being included. As disbursements are made they may be either ARRA Funds or Base federal funds or a combination thereof. As PENNVEST works through the disbursement of funds for all projects, we may go back and replace previously disbursed Base federal funds with ARRA funds that were unused at the end of another project. For various reasons PENNVEST may pull all ARRA funds from a project and replace them with Base funds for previously disbursed payment requests. There is no way PENNVEST can advise the borrower of the specific funds at the time of disbursement and for that to remain how those funds were disbursed. We have however modified our online systems to incorporate the CFDA number and all payment requests signed by the borrower now include the CFDA number as well. In prior years we have advised all ARRA recipients of the fact that their project is funded in part or in whole with ARRA Funds and the requirements that follow the ARRA Funding. All actions were taken in prior years.	**N/A**
12-OB-02	**OB-BAFM**	Danny Novak, Assistant Director, Federal Accounting	**Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a $198,529 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding 11-OB-03)** Corrective action is not necessary. Refer to the agency response within the audit finding to view details regarding our disagreement.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-OB-03			**General Information Technology Control Weaknesses Affecting the Payroll Process**	
	OB-BAFM	Lauren Dungan, Assistant Director, Financial Reporting	The Office of the Budget, Bureau of Accounting and Financial Management disagrees with this finding and has determined that corrective action is not necessary. This finding has not identified any impropriety or invalid reporting specific to the payroll system process.	**N/A**
12-OB-04			**Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Findings 11-OB-04 and 11-DPW-16)**	
	OB-BOA	John Kaschak, Bureau Director	The exception related to BOA was the fact that the review of one report with a finding was not performed. BOA and the AG agree that this was an isolated incident. The report has been reviewed, as disclosed in our response to the finding.	**Completed**
	DPW	David R. Bryan, Manager, Audit Resolution Section Alexander Matolyak, Director, Division of Audit and Review	There are 2 issues for DPW: (1) timeliness of finding resolution; and (2) absent the SEFA reconciliations, our process does not identify whether the correct major programs were tested based on what the Commonwealth actually paid the subrecipient.	
			As was discussed in a meeting with the auditors and representatives from the Office of Budget, Comptroller Operations, SEFA reconciliations do not make sense for DPW given our current processes which essentially give the assurance needed (there is a small "gap" in assurance that is addressed in 2 below). The DPW plans to forego the time-consuming SEFA reconciliations and focus on eliminating the single audit review backlog. The DPW, Bureau of Financial Operations, Division of Audit and Review, has a request for quote (RFQ) for auditor staff augmentation; our plan is to devote some staff from that contract to the single audit review backlog. The new streamlined process along with additional resources should be sufficient to reduce and then eliminate the backlog.	**06/13/2014**
			The DPW plans to meet with the Comptroller Operations, Bureau of Audits staff to determine the best approach to eliminate the small "gap" in coverage we have due to the major program determination being based on the SEFA amounts and not on Commonwealth payment records (The Bureau of Audits checks whether the correct major programs were tested based on the amounts shown on the SEFA).	**04/15/2013**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
12-OB-04 (cont'd)	**DOH**	David D. DePeau Chief, Audit Resolution Section	DOH is utilizing an annuitant to perform the work of the unfilled subrecipient audit review position that is assigned to do this work.	**12/31/2013**
	L&I	Scott Hetrick, Bureau of Financial Management	Effective February 14, 2013, L&I has instituted a priority system in the review of subrecipient reports. Any subrecipient report that contains findings will be given the highest priority. These reports will be immediately forwarded to the applicable program office(s) for immediate action.	**02/14/2013**
	Pennvest	Beverly L. Reinhold, Deputy Executive Director for Financial Management	During the audit year it was clarified to the person tracking the subrecipient Single Audit responses that a total of 6 months is allocated for a response with this period covering the BOA and PENNVEST time. Our tracking system has had significant issues over the last several years and after many attempts to resolve those issues, IT will be doing a system replacement in late Spring, Summer 2013 that should improve the tracking of missing and non-compliant/non-responsive sub-recipients. We are continuing to work to reclassify a vacant position that will take over some of the work from the person responsible for the Subrecipient Audit resolution process, which should help resolve these issues. This is on track for Summer 2013.	**Summer 2013**
	PDE	Audit Coordinator, Bureau of Budget and Fiscal Management	The PDE, Bureau of Budget and Fiscal Management assigned a position to 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.	**Completed**
	Aging	Robert Heinlen, Budget Analyst	PDA has developed a tracking log to monitor audit receipt and processing times. This will help monitor audit status and aid in ensuring the reports are being processed timely. Additionally, a second staff member has been assigned to the section responsible for audit resolution.	**Completed**

Appendix

Commonwealth of Pennsylvania

APPENDIX - Legend of Abbreviations - June 30, 2012

The following legend presents descriptions of abbreviations that appear throughout the report:

ABBREVIATION	DESCRIPTION
ACF	Administration for Children and Families
ACH	Automated Clearing House
AG	Department of the Auditor General
AGRI	Department of Agriculture
ARC	Appalachian Regional Commission
ARRA	American Recovery and Reinvestment Act
BAFM	Bureau of Accounting and Financial Management
BCPO	Bureau of Commonwealth Payroll Operations
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
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
CSBG	Community Services Block Grant
CSE	Child Support Enforcement
CWDS	Commonwealth Workforce Development System
CWSRF	Capitalization Grants for Clean Water State Revolving Fund
DCED	Department of Community and Economic Development
DDAP	Department of Drug and Alcohol Programs
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	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
EFAA	Emergency Fund Advancement Account
EO	Executive Offices
EPA	Environmental Protection Agency
ES	Employment Services
ESEA	Elementary and Secondary Education Act

Legend of Abbreviations (Continued) - June 30, 2012

ABBREVIATION	DESCRIPTION
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration
FNS	Food and Nutrition Service
FYE	Fiscal Year Ended
GAAP	Generally Accepted Accounting Principles
HHS	United States Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HPC	Highway Planning and Construction
HS	Homeland Security
HSGP	Homeland Security Grant Program
HUD	United States Department of Housing and Urban Development
ICS	Integrated Central System
IDEA	Individuals With Disabilities Education Act
IES	Integrated Enterprise System
IT	Information Technology
L&I	Department of Labor and Industry
LEA	Local Educational Agency
LIHEAP	Low Income Home Energy Assistance Program
LCB	Liquor Control Board
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
NCLB	No Child Left Behind
NGMO	National Guard Military Operations and Maintenance Projects
OA	Office of Administration
OB	Office of the Budget
OCO	Office of Comptroller Operations
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
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
SIG	School Improvement Grants
SNAP	Supplemental Nutrition Assistance Program
SPAL	Special Allowance
SSA	Social Security Administration
SSBG	Social Services Block Grant
SWIF	State Workers' Insurance Fund
TAA	Trade Adjustment Assistance - Workers

Legend of Abbreviations (Continued) - June 30, 2012

ABBREVIATION	DESCRIPTION
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
VOC ED	Vocational Education
WAP	Weatherization Assistance for Low-Income Persons
WIA	Workforce Investment Act
WIC	Women, Infants, and Children