PA Commonwealth of Pennsylvania

Single Audit Report

For the Fiscal Year Ended June 30, 2013

Tom Corbett
Governor

Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2013

Tom Corbett, Governor

Prepared By:

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Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2013

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

CHARLES B. ZOGBY
SECRETARY
OFFICE OF THE BUDGET

March 19, 2014

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, 2013. 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, 2013 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 $26.9 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2013. Most of the $26.9 billion in federal expenditures occurred in eleven state agencies, as follows:

AGENCY NAME	**FEDERAL EXPENDITURES (in thousands)**
Public Welfare	$15,971,760
Labor & Industry	5,200,827
Education	2,030,343
Transportation	1,744,576
Health	437,618
Insurance	293,188
Infrastructure Investment Authority	209,404
Emergency Management Agency	180,034
Community & Economic Development	144,882
Military & Veterans Affairs	125,608
Aging	104,078
Subtotal	$26,442,318
Other Agencies (19)	426,831
Grand Total	$26,869,149

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least $40.3 million. Of the $26.9 billion expended, 96 percent, or $25.8 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 34 major federal programs for the fiscal year ended June 30, 2013.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2013 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 74 findings are described from single audits between the years ended June 30, 2011 through June 30, 2012.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2013 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

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Independent Auditors' Report on the Basic Financial Statements

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

Report on the Financial Statements

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents of the Comprehensive Annual Financial Report.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of the Tobacco Settlement Fund, a non-major Special Revenue Fund, which represents 1 percent of total assets and 1 percent of total revenues of the governmental activities and 1 percent of total assets and 3 percent of total revenues of the aggregate remaining fund information, the Philadelphia Regional Port Authority and the State Stores Fund, non-major Enterprise Funds, which represent 10 percent of total assets and 16 percent of total revenues of the business-type activities and 1 percent of total assets and 10 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund and the Commonwealth Financing Authority, which are both major Enterprise Funds, and represent 31 percent of total assets and 3 percent of total revenues of the business-type activities, and certain discretely presented component units, which represent 99 percent of total 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 and 94 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets and 100 percent of the total additions of the Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets and 63 percent of total additions/revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S generally accepted accounting principles.

Emphasis of Matter

Pennsylvania Turnpike Commission

As discussed in Note S to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under 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. Our opinion is not modified with respect to this matter.

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

As discussed in Notes A and B to the financial statements, effective July 1, 2012, the Commonwealth adopted the provisions of Governmental Accounting Standards Board's Statement No. 61, "The Financial Reporting Entity: Omnibus." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information included in the Comprehensive Annual Financial Report on pages 19 through 38 and 153 through 159 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 13, 2013 on our consideration of the Commonwealth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control over financial reporting and compliance.

KPMG LLP

December 13, 2013

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

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

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who audited the financial statements of certain activities as described in our report on the Commonwealth's financial statements. The financial statements of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, and the Port of Pittsburgh Commission were not audited in accordance with *Government Auditing Standards*. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 13-01 through 13-05 that we consider to be significant deficiencies.

Compliance and Other Matters

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

The Commonwealth's Response to Findings

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

The Honorable Tom Corbett
Governor

Purpose of This Report

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

KPMG LLP

December 13, 2013

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

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

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

Report on Compliance for Each Major Federal Program

We have jointly audited the Commonwealth of Pennsylvania's (Commonwealth) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2013. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Commonwealth's basic financial statements include the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, the Philadelphia Regional Port Authority, the Pennsylvania Convention Center Authority, and the Judicial Department of Pennsylvania, which received approximately $9.4 billion in federal awards and $38.5 billion of federal loan guarantees that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of these seven entities because other auditors were engaged to perform audits (when required) in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditors' Responsibility

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

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

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

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

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program Cluster	Compliance Requirement
Department of Community and Economic Development	13-DCED-01	14.228 14.255 – A	Community Development Block Grants – State-Administered CDBG Cluster	Subrecipient Monitoring
Office of the Budget	13-SW-01	14.228 14.255 – A	Community Development Block Grants – State-Administered CDBG Cluster	Subrecipient Monitoring
Office of the Budget	13-SW-03	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

Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to the Community Development Block Grants – State-Administered CDBG Cluster.

Adverse Opinion on the Major Federal Program Identified Above

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, the Commonwealth did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants – State-Administered CDBG Cluster for the year ended June 30, 2013.

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

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

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Education	13-PDE-04	84.010	Title I Grants to Local Educational Agencies	Subrecipient Monitoring
		84.367	Improving Teacher Quality State Grants	
Department of Education	13-PDE-07	84.377 84.388 – A	School Improvement Grants Cluster	Activities Allowed or Unallowed, Allowable Costs, Earmarking, Subrecipient Monitoring
Department of Health	13-DOH-02	93.917	HIV Care Formula Grants	Subrecipient Monitoring
Pennsylvania Emergency Management Agency	13-PEMA-01	97.067	Homeland Security Grant Program	Special Tests and Provisions related to Subgrant Awards
Pennsylvania Emergency Management Agency	13-PEMA-03	97.067	Homeland Security Grant Program	Equipment and Real Property Management
Pennsylvania Infrastructure Investment Authority	13-PENNVEST-01	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	13-PENNVEST-04	66.458 - A	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring
		66.468 - A	Capitalization Grants for Drinking Water State Revolving Funds	
Department of Public Welfare	13-DPW-01	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions related to EBT Card Security
		93.558	Temporary Assistance for Needy Families	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Public Welfare	13-DPW-02	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions related to EBT Reconciliation
Department of Public Welfare	13-DPW-03	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
		93.658 - A	Foster Care – Title IV-E	
		93.659 - A	Adoption Assistance	
Department of Public Welfare	13-DPW-04	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
Department of Public Welfare	13-DPW-05	93.558	Temporary Assistance for Needy Families	Reporting
Department of Public Welfare	13-DPW-06	93.563	Child Support Enforcement	Special Tests and Provisions related to ADP Risk Analysis and System Security Review
		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	
		93.720 - A 93.775 93.777 93.778 - A	Medicaid Cluster	
		93.767	Children's Health Insurance Program	
Department of Public Welfare	13-DPW-09	93.667	Social Services Block Grant	Cash Management, Subrecipient Monitoring
Department of Public Welfare	13-DPW-10	93.778 - A	Medical Assistance Program	Activities Allowed or Unallowed, Allowable Costs, Eligibility

State Administering Agency	**Finding Number**	**CFDA No. (A-ARRA)**	**Federal Program/Cluster**	**Compliance Requirement**
Office of the Budget	13-SW-01	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Subrecipient Monitoring
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.558	Child and Adult Care Food Program	
		17.258 17.259 17.278	WIA Cluster	
		20.205 - A 20.219 23.003	Highway Planning and Construction Cluster	
		66.458 - A	Capitalization Grants for Clean Water State Revolving Funds	
		66.468 - A	Capitalization Grants for Drinking Water State Revolving Funds	
		84.010	Title I Grants to Local Educational Agencies	
		84.027 84.173	Special Education Cluster	
		84.048	Career and Technical Education – Basic Grants to States	
		84.287	Twenty-First Century Community Learning Centers	
		84.367	Improving Teacher Quality State Grants	
		84.377 84.388 - A	School Improvement Grants Cluster	
		93.044 93.045 93.053	Aging Cluster	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658 - 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	
		93.917	HIV Care Formula Grants	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
		97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	
		97.067	Homeland Security Grant Program	

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

Qualified Opinion on the 28 Major Federal Programs Identified Above

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the identified major federal programs for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

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

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Education	13-PDE-02	10.555	National School Lunch Program	Allowable Costs
Department of Education	13-PDE-03	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
Department of Education	13-PDE-05	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions related to Identifying Schools and LEAs Needing Improvement
Department of Education	13-PDE-06	84.010	Title I Grants to Local Educational Agencies	Reporting
Department of Health	13-DOH-01	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions related to Food Instruments and Cash-Value Voucher Disposition
Department of Labor and Industry	13-L&I-02	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Eligibility
Department of Labor and Industry	13-L&I-03	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Reporting

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Military and Veterans Affairs	13-DMVA-01	12.401 - A	National Guard Military Operations and Maintenance Projects	Allowable Costs, Period of Availability of Federal Funds
Pennsylvania Infrastructure Investment Authority	13-PENNVEST-02	66.458 -A	Capitalization Grants for Clean Water State Revolving Funds	Special Tests and Provisions related to Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds
Department of Public Welfare	13-DPW-07	93.575 93.596	CCDF Cluster	Special Tests and Provisions related to Health and Safety Requirements
Department of Public Welfare	13-DPW-08	93.575	Child Care and Development Block Grant	Cash Management
Department of Public Welfare	13-DPW-09	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management, Subrecipient Monitoring
Department of Transportation	13-PennDOT-01	20.205 - A 20.219 23.003	Highway Planning and Construction Cluster	Subrecipient Monitoring
Office of the Budget Department of Labor and Industry	13-SW-02	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs (Effort Reporting)
		96.001	Social Security – Disability Insurance	
Office of the Budget	13-SW-03	17.258 17.259 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	
		84.010	Title I Grants to Local Educational Agencies	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		84.367	Improving Teacher Quality State Grants	
		84.377 84.388 - A	School Improvement Grants Cluster	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.658 - A	Foster Care – Title IV-E	
		93.659 - A	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.775 93.777 93.778 - A	Medicaid Cluster	
		93.917	HIV Care Formula Grants	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
Office of the Budget	13-SW-04	10.555	National School Lunch Program	Cash Management
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	
		84.010	Title I Grants to Local Educational Agencies	
		84.027	Special Education – Grants to States	
		84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		84.367	Improving Teacher Quality State Grants	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658 - A	Foster Care – Title IV-E	
		93.659 - A	Adoption Assistance	
		93.767	Children's Health Insurance Program	
		93.778 - A	Medical Assistance Program	
		96.001	Social Security – Disability Insurance	

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 13-DCED-01, 13-PDE-04, 13-PDE-05, 13-PDE-07, 13-DOH-02, 13-PEMA-01, 13-PEMA-03, 13-PENNVEST-01, 13-PENNVEST-04, 13-DPW-01, 13-DPW-02, 13-DPW-03, 13-DPW-04, 13-DPW-05, 13-DPW-06, 13-DPW-09, 13-DPW-10, 13-SW-01, and 13-SW-03 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 13-PDE-01, 13-PDE-02, 13-PDE-03, 13-PDE-06, 13-DOH-01, 13-L&I-01, 13-L&I-02, 13-L&I-03, 13-DMVA-01, 13-PEMA-02, 13-PENNVEST-02, 13-PENNVEST-03, 13-DPW-07, 13-DPW-08, 13-DPW-09, 13-PennDOT-01, 13-PennDOT-02, 13-SW-02, 13-SW-03, and 13-SW-04 to be significant deficiencies.

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

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

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

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth’s basic financial statements. We issued our report thereon dated December 13, 2013, which includes a reference to other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

March 19, 2014

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Schedule of Expenditures of Federal Awards

Commonwealth of Pennsylvania

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
	SNAP Cluster:				
10.551	Supplemental Nutrition Assistance Program		2,739,764		
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm		162,624		25,504
	Total *SNAP Cluster*			2,902,388	
	Child Nutrition Cluster:				
10.553	School Breakfast Program		84,859		84,625
10.555	National School Lunch Program (Cash Assistance)	316,541			315,368
10.555	National School Lunch Program (Food Commodities)	39,124			39,124
	Total National School Lunch Program		355,665		
10.556	Special Milk Program for Children		465		465
10.559	Summer Food Service Program for Children (Cash Assistance)	13,699			13,094
10.559	Summer Food Service Program for Children (Food Commodities)	123			123
	Total Summer Food Service Program for Children		13,822		
	Total *Child Nutrition Cluster*			454,811	
	Food Distribution Cluster:				
10.565	Commodity Supplemental Food Program (Cash Assistance)	2,470			2,470
10.565	Commodity Supplemental Food Program (Food Commodities)	9,447			9,447
	Total Commodity Supplemental Food Program		11,917		
10.568	Emergency Food Assistance Program (Administrative Costs)		1,050		665
10.569	Emergency Food Assistance Program (Food Commodities)		22,297		22,297
	Total *Food Distribution Cluster*			35,264	
10.025	Plant and Animal Disease, Pest Control, and Animal Care			1,454	365
10.028	Wildlife Services			22	
10.069	Conservation Reserve Program			21	
10.162	Inspection Grading and Standardization			39	
10.163	Market Protection and Promotion			94	
10.170	Specialty Crop Block Grant Program - Farm Bill			1,085	686
10.171	Organic Certification Cost Share Programs			288	
10.215	Sustainable Agriculture Research and Education			31	25
10.304	Homeland Security - Agricultural			58	
10.435	State Medication Grants			26	
10.458	Crop Insurance Education in Targeted States			698	345

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children		174,391	40,616
10.558	Child and Adult Care Food Program (Cash Assistance)	98,895		98,641
10.558	Child and Adult Care Food Program (Food Commodities)	38		38
	Total Child and Adult Care Food Program		98,933	
10.560	State Administrative Expenses for Child Nutrition		7,513	
10.572	WIC Farmers' Market Nutrition Program (FMNP)		1,788	231
10.574	Team Nutrition Grants		273	
10.576	Senior Farmers Market Nutrition Program		1,938	
10.578	WIC Grants to States (WGS)		370	370
10.579	Child Nutrition Discretionary Grants Limited Availability		578	172
10.580	Supp Nutrition Assistance Program Outreach/Participation		501	501
10.582	Fresh Fruit and Vegetable Program		3,906	3,906
10.590	Disaster Relief Act - Emergency Food Assistance Program (Admin)		7	
10.664	Cooperative Forestry Assistance		2,645	579
10.665	Schools and Roads - Grants to States		3,331	3,331
10.675	Urban and Community Forestry Program		4	
10.678	Forest Stewardship Program		230	
10.680	Forest Health Protection		127	
10.681	Wood Education and Resource Center (WERC)		7	
10.687	ARRA - Capital Improvement and Maintenance		152	
10.769	Rural Business Enterprise Grants		85	
10.912	Environmental Quality Incentives Program		261	261
10.913	Farm and Ranch Lands Protection Program		4,250	
10.914	Wildlife Habitat Incentive Program		3	
	Total - U.S. Department of Agriculture		**$3,697,572**	**$663,249**
11.303	Economic Development - Technical Assistance		77	67
11.307	Economic Adjustment Assistance		23	
11.407	Interjurisdictional Fisheries Act of 1986		3	
11.419	Coastal Zone Management Administration Awards		1,741	938
11.474	Atlantic Coastal Fisheries Cooperative Management Act		122	
11.555	Public Safety Interoperable Communications Grant Program		21	
11.557	ARRA - Broadband Technology Opportunities Program (BTOP)		15,384	
11.558	ARRA - State Broadband Data and Development Grant Program		1,526	554
	Total - U.S. Department of Commerce		**$18,897**	**$1,559**

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
12.112	Payments to States in Lieu of Real Estate Taxes		168	168
12.400	Military Construction, National Guard		12,643	
12.401	National Guard Military Operations and Maintenance Projects	49,556		
12.401	ARRA - National Guard Military Operations and Maintenance Projects	19		
	Total National Guard Military Operations and Maintenance Projects		49,575	
	Total - U.S. Department of Defense		**$62,386**	**$168**
	CDBG - State-Administered CDBG Cluster:			
14.228	Community Development Block Grants/State's Program	51,999		50,780
14.255	ARRA - Community Development Block Grants/State's Program	282		231
	Total *CDBG - State-Administered CDBG Cluster*		52,281	
14.225	Community Development Block Grants/Special Purpose/Insular		86	
14.231	Emergency Solutions Grant Program		2,746	2,596
14.235	Supportive Housing Program		213	
14.239	Home Investment Partnerships Program		12,090	11,565
14.241	Housing Opportunities for Persons with AIDS		1,810	1,808
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program		1,503	1,393
14.401	Fair Housing Assistance Program - State and Local		477	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		968	782
	Total - U.S. Department of Housing and Urban Development		**$72,174**	**$69,155**
	Fish and Wildlife Cluster:			
15.605	Sport Fish Restoration Program	7,512		
15.611	Wildlife Restoration and Basic Hunter Education	17,633		
	Total *Fish and Wildlife Cluster*		25,145	
15.250	Regulation of Surface Coal Mining		11,399	13
15.252	Abandoned Mine Land Reclamation (AMLR) Program		31,308	198
15.608	Fish and Wildlife Management Assistance		392	
15.612	Endangered Species Conservation		22	
15.615	Cooperative Endangered Species Conservation Fund		89	
15.622	Sportfishing and Boating Safety Act		94	
15.634	State Wildlife Grants		1,758	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
15.650	Research Grants (Generic)		589	404
15.657	Endangered Species Conservation - Recovery Implement Funds		13	
15.808	U.S. Geological Survey - Research and Data Collection		36	
15.810	National Cooperative Geologic Mapping Program		180	
15.819	Energy Coop to Support National Coal Resources Data System		(6)	
15.904	Historic Preservation Fund Grants-In-Aid		1,119	83
15.916	Outdoor Recreation - Acquisition, Development and Planning		1,416	1,416
15.929	Save America's Treasures		58	53
	Total - U.S. Department of the Interior		**$73,612**	**$2,167**
	JAG Program Cluster:			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	10,902		8,294
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant Prgm	6,990		3,888
	Total *JAG Program Cluster*		17,892	
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training		769	
16.017	Sexual Assault Services Formula Program		316	316
16.523	Juvenile Accountability Block Grants		1,016	942
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States		1,402	1,112
16.548	Title V - Delinquency Prevention Program		103	103
16.550	State Justice Statistics Prgm for Statistic Analysis Centers		98	
16.554	National Criminal History Improvement Program (NCHIP)		563	470
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants		120	100
16.572	State Criminal Alien Assistance Program		4,640	
16.575	Crime Victim Assistance		15,900	14,752
16.576	Crime Victim Compensation		4,455	
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm		2,391	
16.588	Violence Against Women Formula Grants		3,678	3,298
16.593	Residential Substance Abuse Treatment for State Prisoners		635	
16.601	Corrections - Training and Staff Development		11	
16.607	Bulletproof Vest Partnership Program		194	
16.609	Project Safe Neighborhoods		232	221
16.610	Regional Information Sharing Systems		4,932	
16.727	Enforcing Underage Drinking Laws Program		206	50
16.740	Statewide Automated Victim Info Notification (SAVIN) Program		399	390
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		456	220

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
16.746	Capital Case Litigation		121	121
16.750	Support for Adam Walsh Act Implementation Grant Program		250	
16.812	Second Chance Act Prisoner Reentry Initiative		282	157
16.816	John R. Justice Prosecutors and Defenders Incentive Act		346	
16.922	Equitable Sharing Program		2,442	
	Total - U.S. Department of Justice		**$63,849**	**$34,434**
	Employment Service Cluster:			
17.207	Employment Service/Wagner-Peyser Funded Activities	26,912		
17.801	Disabled Veterans' Outreach Program (DVOP)	3,046		
17.804	Local Veterans' Employment Representative Program	3,023		
	Total *Employment Service Cluster*		32,981	
	WIA Cluster:			
17.258	WIA Adult Program	28,970		26,531
17.259	WIA Youth Activities	29,847		24,940
17.278	WIA Dislocated Worker Formula Grants	32,056		31,317
	Total *WIA Cluster*		90,873	
17.002	Labor Force Statistics		2,527	
17.005	Compensation and Working Conditions		219	
17.225	Unemployment Insurance	3,452,082		24
17.225	ARRA - Unemployment Insurance	1,329,860		
	Total Unemployment Insurance		4,781,942	
17.235	Senior Community Service Employment Program		4,606	4,606
17.245	Trade Adjustment Assistance		23,006	90
17.260	WIA Dislocated Workers	(1,273)		(786)
17.260	ARRA - WIA Dislocated Workers	456		461
	Total WIA Dislocated Workers		(817)	
17.261	WIA Pilots, Demonstrations, and Research Projects		224	
17.271	Work Opportunity Tax Credit Program (WOTC)		493	
17.273	Temporary Labor Certification for Foreign Workers		265	
17.275	ARRA - Training and Placement in Growth and Industry Sectors		1,233	1,111
17.277	WIA National Emergency Grants		5,823	5,600
17.600	Mine Health and Safety Grants		532	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
17.805	Homeless Veterans Reintegration Project			46	46
	Total - U.S. Department of Labor			**$4,943,953**	**$93,940**
	Highway Planning and Construction Cluster:				
20.205	Highway Planning and Construction	1,629,297			224,483
20.205	ARRA - Highway Planning and Construction	16,186			
	Total Highway Planning and Construction		1,645,483		
20.219	Recreational Trails Program		3,930		3,192
23.003	Appalachian Development Highway System		150		
	Total *Highway Planning and Construction Cluster*			1,649,563	
	Federal Transit Cluster:				
20.500	Federal Transit - Capital Investment Grants	10,620			6,039
20.500	ARRA - Federal Transit - Capital Investment Grants	624			624
	Total Federal Transit - Capital Investment Grants		11,244		
20.507	Federal Transit - Formula Grants	598			189
20.507	ARRA - Federal Transit - Formula Grants	76			76
	Total Federal Transit - Formula Grants		674		
	Total *Federal Transit Cluster*			11,918	
	Transit Services Programs Cluster:				
20.513	Capital Assistance Program for Elderly and Disabled Persons		8,404		8,404
20.516	Job Access - Reverse Commute		2,669		2,669
20.521	New Freedom Program		2,037		2,037
	Total *Transit Services Programs Cluster*			13,110	
	Highway Safety Cluster:				
20.600	State and Community Highway Safety		10,186		4,165
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I		3,227		2,577

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
20.602	Occupant Protection Incentive Grants	791		585
20.610	State Traffic Safety Information System Improvement Grants	431		382
	Total *Highway Safety Cluster*		14,635	
20.106	Airport Improvement Program		11,996	11,900
20.218	National Motor Carrier Safety		7,006	2
20.232	Commercial Driver's License Program Improvement Grant		368	
20.317	Capital Assistance to States - Intercity Passenger Rail Service		193	
20.318	Maglev Project Selection Program - SAFETEA-LU		(20)	
20.319	ARRA - High-Speed Rail and Intercity Passenger Rail Service		8,936	1,501
20.505	Metropolitan Transportation Planning		823	
20.509	Formula Grants for Other Than Urbanized Areas		25,603	22,031
20.514	Public Transportation Research		64	
20.515	State Planning and Research		5,870	
20.523	Capital Assistance Program for Reducing Energy Consumption		1,760	1,760
20.604	Safety Incentive Grants for Use of Seatbelts		68	
20.605	Incentives to Prevent Operation by Intoxicated Persons		58	
20.614	Nat Highway Traffic Safety Admin Discretionary Safety Grants		97	
20.615	E-911 Grant Program		2,478	
20.700	Pipeline Safety Program State Base Grant		880	
20.703	Interagency Hazardous Materials Training and Planning Grants		650	188
	Total - U.S. Department of Transportation		**$1,756,056**	**$292,804**
21.000	Treasury Equitable Sharing Program		1,044	
	Total - U.S. Department of the Treasury		**$1,044**	**$0**
23.002	Appalachian Area Development		543	529
23.009	Appalachian Local Development District Assistance		156	156
23.011	Appalachian Research, Technical Assistance and Demo Projects		242	
	Total - Appalachian Regional Commission		**$941**	**$685**

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
30.002	Employment Discrimination - State and Local Agency Contracts		1,718	
	Total - Equal Employment Opportunity Commission		**$1,718**	**$0**
39.003	Donation of Federal Surplus Personal Property		2,894	2,894
39.011	Election Reform Payments		339	
	Total - General Services Administration		**$3,233**	**$2,894**
45.024	Promotion of the Arts - Grants to Orgs and Individuals		25	25
45.025	Promotion of the Arts - Partnership Agreements		1,014	614
45.310	Grants to States		4,688	2,652
	Total - National Foundation on the Arts and Humanities		**$5,727**	**$3,291**
59.061	State Trade and Export Promotion Pilot Grant Program		1,220	
	Total - Small Business Administration		**$1,220**	**$0**
64.005	Grants to States for Construction of State Home Facilities	946		
64.005	ARRA - Grants to States for Construction of State Home Facilities	3,127		
	Total Grants to States for Construction of State Home Facilities		4,073	
64.010	Veterans Nursing Home Care		253	
64.014	Veterans State Domiciliary Care		4,666	
64.015	Veterans State Nursing Home Care		37,975	
64.111	Veterans Education Assistance		1,295	
	Total - U.S. Department of Veterans Affairs		**$48,262**	**$0**
66.001	Air Pollution Control Program Support		5,078	7
66.032	State Indoor Radon Grants		478	31
66.039	ARRA - National Clean Diesel Emissions Reduction Program		392	374
66.040	State Clean Diesel Grant Program		599	599
66.202	Congressionally Mandated Projects		56	
66.312	State Environmental Justice Cooperative Agreement Program		2	2
66.419	Water Pollution Control State and Interstate Program Support		6,875	17
66.432	State Public Water System Supervision		5,046	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
66.436	Clean Water Act Surveys, Studies, Investigations and Demos		318	
66.438	Construction Management Assistance		127	
66.454	Water Quality Management Planning		715	102
66.458	Capitalization Grants for Clean Water State Revolving Funds	153,757		152,401
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds	5,535		5,535
	Total Capitalization Grants for Clean Water State Revolving Funds		159,292	
66.460	Nonpoint Source Implementation Grants		6,368	5,418
66.461	Regional Wetland Program Development Grants		143	
66.466	Chesapeake Bay Program		3,987	2,937
66.468	Capitalization Grants for Drinking Water State Revolving Funds	57,041		49,022
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	497		497
	Total Capitalization Grants for Drinking Water State Revolving Funds		57,538	
66.469	Great Lakes Program		224	
66.474	Water Protection Grants to the States		194	
66.511	Office of Research and Development Consolidated Research		10	8
66.605	Performance Partnership Grants		694	
66.606	Surveys, Studies, Investigations and Special Purpose Grants		788	18
66.608	Environmental Information Exchange Network Grant Program		291	200
66.707	TSCA Title IV State Lead Grants Certification		396	
66.708	Pollution Prevention Grants Program		130	130
66.709	Multi-Media Capacity Building Grants for States and Tribes		79	
66.714	Regional Agricultural IPM Grants		20	8
66.801	Hazardous Waste Management State Program Support		3,921	629
66.802	Superfund State Site-Specific Cooperative Agreements		43	
66.804	Underground Storage Tank Prevention and Compliance Program		867	
66.805	Leaking Underground Storage Tank Trust Fund Program		1,408	
66.817	State and Tribal Response Program Grants		774	95
	Total - Environmental Protection Agency		**$256,853**	**$218,030**
81.039	National Energy Information Center		3	
81.041	State Energy Program	972		420
81.041	ARRA - State Energy Program	96		
	Total State Energy Program		1,068	
81.042	Weatherization Assistance for Low-Income Persons	8,505		7,910
81.042	ARRA - Weatherization Assistance for Low-Income Persons	10,735		5,691
	Total Weatherization Assistance for Low-Income Persons		19,240	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
81.119	ARRA - State Energy Program Special Projects		200	200
81.122	ARRA - Electricity Delivery and Energy Reliability, Research & Dev		213	
81.128	ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)		809	527
	Total - U.S. Department of Energy		**$21,533**	**$14,748**
	Special Education Cluster (IDEA):			
84.027	Special Education - Grants to States	409,122		397,588
84.173	Special Education - Preschool Grants	13,194		12,531
	Total *Special Education Cluster (IDEA)*		422,316	
	Student Financial Assistance Programs Cluster:			
84.007	Federal Supplemental Educational Opportunity Grants	22		
84.033	Federal Work-Study Program	15		
84.063	Federal Pell Grant Program	3,827		
	Total *Student Financial Assistance Programs Cluster*		3,864	
	Statewide Data Systems Cluster:			
84.372	Statewide Data Systems	997		
84.384	ARRA - Statewide Data Systems	1,953		
	Total *Statewide Data Systems Cluster*		2,950	
	School Improvement Grants Cluster:			
84.377	School Improvement Grants	24,987		24,157
84.388	ARRA - School Improvement Grants	39,656		39,098
	Total *School Improvement Grants Cluster*		64,643	
84.002	Adult Education - Basic Grants to States		18,479	17,873
84.010	Title I Grants to Local Educational Agencies		609,915	603,674
84.011	Migrant Education - State Grant Program		8,324	7,908
84.013	Title I Program for Neglected and Delinquent Children		797	628
84.032	Federal Family Education Loans		2,275	

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
84.042	TRIO - Student Support Services	210	
84.048	Career and Technical Education - Basic Grants to States	42,140	39,778
84.126	Rehabilitation Services - Vocational Rehab Grants to States	119,362	
84.144	Migrant Education - Coordination Program	91	91
84.169	Independent Living - State Grants	596	160
84.177	Rehab Serv - Indep Living Services for Older Blind Indiv	1,916	
84.181	Special Education - Grants for Infants and Families	12,714	10,711
84.185	Byrd Honors Scholarships	(1)	
84.187	Supp Employment Serv for Indiv with Significant Disabilities	2,103	
84.196	Education for Homeless Children and Youth	3,082	2,853
84.213	Even Start - State Educational Agencies	51	52
84.235	Rehabilitation Services Demonstration and Training Programs	496	
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	268	
84.287	Twenty-First Century Community Learning Centers	60,291	57,446
84.318	Education Technology State Grants	1,141	1,109
84.323	Special Education - State Personnel Development	1,036	
84.330	Advanced Placement Program	81	
84.331	Grants to States for Training for Incarcerated Individuals	263	
84.358	Rural Education	1,703	1,703
84.365	English Language Acquisition State Grants	15,861	15,543
84.366	Mathematics and Science Partnerships	5,322	5,322
84.367	Improving Teacher Quality State Grants	108,392	104,698
84.368	Grants for Enhanced Assessment Instruments	(57)	
84.369	Grants for State Assessments and Related Activities	12,962	
84.371	Striving Readers	28,877	28,877
84.378	College Access Challenge Grant Program	1,676	1,676
84.410	ARRA - Education Jobs Fund	5,730	5,730
84.413	Race to the Top	3,006	1,242
84.902	National Assessment of Educational Progress	77	
	Total - U.S. Department of Education	**$1,562,952**	**$1,380,448**
90.401	Help America Vote Act Requirements Payments	8,550	1,652
	Total - Elections Assistance Commission	**$8,550**	**$1,652**

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name			Federal Expenditures (000's)	Passed Through to Subrecipients
	Aging Cluster:				
93.044	Special Programs for the Aging - Title III, Part B		23,796		23,796
93.045	Special Programs for the Aging - Title III, Part C		22,590		22,341
93.053	Nutrition Services Incentive Program		6,029		6,029
	Total *Aging Cluster*			52,415	
	CCDF Cluster:				
93.575	Child Care and Development Block Grant		209,087		198,292
93.596	Child Care Mandatory and Matching Funds of the CCDF		116,276		115,764
	Total *CCDF Cluster*			325,363	
	Medicaid Cluster:				
93.720	ARRA - Survey & Certification Ambulatory Surgical Center		71		
93.775	State Medicaid Fraud Control Units		3,509		
93.777	State Survey and Cert of Health Care Providers and Suppliers		16,258		
93.778	Medical Assistance Program	11,488,083			1,222,785
93.778	ARRA - Medical Assistance Program	77,411			
	Total Medical Assistance Program		11,565,494		
	Total *Medicaid Cluster*			11,585,332	
93.041	Special Programs for the Aging - Title VII, Chapter 3			201	200
93.042	Special Programs for the Aging - Title VII, Chapter 2			680	672
93.043	Special Programs for the Aging - Title III, Part D			969	969
93.048	Special Programs for the Aging - Title IV and Title II			51	51
93.052	National Family Caregiver Support, Title III, Part E			7,184	7,184
93.069	Public Health Emergency Preparedness			22,512	4,112
93.070	Environmental Public Health and Emergency Response			536	154
93.071	Medicare Enrollment Assistance Program			(1)	(1)
93.072	Lifespan Respite Care Program			80	80
93.089	Emergency System for Advance Registration of Vol Health Prof			100	
93.090	Guardianship Assistance		10,074		9,729
93.090	ARRA - Guardianship Assistance		10		10
	Total Guardianship Assistance			10,084	
93.092	Affordable Care Act Personal Responsibility Education Prgm			2,234	1,679
93.103	Food and Drug Administration - Research			423	
93.104	Community Mental Health Services for Children with SED			1,764	1,764

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
93.110	Maternal and Child Health Federal Consolidated Programs		208	112
93.116	Project Grants and Coop Agreements for Tuberculosis Control		725	92
93.127	Emergency Medical Services for Children		134	
93.130	Primary Care Offices Coordination and Dev Coop Agreements		244	24
93.136	Injury Prevention and Control Research		1,579	1,158
93.150	Projects for Asst in Transition from Homelessness (PATH)		2,460	2,384
93.165	Grants to States for Loan Repayment Program		208	
93.234	Traumatic Brain Injury State Demonstration Grant Program		206	204
93.235	Affordable Care Act Abstinence Education Program		1,059	
93.240	State Capacity Building		454	
93.241	State Rural Hospital Flexibility Program		223	223
93.243	Substance Abuse and Mental Health Services - Projects		1,186	1,105
93.251	Universal Newborn Hearing Screening		236	171
93.268	Immunization Cooperative Agreements (Cash Assistance)	8,233		3,604
93.268	Immunization Cooperative Agreements (Vaccines)	86,055		
	Total Immunization Cooperative Agreements		94,288	
93.270	Adult Viral Hepatitis Prevention and Control		61	
93.275	Substance Abuse & Mental Health Serv. - Access to Recovery		4,391	4,277
93.283	Centers for Disease Control & Prevention - Investigations		9,581	4,613
93.296	State Partnership Grant Program to Improve Minority Health		90	
93.414	ARRA - State Primary Care Offices		133	106
93.448	Food Safety and Security Monitoring Project		135	
93.505	Affordable Care Act Maternal, Infant, Childhood Home Visit		10,009	9,994
93.507	PPHF 2012 National Public Health Improvement Initiative		624	
93.511	Affordable Care Act Grants for Health Insur Premium Review		178	
93.518	Affordable Care Act - Medicare Improvements		(23)	(23)
93.519	Affordable Care Act - Consumer Assistance Program Grants		582	
93.520	Affordable Care Act - Communities Putting Prevention to Work		193	25
93.521	Affordable Care Act - Building Epi, Lab, & Health Info Sys.		1,032	
93.525	State Planning & Establishment Grants for Affordable Care Act		223	
93.538	Affordable Care Act - Environmental Public Health Tracking		731	
93.544	Coordinated Chronic Disease Prevention and Health Promotion		490	
93.556	Promoting Safe and Stable Families		13,328	13,295
93.558	Temporary Assistance for Needy Families		483,291	154,271
93.563	Child Support Enforcement		155,951	113,310
93.566	Refugee and Entrant Assistance - State Administered Programs		12,300	3,355
93.568	Low-Income Home Energy Assistance		226,086	25,375

- See Notes to Schedule of Expenditures of Federal Awards -

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
93.569	Community Services Block Grant		28,652	27,752
93.576	Refugee and Entrant Assistance - Discretionary Grants		759	577
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants		688	688
93.590	Community-Based Child Abuse Prevention Grants		1,385	1,385
93.597	Grants to States for Access and Visitation Programs		217	217
93.599	Chafee Education and Training Vouchers Program (ETV)		1,673	1,673
93.600	Head Start		1,798	1,798
93.602	Assets for Independence Demonstration Program		(158)	(158)
93.603	Adoption Incentive Payments		3,191	2,637
93.609	Affordable Care Act - Medicaid Adult Quality Grants		240	195
93.617	Voting Access for Individuals with Disabilities - Gov Grants		384	354
93.624	ACA - State Innovation Models - Design & Testing Assistance		24	24
93.630	Developmental Disabilities Basic Support and Advocacy Grants		2,811	2,028
93.643	Children's Justice Grants to States		374	374
93.645	Stephanie Tubbs Jones Child Welfare Services Program		10,473	9,438
93.658	Foster Care - Title IV-E	181,372		176,118
93.658	ARRA - Foster Care - Title IV-E	273		273
	Total Foster Care - Title IV-E		181,645	
93.659	Adoption Assistance	86,155		83,320
93.659	ARRA - Adoption Assistance	5		5
	Total Adoption Assistance		86,160	
93.667	Social Services Block Grant		96,253	78,991
93.669	Child Abuse and Neglect State Grants		678	91
93.671	Family Violence Prevention and Services		3,169	3,169
93.674	Chafee Foster Care Independence Program		7,590	7,590
93.708	ARRA - Head Start		1,565	783
93.719	ARRA - State Grants to Promote Health Information Technology		7,007	5,362
93.723	ARRA - Prevention and Wellness - State, Territories		210	179
93.724	ARRA - Prevention & Wellness - Communities Funding Opp (FOA)		54	
93.725	ARRA - Communities: Chronic Disease Self-Management Program		16	12
93.733	Strengthen Public Health Immunization Infrastructure		8	
93.735	State Health Approaches for Ensuring Quitline Capacity		310	
93.767	Children's Health Insurance Program		294,181	286,635
93.768	Medicaid Infrastructure Grants to Support Competitive Employ		2,485	30
93.779	CMS Research, Demonstrations and Evaluations		2,579	2,488
93.791	Money Follows the Person Rebalancing Demonstration		12,162	
93.889	National Bioterrorism Hospital Preparedness Program		13,468	8,784

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.917	HIV Care Formula Grants	46,784	10,176
93.928	Special Projects of National Significance	360	
93.938	Coop Agreements to Support School Health Programs	221	1
93.940	HIV Prevention Activities - Health Department Based	4,394	1,110
93.943	Epidemiologic Research Studies of AIDS and HIV	257	
93.944	HIV/AIDS Surveillance	1,217	
93.945	Assistance Programs for Chronic Disease Prevention and Control	254	28
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	137	
93.958	Block Grants for Community Mental Health Services	14,149	13,899
93.959	Block Grants for Prevention and Treatment of Substance Abuse	54,039	45,685
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant	1,703	778
93.991	Preventive Health and Health Services Block Grant	2,943	2,374
93.994	Maternal and Child Health Services Block Grant to the States	24,055	13,619
	Total - U.S. Department of Health and Human Services	**$13,945,087**	**$2,743,767**
94.003	State Commissions	359	
94.004	Learn and Serve America - School & Community Based Programs	48	49
94.006	AmeriCorps	10,213	10,213
94.007	Program Development and Innovation Grants	52	31
94.009	Training and Technical Assistance	16	2
	Total - Corporation for National and Community Service	**$10,688**	**$10,295**
95.001	High Intensity Drug Trafficking Areas Program	2,841	
	Total - Executive Office of the President	**$2,841**	**$0**
96.001	Social Security - Disability Insurance	103,305	
	Total - Social Security Administration	**$103,305**	**$0**
97.001	Pilot Demonstration or Earmarked Projects	1,328	636
97.008	Non-Profit Security Program	411	411
97.012	Boating Safety Financial Assistance	2,499	
97.023	Community Assistance Program State Support Services Element	284	
97.029	Flood Mitigation Assistance	20	20

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2013

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
97.032	Crisis Counseling	(154)	(154)
97.036	Disaster Grants - Public Assist (Presidentially Declared)	85,935	66,678
97.039	Hazard Mitigation Grant	16,589	16,049
97.041	National Dam Safety Program	65	
97.042	Emergency Management Performance Grants	10,167	4,927
97.043	State Fire Training Systems Grants	17	
97.045	Cooperating Technical Partners	9	
97.047	Pre-Disaster Mitigation	624	216
97.050	Presidential Declared Dis Assist to Households - Other Needs	149	
97.052	Emergency Operations Centers	599	599
97.055	Interoperable Emergency Communications	323	312
97.056	Port Security Grant Program	4,796	3,905
97.067	Homeland Security Grant Program	64,072	51,171
97.075	Rail and Transit Security Grant Program	13,597	13,591
97.078	Buffer Zone Protection Program (BZPP)	929	986
97.088	Disaster Assistance Projects	633	623
97.089	Driver's License Security Grant Program	1,018	
97.091	Homeland Security Biowatch Program	365	
97.110	Severe Repetitive Loss Program	2,421	2,352
	Total - U.S. Department of Homeland Security	**$206,696**	**$162,322**
	GRAND TOTAL	**$26,869,149**	**$5,695,608**

- See Notes to Schedule of Expenditures of Federal Awards -

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2013

Note A: Single Audit Reporting Entity

The Commonwealth of Pennsylvania (the Commonwealth) includes expenditures in its schedule of expenditures of federal awards (SEFA) for all federal programs administered by the same funds, agencies, boards, commissions, and component units included in the Commonwealth's financial reporting entity used for its basic financial statements. However, the State System of Higher Education (SSHE), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Convention Center Authority (PCCA), the Philadelphia Shipyard Development Corporation (PSDC), which are discretely presented component units, and the Philadelphia Regional Port Authority (PRPA), which is a blended component unit, elect to have their own single audits (when required) and their expenditures of federal awards are therefore excluded from the Commonwealth's SEFA. These six component units are required to submit their own single audit reports to the Federal Audit Clearinghouse. The PCCA and the PSDC are not required to submit a single audit for the year ended June 30, 2013 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, 2013.

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 7.79 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2013.

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, 2011.

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

Subrecipient expenditures reported under CFDA #14.228, Community Development Block Grants, CFDA #14.231, Emergency Solutions Grants Program prior to January 1, 2012, and CFDA #14.239, Home Investment Partnerships Program, represent funds drawn directly from the Housing and Urban Development (HUD) Integrated Disbursement and Information System (IDIS) by subrecipients of the Commonwealth.

Expenditures for CFDA #20.205, Highway Planning and Construction, CFDA #20.219, Recreational Trails Program, CFDA #20.515, State Planning and Research, CFDA #20.604, Safety Incentive Grants for Use of Seatbelts, CFDA #20.605, Incentives to Prevent Operation by Intoxicated Persons, CFDA #23.002, Appalachian Area Development, CFDA #23.003, Appalachian Development Highway System, and CFDA #23.009, Appalachian Local Development District Assistance 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 for CFDA #84.410, Education Jobs Fund, are the result of Pennsylvania House Bill No. 915 (Session of 2011, Printers No. 978), which reduced Basic Education Funding and replaced it with Education Jobs Funding.

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

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

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

Note C: Categorization of Expenditures

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants that were active during the fiscal year ended June 30, 2013. The categorization of expenditures by program included in the SEFA is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued on a real-time basis on the CFDA website.

Note D: Unemployment Insurance

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

State Regular UC Benefits	$2,784,725
Federal UC Benefits	1,806,620
Federal Admin.	190,597
Total Expenditures	$4,781,942

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Schedule of Findings and Questioned Costs

Commonwealth of Pennsylvania

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____yes	_X_ no
Significant deficiencies identified not considered to be material weaknesses?	_X_ yes	_____none reported
Noncompliance material to financial statements noted?	____yes	_X_ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_X_ yes	____no
Significant deficiencies identified not considered to be material weaknesses?	_X_ yes	____none reported

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

Adverse opinion for the following major program:

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

Qualified for noncompliance in the following major programs:

Supplemental Nutrition Assistance Program (SNAP) Cluster (CFDA #10.551 and #10.561)
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556 and #10.559)
Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557)
Child and Adult Care Food Program (CFDA #10.558)
Workforce Investment Act (WIA) Cluster (CFDA #17.258, #17.259 and #17.278)
Highway Planning and Construction Cluster (CFDA #20.205, #20.219 and #23.003)
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)
Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)
Title I Grants to Local Educational Agencies (CFDA #84.010)
Special Education Cluster (IDEA) (CFDA #84.027 and #84.173)
Career and Technical Education – Basic Grants to States (CFDA #84.048)
Twenty-First Century Community Learning Centers (CFDA #84.287)
Improving Teacher Quality State Grants (CFDA #84.367)
School Improvement Grants Cluster (CFDA #84.377 and #84.388)
Aging Cluster (CFDA #93.044, #93.045 and #93.053)
Temporary Assistance for Needy Families (CFDA #93.558)
Child Support Enforcement (CFDA #93.563)

Low-Income Home Energy Assistance (CFDA #93.568)
Child Care and Development Fund (CCDF) Cluster (CFDA #93.575 and #93.596)
Foster Care – Title IV-E (CFDA #93.658)
Adoption Assistance (CFDA #93.659)
Social Services Block Grant (CFDA #93.667)
Medicaid Cluster (CFDA #93.720, #93.775, #93.777 and #93.778)
Children's Health Insurance Program (CFDA #93.767)
HIV Care Formula Grants (CFDA #93.917)
Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)
Homeland Security Grant Program (CFDA #97.067)

Unmodified for the following major programs:

National Guard Military Operations and Maintenance Projects (CFDA #12.401)
Unemployment Insurance (CFDA #17.225)
Trade Adjustment Assistance (CFDA #17.245)
Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
Social Security – Disability Insurance (CFDA #96.001)

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? __X__ yes ____no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.551 and 10.561	Supplemental Nutrition Assistance Program (SNAP) Cluster	$ 2,902,388
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	454,811
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	174,391
10.558	Child and Adult Care Food Program	98,933
12.401	National Guard Military Operations and Maintenance Projects (A)	49,575
14.228 and 14.255	Community Development Block Grants – State-Administered CDBG Cluster (A)	52,281
17.225	Unemployment Insurance (A)	4,781,942
17.245	Trade Adjustment Assistance	23,006
17.258, 17.259 and 17.278	Workforce Investment Act (WIA) Cluster	90,873
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster (A)	1,649,563
66.458	Capitalization Grants for Clean Water State Revolving Funds (A)	159,292
66.468	Capitalization Grants for Drinking Water State Revolving Funds (A)	57,538
84.010	Title I Grants to Local Educational Agencies	609,915
84.027 and 84.173	Special Education Cluster (IDEA)	422,316

84.048	Career and Technical Education – Basic Grants to States	42,140
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	119,362
84.287	Twenty-First Century Community Learning Centers	60,291
84.367	Improving Teacher Quality State Grants	108,392
84.377 and 84.388	School Improvement Grants Cluster (A)	64,643
93.044, 93.045 and 93.053	Aging Cluster	52,415
93.558	Temporary Assistance for Needy Families	483,291
93.563	Child Support Enforcement	155,951
93.568	Low-Income Home Energy Assistance	226,086
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster	325,363
93.658	Foster Care – Title IV-E (A)	181,645
93.659	Adoption Assistance (A)	86,160
93.667	Social Services Block Grant	96,253
93.720, 93.775, 93.777 and 93.778	Medicaid Cluster (A)	11,585,332
93.767	Children's Health Insurance Program	294,181
93.917	HIV Care Formula Grants	46,784
93.959	Block Grants for Prevention and Treatment of Substance Abuse	54,039
96.001	Social Security – Disability Insurance	103,305
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	85,935
97.067	Homeland Security Grant Program	64,072
	Total Federal Expenditures – Major Programs	$25,762,464

(A) = ARRA Funds included

Dollar threshold used to distinguish between Type A and Type B programs (000s): $40,304

Auditee qualified as low-risk auditee? ____yes __X__no

Index to Basic Financial Statement Findings - June 30, 2013

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
13-01*	Ineffective Methodology in Estimating Escheat Liability (A Similar Condition Was Noted in Prior Year Finding 12-07)	Treasury	54	228
13-02*	General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 12-04)	Treasury	56	228
13-03*	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 12-02)	OB/OCO	59	229
13-04*	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 12-03)	OB/OCO	63	230
13-05*	General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 12-08)	OB/OCO OA	66	230

* - Significant Deficiency
CAP - Corrective Action Plan

Finding 13 – 01:

Department of Treasury

Ineffective Methodology in Estimating Escheat Liability (A Similar Condition Was Noted in Prior Year Finding 12-07)

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, 2012 and 2013 unclaimed property reports received from Treasury (the Total Amounts Claimable report generated by the UPS2000 system used by the Bureau of Unclaimed Property to account for property received, disbursed and held), there are significant differences in the payout rates for property depending on the year in which the property was received. For example, of the total amount paid out during the fiscal year ended June 30, 2013, approximately 3 percent consisted of property received in 2012, 53 percent consisted of property received 2010 to 2011, 21 percent consisted of property received in 2007 through 2009, 17 percent consisted of property received in 2003 through 2006, 4 percent consisted of property received in 2000 through 2002, and 2 percent consisted of property received in all years prior to 2000. Therefore, with the exception of the most recent year, the probability that property will be reclaimed and paid decreases the longer the property is held. Treasury's methodology, which is based on an average payout rate, does not take this factor into account.

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

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

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

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

Finding 13 – 01: (continued)

Agency Response: Treasury updated the methodology used to compute the escheat liability by using a weighted average payment rate by year. This changed the short-term liability; however, the overall return experience of the program remained at constant return levels. As in prior years, Treasury does not have the resources available to engage an actuary nor the in-house expertise to develop an actuary report.

Treasury will continue to develop a more refined methodology to estimate the annual property payout.

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 13 – 02:

Department of Treasury

General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 12-04)

Condition: Our review of general computer controls at the Department of Treasury (Treasury) during the fiscal year ended June 30, 2013 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. The usage of the shared manager account was not regularly monitored by management to detect unauthorized activity.
2. Shared administrative accounts exist with direct access to the OnBase Oracle database. There is no regularly documented review of activities performed using the powerful Oracle administrative accounts "SYS" and "SYSTEM" used for updates to the OnBase application and Database.
3. The number of badges with access to the data center where the OnBase system is hosted appears to be excessive. The data center access list is being reviewed by management on a regular basis for appropriateness, and management has taken action to reduce the number of badges; however, a number of badges are issued to individuals who do not have daily responsibilities requiring data center access.
4. The password settings for the OnBase application and the Bureau of Unemployment Compensation Disbursements (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.

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

6. Financial data is processed in spreadsheets, databases, and other user-developed programs that may be used to support financial reporting. Management has drafted a policy to address IT controls related to access, change control, development, and backup of these programs and supporting data; however, the policy has not been fully implemented. Although there are no standardized policies regarding end user computing, the auditors note that based on interviews, Treasury management asserts that access to significant spreadsheets is limited to authorized users.

Finding 13 – 02: (continued)

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

7. Xerox Business Services LLC:

   The following control exceptions 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
Xerox Data Center- Dallas, Texas: Linux server password configuration policy settings require minimum length, password expiration, unsuccessful login lockout, and password encryption.	Four of nine servers selected did not have minimum length set in accordance with policy.
Xerox Data Center- Dallas, Texas: Access to the production database and application servers is restricted to authorized and appropriate personnel.	Six accounts of 128 unique accounts remained active on 13 of 22 servers selected after the employees were terminated. In addition, one account on seven of the 22 servers was a test account that was not removed when testing was complete.
Access to the report file server is restricted to appropriate personnel.	Three of the 128 unique accounts remained active on one of two report file servers selected after the employees were terminated. In addition, one account on seven of the 22 servers was a test account that was not removed when testing was complete.
EPPIC™ password configuration policy settings require minimum password length, password expiration, unsuccessful login lockout, and complexity.	11 of 11 States selected do not have password expiration configured to comply with policy, and 7 of 11 States do not have password complexity configured.
Oracle database password configuration policy settings require minimum password length, password expiration, unsuccessful login lockout, and complexity.	Two of seven databases selected had a default profile assigned to one account on each database. The profile did not enforce configurations for minimum length, expiration and account lockout in accordance with policy.
Access to the production database and application servers via Active Directory is restricted to authorized and appropriate personnel.	Three of the 111 unique accounts remained active on Active Directory after the employees were terminated. In addition, one account was a test account that was not removed when testing was complete.

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.

Finding 13 – 02: (continued)

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

Agency Response: Treasury agrees strong controls are important to the integrity of payment processing. Several identified weaknesses are conditions beyond the direct control of the Treasury Department; however, Treasury is addressing these conditions through compensating controls outside of the system. The Bureau and the Department are actively working to create compensating controls to ensure security and accurate processing for all conditions. Treasury has ended the relationship with Xerox and now has an executed contract with JP Morgan Chase for benefit card processing.

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

Finding 13 – 03:

Office of the Budget

Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 12-02)

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

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

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

3. SAP configuration does not require the entry of an original document reference for one-time vendor refund payments. While the functionality in SAP allows attachments to provide justification for the payment, no justification is required.

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

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

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

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

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

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

Finding 13 – 03: (continued)

documentation or validation that the payment is authorized. There is no additional functionality to validate that the payee is an established approved vendor or require supporting documentation that links the payment to a source document. The auditors recognize that many of these transactions are entered through an interface from another system (e.g., Low Income Home Energy Assistance Program and Third Party Liability payments from Department of 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.

Further, inappropriate access role assignments continue to 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.

- 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.

Finding 13 – 03: (continued)

- Implement a process to analyze one-time vendor payments to verify the appropriateness of any payments being sent to employees.

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

Office of the Budget Response:

Bureau of Accounting & Financial Management (BAFM) Response:

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

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

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

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

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

3. BAFM disagrees with this item, as compensating controls have been built into the business process to combat the SAP limitations. These controls were outlined within the corrective action plan (CAP) relevant to Finding 12-02.

Bureau of Payable Services (BPS) Response:

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.

Finding 13 – 03: (continued)

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

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

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

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

Finding 13 – 04:

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 12-03)

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

1. For the SAP application, management is not adhering to Management Directive 205.37, "Role Assignment Security, and Internal Control Maintenance" amended March 25, 2013, which requires documentation and approval of mitigating controls in situations where it is determined that role conflicts are operationally necessary. As of June 30, 2013, many SAP user role conflicts identified by the SAP Governance, Risk and Compliance (GRC) tool were not yet addressed or mitigated. Some, but not all, of the role conflicts are specifically included in the following condition. Management Directive 205.37 requires that requests for mitigating controls follow the segregation of duties waiver process. Although the Management Directive was amended on March 25, 2013, the supporting processes related to the segregation of duties waiver process are still being finalized.

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

   Comptroller Role Access:

   b. For direct pay transactions (FB-60) entered by the Comptroller (OCO), SAP roles are not utilized to enforce segregation of duties. An employee who enters the invoice for payment can also approve the payment. OCO employees have this access because they receive paper invoices that are already approved from agencies and 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.

   c. 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.

Finding 13 – 04: (continued)

d. SAP roles and functionality are not utilized to enforce segregation of duties or monitoring of the check generation and printing functions for Advancement Account transactions. On May 1, 2013, management implemented a physical separation of duties by moving check printing functions for Advancement Account transactions from the Bureau of Payable Services to the Office of Administrative Services; however, a risk still exists as the separation of duties is not enforced within SAP roles.

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

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

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

Recommendation: We recommend that:

- SAP GRC should be completely implemented, including the segregation of duties waiver process, and regularly used to determine that all SAP users are granted appropriate access and to identify all users with segregation of duties violations.

- Vendor Master Data access should be restricted to the VDMU group, or SAP should be configured to require a secondary review of all changes by specified individuals outside of the VDMU business unit.

- Comptroller role access should be evaluated at the individual level and the role level to determine whether appropriate roles are assigned to individuals and segregation of duties conflicts are mitigated.

Office of the Budget Response:

Bureau of Quality Assurance (BQA) Response:

Response to Condition 1:

BQA agrees with this item.

Bureau of Payable Services (BPS) Response:

Responses to Condition 2:

Finding 13 – 04: (continued)

a. BPS agrees, although access has since been removed.

b. BPS disagrees. Although SAP functionality allows an invoice to be entered by Comptroller's Office, our internal procedures require the invoice to be approved by the agency for those invoices outside of the Finance Transformation project.

c. BPS agrees. BQA is coordinating the GRC project to review all SAP roles.

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

Auditors' Conclusion: Management's responses related to Conditions 2b and 2d refer to manual processes that are in place as ancillary controls. Although ancillary, downstream detective controls can help mitigate some risks associated with a lack of system-enforced segregation of duties, the weaknesses within SAP continue to exist. Additionally, while the check printing was moved in May 2013, the lack of segregation of duties in SAP combined with the lack of physical separation of the check printer was a weakness for 11 months of the fiscal year under audit. No further conclusion is necessary regarding Conditions 1, 2a, and 2c.

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 13 – 05:

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 12-08)

<u>Condition</u>: We reviewed the general Information Technology (IT) controls over SAP, and the significant financial systems identified that provide source data to SAP, as part of our general computer controls reviews at various Commonwealth agencies for the fiscal year ended June 30, 2013. Our reviews disclosed internal control deficiencies in individual Commonwealth agencies. This finding also includes internal control deficiencies in service organizations that provide support to Commonwealth agencies. The deficiencies that need to be addressed by Commonwealth management are included below:

<u>General Computer Control Deficiencies Related to SAP and Multiple Commonwealth Agencies:</u>

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

   i. source application name,
   ii. service providers that may be involved in processing the data,
   iii. SAP transaction codes (for some interfaces), and
   iv. SAP document types transferred through the interface.

   Additionally, since 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, it is not possible to determine the source of all transactions based on SAP data.

2. In certain agencies, financial data is processed through end-user computing applications. End-user computing applications are defined as spreadsheets, databases, and other user-developed programs that may be used to support financial reporting. 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. A generic database user identification (ID) is used for direct database administration. The system records login activities to provide individual accountability; however, a regular documented review of user access was not performed to validate that only appropriate members of IT are utilizing this powerful generic account. Management informed the auditors that they implemented a review of the super user (“su”) log in January 2013; however, documented evidence of the results of the review was not maintained.

4. Because information technology systems reside at the Commonwealth’s Consolidated Data Center (Data Powerhouse or DPH), the following table of control deficiencies relate to both the SAP environment, and multiple, critical applications for the Department of Public Welfare, Department of Transportation, Department of Revenue, Department of Labor and Industry, and the PA Liquor Control Board. The Commonwealth contracts with Unisys Corporation (Unisys) and International Business Machines Corporation (IBM) as service organizations to provide managed services to DPH, including data hosting and programming support services. The following operating effectiveness exceptions were noted within

Finding 13 – 05: (continued)

the Service Organization Controls (SOC 1) examination of DPH under Statements on Standards for Attestation Engagements (SSAE) No. 16. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report:

Control	Exception
The Data Center is located in a raised floor facility. Wiring located beneath the floor is in a covered conduit or in shielded material. Additionally, water detectors are located under the raised floor and are tested at least quarterly.	Inspected maintenance reports related to the water detectors in the Data Center and determined that the devices were not tested for one of three selected quarters.
Unisys requires agency approval to implement requested changes. Agencies are provided Change Request Forms, which they review to determine that required fields are completed. Testing is conducted as needed. Listings of the authorized approvers for each agency are maintained.	Inspected IT Service Management (ITSM) tickets and corresponding supporting documentation for a selection of changes and determined that evidence of appropriate testing prior to production implementation was not documented for 3 of 25 changes selected.
When an employee with logical access to agency systems has been terminated, the agency is notified via email 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.

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

<u>Pennsylvania Lottery (Lottery)</u>

1. Management took steps to remediate a prior year weakness in the Internal Control System (ICS) application whereby contractors performing development also had access to promote changes to production without authorization or testing by the Lottery. Further, the contractors had unrestricted, remote access to the root directory in ICS and their actions were not logged or monitored. In April 2013, management disabled remote root access for ICS contractors and began logging their actions; however, management could not provide evidence that the logs were monitored. After the audit period, management initiated procedures to require authorization and testing of changes to the ICS production servers.
2. Management partially remediated a prior year weakness whereby password requirements for ICS were not configured to enforce adequate complexity settings to comply with Information Technology Bulletin (ITB)-SEC007, “Minimum Standards for User IDs and Passwords”. Corrective action was implemented in April 2013. However; settings are not configured to enforce user lockout after five multiple failed login attempts.

Finding 13 – 05: (continued)

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

3. 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
Remote Access to SGI-PA systems is controlled through Microsoft authentication and Virtual Private Network (VPN) connection. Remote users must authenticate through to the corporate Windows domain and be authorized to access the VPN realm (such as SGI-PA). The remote user also needs credentials to authenticate to specific systems in production. The token, needed to complete a VPN connection, is registered and issued by corporate.	11 out of 27 VPN users are no longer employed by SGI.

<u>Department of Labor and Industry (L&I)</u>

1. There are no formally documented system development life cycle policies outlining requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software. Relative to this weakness:
   - Release 3 of the Unemployment Compensation Modernization System (UCMS), which was to include claims processing, payments and appeals, was not implemented as planned.
   - Evidence of testing for the UCMS module that was placed into production (Release 2 - employer tax) was not adequately retained. L&I does not have an adequate formally documented policy requiring documentation of testing in ClearQuest (software used to track and document program changes) prior to implementation of program changes into the UCMS production environment.
   - L&I does not have an adequate formally documented policy requiring documentation to evidence successful and accurate data migration during implementation of new systems development projects.
2. Outside contractors have development access, as well as access 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. Management partially remediated a prior year weakness by reducing the number of users from 63 to 40 with OPERATIONS access in the Resource Access Control Facility (RACF) security system used to secure the mainframe environment. However, there are still no policies or procedures for granting powerful user attributes (SPECIAL, OPERATIONS or AUDITOR) in the mainframe environment. Further, four users have been granted all three powerful user attributes (SPECIAL, OPERATIONS and AUDITOR) and 23 users were granted AUDITOR access without written justification for this broad level of access.
4. An excessive number (130) of users have privileged access in the UCMS client/server environment.
5. Periodic access reviews to determine the appropriateness of all users with privileged access have not been implemented in the UCMS client/server environment.
6. A lack of segregation of duties exists because developers (five L&I personnel and two contractors) can promote changes to production in UCMS.

Finding 13 – 05: (continued)

7. There is no alarm system to alert for any type of physical intrusion or for any forced entry to the external steel door that accesses the first floor server room.

State Workers' Insurance Fund (SWIF)

1. Management remediated a prior year weakness in which a vendor within the PowerComp application (workers compensation policy and claim software) lacked segregation of duties between application development and promotion of program changes into production. Corrective action was implemented in March 2013.
2. Management remediated a prior year weakness in which a monitoring process had not been fully implemented over the production environment to detect changes moved into production that did not follow the standard process. Corrective action was implemented in September 2012.
3. There are no formal reconciliation procedures in place to ensure that data migrates successfully and accurately when new or upgraded software applications are implemented..
4. Management remediated a prior year weakness in which password requirements for the Onbase application did not fully comply with Commonwealth Policy, i.e., were not configured to enforce adequate complexity settings such as: inadequate settings for minimum length, password complexity, password expiration, and user lockout after multiple failed login attempts. Corrective action was implemented in January 2013. This weakness continues to exist within the Powercomp, Freedom Financial and Iworks applications.
5. PowerComp users logon to the application using their CWOPA user ID, which is also their password.
6. Management remediated a prior year weakness in which they had not implemented periodic access reviews to determine the appropriateness of users with privileged access within the Freedom Financial application. Corrective action was taken in June 2013.
7. There is no formally documented 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 were no approved policies and procedures for granting powerful user attributes (SPECIAL, OPERATIONS or AUDITOR) in the RACF security system used to secure the mainframe computer. 22 SPECIAL users, 15 OPERATIONS users, and 14 AUDITOR users were assigned powerful user attributes. Further, two user IDs have been assigned all three powerful user attributes (SPECIAL, OPERATIONS and AUDITOR) without written justification. Management implemented new policy and procedures after the audit period.
2. There are servers used to promote system changes that have local shared administrator accounts. Corrective action was implemented after the audit period.
3. When a non-PennDOT user is terminated, there are no procedures in place to ensure dotGrants system administrators are notified to ensure that the userIDs are suspended/deleted within a two week period.

Department of Public Welfare (DPW)

1. DPW partially remediated a prior-year weakness in which an annual review of user IDs was not performed in accordance with DPW's policy. Management performed access reviews for several, but not all, significant applications. DPW has also implemented an automated access de-provisioning process for terminated employees; however non-employees with access to DPW's systems are not automatically de-provisioned.
2. Management remediated a prior-year deficiency by removing generic IDs with OpCon/xps (job scheduling software) access to promote programming changes to production for DPW-maintained applications.
3. Mainframe password settings for the Client Information System (CIS) application are not required to comply with ITB-SEC007.

Finding 13 – 05: (continued)

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

4. JP Morgan Treasury Services:
   The following table of control deficiencies relating to Electronic Benefits Transfer (EBT) were noted as a result of the SOC 1 examination of JP Morgan Treasury Services. JP Morgan Treasury Services is the service organization that provided EBT services to DPW from July 1, 2012 to March 25, 2013. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
Functionality and systems acceptance tests are performed for new developments and changes to existing systems. Testing is approved by the party requesting the change or a designee. New system development and changes to existing systems are approved by the required business and/or technology management prior to the implementation of the change. Unplanned or emergency changes to the production environment are logged and subject to retroactive review and approval by the required business and/or technology management.	For the period September 17, 2012, to June 30, 2013, five out of the total population of 121 ITSM change tickets pertaining to in-scope EBT applications did not contain evidence of approval prior to implementation to production. A processing error in the ITSM system allowed for certain tickets to be moved into a production-ready status without the appropriate approvals. Management subsequently reviewed the five changes and obtained the required business and/or technology approvals. Management also corrected the processing error in the ITSM system.
Access to systems is recertified after internal transfer and is amended or revoked when appropriate based on defined criteria and notifications.	For the period of January 4, 2013, to May 1, 2013, for one of a sample of 25 users whose operating system access was requested to be removed as a result of a transfer, one entitlement was not removed. A typographical error in the file used to remove access resulted in the user retaining one entitlement. As a result, the service auditors selected an additional sample of 25 users and noted no further exceptions.
Logical access to systems is controlled through an appropriate authentication mechanism as defined by policies.	On November 7, 2012, J.P. Morgan Corporate Policy for password minimum length was updated from six to eight characters. For the period November 7, 2012, to June 23, 2013, Unix platforms did not meet minimum requirements for password length. The service auditors noted that on June 24, 2013, the UNIX password settings had been remediated and the character length had been updated to eight characters.

Finding 13 – 05: (continued)

On November 7, 2012, J.P. Morgan Corporate Policy for password minimum length was updated from six to eight characters. For the period November 7, 2012, to June 28, 2013, BOSS and Security Gateway did not meet minimum requirements for length. The service auditors noted on June 29, 2013, J.P. Morgan updated the password length requirements within the BOSS and Security Gateway applications in both test and production to require a password of eight characters in length.

The first three deficiencies noted above resulted in a qualified opinion related to the following control objective: "Controls provide reasonable assurance that new system developments and changes to existing systems are documented, tested, approved and implemented by authorized personnel."

5. Fiserv, Inc.
The following table of control deficiencies relating to Fiserv, Inc. Card Services were noted as a result of the SOC 1 examination of a subservice organization of JP Morgan Treasury Services. Fiserv, Inc. is contracted to provide transaction processing for EBT 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
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.	Periodic user access reviews were not performed for the Tandem and CWSi environments to confirm that only authorized and valid users maintain system access.
Administrative access to firewalls, routers and switches is restricted to authorized personnel.	For six of ninety-one users, access to administer the Secure Access Control Server (ACS) device was unauthorized.
Only Fiserv employees authorized by management have access to the settlement adjustment and reconciliation systems based on job responsibilities.	For two of fifty-three users, access to perform adjustments in Reconciliation and Adjustment Systems (RAS) (on the Base24 platform) was unauthorized.

6. Xerox Services:
The following table of control deficiencies relating to EBT were noted as a result of the SOC 1 examination of Xerox Services. Xerox Services was the service organization that provided EBT services to DPW from March 25, 2013 to June 30, 2013. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
Linux server password configuration policy settings require minimum length, password expiration, unsuccessful login lockout, and password encryption.	One of 21 servers selected had minimum password length criteria.

Finding 13 – 05: (continued)

Access to the production database and application servers is restricted to authorized and appropriate personnel.	Twelve accounts of 130 unique accounts remained active on nine of 22 servers selected after the employees were terminated.
EPPIC™ password configuration policy settings require minimum password length, password expiration, unsuccessful login lockout, and complexity.	Five of nine States selected do not have password complexity configured. Of those five States, two do not have password expiration configured and one State has password expiration configured that does not comply with the policy.
Personnel with access to the EPPIC™ system are properly authorized and appropriate.	One user from five of ten States selected was determined to have read-only access to States which were not required for their job responsibilities. Inspected the user accounts on June 4, 2013, and determined the account had been removed.
Network and EPPIC™ accounts for Card Services Operations Center (CSOC) personnel are disabled upon termination or separation of an employee.	Forty-three EPPIC™ read-only user accounts for CSOC employees terminated during the period remained active after their termination date. Inspected the last EPPIC™ logon dates for the terminated employees and noted the last logon was prior to their termination date for 37 of the 43 user accounts. However, the last logon for 6 of the 43 user accounts was after their termination date. Inquired of management and noted CSOC employees shared the account of the terminated employee. Inspected the 6 EPPIC™ user accounts on June 21, 2013 and noted the accounts were disabled.

7. Hewlett Packard:
   The following table of control deficiencies relating to Title XIX, Medicaid, transaction processing were noted as a result of the SOC 1 examination of Hewlett Packard. Hewlett Packard is 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
Access to the operating system is approved and appropriate to job functions. Programs or processes that operate in "supervisor/privileged state", or are otherwise unlimited by system security, are appropriately defined and restricted.	For the Oracle database, inspected the privileged database administrator (DBA) access role and determined two application accounts have access to the DBA privileged role. Inspected evidence showing these accounts were not accessed during the period covered by the report.
Physical Access must be approved before an access badge is given to the individual.	One of five users granted access did not have a badge request/approval form. Through inquiry with Hewlett Packard (HP) Enterprise Services (ES) management, determined the user's access was appropriate.

Finding 13 – 05: (continued)

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

Control	Exception
Access to update production code is restricted to authorized individuals.	Segregation of duties did not exist with the Pharmaceutical Reimbursement Information Management System (PRIMS) application as developers had access to update production code and a formal process does not exist to monitor production code libraries for unauthorized changes. There was not a system generated list of changes; however, inspected the last modified date of the application flat file in production and the corresponding change ticket. During the period covered by this report, determined through inquiry, that only one change ticket existed for an application change. Per inspection, determined the change ticket indicated the change was appropriate.

<u>Department of Health (DOH)</u>

1. Access to the data center that houses the Women, Infants and Children (WIC) application servers and databases is not limited to individuals who have daily responsibilities requiring data center access. 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 are not members of IT and do not need this access based on their daily job responsibilities.
2. Generic user IDs had access to domain administration, WIC database administration, and server administration functions, with no monitoring of the activities performed by these IDs. DOH management took steps to remediate this deficiency from the prior year by instructing administrators to use their individual user IDs whenever possible. Management is also in the process of implementing a process to monitor the usage of generic IDs. Finally, management remediated a prior year deficiency by removing domain administration access for two terminated employees during the current audit period.
3. Requests for access to the WIC application are not required to be submitted in writing. Documentation related to new user access is not consistently applied. Additionally, access to the WIC application at the remote QuickWIC offices is managed at the remote office level by the QuickWIC security officers, and procedures for adding remote users and formally documenting requests for access are not consistently followed.

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

1. Management remediated a prior year weakness related to end-users in the Division of Subsidy and Data Administration who use Microsoft Excel to calculate subsidies and bi-monthly payments to Local Educational Agencies (LEAs). Although spreadsheets in this process were password-protected, passwords were not changed and maintained in accordance with ITB-SEC007. Further, policies and procedures were not established for IT general controls over access to programs and data, program changes, program development, and computer operations for this significant end-user application. Corrective actions were established for password requirements, and policies and procedures were implemented for managing access and changes. The corrective actions were implemented in January 2013.

Finding 13 - 05: (continued)

2. A prior year segregation of duties weakness was noted in the Pennsylvania Information Management System (PIMS) application, which collects student data from LEAs as the basis for state and federal subsidies. A lack of segregation of duties existed as two outside vendor employees had access into PIMS to both develop and promote program changes into production. Management indicated that corrective action was taken to enforce segregation of duties; however, evidence could not be provided to validate that the vendor's access to deploy changes was appropriately restricted and segregated.
3. Management remediated a prior year weakness. PDE had not developed a formal program change methodology that outlined both PDE's responsibilities and the vendor's responsibilities for application development, program changes, and emergency changes to the PIMS application. Corrective action was taken in June 2013.
4. Management remediated a prior year weakness. An excessive number of users, including an annuitant, had administrative access (the ability to add, change, or delete userIDs, edit data directly, or make configuration changes) in two PDE applications. Further, PDE had no policies or procedures in place to monitor the use of these powerful attributes. Corrective action was taken in June 2013.
5. Servers at PDE have a machine-level administrator account which was accessed by one employee using a shared password.

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

1. A lack of segregation of duties exists because developers (seven in the client server environment and 14 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).
2. Management remediated a prior year weakness in which password requirements for the SoftTrac application (software used to scan invoices for the Commonwealth) were not configured to enforce adequate complexity settings or to comply with ITB-SEC007. Corrective action was implemented in February 2013. This weakness continues to exist within the 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).
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been completed for five 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.
4. Management remediated a prior year weakness in which there was no documentation maintained to evidence timely resolution of failed backups and job processing failures in the client/server environment and the computing environment used to scan and transmit invoice and check images. Corrective action was implemented in August 2012.
5. The servers are not in locked rooms in the computing environment used to scan and transmit invoices and check images; therefore, all 477 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), Check21 (used to transmit check images to the bank), and Virtual Capture (data entry software) applications reside. In addition, three employees have duplicate badge access to the Brookwood Street imaging facility.
6. Management remediated a prior year weakness in which four administrators accessed the SoftTrac invoice imaging application using a group userID and a shared password. Corrective action was implemented in December 2012.
7. We noted an excessive number (130) of group IDs with privileged access to the Formware application that is used to process images of the invoices received by the Commonwealth.

Finding 13 – 05: (continued)

8. Management was unable to produce a system-generated list of program changes made to the International Fuel Tax Agreement (IFTA) application (which processes fuel taxes) and the Cigarette Tax application during the audit period.
9. A lack of segregation of duties exists as developers (DOR personnel and contractors) have access to change the operations schedule in the computing environment used to scan and transmit images of invoices received by the Commonwealth.
10. 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.
11. Management remediated a prior year weakness in which DOR did not have policies and procedures in place to ensure requests for new and separated users in the TMS and Check 21 applications are documented. Corrective action was implemented in February 2013.
12. 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>The following deficiencies are related to service providers that support DOR's critical applications:</u>

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

Control	Exception
First Data systems are implemented with certain key logical security configuration parameters (as supported by the system) to identify and authenticate users including: (1) forced password changes at a defined interval, (2) a limit on the number of attempts to enter a password correctly before the User ID is suspended, (3) a minimum password length, and (4) a limit on the number of days a User ID is inactive after which the User ID is suspended. Employees accessing First Data's network via the internet authenticate through a token-based SSL VPN. An automated tool is used to review the configuration parameters of production UNIX systems on a monthly basis, while firewall configurations are reviewed on a semiannual basis.	For the sample semiannual firewall configuration/rule review, it was noted that management performed the review. However, remediation items were not being addressed timely.
New user access and changes to existing access for applications and data centers is granted based on authorized requests.	For a sample of new remitONE users, one (1) user's access out of a sample of 11 users was requested by an individual who did not appear on the system approver listing. Further inquiry determined that the user's access as assigned was authorized.

Finding 13 – 05: (continued)

Access is disabled or removed based on notification from authorized personnel for applications and data centers.	In testing a sample of 25 terminated contractors, two were identified with active Active Directory accounts. Additional procedures determined the accounts had not been used after the termination dates. In testing a sample of 25 terminated employees and contractors, VPN access for one (1) terminated employee was not disabled/removed. Inspection of additional evidence indicated that the token was reclaimed upon termination and the last login date was prior to the employee's termination date. For all users with access to the AccessNet environment that supports the remitONE system, it was noted that five (5) terminated users maintained access to the remitONE production environment. Alternative testing procedures were performed and determined that users did not login to the domain after that termination date.
Banks' employees with access to the remitONE system are required to have a separate enrollment form approved by both their employer and FDGS.	For a sample of new remitONE users, one (1) user's access out of a sample of 11 users was requested by an individual who did not appear on the system approver listing. Further inquiry determined that the user's access as assigned was authorized.
Banks' employees with access to the remitONE system are limited to viewing and modifying only taxpayers affiliated with their bank.	For the population of all remitONE system users, it was determined that one (1) client remitONE user had access to other banks' reports for which they were not affiliated.
Access to scheduling/submission and storage tools is controlled by native security and/or system security.	In testing the appropriateness of all 24 accounts with privileged access to the Virtual Table Server (VTS) system, seven user accounts were determined to be inappropriate. Additional procedures determined that two of the inappropriate accounts were for terminated employees with network access that had been appropriately removed.
RemitONE and StateEFT payment exception reports are generated and reviewed daily by FDGS and exceptions are communicated to the client.	For a sample of exception reports for rejected/abandoned payments, it was noted that no documentation was maintained to support that three (3) of the five (5) sampled exception reports were reviewed, and that the client was notified about the rejected/abandoned payment.

14. Official Payments Corporation (OPC):
The following table of control deficiencies were noted as a result of the SOC 1 examination of OPC. OPC provides credit card payment services to DOR:

Finding 13 – 05: (continued)

Control	Exception
Procedures exist and are followed to authenticate all users of the system (both employees and contractors) to support the existence of transactions.	The Built-in Admin account was active and had not been replaced with a Windows group specifically created for database administrators. Therefore, any account in the Windows Local Administrators group had Structured Query Language (SQL) Server System Administrator rights. The service auditors examined all users with membership to the local administrators group and noted no inappropriate access. Only specific IT Support personnel had access to the Windows servers hosting the databases for the platforms. The default administrator on the Windows server (Eastern Platform) account was enabled. The service auditors examined the list of users who had access to the default administrator account and confirmed with OPC Management that the password was known only to appropriate Corporate network administrators (approximately 12 individuals). Two test accounts had membership to OPCFinanceUser group that grants modify access to the financially significant files/data in the Accounting Shares 'Accounting Import'. We examined the last login information for these two accounts to determine that the last login was 'Never' or '2009' thereby reducing the risk of inappropriate activity during the reporting period.

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

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

1. Management remediated a prior year weakness whereby changes to IBMS were deployed using group user IDs that did not identify personnel performing tasks. Additionally, the password for these accounts could not be changed, and user activity was not tracked or logged. Corrective action was implemented in February 2013.
2. Management partially remediated a prior year weakness by reducing the number of users, including contractors, with privileged access in IBMS (i.e., the ability to add, change or delete user IDs, edit data directly, or make configuration changes); however, management indicated that privileged access for additional users still needed to be revoked as of June 30, 2013. Management indicated that policy for granting access to PLCB systems needs to be developed to define which groups should have privileged access and for what purpose. Further, although management indicated they have the ability to monitor the actions of privileged users, there are no formal policies or procedures in place for this purpose.
3. Management remediated a prior year weakness whereby individuals accessing the IBMS Retail Management System (RMS) could not change their own passwords. Corrective action was implemented in February 2013.

Warehouse Management System

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

Finding 13 – 05: (continued)

Multiple Environments

5. Although PLCB follows Department of General Services' policies for acquisition of new systems, there is no systems 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.
6. Management partially remediated a prior year weakness whereby user accounts for the IBMS and the warehouse management application were not required to comply with ITB-SEC007. For IBMS, management implemented password complexity requirements as part of the Oracle upgrade in February 2013. For the warehouse management system, management sought a waiver from the policy, which was granted by the Office of Administration after the audit period in August 2013.

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

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

Regarding the IT general control deficiencies at various agencies listed above, management has addressed some of the general computer control deficiencies noted in prior years; however, due to system limitations, upgrade needs, or limited staffing, some of the deficiencies persist. Regarding the segregation of duties deficiencies concerning personnel with the ability to develop programs and move programs to the production environments, there is no overall Commonwealth policy (i.e., IT Bulletin) to provide guidance in this area. Regarding the deficiencies noted in the service organizations, Commonwealth management needs to be mindful that when contracting with outside vendors, the responsibility for internal control remains with the Commonwealth. Accordingly, those service organizations need to be monitored to ensure that appropriate controls are in place over Commonwealth systems. Further, Commonwealth management believe that, although strong computer controls are clearly important in agency operations, there are manual compensating internal controls within agency operations that mitigate the impact of the general control deficiencies reported above.

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

Finding 13 – 05: (continued)

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

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

Recommendation: We recommend that Commonwealth management 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 recommend that Commonwealth management continue to review the various general computer control deficiencies noted above and take the necessary actions to resolve them. Commonwealth management also needs to monitor service organizations to ensure the appropriate controls are in place over the outsourced IT environments.

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

1. OA agrees with the finding, but believes the issue is currently resolved.
2. OA agrees with the finding, but believes the issue is currently resolved.
3. OA agrees with the finding, but believes the issue is currently resolved.
4. OA agrees with the finding, but believes the issue is currently resolved.

Pennsylvania Lottery (Lottery) Response:

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

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

1. The finding is acknowledged. A standard System Development Life Cycle is currently being developed for use by all L&I system development projects.
2. The finding is acknowledged, however, all code deployments within the mainframe environment are tracked within Endevor. This includes code promoted by non-development staff and development staff. All Endevor logs are reviewed on a regular basis. Any code promotions outside of standard/documented changes control process would be identified and audited.
3. The finding is acknowledged. Due to current staffing levels, the documented access has been determined to be necessary.

Finding 13 – 05: (continued)

4. The finding is acknowledged. Due to the current nature of the UCMS application, this level of access has been determined to be necessary.

5. The finding is acknowledged. Due to current staffing levels, resources do not currently exists to conduct the access reviews on a regular basis.

6. The finding is acknowledged. Due to current staffing levels and lack of expert knowledge on specific systems, some key personnel have been granted access that normally would not, to ensure stabilization of the UCMS application.

7. The finding is acknowledged. Research will be conducted to remediate this item.

State Workers' Insurance Fund (SWIF) Response:

1. The remediation is acknowledged.

2. The remediation is acknowledged.

3. The finding is acknowledged. At this time, the area responsible for defining this process has not provided the formal procedures. It is expected that a procedure will be developed as part of any future data migration effort.

4. The finding is acknowledged.

5. The finding is acknowledged. Users are required to be logged in with their CWOPA credentials to access PowerComp.

6. The remediation is acknowledged.

7. The finding is acknowledged. A standard System Development Life Cycle is currently being developed for use by all L&I system development projects.

Department of Transportation (PennDOT) Response:

1. PennDOT agrees with the finding. On July 3, 2013 an attribute assignment policy plan was implemented.

2. PennDOT agrees with the finding. Corrective action was implemented after the audit period.

3. PennDOT agrees that circumstances can occur where some terminated individuals' userIDs are not suspended/deleted within a two week period. The department however has mechanisms in place both within dotGrants and SAP which prevent malicious behavior. PennDOT will arrange to meet with the IT auditors to discuss what impact these safeguards will have on the audit finding.

Department of Public Welfare (DPW) Response:

1. DPW agrees with this finding. Currently there is a project scheduled for completion by the end of April 2014 that will integrate "Non-Commonwealth" CWOPA accounts into our existing provisioning system. This integration will give us the ability to provision and de-provision all CWOPA accounts using the same methodology.

2. DPW agrees with this finding.

Finding 13 – 05: (continued)

3. DPW agrees with this finding. Currently there is a project scheduled for completion by the end of February 2014 that will bring DPW into compliance with this CIS password finding, users will be accessing CIS with password credentials compliant to ITB-SEC007.

4. DPW acknowledges the audit findings concerning the SOC1 report for JP Morgan. It is the opinion of DPW that these findings will not be repeated since we no longer are contracted to do business with this vendor.

5. DPW acknowledges the audit findings concerning the SOC1 report for Fiserv, Inc. It is the opinion of DPW that these findings will not be repeated since we no longer are contracted to do business with this vendor.

6. DPW acknowledges that there is an audit finding concerning the SOC1 report for Xerox, who is a new vendor and has replaced JP Morgan. A corrective action plan is being formulated by Xerox to correct all of the issues that have been raised within the finding.

7. a) This finding has been reviewed and measures have been taken to review all user access to the Oracle databases. After inspection of the DBA_ROLE_PRIVS table, it was determined that two application accounts, AIM and AIM01, have access to the DBA privileged role. After reviewing these accounts, it was determined that these accounts were not accessed during the audit period covered by this report. Additional actions were taken after a further detailed user review of account access was conducted across all non-production and production Oracle databases. Each DBA role assignment was reviewed and categorized into 1 of 4 categories:

   1) Assigned to an account DBA - DBA role assignment retained
   2) Assigned to default Oracle user SYS/SYSTEM - DBA role assignment retained
   3) Assigned to a Production Object Owning schema (i.e. AIM, AIM01) – DBA role removed
   4) Assigned to non-account DBA – DBA role assignment removed.

   b) After conducting the research on this finding it was determined that this employee was terminated as a contractor employee on December 2012 and then was re-issued a new badge at the same time as a hired HP employee under a new employee number record. The access rights from the old badge access record were transferred to the new active record successfully by the Securitas Security officer but without the proper authorization request which is through the Automated Physical Access Request System (APARS) application. A formal request is required for all badge access transactions and this process was reviewed with the Camp Hill facility Securitas Security staff to ensure an APARS request is submitted for any badge request in the future.

8. Unisys previously completed an investigation of available options that can be used to monitor production code libraries for unauthorized changes. After discussing this further with our technical staff, I believe that the system Unisys has in place to monitor production code libraries for unauthorized changes is sufficient and provides an acceptable level of risk.

<u>Department of Health (DOH) Response</u>:

DOH agrees with the issues cited and offers the following information:

1. Multiple technical staff have access to the room for their day to day tasks (network staff, database staff, server team staff). Also, administrative and maintenance staff have infrequent access. Senior management have access to provide unplanned, accompanied access during after-hours responses. The Bureau of Information Technology (BIT) will continue to monitor access requirements and minimize the distribution of access badges wherever possible.

Finding 13 – 05: (continued)

2. Regarding Service and Domain Administration, the DHProdAdmin account has been deactivated. Applicable managers have been directed to use named accounts. Additionally, managers have been directed to monitor accounts periodically to verify compliance. Database administrators are working towards the elimination of generic accounts. Database administrators directed to refrain from using generic accounts for database administration. All direction provided via e-mail as an interim measure. Applicable managers meeting on regular basis to address comprehensive actions needed to fully address service account requirements and the elimination of generic accounts/common accounts for system access.

   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 thru 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. Applicable managers will meet on a regular basis to develop applicable policy.

   Draft policy has been written and comments requested to address findings and policy exceptions/updates required to comply with OA/OIT ITB-SEC007.

3. 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. Local Agencies have a lot of clinic staff that require access to QuickWIC and local user account creation is a Local Agency/Program function. In order to complete a CAP, an amended P&P will need to be approved by USDA. In addition, changes to the MIS system will need to be made to accommodate the Pending Status of new users. Development for support ticket #8076 addressing this audit finding is currently in progress and nearing UAT deployment. Once implemented, Local Agency staff will no longer be able to add new users and will be required to submit a request to the Program Office for user access.

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

1. As stated in the finding, management remediated the prior year weaknesses based on the implementation of corrective actions in January 2013. As such, PDE, Bureau of Budget and Fiscal Management, Division of Subsidy Data and Administration agrees with the auditor's conclusion and stated remediation of the weakness.

2. PDE, Center for Data Quality and Information Technology (CDQIT) has initiated corrective action to address the segregation of duties weakness.

3. The CDQIT implemented corrective action in June of 2013.

4. The CDQIT implemented corrective action in June of 2013.

5. The CDQIT disagrees with this finding. The CDQIT has implemented a formal policy requiring system administrators to use CWOPA account credentials to access PDE servers. However, it is sometimes necessary to use the machine-level account to access the server, for example, during a crash recovery or reestablishing network connectivity. In these cases, the policy requires the Administrator who logs in using a machine-level account to document the login via e-mail to the LAN Team Manager and IT Support Manager. The e-mail is to include a description of the event requiring machine-level access. Retention of these e-mails will constitute a log of machine-level logins, allowing any logged events to be traced to an individual System Administrator.

Finding 13 – 05: (continued)

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

1. DOR agrees with the finding. However, it must be noted that in the imaging/scanning environment, the promotion of Formware changes is more complex than simply copying program files to production. Promotion requires detailed technical knowledge of the code, because a series of code or configuration changes have to be made at different parts of the environment. DOR implemented (January 2010) 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 was 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.

2. DOR agrees with the finding. The TMS application is a 3rd party COTS package and DOR is currently upgrading its TMS software to include a change that all TMS operators will need to log into CWOPA and will use their CWOPA credentials. Change will be implemented by July 2014. The ETIDES Internet filing system has a large number of public users, many of whom only access the system one time each year. As time permits DOR will examine business requirements to determine how to implement password requirements while minimizing end-user disruption.

3. DOR agrees with the finding. DOR implemented an access review procedure and has completed the review of three in-scope systems. DOR will continue to expand the periodic access review procedure to the remaining in-scope systems.

4. DOR agrees with the finding.

5. DOR agrees with the finding. DOR commissioned a study (October 2011) 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.

   Specifically with respect to the SoftTrac Imaging equipment, certain additional protections are available. SoftTrac is third party software whose only function 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 follow 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 scanner 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 other parts of the system look for particular format, locations, names etc., and such a change will affect only scanning area.

   Regarding the three employees with duplicate badge access, this part of the finding has been remediated as the duplicate access has been corrected.

6. DOR agrees with the finding.

Finding 13 – 05: (continued)

7. DOR disagrees with the finding and feels it's 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. 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 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.

8. DOR disagrees with the finding. This was a finding in the prior year and we had one change for IFTA and none for Cig Tax during this review period. Documentation for the IFTA change is available.

9. DOR agrees with the finding. Due to peaks and volumes of invoices received we need to be able to change operations schedules as needed. Do not have sufficient staff available to segregate duties and still address business requirements for timely processing.

10. DOR agrees with the finding. Due to the small number of resources in the client/server development group, more senior developers also have the ability to promote changes to production and change the operations schedule. However, 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.

11. DOR agrees with the finding.

12. DOR disagrees with the finding. Log sheets documenting testing and management approvals were provided to the auditors at the same time as the information for item 11.

13. DOR agrees with the finding. DOR will work with the service provider to correct the issues.

14. DOR agrees with the finding. DOR will work with the service provider to correct the issues.

<u>Liquor Control Board (PLCB) Response</u>:

1. PLCB agrees.

2. On May 30, 2013, at the end of the warranty period for the IBMS upgrade project, the change request was sent to DPH requesting privileged access be revoked for the additional users and contractors. DPH completed the changed request. Corrective action was implemented in June 2013. Policy was created to grant access to PLCB systems. It defines which groups should have privileged access and for what purpose. Corrective action was implemented in June 2013. Policy for monitoring actions of privileged users will be developed.

3. PLCB agrees.

4. PLCB agrees. This is a third-party proprietary system that does not log this information.

5. OA's ITB requiring this was published on May 1, 2013. Policy will be developed and completed by fiscal year end 2014.

6. Corrective action for password complexity requirements for IBMS was implemented in February 2013. Corrective action for password complexity requirements for the warehouse management systems was addressed with a waiver reviewed, analyzed and granted by the Office of Administration in August 2013.

Finding 13 – 05: (continued)

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

Regarding PDE's disagreement with Condition 5, we updated the wording to better reflect the deficiency noted during the audit. We acknowledge that PDE implemented a policy for logging use of the machine-level logins; however, management was unable to provide documentation to evidence use of the login noted during the audit. We recommend that the log of e-mails is retained when the machine-level administrator account is used.

Regarding DOR's disagreement with Condition 7, we reiterate that an excessive number of employees, especially if they are temporary, should not have privileged access to the Formware application.

Regarding DOR's disagreement with Condition 8, we updated the wording to better reflect the deficiency noted during the audit. Although management represented that only one change occurred in the IFTA application, they were unable to provide a system-generated list of this change to evidence their representation.

Regarding DOR's disagreement with Condition 12, we acknowledge that log sheets documenting management testing and approval were developed; however, the log was developed after the audit period. We will review this documentation 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.

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Index to Federal Award Findings and Questioned Costs - June 30, 2013

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
13-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 12-DCED-01)	MNC	ND	DCED	94	242
13-PDE-01 *	10.553 10.555 10.556 10.559 10.558	Child Nutrition Cluster Child and Adult Care Food Program	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 12-PDE-01)	N/A	None	PDE	96	243
13-PDE-02 *	10.555	National School Lunch Program	Noncompliance and Internal Control Weaknesses Related to Reimbursement for Lunches Served by School Food Authorities	NC	$21,006	PDE	99	245
13-PDE-03 *	10.558	Child and Adult Care Food Program	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding 12-PDE-02)	NC	$19,529	PDE OB/OCO	101	245
13-PDE-04 **	84.010 84.367	Title I Grants to Local Educational Agencies Improving Teacher Quality State Grants	A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants Subrecipients (Prior Year Finding 12-PDE-05)	MNC	ND	PDE	104	245
13-PDE-05 **	84.010	Title I Grants to Local Educational Agencies	A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding 12-PDE-04)	NC	None	PDE	107	246

* - 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
13-PDE-06 *	84.010	Title I Grants to Local Educational Agencies	A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data (Prior Year Finding 12-PDE-06)	NC	None	PDE	110	247
13-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, Earmarking Process, and Monitoring of Subrecipients (Prior Year Finding 12-PDE-07)	MNC	$1,834,679	PDE	114	249
13-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 (Prior Year Finding 12-DOH-01)	NC	ND	DOH	118	249
13-DOH-02 **	93.917	HIV Care Formula Grants	Weaknesses in Internal Controls Over Subrecipient and Contractor Monitoring (Prior Year Finding 12-DOH-02)	MNC	ND	DOH	120	250
13-L&I-01 *	17.225 17.245 17.258 17.259 17.278 84.126	Unemployment Insurance (including ARRA) Trade Adjustment Assistance WIA Cluster Rehabilitation Services – Vocational Rehabilitation Grants to Sates	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 12-L&I-02)	N/A	None	L&I	122	252
13-L&I-02 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations (Prior Year Finding 12-L&I-05)	NC	None	L&I	126	253

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
13-L&I-03 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	A Control Deficiency Exists Over the Preparation and Submission of the Annual RSA-2 Report	NC	None	L&I	128	254
13-DMVA-01 *	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement (Prior Year Finding 12-DMVA-01)	NC	$11,771	DMVA	130	254
13-PEMA-01 **	97.067	Homeland Security Grant Program	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (Prior Year Finding 12-PEMA-03)	MNC	None	PEMA	132	254
13-PEMA-02 *	97.067	Homeland Security Grant Program	Internal Control Weakness Over Expenditure Reporting on the Schedule of Expenditures of Federal Awards	N/A	None	OB/OCO	134	254
13-PEMA-03 **	97.067	Homeland Security Grant Program	Material Weakness and Material Noncompliance Over Equipment and Real Property Management (Prior Year Finding 12-PEMA-01)	MNC	ND	PEMA	135	255
13-PENNVEST-01 **	66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds (including ARRA) Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Internal Control Weaknesses in Subrecipient Monitoring of Davis-Bacon Requirements	MNC	ND	PENNVEST	137	255
13-PENNVEST-02 *	66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds (including ARRA) Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Internal Control Weakness and Noncompliance With Loan Amortization Requirements	NC – CWSRF N/A - DWSRF	None	PENNVEST	139	255

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
13-PENNVEST-03 *	66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds (including ARRA) Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding 12-PENNVEST-03)	N/A	None	PENNVEST	141	256
13-PENNVEST-04 **	66.458 66.468	Capitalization Grants for Clean Water State Revolving Funds (including ARRA) Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 12-PENNVEST-02)	MNC	None	PENNVEST	143	256
13-DPW-01 **	10.551 93.558	Supplemental Nutrition Assistance Program Temporary Assistance for Needy Families	Internal Control Deficiencies and Noncompliance at the Department of Public Welfare Related to Electronic Benefits Transfer Card Security	MNC	ND	DPW	145	256
13-DPW-02 **	10.551	Supplemental Nutrition Assistance Program	Internal Control Deficiency and Compliance Finding at the Department of Public Welfare Related to Electronic Benefits Transfer Daily Reconciliation	MNC	None	DPW	147	257
13-DPW-03 **	93.558 93.658 93.659	Temporary Assistance for Needy Families Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA)	Weaknesses in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Public Welfare Office of Children, Youth and Families	MNC	ND	DPW	149	257
13-DPW-04 **	93.558	Temporary Assistance for Needy Families	Department of Public Welfare Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients	MNC	ND	DPW	153	258

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
13-DPW-05 **	93.558	Temporary Assistance for Needy Families	Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 12-DPW-03)	MNC	None	DPW	156	259
13-DPW-06 **	93.563 93.568 93.575 93.596 93.658 93.659 93.667 93.720 93.775 93.777 93.778 93.767	Child Support Enforcement Low-Income Home Energy Assistance CCDF Cluster 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 (HHS)-Required Automatic Data Processing (ADP) Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Public Welfare and Insurance Department Systems (Prior Year Finding 12-DPW-04)	MNC	None	DPW	161	260
13-DPW-07 *	93.575 93.596	CCDF Cluster	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 12-DPW-06)	NC	ND	DPW	164	261
13-DPW-08 *	93.575	Child Care and Development Block Grant	Noncompliance and Internal Control Weakness in DPW's Contracting With Child Care Subgrantees	NC	ND	DPW	167	262
13-DPW-09 *** SAPT** **** SSBG**	93.667 93.959	Social Services Block Grant Block Grant 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 12-DPW-07)	NC – SAPT MNC - SSBG	ND	DPW	169	263
13-DPW-10 **	93.778	Medical Assistance Program (including ARRA)	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (Prior Year Finding 12-DPW-08)	MNC	$4,437	DPW	172	264

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

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
13-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 12-PennDOT-01)	NC	ND	PennDOT	177	264
13-PennDOT-02 *	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 12-PennDOT-03)	N/A	None	PennDOT	179	265
13-SW-01 **	Various	Various CFDA Numbers – See Finding	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding 12-OB-04)	MNC	ND	OB/OCO Various	182	266
13-SW-02 *	17.245 66.468 84.126 96.001	Trade Adjustment Assistance Capitalization Grants for Drinking Water State Revolving Funds (including ARRA) Rehabilitation Services – Vocational Rehabilitation Grants to States Social Security – Disability Insurance	General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (Prior Year Finding 12-OB-03)	N/A – TAA & DWSRF NC – RS-VR & SSDI	$31,813	OB/OCO Various	194	269
13-SW-03 *All Others ** CDBG	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 12-OB-01)	NC – All Others MNC – CDBG	ND	OB/OCO Various	198	270

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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
13-SW-04 *	Various	Various CFDA Numbers – See Finding	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (Prior Year Finding 12-OB-02)	NC	$85,499	OB/OCO Various	204	272

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

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

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Matrix of Findings by Federal Agency - June 30, 2013

Finding	**USDA**	**DOD**	**HUD**	**DOL**	**DOT**	**ARC**	**EPA**	**ED**	**HHS**	**SSA**	**DHS**
Prefix	**10**	**12**	**14**	**17**	**20**	**23**	**66**	**84**	**93**	**96**	**97**
13-DCED-01			X								
13-PDE-01	X										
13-PDE-02	X										
13-PDE-03	X										
13-PDE-04								X			
13-PDE-05								X			
13-PDE-06								X			
13-PDE-07								X			
13-DOH-01	X										
13-DOH-02									X		
13-L&I-01				X				X			
13-L&I-02								X			
13-L&I-03								X			
13-DMVA-01		X									
13-PEMA-01											X
13-PEMA-02											X
13-PEMA-03											X
13-PENNVEST-01							X				
13-PENNVEST-02							X				
13-PENNVEST-03							X				
13-PENNVEST-04							X				
13-DPW-01	X								X		
13-DPW-02	X										
13-DPW-03									X		
13-DPW-04									X		
13-DPW-05									X		
13-DPW-06									X		
13-DPW-07									X		
13-DPW-08									X		
13-DPW-09									X		
13-DPW-10									X		
13-PennDOT-01					X	X					
13-PennDOT-02					X	X					
13-SW-01	X		X	X	X	X	X	X	X		X
13-SW-02				X			X	X		X	
13-SW-03			X	X	X	X		X	X		
13-SW-04	X							X	X	X	

Department of Community and Economic Development

Finding 13-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 12-DCED-01)

Federal Grant Numbers: 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, B-12-DC-42-0001

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2013, 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 $51,080,289, which represented approximately 97 percent of total CDBG cluster expenditures on the SEFA. There were a total of 147 subrecipients that received 2012 grant allocations from the CDBG Program, and there were no grant allocations for CDBG-R or NSP during fiscal year ended June 30, 2013.

DCED is required to maintain internal controls that ensure subrecipient grant funds are utilized within the established contract period. The grant managers monitor the subrecipient contracts and the progress of projects through review of expenditure reports, written and verbal communication and site visits.

We tested a sample of 40 subrecipient expenditures to determine whether the obligations were incurred within the project activity period as defined in Appendix A of the subrecipient contract. We noted two subrecipient 2009 grant expenditures totaling $70,512 that were incurred between 14 to 300 days outside of the project activity period, and these expenditures accounted for 2.2 percent of total sampled expenditures. A review of all expenditure activity from the two 2009 grants identified as exceptions revealed $110,138 of costs incurred outside the project activity period. Although these costs were outside of the subrecipients' project activity period, they were within DCED's period of availability with the U.S. Department of Housing and Urban Development.

An additional process of During-the-Award monitoring includes on-site monitoring visits. Annually, DCED generates a calendar year Monitoring Schedule that details each project funded by subrecipient grant contracts and the subrecipient's scheduled on-site monitoring visit. The DCED Monitoring Schedule provides that an on-site monitoring visit is scheduled to be completed once every three years for each open project.

Based on our examination of the DCED Monitoring Schedule, there were 21 on-site subrecipient monitoring visits performed during the audit period, which included visits that had been scheduled to be performed in prior years (year range 2010-2013) as follows:

- 3 visits from the 2010 schedule
- 6 visits from the 2011 schedule
- 8 visits from the 2012 schedule; and
- 4 visits from the 2013 schedule.

In total, as a result of these on-site monitoring visits, the program reviewed 73 contracts from grant years 2002 – 2011. In addition, the program completed fiscal monitoring visits for three subrecipients and reviewed twelve grants from years 2007 - 2010.

Finding 13-DCED-01: (continued)

We tested the on-site monitoring for five of the subrecipients and determined that for one subrecipient, the on-site monitoring procedures were adequately performed, corrective action was outlined in written correspondence provided to the subrecipient subsequent to the on-site visit, and questioned costs were recaptured. For the remaining four subrecipients selected for testwork, there was insufficient documentation in the grant files in order to evaluate the adequacy of the on-site monitoring procedures.

For NSP, as part of During-the-Award monitoring, NSP invoices are reviewed and approved by grant managers prior to payment. From our sample of 40 NSP invoices, two invoices did not have evidence of management review of invoiced costs and supporting documentation prior to reimbursement of the subrecipient. Although evidence of management review was not documented, our review determined that these invoices claimed allowable project costs.

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

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

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

Effect: DCED did not adequately perform during-the-award monitoring of the CDBG, 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.

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, 2012, 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, 2013. Therefore, these subrecipients had no monitoring by the program.

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

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

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

Department of Education

Finding 13-PDE-01:

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

Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 12-PDE-01)

Federal Grant Numbers: 2013- 1PA300305 and 2012-1PA300305

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) is customized software developed as a joint effort by an outside vendor and the Pennsylvania Department of Education (PDE). As part of our audit of the PDE major programs for the fiscal year ended June 30, 2013, we performed certain information technology (IT) general controls review procedures for the CN–PEARS system. In prior audits, we found a lack of segregation of duties between application development and deployment of program changes into production, as well as a lack of a monitoring process to detect unauthorized changes in the production environment to which the vendor has around-the-clock access. In addition, we found that no formal program change methodology had been developed to outline PDE and vendor responsibilities. Further, we determined that there was 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:

- Although PDE management represented that an outside vendor employee who deploys programs to production is restricted from performing development, they did not provide system-generated documentation to evidence that the employee's development rights were revoked. Further, we learned during the current audit that two outside vendor employees (a primary and a backup) promote programs to production using only one user-ID.
- The vendor continues to have around-the-clock access to PDE's production servers to promote changes to production without pre-approval by PDE management.
- Although a monitoring process has been implemented over the production environment to review deployment of programs to production, the process is insufficient to ensure all deployments to production have been approved by PDE management.
- Management remediated a prior year weakness in September 2012 whereby numerous PDE staff had the ability to change electronic certifications in the subrecipients' applications for program funding. This ability was reduced to two (2) appropriate individuals.
- An excessive number of DFN program staff had administrator access rights in the CN-PEARS application, which allowed them to grant administrator rights to other individuals. The number of administrators was reduced for the Child and Adult Care Food Program in September 2012; however, the number of administrators for the Child Nutrition Cluster remained excessive during the audit period until May/June 2013. Further, management did not conduct a periodic access review of staff with administrator access rights.
- System parameter settings did not comply with the Commonwealth's standards for user IDs and passwords.

Finding 13-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.

Cause: The vendor continues to log changes to the CN-PEARS system in a manual log. PDE also produces a system-generated log of vendor entries and exits into and out of the PDE servers. The monthly logs are reviewed for the previous month no later than the 15th of the following month. Monitoring of the vendor actions is not timely, nor is the review of vendor activity conclusive in all instances as to what actions were performed by the vendor because the reviews only monitor access, not the details of the program changes and the code deployed to production.

PDE management has granted the vendor around-the-clock access to its servers because the vendor needs to deploy changes to CN-PEARS and troubleshoot 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.

The CN-PEARS application was moved to a .NET platform for the Child and Adult Care Food Program in September 2012 and for the Child Nutrition Cluster in May/June 2013. This movement facilitated PDE's reduction in the number of administrators because security in the .NET platform is more granular than in the older system. PDE management indicated that the movement to the .NET platform would ensure the CN-PEARS system parameter settings would comply with ITB SEC007; however, we noted during the current audit that the password syntax still does not 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:

- require the vendor to provide system-generated listings that evidence which employees can develop/maintain program code and which employees can deploy program code to production to evidence a clear segregation of duties between these two functions.
- review system-generated and manual logs related to change management timely (within 48 hours) to ensure all deployment of code to production was appropriate. 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 and retained for audit.
- 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.
- change the system parameter settings to comply with Commonwealth ITB SEC007, or request a waiver from the Office of Administration, Office for Information Technology for the non-compliance.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is not in full agreement with this finding. This finding has been in existence for several years and, despite efforts to resolve the finding, DFN is unable to rectify some of the issues as information is not forthcoming through the Department of the Auditor General that would allow DFN to completely and permanently correct the problem.

Finding 13-PDE-01: (continued)

The DFN will work to correct aspects of the problems that were identified in prior years, but will not continue to utilize resources that are funded by taxpayer money to correct problems until an accurate and detailed delineation of the problem(s) and/or expectations is provided by the Department of the Auditor General. Without a full picture of the problem and/or expectations to resolve the problem, efforts by DFN are futile and not an effective use of human or monetary resources.

The DFN strongly desires to resolve the finding and will work towards addressing the issues when we believe there is sufficient information to correct.

Auditors' Conclusion: We acknowledge DFN's significant efforts to correct the weaknesses cited in prior years by upgrading to a new platform for CN-PEARS and making several other improvements to strengthen internal controls.

However, we believe that we have communicated our audit requirements on various occasions over the past several years. The joint audit team conducted training for all Commonwealth audit liaisons and information technology professionals on April 17, 2012 and on August 21, 2013. Attendees of these training sessions received handouts that detailed all the baseline controls that would be tested during our audits, as well as documentation requirements (i.e., testing of system generated reports). Further, the audit team met with DFN staff and contractors several times in the current audit, as well as in prior audits, to discuss internal control requirements.

We believe that some of the communication difficulties cited by DFN above result from PDE's decision to continue to allow the vendor around-the-clock access to PDE's production servers. Further, two of the vendor employees accessed the PDE servers with the same user ID during the audit period. Since the vendor has unrestricted access to the servers, then DFN must design detective controls to compensate for this weakness. These controls should be designed to detect any improper access or untested changes to the system in time to prevent posting transactions that contradict management's intent. Since development of internal controls is a management function, DFN may want to consult the Office of the Budget, Bureau of Audits (internal audit) for assistance in this area.

Finally, in regards to system parameter settings for user IDs and passwords, the new CN-PEARS system implemented in September 2012 for the Child and Adult Care Food Program includes significant improvements in password security. However, the new CN-PEARS system was not implemented for the Child Nutrition Cluster until May/June 2013. Further, certain password complexity settings in the new CN-PEARS system do not fully comply with the requirements of the Commonwealth ITB SEC007. We continue to recommend that DFN change the system parameter settings to fully comply with ITB SEC007, or request a waiver from the Office of Administration, Office for Information Technology, using the process delineated in the policy.

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 13-PDE-02:

CFDA #10.555 – National School Lunch Program

Noncompliance and Internal Control Weaknesses Related to Reimbursement for Lunches Served by School Food Authorities

Federal Grant Numbers: 2013-1PA300305 and 2012-1PA300305

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs

Condition: The Pennsylvania Department of Education (PDE) National School Lunch Program's (NSLP) subrecipient expenditures totaled $315.4 million for the fiscal year ended June 30, 2013. As part of our testing of subrecipient expenditures, we selected a sample of 32 monthly claim payments to School Food Authorities (SFAs) totaling $857,047 and ensured that the SFAs were reimbursed at the proper rate per the Federal Register.

There are two different payment levels for lunches served under the NSLP. The lower payment level applies to lunches served by SFAs in which less than 60 percent of the lunches served in the program during the second preceding school year were served free or at a reduced price. The higher payment level applies to lunches served by SFAs in which 60 percent or more of the lunches served during the second preceding school year were served free or at a reduced price.

For 1, or 3 percent, of the 32 NSLP monthly claim payments tested, PDE reimbursed the SFA at the higher payment level. However, the SFA had less than 60 percent of the lunches served during school year 2010-2011 served free or at a reduced price and should have been reimbursed at the lower payment level. As shown in the below table, the SFA was reimbursed for $29,659, but should have been reimbursed for $29,288, resulting in questioned costs of $371. Based on further investigation by PDE, an additional 10 SFAs were reimbursed at the higher payment level, which resulted in additional questioned costs of $20,635. Total questioned costs for the fiscal year ended June 30, 2013 amounted to $21,006.

Lunch Type	Lunches Served During SFYE 6/30/13	Higher Payment Level Per Lunch Served	Lower Payment Level Per Lunch Served	SFA Amount Reimbursed (Higher Payment Level)	Corrected SFA Reimbursed Amount (Lower Payment Level)
Paid	8,752	$0.29	$0.27	$2,538.08	$2,363.04
Free	7,000	$2.88	$2.86	$20,160.00	$20,020.00
Reduced Price	2,807	$2.48	$2.46	$6,961.36	$6,905.22
Total	18,559			$29,659.44	$29,288.26
				Overpayment	$371.18

Criteria: Regarding the payment amount for each lunch served, 42 U.S.C. §1753(b) states:

(2) The national average lunch payment for each lunch served shall be 10.5 cents (as adjusted pursuant to section 1759a(a) of this title) except that for each lunch served in school food authorities in which 60 percent or more of the lunches served in the school lunch program during the second preceding school year were served free or at a reduced price, the national average lunch payment shall be 2 cents more.

Finding 13-PDE-02: (continued)

Additionally, 42 U.S.C. §1759a(a)(3)(B) states:

(i) IN GENERAL.—The annual adjustment under this paragraph shall reflect changes in the cost of operating meal programs under this chapter and the Child Nutrition Act of 1966 [42 U.S.C. 1771 et seq.], as indicated by the change in the series for food away from home of the Consumer Price Index for all Urban Consumers, published by the Bureau of Labor Statistics of the Department of Labor.

(ii) BASIS.—Each annual adjustment shall reflect the changes in the series for food away from home for the most recent 12-month period for which such data are available.

7 CFR Section 210.4(b)(1) states:

(iii) Annual adjustments. In accordance with section 11 of the Act, FNS will prescribe annual adjustments to the per meal national average payment rate (general cash assistance), the performance-based cash assistance rate (performance-based cash assistance), and the special assistance national average payment rates (special cash assistance) which are effective on July 1 of each year. These adjustments, which reflect changes in the food away from home series of the Consumer Price Index for all Urban Consumers, are annually announced by Notice in July of each year in the Federal Register.

77 Federal Register 142 (24 July 2012), pp. 43232-43234 states:

National School Lunch Program Payments - Section 4 National Average Payment Factors – In school food authorities which served less than 60 percent free and reduced price lunches in School Year 2010–11, the payments for meals served are: Contiguous States—paid rate—27 cents, free and reduced price rate—27 cents, maximum rate—35 cents…In school food authorities which served 60 percent or more free and reduced price lunches in School Year 2010–11, payments are: Contiguous States—paid rate—29 cents, free and reduced price rate—29 cents, maximum rate—35 cents…Section 11 National Average Payment Factors—Contiguous States—free lunch—259 cents, reduced price lunch—219 cents.

Cause: PDE stated that the error which resulted in the overpayment to the SFA was due to a code change made in the PEARs system in 2005 by the system vendor. The vendor claims that PDE requested the code change; however, PDE denies that it made such a request. As a result of PDE's investigation of this error, management indicated that 32 entities were identified as inappropriately receiving the high rate of reimbursement from school year 2006 to present.

Effect: Without adequate internal controls to review reimbursement payment levels, PDE has reimbursed SFAs at an incorrect payment level.

Recommendation: We recommend PDE incorporate a management review of payment levels for schools close to the 60 percent ratio to verify SFAs are reimbursed at the proper payment level.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) has implemented corrective action by moving CN-PEARS to .net platform resolving the issue with the 2013-2014 School Year. In addition, DFN implemented processes to prevent code changes from being made that were not requested, reviewed or tested by DFN.

Questioned Costs: $21,006

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 13-PDE-03:

CFDA #10.558 – Child and Adult Care Food Program

For-Profit Subrecipients Are Not Being Audited in a Timely Manner (A Similar Condition Was Noted in Prior Year Finding 12-PDE-02)

Federal Grant Numbers: 2010 1PA300305, 2011 1PA300305

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: The Pennsylvania Department of Education (PDE) utilizes the 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. During the current state fiscal year ended June 30, 2013, payments were made to approximately 585 for-profit subrecipients, totaling $31.5 million, or 32 percent, of the CACFP expenditures totaling $98.8 million listed on the current-year SEFA. According to federal CACFP regulations, PDE must develop its own state policy to audit its for-profit entities. PDE's audit policy includes BOA performing a risk analysis, based on the amount of subrecipient reimbursement, the results of 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 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 years ended September 30, 2011 and 2012 for audits to be conducted during the October 2012 – September 2013 period. Nine sponsors, receiving $7.3 million, or 23 percent of total payments to for-profit subrecipients in the state fiscal year ended June 30, 2013, were selected for audit based on the risk analysis performed. For two of the sponsors selected, performance audits were to be performed for for-profit sponsors who received over $500,000 and for seven of the sponsors, agreed upon procedures were to be performed for for-profit subrecipients receiving $75,000 or more in the federal fiscal years ended September 30, 2011 and 2012. BOA completed one performance audit and three agreed upon procedures during the federal fiscal year ended September 30, 2013. Two agreed upon procedures were completed subsequent to September 30, 2013. One performance audit and two agreed upon procedures are still in process. We reviewed the completed performance audit report and noted no exceptions. Our review of the five agreed upon procedure reports disclosed results identified by BOA as being significant exceptions for all five reports. The exceptions aggregated $68,502 in questioned transactions. These reports were forwarded to PDE for sponsor distribution and corrective action. However, for two of the reports with $19,529 in questioned transactions, PDE did not notify the sponsor of the exceptions until it was brought to their attention by the auditors.

Criteria: Regarding Audits, 7 CFR Section 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 years ended September 30, 2011 and 2012 is as follows:

Finding 13-PDE-03: (continued)

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.

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 BOA management, the untimely reports were due to their identification of significant discrepancies during one of the performance audits that required BOA auditors to expand testing. The completion of the agreed upon procedures were delayed since the same auditors were assigned to these engagements. According to PDE management, the lateness of the notification to the two sponsors was an oversight of the program supervisor.

Effect: BOA's failure to timely complete certain audit engagements of CACFP for-profit subrecipients during the federal fiscal year ended September 30, 2013 resulted in the untimely review of for-profit sponsors which can lead to subrecipient non-compliance not being detected and corrected in a timely manner. Instances of non-compliance at the for-profit subrecipient level can exist for multiple years without detection and corrective action being implemented.

Recommendation: We recommend that BOA and PDE adequately plan and timely comply with the risk-based audit policy for for-profit subrecipients to ensure compliance with this policy, including PDE timely distributing the reports and ensuring that sponsors take corrective action.

PDE Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) has implemented a process effective with the 2013-2014 CACFP Program Year (October 1 2013), that audits will be performed on entities as required by federal regulations which earn more than $500,000 in federal reimbursement. For the 2013-2014 Program Year, an audit will be performed on two (2) entities in accordance with federal regulations.

The CACFP staff sends a letter to the CACFP entity indicating the findings, corrective action, and fiscal action once the audit report is provided to DFN. A Tickler System has been created to ensure all entities receive a letter.

BOA Response: The Bureau of Audits (BOA) disagrees with the auditor's finding and recommendations as written. We believe that we are in compliance with the risk based audit policy that we have developed in conjunction with PDE. We believe that the external auditors may have had incorrect information in the Cause of the prior year finding and may also have misunderstood correspondence that BOA shared with them during the current audit.

Finding 13-PDE-03: (continued)

In the prior year, BOA did indicate that the CACFP for-profit entities selected for audit would be included in our 2012-2013 audit plan. It should be noted that our audit plan follows the state fiscal year and not the federal fiscal year. As the federal fiscal year under audit ended on September 30, 2012, it was indeed included on our 2012-2013 plan. BOA commenced audits/agreed-upon procedure engagements for eight of the nine entities in question during the Spring of 2013, which is during SFY (audit plan year) 2012-2013. We had never estimated, nor did we commit to, issuing these nine reports prior to September 30, 2013.

During the course of conducting these nine engagements we did identify several significant discrepancies which required our auditor to significantly expand testing. For some of the audits/agreed-upon procedures, we did go beyond our internal estimated completion dates. Again, these dates were never agreed to with PDE nor were these dates part of the risk based audit policy included in the Criteria of this finding. We believe that the expansion of our testing was warranted and required under Generally Accepted Government Auditing Standards. We do not believe that this expansion of testing had anything to do with a lack of planning on our part. We stand by the fact that expanding testing, to ensure accurate and meaningful audit/agreed-upon procedure results, is our obligation and therefore more important than adhering to an internally generated deadline.

Finally, it should be noted that all nine of these engagements were completed prior to the end of February 2014.

Auditors' Conclusion: We do agree that the risk based audit policy was followed by BOA when selecting for-profit entities for audit/agreed upon procedures and we understand that expanding testing when significant exceptions are found is necessary, however, we continue to consider these reports to be untimely based on the reports being issued as late as seventeen months after federal fiscal year ended September 30, 2012. These reports need to be issued timely to ensure any noncompliance is addressed and corrected promptly.

Questioned Costs: The amount of $19,529 for the two entities without PDE follow-up, and the three entities where audits are not complete 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 13-PDE-04:

CFDA #84.010 – Title I Grants to Local Educational Agencies
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 Grants to Local Educational Agencies and Improving Teacher Quality State Grants Subrecipients (A Similar Condition Was Noted in Prior Year Finding 12-PDE-05)

Federal Grant Numbers: S010A090038, S010A100038, S010A110038, S010A120038, S367A100051, S367A110051, and S367A120051

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: The Pennsylvania Department of Education (PDE) subgranted $603,673,637 and $104,698,093, respectively, to Local Educational Agencies (LEAs) under the Title I Grants to Local Educational Agencies and the Improving Teacher Quality State Grants programs out of total federal expenditures of $609,914,582 and $108,391,762, respectively, during the fiscal year ended June 30, 2013. During our audit of the Title I Grants to Local Educational Agencies (Title I) and the Improving Teacher Quality State Grants (Improving Teacher Quality) programs administered by the PDE, we selected and tested 41 Title I and Improving Teacher Quality LEAs from 288 LEAs which were subject to program monitoring in the fiscal year ended June 30, 2013. As detailed below, of the 41 LEAs tested, we noted that five LEAs' monitoring instruments were incomplete and two of the five lacked evidence of supervisory review, six LEAs' corrective action plans were incomplete, and one LEA was not monitored. In addition, our analysis of all 677 LEAs which were funded and should have been subject to program monitoring during the three-year monitoring cycle ending June 30, 2013 disclosed that two additional LEAs which were charter schools were not monitored at all during the three-year cycle. PDE subgranted $224,196,241 and $30,005,807 under the Title I program and the Improving Teacher Quality program, respectively, to these 14 LEAs during the fiscal year ended June 30, 2013. The following are specific details about the 14 exceptions:

- One of the monitoring instruments had nine incomplete sections which related to Fiscal Requirements (including requirements related to audits, supplementing/not supplanting, etc.), LEA Improvement, School Improvement, School Choice, Supplemental Educational Services, Targeted Assistance, Nonpublic Schools, Comparability, and Improving Teacher Quality compliance requirements.

- Another monitoring instrument had eight incomplete sections which related to Fiscal Requirements, LEA Improvement, School Improvement, School Choice, Supplemental Educational Services, Targeted Assistance, Comparability, and Improving Teacher Quality compliance requirements.

- In addition, routing sheets for the above two monitoring instruments, which provide evidence of PDE's supervisory review and approval, were not provided for our review, nor could PDE provide other documentation as evidence of a supervisory review and approval being performed, including any applicable corrective action plans.

- Regarding three of the five incomplete monitoring instruments, PDE uses the FedMonitor System to track subrecipients which have been monitored, the overall completeness of the subrecipients' monitoring instruments, the subrecipients' 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. However, our testwork disclosed that for the three monitoring instruments, although a box was checked in each respective electronic monitoring document

Finding 13-PDE-04: (continued)

indicating that a question was "not applicable", there was no explanation provided in the Comments section to indicate the reason why the respective question (which related to the Reservation of Funds or Allocating Funds to Eligible School Attendance Areas in Rank Order of Poverty) was not applicable to the respective LEAs. The missing explanations were not prevented or detected by the FedMonitor edit checks, nor were they detected during PDE's supervisory review process, which caused incomplete monitoring results. These requirements are significant since they address the LEAs' compliance with the Earmarking and Eligibility compliance requirements under the Title I program.

- Regarding the six LEAs with incomplete corrective action plans, PDE sent correspondence to each of the six LEAs stating that they were in full compliance with all applicable laws and regulations despite the fact that the date section of each corrective action plan, which is supposed to indicate the date the corrective action was resolved, completed, and closed, was left blank, indicating that the corrective action was not complete. These inconsistent actions were not detected during PDE's supervisory review process, which may have resulted in corrective action not being implemented by the LEAs in question.

- Regarding the one LEA not monitored, PDE included the LEA in the fiscal year ended June 30, 2013 monitoring schedule, but the monitoring was not conducted.

- Finally, the fiscal year ended June 30, 2013 was the third and final year of PDE's three-year monitoring cycle. According to PDE's policy, charter schools which open in the first or second year of the three-year cycle and receive either Title I or Improving Teacher Quality funds are subject to program monitoring. We noted one charter school which opened in the second year of the cycle and received Title I and Improving Teacher Quality funds in the last two years of the three-year cycle and another charter school which opened in the first year of the cycle and received Improving Teacher Quality funds in all three years of the cycle and Title I funds in the third year of the cycle, and neither one of the two charter schools were monitored by PDE.

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

34 CFR Section 76.702 Fiscal control and fund accounting procedures.

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

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.

PDE has a policy in place to schedule and monitor the LEAs which receive funding under the Title I and Improving Teacher Quality programs during a three-year monitoring cycle.

Finding 13-PDE-04: (continued)

Cause: PDE's supervisory review and oversight over the preparation of the monitoring instruments and the scheduling of the program monitoring was not adequate to ensure the completeness and accuracy of the monitoring instruments or that the LEAs were monitored as required. In addition, PDE management believed that the FedMonitor System was adequately designed to ensure that "not applicable" responses on the monitoring instrument required an explanation, otherwise the page could not be saved, nor could the monitoring instrument be finalized and submitted. PDE personnel also indicated that a vacancy in the monitoring manager position during the audit period contributed to the issues cited in the finding condition.

Effect: Due to PDE's inadequate review and oversight, LEAs were not properly monitored to ensure compliance with Title I and Improving Teacher Quality regulations. Consistent and regular monitoring is critical to ensure LEAs' compliance with the various complex and detailed federal regulations. Adequate review of monitoring instruments and corrective action plans is required to ensure they are complete and in accordance with federal regulations.

Recommendation: We recommend that PDE supervisory personnel improve their review and oversight of PDE's subrecipient monitoring to ensure that all Title I and Improving Teacher Quality subrecipients are properly monitored, monitoring instruments are complete, and monitoring instruments contain evidence of supervisory review and approval. Additionally, PDE should implement a process to track and monitor proper follow up of deficiencies cited in the monitoring reports to ensure that subrecipients are taking corrective action 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 staff responsible for overseeing the monitoring process was short one staff member, who happens to serve as Team Leader, during the 2012-2013 Audit Period. As a result, the team was responsible for the same workload minus the assistance of one staff member. Currently, this team is fully staffed and proper oversight is being provided to the Consolidated Review Process. Additionally, Leader Services has been very cooperative and helpful in identifying ways to provide better oversight to this process as well as creating business rules that prevent errors that result in potential audit findings.

Questioned Costs: PDE subgranted $224,196,241 and $30,005,807 under the Title I program and the Improving Teacher Quality program, respectively to the LEAs with identified incomplete monitoring, but 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 13-PDE-05:

CFDA #84.010 – Title I Grants to Local Educational Agencies

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 12-PDE-04)

Federal Grant Numbers: S010A090038, S010A100038, S010A110038, and S010A120038

Type of Finding: Material Weakness, Noncompliance

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

Condition: The Title I Grants to Local Educational Agencies (LEAs) program (Title I) is enacted under the Elementary and Secondary Education Act (ESEA), as amended, and by the No Child Left Behind (NCLB) federal legislation of 2002, as amended. Under ESEA and NCLB, Title I services are 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 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 10 information fields from the CSPR and 10 information fields from the SRC, out of more than a thousand fields of data. We also selected 10 school district report cards and 10 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 did not perform all planned 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 and schools on the SRC. PDE reported 655 school districts and 3,052 schools, instead of 656 school districts and 3,053 schools.

Finding 13-PDE-05: (continued)

- 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 review procedures. However, PDE did not perform all planned review procedures, and some review procedures that were performed were inadequately documented and lacked evidence of supervisory review and approval. We selected six individual review procedures performed by PDE that were applicable to the CSPR, the SRC, the school district report cards, and the school report cards. One review procedure, AYP calculations are performed and a form will be filled out indicating the percentage of verifications that were within bounds and submitted to management for review, was not performed according to PDE. A second review procedure, compare the number of test books returned to the number of students enrolled, was not performed according to PDE. A third review procedure, compare the current year Highly Qualified Teachers data to the prior year (at the state level), was a visual comparison for which PDE could not provide documented evidence of the procedure being performed. Finally, a fourth review procedure, the data analyst and manager for each division/bureau is to sign off a form indicating that the data provided has been reviewed and verified by management, was not adequately performed since the form only contained four out of the eight required approval signatures. The two remaining review procedures out of the six procedures tested appeared to be adequately performed by PDE.

- The documentation provided to support the information contained in 19 out of the 20 fields selected from the CSPR and the SRC, the AYP status for the 10 school districts selected, and the AYP status for the 10 individual schools selected was supplied solely from the outside vendor. Although we were able to recalculate the data reported, Basic Financial Statement Finding 13-05, which was reported for the Commonwealth for the fiscal year ended June 30, 2013, disclosed that information technology general control deficiencies existed within PDE's PIMS database system. Based on the non-performance of manual validation controls listed in the bullet above, it does not appear that PDE has sufficiently implemented its manual compensating controls to ensure the accuracy of the outside vendor's data and the PIMS data. Therefore, errors in the underlying vendor data and the PIMS data could be made and remain undetected when reported in the CSPR, the SRC, the school district report cards, and the individual school report cards.

- Finally, the following comment "errors resulting from genders that were not coded or multiple codes were listed," was incorrectly included on seven pages of the revised (final) CSPR. This comment was applicable to the data reported in PDE's preliminary submission of the CSPR. However, when the data was revised rendering the comment unnecessary, PDE submitted the final CSPR to USDE with the comment still included, which indicates a lack of supervisory review of the final CSPR.

<u>Criteria</u>: 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 13-PDE-05: (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

(viii) the professional qualifications of teachers in the State, the percentage of such teachers teaching with emergency or provisional credentials, . . .

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

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

(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 review procedures to improve the report compilation process and the accuracy of the reports. However, PDE's planned review 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. PDE personnel stated this was due to an insufficient number of PDE staff combined with a short turnaround time between PDE's receipt of the vendor's data and the vendor's completion of the data for publication.

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 execute its manual compensating controls to ensure the accuracy of the vendor's data, nor did PDE 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 identify what control objectives are critical to ensuring the proper and accurate reporting of data on the CSPR, the SRC, the school district report cards, and the individual school report cards, and PDE should implement adequate documented procedures to ensure these control objectives are met. 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.

Agency Response: The PDE Center for Data Quality and Information Technology has implemented development and deployment controls for PIMS. This corrective action was taken in June 2013.

The PDE Division of Data Quality has initiated corrective action to address the segregation of duties weakness.

The PDE Bureau of Assessment and Accountability has implemented corrective action to address data inconsistencies within the CSPR and SRCs.

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 13-PDE-06:

CFDA #84.010 – Title I Grants to Local Educational Agencies

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 (A Similar Condition Was Noted in Prior Year Finding 12-PDE-06)

Federal Grant Numbers: S010A090038, S010A100038, S010A110038, and S010A120038

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

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

During the fiscal year ended June 30, 2013, PDE obtained the ADA data from PIMS and used the data to calculate its SPPE amount. Although the underlying expenditures used in the SPPE calculation appeared to be accurately reported by PDE on the NPEFS, Basic Financial Statement Finding 13-05, which was reported for the Commonwealth for the fiscal year ended June 30, 2013, 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. We selected a sample of 40 LEAs' ADA data as reported by PDE, and we were able to recalculate PDE's reported ADA. However, PDE does not appear to have adequate manual compensating controls to ensure the accuracy of the PIMS' ADA data, so PDE is placing reliance on a system that is not adequately controlled to report the critical amounts for the ADA and for the SPPE in the NPEFS. For example, PDE provided evidence indicating that PDE revised some LEAs' attendance rates (ADA divided by Average Daily Membership), but there was no documentation to explain the reason for the revision or to verify the propriety of the revision, and there was no other evidence of manual compensating controls that would ensure the accuracy of the PIMS' ADA data after it was submitted to PDE by the LEAs.

In addition, in order to improve high school accountability, the USDE established a uniform measure of the high school graduation rate that is comparable between states and reported annually. PDE reported the 2010-11 school year 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 2011-12 school year State Report Card which was submitted to the USDE during the fiscal year ended June 30, 2013. 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, 2013, PDE calculated the high school graduation rate data based on the LEAs' student data acquired from PDE's PIMS. We selected a sample of 40 data fields, which included school district level and individual school level high school graduation rate percentages for various subgroups. We were able to recalculate PDE's reported percentages using the PIMS data provided by PDE for 38 of the 40 selected data fields. However, for

Finding 13-PDE-06: (continued)

one of the 40 data fields tested, the number of students who form the adjusted cohort for the graduating class reported did not trace to the supporting PIMS data, resulting in the graduation rate percentage being understated as 80 percent instead of 81.36 percent. For another one of the 40 data fields tested, both the number of students who graduate in 4 years with a regular high school diploma and the number of students who form the adjusted cohort for the graduating class included duplicate student numbers, resulting in the graduation rate percentage being overstated as 66.67 percent instead of 50 percent.

Our additional analysis of the overall state level high school graduation rate disclosed the inclusion of 6,815 duplicate students out of 153,515 students who formed the adjusted cohort for the graduating class, which resulted in an overstatement of the actual total of 146,700 students. The analysis also disclosed the inclusion of 2,521 duplicate students out of 126,855 students who graduated in four years with a regular high school diploma, which resulted in an overstatement of the actual total of 124,334 graduates. The auditor excluded the duplicate records and recalculated the overall state level high school graduation rate percentage for the school year 2010-11 state cohort which was determined to be 84.75 percent, instead of the 82.63 percent reported by PDE, which was an understatement of 2.12 percent.

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

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

20 USC § 7801 states:

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

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

The OMB Circular A-133 Compliance Supplement for the Title I program, 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 Section 200.19 (b) regarding High Schools states:

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

Finding 13-PDE-06: (continued)

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

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

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

Cause: The 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 13-05. 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. PDE personnel responsible for preparing the ADA indicated that they believed the controls over PIMS to be sufficient. PDE personnel responsible for preparing the high school graduation rate data indicated that procedural changes are planned for future periods and were not implemented for the data in question, since that data was prepared previously.

Effect: Since the ADA data used in the SPPE calculation cannot be relied upon as being accurate, PDE may have reported an incorrect SPPE amount to the federal government which could result in an inaccurate allocation of federal funds to PDE.

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. Since PDE misstated 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.

Recommendation: PDE management should take the necessary action to resolve the various general computer control deficiencies cited in Basic Financial Statement Finding 13-05. In the meantime, PDE management should 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 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 data analysis procedures, a PDE supervisory review, and documented sign-offs by PDE. PDE should also consider requiring the PIMS vendor to obtain a service auditor's report.

Agency Response: The PDE Division of Subsidy and Data Administration disagrees with Single Audit Finding 13-PDE-06, specifically with the finding regarding a lack of manual compensating controls.

As stated in the Preliminary 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 its audit response to Finding 12-06, 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:

Finding 13-PDE-06: (continued)

- Manuals and How-To Guides, providing directions to assist local education agencies (LEAs) in submitting complete and accurate data, as well as, evaluating the accuracy of and correcting data
- Trainings prior and during each data collection
- Monthly Question and Answer Webinars, where LEAs can address questions and concerns to data and program office staff
- PIMS Application Support Service that provides individual assistance submitting data, evaluating the accuracy of data and correcting data
- Numerous PIMS (Cognos) Reports that allow LEAs to evaluate both individual records and school- and LEA-level aggregate data
- Numerous "State" reports utilized by PDE staff to evaluate data
- Data 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

The PDE Division of Data Quality had identified duplicates in cohort graduation rate data prior to this audit (Single Audit 2012-2013) and made changes in programming, processes and procedures to address the issue for 2011-2012 data and future years. The 2010-2011 data reviewed during this audit review period had not been impacted by these changes.

The PDE Division of Data Quality has initiated corrective action to address the segregation of duties weakness.

Auditors' Conclusion: As noted above, Basic Financial Statement Finding 13-05 cited information technology general control deficiencies which were not remediated at the time of preparation of the ADA and high school graduation rate data in question.

Regarding the agency response from the PDE Division of Subsidy and Data Administration (DSDA), as noted in the second paragraph of the finding Condition above, PDE DSDA was unable to provide documented evidence of adequate manual compensating controls.

In addition, discussion with PDE DSDA personnel disclosed that PDE DSDA personnel believe the onus of ensuring the reliability and accuracy of the LEAs' ADA data rests with the LEAs, not PDE, even though PDE is responsible for accumulating the ADA data for use in the calculation of the SPPE amount which is reported to USDE.

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

Regarding the agency response from the PDE Division of Data Quality, we will review any corrective action in the subsequent audit.

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

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

Department of Education

Finding 13-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, Earmarking Process, and Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 12-PDE-07)

Federal Grant Numbers: S377A110039, S377A100039, S377A090039, and S388A090039

Type of Finding: Material Weakness, Material Noncompliance

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

Condition: The United States Department of Education (USDE) provides School Improvement Grants (SIG) Cluster funds to the Pennsylvania Department of Education (PDE) under the authority of the Elementary and Secondary Education Act (ESEA), as amended, for the purpose of turning around the academic achievement of students in the lowest-achieving schools through the implementation of four school intervention models (turnaround, restart, school closure, or transformation). PDE subgranted SIG Cluster funds in the amount of $63,254,934 out of total SIG Cluster expenditures of $64,642,305 to 45 Local Educational Agencies (LEAs) during the fiscal year ended June 30, 2013.

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 45 LEAs which received and expended SIG funds in the current audit period were awarded funds by this process. Our current year procedures disclosed that there was no supervisory review and approval process in place over PDE's award of SIG allocations to LEAs. We also noted that for 4 out of the 8 LEAs tested with a total allocation value of $6,700,771, we were unable to determine the accuracy of the final scores used by PDE to allocate the SIG ARRA funds to Cohort 1 schools under federal grant number S388A090039 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 four LEAs' SIG ARRA allocations which totaled $2,579,278. Finally, we noted that for the allocation of SIG ARRA funds and regular SIG funds to Cohort 2 schools under federal grant numbers S388A090039, S377A100039**,** and S377A110039, respectively, PDE did not award funds in order from highest to lowest in accordance with PDE's procedures. Three schools with higher scores were not awarded funds, while four schools with lower scores were awarded funds.

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

PDE performs on-site program monitoring of SIG schools, generally three times per year, and documents the results of the monitoring on standard forms. Our current year testing of on-site monitoring reports for a sample of 15 out of 88 individual schools disclosed that although the scheduled monitoring appeared to be performed and the reports appeared to be complete, 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 13-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 also may implement one of the models or another improvement strategy in its Tier III schools (Section II.A of SIG final requirements).

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

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

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

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

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

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

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

A pass-through entity is responsible for:

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

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

34 CFR Section 76.702 Fiscal control and fund accounting procedures.

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

Finding 13-PDE-07: (continued)

34 CFR Section 80.20 Standards for financial management systems.

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

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

34 CFR Section 80.40 Monitoring and reporting program performance.

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

Cause: Regarding the SIG allocations in question and the lack of supervisory review and approval over the earmarking process, the calculations were prepared in a prior period and the funds were paid in the current period. PDE personnel indicated that the allocation and earmarking calculations were overseen by one PDE employee with the assistance of a second PDE employee who was involved in the allocation scoring process. The employees were no longer employed at PDE and had not adequately transferred their knowledge and pertinent documentation to the current employees.

Regarding the allocation to the Cohort 2 schools, PDE personnel stated that one of the three schools did not fully submit its funding application. After notification by PDE, the school decided to withdraw its application, and as a result, PDE did not fund the school. However, PDE did not provide written evidence to support this statement. PDE personnel stated that the remaining two schools with higher scores requested large sums of money to implement their projects, and since the two schools scored near the bottom of the list of approved schools, there were limited funds available to award. PDE personnel stated that a decision was made to not fund the two schools, since the schools' funding requests would have to be cut drastically, which would negate the schools' proposed improvement plans.

Regarding the lack of supervisory review and approval of the on-site program monitoring reports, PDE personnel acknowledged that there was no documented supervisory review and approval process in place during the current audit period, but PDE was considering the implementation of a formal supervisory review and approval process in a future period.

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

Recommendation: We recommend that PDE personnel increase their oversight of awarding SIG allocations, earmarking requirements, and subrecipient monitoring by implementing and documenting a supervisory review and approval process to ensure that all SIG subrecipients are in compliance with federal regulations. PDE personnel should ensure sufficient documentation is retained which supports the calculation of the SIG project scores and provides an audit trail between the scores and the related rubrics. PDE should ensure that allocation procedures are followed. Finally, PDE should consider adding provisions requiring subrecipients' compliance with earmarking requirements to the Master Agreement Rider for SIG LEAs.

Agency Response: The Pennsylvania Department of Education, Division of Federal Program (DFP) staff disagrees with the statement that PDE did not provide written evidence that a potential SIG grantee withdrew its application. The DFP did provide written documentation to the auditors from New Day Charter School explaining why they didn't continue with the SIG Application Process and accept funding.

Finding 13-PDE-07: (continued)

A supervisory sign off has already been added to the SIG Monitoring Process prior to this audit period. Therefore, the DFP disagrees with the statement that PDE's lack of supervisory review and oversight result in the on-site program monitoring being inadequate and therefore cannot assure SIG schools are in compliance. The PDE's online Fedmonitor System contains three years of monitoring reports documenting each monitor's visit and findings for each SIG school for all cohorts. Monitors were on site at each SIG school three times per year reviewing federal and state requirements of the SIG Grant, as required by USDE.

Auditors' Conclusion: Regarding the Cohort 2 schools which were not awarded funding in order from highest to lowest scores, PDE could not provide any documentation at the time of the auditor's inquiry about why the New Day Charter School was not funded. After issuance of this preliminary audit finding, PDE subsequently provided to the auditor documentation on the New Day Charter School's letterhead dated January 31, 2014, which appeared to be created as a result of the auditor's inquiry. PDE should implement procedures to retain sufficient documentation at the time the SIG funding is awarded to support any deviations between planned and actual awards of SIG allocations to subrecipients.

Regarding PDE's SIG on-site program monitoring process, multiple discussions throughout the audit period, beginning with a prior year finding follow up meeting on May 10, 2013, and correspondence with the PDE's DFP Division Chief dated May 30, 2013, disclosed that a documented supervisory review and approval process was not in place for the SIG Cluster during the fiscal year ended June 30, 2013, but DFP personnel stated that there were plans to implement such a process during the subsequent audit period, the fiscal year ended June 30, 2014.

We will evaluate any corrective action during the subsequent audit period.

Questioned Costs: The current year expenditures which related to the allocations to the four LEAs without supporting documentation of their projects' scores totaled $1,834,679.

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 13-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 (A Similar Condition Was Noted in Prior Year Finding 12-DOH-01)

Federal Grant Numbers: 12121PA705W1006, 13131PA705W1006

Type of Finding: Significant Deficiency, Noncompliance

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

Condition: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food instrument and cash-value voucher (FI) expenditures totaled $195.3 million for the fiscal year ended June 30, 2013. As part of our review of FI redemptions, we selected a sample of 25 days of FI payments totaling $18,206,734 and compared the total dollar amount of FI redemptions per the Commonwealth's SAP accounting system to the total dollar amount of FI redemptions recorded in the Department of Health's (DOH) WIC database system (known as Quick WIC) for that day. The Quick WIC system accounts for all FIs issued and redeemed while payments for the FI redemptions are processed through SAP. In order to reconcile payments in SAP to FI redemptions in the Quick WIC system, typically SAP expenditures would need to be adjusted to account for known errors identified by Quick WIC reports or bank documentation. However, the Quick WIC Paid Errors Monthly Reports were inaccurate for the fiscal year ended June 30, 2013 due to a design flaw in the processing of the paid error data from the bank. SAP expenditures exceeded the amount of FIs redeemed in the Quick WIC system for 11 of the 25 days tested by $34,194. For the remaining 14 days, the amount of FIs redeemed in the Quick WIC system exceeded the SAP expenditures by $148,084. Since the reconciliations could not be completed, we were unable to determine how much, if any, of the differences could result in questioned costs.

To ensure proper recording of FI redemptions, DOH performs an annual reconciliation between SAP and the Quick WIC system. However, for the fiscal year ended June 30, 2013, DOH could not reconcile the two systems due to computer-related issues with the Quick WIC system as well as the inaccurate error reports discussed above. The difference between SAP and the Quick WIC system for the fiscal year ended June 30, 2013 was $48,058. 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, similar to above, without DOH's reconciliation we are unable to determine how much, if any, of the $48,058 could result in questioned costs.

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

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

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

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

(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.

Finding 13-DOH-01: (continued)

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

Cause: In regard to the differences we identified between the FI redemptions per SAP and the FI redemptions per DOH's Quick WIC system, DOH management stated that the main cause of the daily discrepancies was different key dates used by the bank and the Quick WIC system. Historically, the bank only included FIs with the same redemption date in their daily processing file, effectively making the FI redemption date in the Quick WIC system and the bank processing date the same. The bank modified their daily processing in September 2011 to include multiple redemption dates. Management stated that DOH's Bureau of Information Technology (BIT) is in the process of modifying the Quick WIC system to include the bank's processing date. The modifications include changes to multiple reports and various related processes that are currently using the FI redemption date as the key field.

In regard to the inaccurate Quick WIC Paid Errors Monthly Reports, DOH management stated the inaccuracies are due to a design flaw in the process that does not prevent the same bank FI paid files and FI rejected files from being downloaded more than once because the files are not uniquely named. If download duplication occurs, the FIs contained in the bank FI paid file will be recorded on the Paid Errors Monthly Report as already redeemed. This is incorrect because the FIs were not redeemed twice. In order to remedy the design flaw, the bank must change the file naming strategy to include a timestamp. After that, the system will be programmed to check for already processed file names that are saved in a newly created database table and only process the files not present. Management stated DOH is in the process of working with the bank and making these changes.

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

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

Agency Response: DOH agrees with the basic premise of this finding. The DOH's Bureau of Information Technology is coordinating services with an outside contractor (CAI) to maintain Quick WIC. The DOH's Bureau of WIC did purchase SAS licenses and is in the process of participating in SAS training. Implementation of SAS will assist in evaluating current Quick WIC data. DOH will prepare a Corrective Action Plan.

Questioned Costs: The amount of questioned costs from the $34,194 in SAP payments exceeding FI redemptions in Quick WIC, the $148,084 of FI redemptions exceeding SAP payments, and the $48,058 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 13-DOH-02:

CFDA #93.917 – HIV Care Formula Grants

Weaknesses in Internal Controls Over Subrecipient and Contractor Monitoring (A Similar Condition Was Noted in Prior Year Finding 12-DOH-02)

Federal Grant Number: 2X07HA00022-20, 2X07HA00023-20

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2013, the Department of Health (DOH) paid $10.2 million in HIV Care Formula Grants funding to seven regional consortia subrecipients and $33.2 million to the AIDS Drug Assistance Program (ADAP) contractor out of total federal HIV Care Formula Grants expenditures of $46.8 million reported on the June 30, 2013 SEFA.

Our testing of during-the-award monitoring of the regional consortia subrecipients and the ADAP contractor disclosed the following:

- DOH did not perform on-site during-the-award monitoring as required by the standards for any of the regional consortia subrecipients during state fiscal year ended June 30, 2013. DOH and Health Resources and Services Administration (HRSA) consultants performed limited during-the-award monitoring consisting of consortia staff interviews and budget reviews; however, the monitoring did not include any testing or review of eligibility determinations or the allowabilty of costs paid by subrecipients, other than a review of contractor files and invoices paid by the largest regional consortia subrecipient for the fiscal year ended June 30, 2013.

- DOH officials indicated that monitoring of the ADAP contractor is performed by the Department of Aging. Aging personnel stated that Quality Assurance (QA) reviews are conducted jointly by Aging and ADAP contractor personnel. However, reports provided to support the QA reviews only reported monthly compliance error rates of between 4.39 percent and 0.81 percent, but did not indicate what procedures were performed, the types of errors found, and what corrective action was taken, if any, related to these errors. As a result, the monitoring performed for state fiscal year ended June 30, 2013 did not include appropriate documentation.

Criteria: 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 2., states:

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

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?

Finding 13-DOH-02: (continued)

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.

Universal Monitoring Standards for Ryan White Part A and B (HIV Care Formula Grants) Grantees under Section B Eligibility Determination/Screening, 1., Screening and reassessment of clients to determine eligibility as specified by the state or ADAP, states that the Grantee (State) Responsibility is to:

Conduct site visits to review client files for appropriate documentation that meets the requirements.

Cause: DOH personnel stated that in April 2012 the HRSA issued new program and fiscal monitoring standards for the HIV Care Formula Grants that rendered the current DOH monitoring tool obsolete. As a result, DOH started to develop a new monitoring tool; however, as of January 2014, DOH has not yet completed the new monitoring tool. DOH personnel believe that the combination of consortia staff interviews, budget reviews, and the review of invoices submitted by the largest regional consortia subrecipient, are adequate during-the-award monitoring. In addition, DOH officials indicated that the QA reviews performed by Aging is adequate for monitoring ADAP expenditures.

Effect: HIV subrecipients or contractors could be operating in noncompliance with federal regulations without the timely detection and correction by DOH management.

Recommendation: DOH should strengthen its controls to ensure during-the-award monitoring of HIV subrecipients and contractors is adequately performed to ensure that subrecipients and contractors were in compliance with applicable federal regulations.

Agency Response: The DOH agrees with the facts of the finding of Material Weakness, Material Noncompliance in that the DOH did not perform on-site monitoring of the regional consortia as required by the standards during state fiscal year ending June 30, 2013; and that appropriate documentation was not provided by the Department of Aging to support the Quality Assurance review reports.

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 13-L&I-01:

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

Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 12-L&I-02)

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

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: As part of our audit of the Department of Labor and Industry (L&I) federal programs listed above for the fiscal year ended June 30, 2013, we performed certain procedures to review information technology (IT) general controls for the significant applications identified for these programs, and noted the following deficiencies that need to be addressed by Commonwealth management:

Commonwealth Workforce Development System (CWDS) – In the prior audit, we noted that the Office of Vocational Rehabilitation (OVR) established the LI-OVR-FinancialAdmin and AP-SystemSuperUser roles that allowed users with these role assignments to maintain the fee schedule without supervisory review. Four (4) individuals were assigned the LI-OVR-FinancialAdmin role and five (5) individuals were assigned the AP-SystemSuperUser role. All nine (9) individuals had the ability to change established fees without supervisory review until February 2013. Further, until February 2013, the five (5) individuals with the AP-SystemSuperUser role could also approve invoices which resulted in a lack of segregation of duties because they could change the fee schedule and then approve invoices based on the new fee.

Management remediated the weaknesses noted above in February 2013 as part of a software release, whereby the AP-SystemSuperUser role permissions were changed to remove the ability to edit the fee schedule. Further, the number of users with the LI-OVR-FinancialAdmin role was reduced to two appropriate employees. Finally, any updates to the fee schedule now require action by one of the employees with the LI-OVR-FinancialAdmin role and approval by the other employee.

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 for the one haphazardly selected separated non-commonwealth user, management was unable to provide documentation to evidence the date the user was separated. During the current audit, we noted that BWDP management implemented new policies designed to ensure removal of separated non-commonwealth users from CWDS within two weeks of separation. However, the new policy was not operating as designed. We tested this control by haphazardly selecting one non-commonwealth user separated during the audit period and found that the user’s system access was not disabled until ten months after separation.

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. The CWIA received USDOL approval to use estimates to prepare the ETA-581 report because data output from UCMS were incomplete and unreliable. In the prior two audits, we noted that CWIA used end-user computing applications to prepare the ETA-581 and the ETA-227

Finding 13-L&I-01: (continued)

reports. Furthermore, 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. In the current audit, we noted that CWIA again used estimates to prepare the receivables portion of the ETA-581 Report as of June 30, 2013, because SQL queries and other coding needed to extract the data to meet federal requirements has not yet been completed in UCMS. Further, both the ETA-581 report and the ETA-227 report were prepared again using end-user computing. L&I still 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.

In the audit of the Commonwealth's Basic Financial Statements (BFS) for the fiscal year ended June 30, 2013, certain general computer control weaknesses were reported that significantly impact the federal programs listed above:

- In the BFS Finding 13-05, general controls weaknesses were reported citing L&I for the lack of formal documented system development life cycle policies. The finding also reported a lack of adequate logical access controls and a lack of segregation of duties over the UC mainframe. In UCMS, the finding reported a lack of testing documentation and controls over data migration; a lack of segregation of duties between developers and those who can promote changes into production, including contractors with that ability; and an excessive number of users with privileged access into the UCMS client/server environment.

- In BFS Finding 13-02, general controls weaknesses were reported citing the Treasury Department for control weaknesses in their vendor-provided UC electronic disbursement system related to password settings not complying with Treasury password policies and a lack of documentation for program changes.

- In BFS Finding 13-04, general controls weaknesses were reported regarding a lack of segregation of duties in the overall SAP computer environment. The SAP environment is the primary source of reporting program revenues and expenditures for the major programs listed above.

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

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

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

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

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

Cause: **(CWDS) –** An application upgrade performed in March 2012 failed to implement planned system edits in CWDS designed to correct the segregation of duties conflicts pertaining to the maintenance of the fee schedule. Instead, the new controls were implemented in February 2013.

Concerning the control weakness over removing separated non-commonwealth users, BWDP's policies and procedures are dependent on the local WIA offices following the established protocols. However, the local WIA offices do not always comply with the policy.

(UC) – 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 to comply with the data definitions detailed in the federal requirements for this report. CWIA management hopes that manual data extraction procedures will capture data correctly to submit actual (instead of estimated) data for the ETA-581 report for the quarter ended December 31,

Finding 13-L&I-01: (continued)

2013. Once the data extraction coding has been completed and the data reviewed for accuracy and federal requirements, management will file revised reports for previous quarters in which estimates were submitted.

In response to the lack of policies governing end-user computing applications, the Office of Administration issued Management Directive 205.43, *Quality Assurance for Business Productivity Tools*, in November 2013. CWIA has begun development of procedures to comply with the new Commonwealth policy.

Effect: (CWDS) – Until the system access weaknesses were corrected in February 2013, the deficiencies noted in the prior audit could have resulted in inappropriate system access, unauthorized changes to the application, fraudulent payments, and noncompliance with federal regulations. Furthermore, the lack of segregation of duties over the fee schedule and invoice approval could have allowed the same individual to change the fee schedule and then authorize an invoice for payment at the new fee.

The lack of controls to timely remove non-commonwealth users from CWDS after termination could result in unauthorized access to CWDS and inappropriate use of CWDS data by terminated users.

(UC) – Due to the incomplete coding 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.

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

(UC) – We recommend that management continue to correct the coding issues in UCMS so that the ETA-581 report can be produced automatically from UCMS as intended in the system design. If end-user computing applications must be used to generate the ETA-581 and ETA-227 reports, CWIA should comply with Management Directive 205.43.

Finally, we recommend that management address the control deficiencies noted in BFS Findings 13-05, 13-02, and 13-04.

Agency Response: (BWPO) The Bureau of Workforce Program Operations (BWPO), formerly Bureau of Workforce Development Partnership, agrees with this recent finding. The selected user left employment with the contracted provider June 2012 at which point a request was made to the Local Office System Administrator to disable the account. In an email dated Feb 27, 2013, the Local Office System Administrator mentions that the account was disabled. On April 1, 2013, Central Office System Administrator attempted to verify that the account was disabled and found that it was not. Central Office System Administrator disabled the account on April 1, 2013.

The bureau issued a reminder e-mail on February 28, 2013 to all offices stressing the importance of maintaining documentation to evidence the removing of all separated users' access to CWDS on the individual's last day of work or the first business day after. The bureau conducted random sample reviews in May 2013.

The bureau will reinforce with WIA offices the importance of timely notification of terminated employment to Local Office System Administrators and will reinforce the importance of timely action by the Local Office System Administrators to disable the accounts. The bureau will also establish a "reminder" system whereby Local Office System Administrators will review their office's active staff.

(CWIA) - In response to the UC (ETA581 and ETA227) portion of Finding 13-L&I-01, the department in general agrees with the finding. It is worth noting that due to the ending of the Benefits portion of the UCMS system in late 2013, the ETA 227 report is comprised from reports produced on the UC Mainframe. This will continue to be the source for this information for the foreseeable future, as the department identifies how to proceed with a modernized benefits system.

Finding 13-L&I-01: (continued)

<u>Auditors' Conclusion</u>: We updated the finding based on management's response. We will evaluate corrective actions in the subsequent audit.

<u>Questioned Costs</u>: 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 13-L&I-02:

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

A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations (A Similar Condition Was Noted in Prior Year Finding 12-L&I-05)

Federal Grant Numbers: H126A130056 and H126A120056

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Eligibility

Condition: As part of the Rehabilitation Services - Vocational Rehabilitation Grants to States (RS-VR) program, the Office of Vocational Rehabilitation (OVR), Pennsylvania Department of Labor and Industry, purchases vocational rehabilitation services from vendors to be provided to OVR clients. During our audit we randomly selected a sample of 50 payments to vendors and to the Hiram G. Andrews Center made for the benefit of OVR clients totaling $59,738 (federal portion only) of the $59,051,128 charged to the RS-VR program under federal grant numbers H126A130056 and H126A120056 in the fiscal year ended June 30, 2013. Our review of the 50 OVR client case files disclosed that for two clients for whom RS-VR program payments were made, although the clients were eligible for participation in the RS-VR program, OVR personnel did not make eligibility determinations within 60 days after the RS-VR program application date or by the agreed upon extension date as required by federal regulations. Eligibility determinations for the two clients in question occurred 88 and 89 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.

Finding 13-L&I-02: (continued)

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 RS-VR program services on a timely basis. Since no OVR clients were determined to be ineligible, no costs are questioned for this finding.

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: OVR agrees that those cases did not meet the RSA established criteria. However, OVR opens an additional 25,000 cases per year and feels that we have implemented strategies previously to reasonably address this issue with available resources.

OVR has received this finding for multiple years. In the past we have done the following to attempt to address the issue:

There are three tools in OVRs Case Management system (CWDS) that have been demonstrated to the field offices regarding status over days issues.

- On the Search Case screen there is a specific search option for status over days cases that is available for all staff to use to monitor their cases or their staffs cases.
- On the My Caseload screen there is a listing (similar to the search case screen) that shows status over days cases for individual caseloads.
- In the Ad hoc universe there are reports specifically designed to show status over days cases. These reports are generated by OVR Central Office on a monthly basis and sent out to office managers for review and action. These reports can also be accessed at any time by office staff should they wish to run the report independently.

For the past two years during Level 3 case reviews - cases that did not meet status over day standards are noted in the comments section to draw attention to the issue. Starting in Spring of 2014 not meeting status over days will result in a "finding" on a case review for Level 3 cases. A finding can then be part of the EPR review for the manager of the office. For Level 1 and 2 reviews findings for this issue will be implemented in 2015 that could be used in the EPR process for supervisors and counselors.

Starting in November of 2013 Central Office developed an additional monitoring tool that compiles the Ad Hoc reports that are sent out to show if offices are making progress on cases that are over days. This tool is shared with the field bureau directors as requested.

Training was provided to all managers on status over days issues as a result of previous findings and offices were asked to address any specific issues that were prevalent in their office on an ongoing basis.

Questioned Costs: None

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

Department of Labor and Industry

Finding 13-L&I-03:

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

A Control Deficiency Exists Over the Preparation and Submission of the Annual RSA-2 Report

Federal Grant Numbers: H126A130056 and H126A120056

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: The Pennsylvania Department of Labor and Industry's (L&I) Office of Vocational Rehabilitation (OVR) is required to submit the *Annual Vocational Rehabilitation Program Cost Report (RSA-2)* on an annual basis to the United States Department of Education (USDE). The RSA-2 Report includes data related to the Rehabilitation Services – Vocational Rehabilitation Grants to States (RS-VR) Program expenditures, unobligated balance, and the number of clients served on a federal fiscal year basis. During our fiscal year ended June 30, 2013 audit of the RSA-2 Report submitted for grant H126A120056 for the reporting period ended September 30, 2012, we noted that although the total expenditures reported were correct, there were misstatements in the amounts reported for the following line items:

RSA-2 Report Line Item	Amount Reported By OVR	Amount Calculated By Auditor	Overstatement/ (Understatement)
Schedule I. Total Expenditures 2. Services to Individuals with Disabilities B. Services Purchased by State VR Agency From:			
2. Private Community Rehabilitation Programs	$17,112,086	$15,573,681	$1,538,405
3. Other Public Vendors	$24,293,235	$26,233,495	($1,940,260)
4. Other Private Vendors	$25,651,912	$25,250,057	$401,855

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

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

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

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

34 CFR Section 361.40, Reports, states:

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

(b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

Finding 13-L&I-03: (continued)

Further, adequate internal controls over report preparation would include detailed written report preparation procedures, a segregation of duties between the preparation and the review and approval of the report, and an adequate review and approval process which would detect errors in the report preparation and ensure that such errors are corrected.

<u>Cause</u>: OVR management stated that the OVR employees who prepared and reviewed the report did not have previous experience in preparing or reviewing the RSA-2 Report. OVR management did not ensure an adequate transfer of knowledge regarding RSA-2 Report preparation to the new preparer and reviewer. In addition, OVR's written procedures for the preparation, review, approval, and submission of the RSA-2 Report were not sufficiently detailed to enable individuals who were unfamiliar with the RSA-2 Report to prepare the report accurately. Therefore, errors were made during report preparation and were not detected as part of the supervisory review and approval process.

<u>Effect</u>: Since the preparation and the supervisory review and approval processes were not adequate, the RSA-2 Report was misstated for the federal fiscal year 2012. OVR is not in compliance with federal regulations and a control deficiency exists.

<u>Recommendation</u>: OVR should improve the written procedures for the preparation, review, approval, and submission of the annual RSA-2 Report and ensure the procedures are implemented. These procedures should be sufficiently detailed to ensure that the RSA-2 Report is prepared accurately in accordance with federal regulations. Also, OVR management should consider cross-training employees on RSA-2 Report preparation. Finally, OVR should make the proper corrections to the RSA-2 Report for the federal fiscal year 2012 and submit the revised report to USDE.

<u>Agency Response</u>: OVR agrees with the finding.

OVR's prior Fiscal Division Chief and Budget Analyst left abruptly a few weeks apart in early 2012. The Accountant that remained on staff had less than 2 months experience at the time of their departure. There was not a designated replacement for either the Chief or the Budget Analyst. A supervisor from the program area who had some familiarity with the OVR fiscal system was brought in to assist while the positions were being filled. Unfortunately, there was limited knowledge transfer completed due to the abrupt nature of the fiscal staff's departure. The Chief also removed many records from her office prior to her departure, leaving the new staff that was eventually hired with limited access to historical files. For the 2012 submission, OVR fiscal staff had less than a year of experience managing the fiscal department and limited historical resources available to reference, which we believe resulted in the error. Since that time OVR has worked closely with OIT and the Comptroller and feel that the process for submitting the RSA-2 is better documented. We are confident that the 2013 RSA-2 is more accurate. Also, moving forward the RSA-2 has been changed. The change will happen for the 2014 submission of the RSA-2 report. All prior submission guidance will be replaced and 2014 will require us to document a new process. At this point it would be inappropriate to spend time writing guidance for a report that is no longer going to be utilized.

<u>Questioned Costs</u>: 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 13-DMVA-01:

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

Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement (A Similar Condition Was Noted in Prior Year Finding 12-DMVA-01)

Federal Grant Numbers: W912KC-10-2-1001, W912KC-10-2-1007

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Period of Availability of Federal Funds

Condition: Within 90 days after the end of the federal fiscal year, the Department of Military and Veterans Affairs (DMVA) must provide to the United States Property and Fiscal Office (USPFO) a Master Cooperative Agreement (MCA) closing figures report for each appendix. 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 closing figures report should include all un-disbursed obligations under the MCA at December 31. For 4 of the 80 items sampled, which totaled $11,771 out of a total of $878,657 tested, we noted the costs were un-liquidated by the State Treasury within 90 days after the federal fiscal year, and were not included on the listing provided to the USPFO as required to be reimbursable costs.

Criteria: 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.*

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

Effect: Questioned costs of $11,771 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 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.

Agency Response: This is a repeat finding from prior years and DMVA's response remains the same; we are not in agreement with this finding. The finding is based on the four documents that were not presented as part of our year end list to the United States Property and Fiscal Officer (USPFO) as un-liquidated obligations. Because the four documents were not listed as un-liquidated obligations, they were being viewed as unallowable. DMVA's position remains as the result of the manner in which the SAP accounting system works. The documents cannot be listed as un-liquidated

Finding 13-DMVA-01: (continued)

obligations because the invoice receipt had been entered and the obligation had been liquidated. While the vendor may not have been paid, the obligations were liquidated. Had DMVA reported the four items as un-liquidated, we would have been providing false information and would have accounted for the documents twice as they were already captured as expenditures in the information provided to the USPFO. We have contacted the USPFO and his office of Internal Review regarding this issue. They are in agreement that these documents do not need to be reported as part of the un-liquidated obligations. As a result of how the SAP accounting system treats these items, USPFO agrees it is an acceptable practice. In an effort to satisfy this finding, they have contacted the National Guard Bureau (NGB) to seek resolution to this audit finding through the issuance of an official opinion. To date, we have not received a response to that request.

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

Questioned Costs: $11,771

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 13-PEMA-01:

CFDA #97.067 – Homeland Security Grant Program

Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (A Similar Condition Was Noted in Prior Year Finding 12-PEMA-03)

Federal Grant Numbers: 2008-GE-T8-0050, 2009-SS-T9-0040, 2010-SS-T0-0037, EMW-2011-SS-00092-S01, EMW-2012-SS-00038

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to Subgrant Awards

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

Once the award package is received from FEMA, PEMA makes subawards to nine regional task forces, which are instrumentalities of government formed by mutual aid agreements of counties that carry out homeland security initiatives. PEMA issues a separate subgrant agreement for each program under the HSGP umbrella for which the task force is receiving grant funds. These agreements are required to be executed within 45 days of issuance of the grant agreement.

During the year ended June 30, 2013, there were 24 subgrants fully executed, which related to 2011 and 2012 HSGP funding. From the population of 24 executed subgrants, we selected a sample of seven subgrants. For all the subgrants in our sample, it took between 111 to 326 days beyond the allotted 45 days to execute the agreements and provide obligation authority to the subgrantees.

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

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

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

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

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

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

Finding 13-PEMA-01: (continued)

Under the FY 2008 through FY 2012 awards for the SHSP and UASI programs and, in addition, for FYs 2010 through 2012, 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.

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 is under the constraints put in place by Office of Administration Management Directive 305.20 that increases the time it takes to execute grant agreements 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. Additionally, PEMA will request a waiver of the 45 day obligation requirement from the Department of Homeland Security.

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 Emergency Management Agency

Finding 13-PEMA-02:

CFDA #97.067 – Homeland Security Grant Program

Internal Control Weakness Over Expenditure Reporting on the Schedule of Expenditures of Federal Awards

Federal Grant Numbers: 2008-GE-T8-0050, 2009-SS-T9-0040, 2010-SS-T0-0037, EMW-2011-SS-00092-S01, EMW-2012-SS-00038

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Office of Comptroller Operations (OCO) is required to submit a quarterly Federal Financial Report (FFR), SF-425, to the Federal Emergency Management Agency (FEMA) for each open grant for the Homeland Security Grant Program (HSGP). Information reported on this report is obtained from the SAP system.

We sampled 11 out of a total of 105 quarterly reports filed for the period of audit and agreed those reports to supporting documentation without exception. However, when we compared the total of Federal expenditures reported on the FFRs to the expenditure amount reported on the Schedule of Expenditures of Federal Awards (SEFA), we identified that the originally reported SEFA expenditures exceeded reported FFR expenditures by $567,492. The SEFA amount was subsequently corrected.

Criteria: Federal grant recipients are required to use the FFR as a standardized format to report expenditures under Federal Awards, as well as, cash status, when applicable. Reconciliation procedures that reconcile total expenditures from the FFRs to the SEFA should be adequate to prevent and detect errors, and ensure errors are corrected before the SEFA is issued.

Cause: The cause of this overstatement was due to an error in compilation, whereby a reclassification account utilized in SAP was not properly excluded from the accounts utilized to determine the SEFA total. There was no reconciliation of FFR totals to the SEFA that served to prevent or detect the errors in SEFA reporting.

Effect: Overstatement of expenditures in SEFA reporting.

Recommendation: We recommend that OCO strengthen its internal controls over the preparation and review of amounts reported in the SEFA by performing a reconciliation of FFR totals to reported SEFA amounts to ensure accuracy.

Agency Response: OCO agrees that an error occurred in reporting the original SEFA expenditures. The transaction process that created this condition and caused this error is no longer used. OCO will review our processes in reconciling the SEFA including the recommendation to reconcile the SEFA with the FFR totals.

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 Emergency Management Agency

Finding 13-PEMA-03:

CFDA #97.067 – Homeland Security Grant Program

Material Weakness and Material Noncompliance Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 12-PEMA-01)

Federal Grant Numbers: 2008-GE-T8-0050, 2009-SS-T9-0040, 2010-SS-T0-0037, EMW-2011-SS-00092-S01, EMW-2012-SS-00038

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Equipment and Real Property Management

Condition: The Pennsylvania Emergency Management Agency (PEMA) is the State Administrative Agency (SAA) for the Homeland Security Grant Program (HSGP) in Pennsylvania. As such, in addition to maintaining its own fixed asset records, PEMA is responsible for oversight with respect to the management of equipment purchased by other Commonwealth of Pennsylvania (Commonwealth) agencies for the HSGP. PEMA has established internal policies regarding equipment management as documented in its Federal Grant Programs Administrative Manual (Manual).

The Manual requires that accurate property and equipment records be maintained. These property and equipment records shall include:

(a) Description of the property (including make and model);
(b) Manufacturer's serial number or other identification number;
(c) Vendor (source of property);
(d) Acquisition date;
(e) Cost of the property;
(f) Percentage of Federal participation in the cost of the property;
(g) Location of the equipment;
(h) Condition of the equipment as of the date the information is reported; and
(i) Date of disposal and sales price.

Upon receipt of purchased equipment, the Manual requires agencies to submit an Equipment Control Form (DGM-08) detailing the applicable information noted above to PEMA.

Our sample consisted of 34 equipment purchases representing five Commonwealth agencies, including PEMA. From purchases made by agencies other than PEMA, six out of ten purchases were not recorded on the Equipment Control Form (DGM-08) and were related to the Department of Military and Veterans Affairs, the Department of Agriculture and the Department of Environmental Protection..

Additionally, three out of five agencies in the sample did not maintain accurate asset records that include all required elements as detailed in the Manual, and included the Department of Agriculture, PEMA and the Department of Environmental Protection.

The Manual also requires that Commonwealth agencies submit a physical equipment inventory report each year that reconciles to the equipment purchased. The Department of Agriculture, PEMA and the Department of Environmental Protection did not perform an inventory within the last year, representing three out of five agencies sampled

Criteria: 44 CFR Section 13.32 states the following in regard to Equipment:

Finding 13-PEMA-03: (continued)

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

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

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

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

Effect: Equipment property records were not maintained and inventoried 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 asset records to total purchases and expand their property records to include all of the required information. Additionally, we recommend that annual inventories be completed for those agencies.

Agency Response: PEMA will create a team of individuals, which will include hiring limited term staff, to review the equipment property records for all Commonwealth departments/agencies who have made equipment purchases with Homeland Security Grant Program (HSGP) funds and to conduct an inventory at PEMA. Additionally, PEMA will remind all departments/agencies to reconcile their asset records to total purchases, include all required information on their property records and conduct an annual inventory. Verification of compliance will be completed through subgrantee monitoring.

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

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

Pennsylvania Infrastructure Investment Authority

Finding 13-PENNVEST-01:

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 Weaknesses in Subrecipient Monitoring of Davis-Bacon Requirements

Federal Grant Numbers: FS-993577-12; CS-420001-12

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Pennsylvania Infrastructure Investment Authority (PENNVEST) issues low interest loans and principal forgiveness loans to subrecipients for infrastructure construction projects. Our testing consisted of 19 Clean Water State Revolving Funds (CWSRF) loan agreements out of 68 CWSRF construction projects that had current year expenditures. We also tested five Drinking Water State Revolving Funds (DWSRF) loan agreements out of 33 DWSRF construction projects that had current year expenditures.

Our testing disclosed that while PENNVEST properly included prevailing wage requirement clauses in every agreement tested, PENNVEST did not have a monitoring process in place to verify that subrecipients were reviewing weekly certified payrolls from contractors. Therefore, PENNVEST did not ensure that subrecipients' contractors and subcontractors were complying with Davis-Bacon requirements. However, PENNVEST indicated that it is in the process of establishing a system whereby subcontracted auditors will perform on site reviews to include reviews of certified weekly payrolls.

Criteria: According to OMB Circular A-133, pass through entities must perform program monitoring of subrecipient activity. Monitoring is essential to ensure the program is functioning as designed. In addition, adequate internal controls should include procedures to ensure subrecipients are reviewing certified payrolls to ensure contractors and subcontractors are complying with the following stated Davis-Bacon Act prevailing wage requirements (29 CFR Subtitle A § 5.5(a)(3)(ii)):

(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the applicant, sponsor, or owner, as the case may be.

(B) Each payroll submitted shall be accompanied by a ''Statement of Compliance,'' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract.

Cause: A Request For Proposal was issued by Office of the Budget's Bureau of Audits for auditors to perform on-site reviews, including reviews of certified payrolls. However, this process is taking longer than expected; therefore, no reviews of contractor payrolls and certifications were completed during our audit period.

Effect: Without adequate procedures in place to monitor subrecipient reviews of weekly certified payroll, PENNVEST cannot be assured that all laborers and mechanics employed by contractors or subcontractors were paid the prevailing wage as required by the Davis-Bacon Act.

Recommendation: We recommend that PENNVEST enhance monitoring procedures to ensure subrecipients are reviewing certified payrolls to ensure that contractors are paying prevailing wages in accordance with Davis-Bacon Act requirements.

Finding 13-PENNVEST-01: (continued)

Agency Response: PENNVEST does not agree with this finding. Payment Requests submitted for reimbursement require an engineer PE professional certification to the costs incurred, as well as the borrower certification. Further, all costs related to the project are approved at the time of Settlement when the Davis-Bacon wage rates are approved. Any deviation from these costs would require a Change Order to be approved by both DEP and PENNVEST. We believe it reasonable to be able to continue to rely upon the representations and certifications from the PE and the recipient that confirm those presented at settlement with the opinion of their counsel, and a random set of on-site projects audits. This is a process that has here to fore been acceptable to all parties.

Auditors' Conclusion: With regard to PENNVEST's response, we acknowledge that PENNVEST does receive periodic payment requests for each construction project; however, the payment requests are not submitted on a weekly basis, do not include the details of the weekly payroll, nor does the payment request include a "Statement of Compliance" specifically acknowledging that the wages paid were in compliance with the Davis-Bacon Act prevailing wage requirements. Furthermore, as indicated in the finding, on-site project reviews were not performed during the audit period. The finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs could not 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 Infrastructure Investment Authority

Finding 13-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 Weakness and Noncompliance with Loan Amortization Requirements

Federal Grant Numbers: FS-993577-12; CS-420001-12; 2F-093577-09 (ARRA); 2W-420002-09 (ARRA)

Type of Finding: Significant Deficiency and Noncompliance for CWSRF
Significant Deficiency for DWSRF

Compliance Requirement: Special Tests and Provisions (for CWSRF) related to Fund Establishment, Loan Repayments, Fund Earnings, and Use of Funds, Special Tests and Provisions (for DWSRF) related to Deposits to DWSRF

Condition: Pennsylvania Infrastructure Investment Authority (PENNVEST) issues low interest loans to subrecipients for infrastructure construction projects. According to federal regulations, the repayment of principal and payment of interest on the loans must begin no later than one year after project completion. To ensure compliance with this federal requirement, PENNVEST, in collaboration with the subrecipient, establishes the amortization repayment date and incorporates the established date into the loan agreement. We tested PENNVEST loans for timely amortization to ensure repayments on loans had met the one year repayment requirement. Our testing of 3 out of 30 Clean Water State Revolving Funds (CWSRF) loans and 2 out of 19 Drinking Water State Revolving Funds (DWSRF) loans that should have begun repayment disclosed that one CWSRF loan with an outstanding principal balance of $5,530,416 as of June 30, 2013 began repayment approximately 11 months after the one year requirement.

In addition, we tested loans for accurate amortization amounts and repayments being properly credited to CWSRF and DWSRF. Our testing consisted of 25 CWSRF loans in amortization status at June 30, 2013 with balances of $38.2 million out of 553 loans in amortization status with balances totaling $1.1 billion as of June 30, 2013. We also tested 24 DWSRF loans in amortization status at June 30, 2013 with balances of $27.9 million out of 234 loans in amortization status with balances totaling $380.9 million. Our testing disclosed that one CWSRF loan with an outstanding principal balance of $1,433,290 as of June 30, 2013 did not amortize in accordance with dates specified in the loan agreement. This discrepancy did not result in PENNVEST's CWSRF being in noncompliance with federal requirements because construction was delayed extending the required repayment beyond the date specified in the loan agreement. For this particular loan, November 1, 2012 was the date specified in the loan agreement when this loan was to begin repayment but the loan had not begun repayment as of our test date.

Effective May 13, 2013, PENNVEST migrated its tracking of loan amortizations from its Loan Accounting System (LAS) into an SAP-based system so that all loans will be automatically amortized based on the date specified in the loan agreements and recorded in SAP. It is expected that this new automated system will mitigate the chance for loans not being timely amortized in the future. Note the above two discrepancies occurred prior to May 13, 2013.

Criteria: 40 CFR states in part:

For CWSRF: § 35.3120 Authorized types of assistance.

(a) Loans. The SRF may award loans at or below market interest rates, or for zero interest.
(1) Loans may be awarded only if:
(ii) The annual repayment of principal and payment of interest begins not later than one year after project completion;

Finding 13-PENNVEST-02: (continued)

For DWSRF: § 35.3525 Authorized types of assistance from the Fund.

(a) Loans.
(1) A State may make loans at or below the market interest rate, including zero interest rate loans. Loans may be awarded only if:
(i) An assistance recipient begins annual repayment of principal and interest no later than one year after project completion. A project is completed when operations are initiated or are capable of being initiated.

In addition, adequate internal controls should ensure subrecipient loans are amortized by the date specified in the loan agreement to ensure compliance with federal repayment requirements.

Cause: PENNVEST's management stated that neither loan was amortized in accordance with the dates specified in the loan agreements due to employee oversight.

Effect: By not following the established internal controls, PENNVEST's CWSRF was not in compliance with the repayment within the one year repayment requirement. In addition, PENNVEST's failure to adhere to its internal control procedures could lead to the CWSRF and/or DWSRF being in future noncompliance with federal requirements.

Recommendation: Since PENNVEST implemented the SAP based system in which all loans will be automatically amortized based on the date specified in the funding documents, we recommend that PENNVEST monitor the amortization of loans in this new system to ensure timely amortization and compliance with the one year repayment requirement.

Agency Response: PENNVEST does agree with the first condition of the loan not amortizing when it was scheduled to do so. It was a case where the estimated completion of construction date, normally used to amortize the loan, was missed, the borrower had not indicated construction was 100 percent complete and the notice from DEP that construction was complete was missed. Normally, the borrower notifies PENNVEST first before DEP of the project being 100 percent complete. They did not submit a payment request in a timely manner to do so.

PENNVEST disagrees with the second condition of the loan not amortizing on the estimated amortization date. Construction was not complete on that date. The project final amortization date is established and is within one year of completion of construction. It is therefore in compliance with the federal requirement. While it is the practice to amortize on the estimated amortization date, it is not a requirement.

Auditors' Conclusion: With regard to the second condition, we acknowledge that this deficiency does not violate federal requirements. However, PENNVEST's failure to begin amortization in accordance with the loan agreement is an internal control weakness that needs to be reported.

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 13-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 12-PENNVEST-03)

Federal Grant Numbers: FS-993577-12; CS-420001-12; 2F-093577-09 (ARRA); 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 year ended June 30, 2013, 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:

- Two individuals had the ability to develop and maintain programs and the ability to promote programs into production until February 2013. Further, management did not have sufficient compensating controls in place to monitor all changes to the production environment for unauthorized program changes.

- Management remediated a prior year control weakness related to adding new public users and removing terminated public users. In September 2013, management issued policies governing the addition and removal of public users with access to PENNVEST applications and databases.

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. In addition to removing development rights from two individuals in February 2013, we understand that management implemented software in January 2014 that will assist in maintaining segregation of duties. We will review the implementation of this software in the subsequent audit.

Effect: The deficiencies noted above in IT general controls could have resulted in unauthorized changes to computer applications and noncompliance with federal regulations. Since this is a web-based application/system, IT general controls are paramount to effective internal controls.

Recommendation: We recommend that PENNVEST continue to segregate the ability to develop and maintain programs and the ability to promote programs into production.

Finding 13-PENNVEST-03: (continued)

Agency Response: PENNVEST does agree with the stated finding as it applies to on-going IT operations between July 1, 2012 and June 30, 2013. It should be noted that the finding is a continuation of the previous audit period and was addressed under the Corrective Action Plan (CAP) submitted for that audit finding. The CAP took several months for implementation and as a result not all actions were completed in time to cover the following audit period. As stated in the single audit finding bulleted items listed above, the corrective actions have been recognized by the auditors as implemented at this time and should satisfy audit compliancy for the next audit cycle.

At the time of this reported audit finding, all corrective actions have been fully implemented and address any remaining requirements necessary to close this finding.

Auditors' Conclusion: We will review any corrective actions implemented after July 1, 2013, 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 13-PENNVEST-04:

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 12-PENNVEST-02)

Federal Grant Numbers: FS-993577-12; 2F-093577-09 (ARRA); CS-420001-12; 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. Once received, PENNVEST forwards the loan recipients' financial statements to an independent accounting firm that reviews the statements in detail to determine if there are any adverse fiscal conditions indicating potential problems with any recipient's ability to repay the loan. After evaluating the financial statements, the independent accounting firm provides a report to PENNVEST which identifies any adverse conditions in the entity's fiscal position. PENNVEST uses this information to determine if follow up with that loan recipient is needed.

PENNVEST compiles a listing of all loans in repayment status to track the financial statements to be submitted by the loan recipients and to track the progress of the independent accounting firm's reviews. The listing includes the date the financial statements are sent to the accounting firm, the date the accounting firm submits its report, and any identified adverse conditions. We found that as of June 30, 2013, 586 CWSRF loans and 248 DWSRF loans were in repayment status and included on PENNVEST's tracking list. Of the loan recipients' financial statements that were received by PENNVEST and forwarded to the independent accounting firm for evaluation, 44 CWSRF loans with outstanding principal balances totaling $107 million as of June 30, 2013 and 17 DWSRF loans with outstanding principal balances totaling $31.7 million as of June 30, 2013 were identified to have adverse fiscal conditions. Our testing of 8 out of 44 CWSRF loans and 3 out of 17 DWSRF loans disclosed that for 10 of the 11 loans, PENNVEST did not have documentation to support that PENNVEST had contacted the loan recipient regarding the identified adverse fiscal condition and that the loan recipient had taken corrective action to address the adverse fiscal condition.

Criteria: According to OMB Circular A-133, pass through entities must perform program monitoring of subrecipient activity. OMB Circular A-133 Subpart D Section .400 states in regard to pass-through entity responsibilities:

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

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

In addition, adequate internal controls should include procedures to ensure corrective action is taken if adverse conditions are noted by the independent accounting firm.

Finding 13-PENNVEST-04: (continued)

Cause: According to PENNVEST management, the adverse fiscal conditions were addressed through letters mailed to each respective loan recipient requiring corrective action. However, PENNVEST cannot locate documentation to support that PENNVEST had contacted the loan recipient regarding the identified adverse fiscal condition and that the loan recipient had taken corrective action to address the adverse fiscal condition for the 10 loans in our sample due to the large volume of files that need to be moved to OnBase (PENNVEST's imaging system). PENNVEST believes these files have been misfiled and will be impossible to locate.

Effect: Failure to adequately monitor identified adverse fiscal conditions may jeopardize the timely and complete repayment of PENNVEST loans. It should be noted that out of the 44 CWSRF loans and 17 DWSRF loans identified above to have adverse fiscal conditions, only one CWSRF loan with an outstanding principal balance of $136,015 as of June 30, 2013 was in delinquency. We found Pennvest's follow-up with this loan recipient to be adequate and was not one of the 10 exceptions noted in the condition above.

Recommendation: We recommend that PENNVEST perform follow-up and maintain documentation to support adequate follow up for loan recipients that have identified adverse conditions.

Agency Response: PENNVEST does agree with the stated finding. Due to an overload of work and a tracking system that has not be functioning properly, the correspondence for the adverse conditions have not been found. The overload of work resulting in varying people filing responses and they may have inadvertently filed them in an incorrect location. The tracking system may have not properly tracked the adverse conditions to be properly attended to. Work has been done on a prior audit finding on financial statement tracking that will assist in better record keeping in the future.

Questioned Costs: None, although the amount of lost resources is not known.

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

Department of Public Welfare

Finding 13-DPW-01:

CFDA #10.551 – Supplemental Nutrition Assistance Program
CFDA #93.558 – Temporary Assistance for Needy Families

Internal Control Deficiencies and Noncompliance at the Department of Public Welfare Related to Electronic Benefits Transfer Card Security

Federal Grant Numbers: G1202PATANF and G1302PATANF

Type of Finding: Material Weakness, Material Noncompliance

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

Condition: As part of our audit of the Supplemental Nutrition Assistance Program (SNAP), we evaluated the security over Electronic Benefits Transfer (EBT) cards, which includes both the physical security of EBT cards during the issuance process at County Assistance Offices (CAO) as well as the handling of EBT cards returned from the United States Postal Service as undeliverable or those that have been lost or stolen. EBT cards are the method by which SNAP benefit payments are made available to recipients. Also, EBT cards are the primary method by which cash and special allowance benefit payments are made available to TANF recipients. Total benefit expenditures for SNAP for the year ended June 30, 2013 totaled over $2.7 billion. Total EBT benefit expenditures for TANF for the year ended June 30, 2013 totaled over $235.3 million.

Sixteen of the 97 CAO locations that issued ten or more EBT cards were selected for site visits in the current audit period, based on their volume of EBT card issuances. During our review of the physical security over EBT cards, we noted exceptions at ten of the CAO locations. These exceptions included the following:

- CAO list of personnel authorized to create EBT cards or grant PIN numbers differed from DPW's master list (6 locations);
- EBT Issuance Log did not include the signature of the card issuer (1 location);
- EBT Reconciliation Log did not reconcile and did not agree to the Destruction Log (1 location);
- EBT Destruction Log did not document a "no show" as documented on the Issuance Log (1 location);
- Failure to maintain the EBT card Shipment Verification Log (1 location); and
- Failure to report employee termination to the EBT Security Administrator within 24 hours of termination (six locations).

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

Criteria: Federal Regulations 7 CFR Section 274.12 related to EBT systems provides:

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

(1) Authorizing household benefits.

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

Finding 13-DPW-01: (continued)

(x) Inventorying and securing accountable documents;

In addition, 7 CFR Part 274 also states the following regarding EBT Security:

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

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

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

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

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

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

Agency Response: The following are DPW's responses to the six exceptions that the auditors mention in this finding (see bulleted items in the Condition):

- DPW agrees with this finding for Dauphin, Tioga, Lancaster, Lehigh, Philadelphia District Office of Elmwood, and York. The lists that are maintained at the CAO's are a guide for them since only limited personnel at DPW Headquarters in Harrisburg can grant authorization to personnel at the CAO to create EBT cards or grant pin numbers.

- DPW agrees with this finding for Dauphin CAO.

- DPW agrees with this finding for the Philadelphia District Office of Somerset.

- DPW agrees with this finding for the Philadelphia District Office of Somerset.

- DPW agrees with this finding for the Philadelphia District Office of Tioga.

- DPW agrees with this finding for the Lehigh CAO and the following Philadelphia District Offices: Delancy, Elmwood, Liberty and Tioga. Notification of the termination was made after the 24 hours timeframe. DPW agrees with this finding for the Philadelphia District Office of Chelten. While the termination was reported within the required 24 hours, a copy of the completed Add/Delete form could not be provided.

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

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

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

Department of Public Welfare

Finding 13-DPW-02:

CFDA #10.551 – Supplemental Nutrition Assistance Program

Internal Control Deficiency and Compliance Finding at the Department of Public Welfare Related to Electronic Benefits Transfer Daily Reconciliation

Federal Grant Numbers: Not Applicable

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to EBT Reconciliation

Condition: A daily reconciliation between the Electronic Benefits Transfer (EBT) contractor (JP Morgan until March 25, 2013 when contracting began with Xerox), Commonwealth benefit records, and the Commonwealth's benefit account with the US Treasury is required to be performed to ensure the accuracy of benefit issuances, benefit payments and the related cash. Total benefit expenditures for SNAP for the year ended June 30, 2013 totaled over $2.7 billion.

As part of our audit of the Supplemental Nutrition Assistance Program (SNAP), we performed procedures to determine if the reconciliations were performed by DPW as required. The results of our procedures showed that benefit issuances are not reconciled on a daily basis as required, but are reconciled on a monthly basis as a part of statutory report compilation. Although the daily reconciliation was set up to reconcile cash, all cash draws over weekends were not entered into the reconciliation, resulting in erroneous reconciling differences ranging between $60 million to $105 million throughout the period of audit. Once cash entries were subsequently corrected by DPW in October 2013, the revised reconciliations revealed there were no discrepancies that would have required management follow-up.

Additionally, although the reconciliation spreadsheet was being prepared and provided to management, a detailed review was not performed and the weekend transaction error was not detected.

Criteria: Federal Regulations 7 CFR Sections 274.12(a) and 274.12(j)(1) state:

(a) General. This section establishes rules for the approval, implementation and operation of Electronic Benefits Transfer (EBT) systems for the Food Stamp Program as an alternative to issuing food stamp coupons. By October 1, 2002, State agencies must have EBT systems implemented statewide, unless the Secretary provides a waiver for a State agency that faces unusual barriers to implementing an EBT system. In general, these rules apply to both on-line and off-line EBT systems, unless stated otherwise herein, or unless FNS determines otherwise for offline systems during the system planning and development process.

(j) Reconciliation, management reporting, examinations and audits. The EBT system shall provide reports and documentation pertaining to the following: (1) Reconciliation. Reconciliation shall be conducted and records kept as follows:

> *(i) Reconciliation of benefits posted to household accounts on the central computer against benefits on the Issuance Authorization File;*
>
> *(ii) Reconciliation of individual household account balances against account activities on a daily basis;*
>
> *(iii) Reconciliation of each individual retail store's food stamp transactions per POS terminal and in total to deposits on a daily basis;*
>
> *(iv) Verification of retailer's credits against deposit information entered into the ACH network;*

Finding 13-DPW-02: (continued)

(v) Reconciliation of total funds entered into, exiting from, and remaining in the system each day;

(vi) Maintenance of audit trails that document the full cycle of issuance from benefit allotment posting to the State issuance authorization file through posting to point-of-sale transactions at retailers through settlement of retailer credits.

Cause: Benefit issuances are currently not reported out of the Commonwealth's Client Information System on a daily basis, but rather only monthly, which limits DPW's ability to reconcile issuances on a daily basis.

Due to lack of management review, errors existed within the monthly cash reconciliations and were not detected or corrected in a timely manner.

Effect: The required daily EBT reconciliations were not performed, resulting in the lack of verification of total issuances and total funds entered into, exiting from, and remaining in the system each day.

Recommendation: We recommend that EBT reconciliations be performed on a daily basis and that management reviews the reconciliations to ensure the accuracy of the reconciliation and to enable management to identify and address any discrepancies in a timely manner.

Agency Response: Currently the Client Information System (CIS) ARM358R02 report generated on a monthly basis is used to reconcile the benefit issuances that are generated within the CIS system. There is no daily CIS report at this time that allows for a more timely reconciliation of the benefit issuances thus leading to a monthly reconciliation instead of a daily reconciliation.

Not all cash draws were entered into the reconciliation worksheet, resulting in erroneous differences. DPW has gone back to correct this oversight and is making sure that the correct data is being entered.

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 13-DPW-03:

CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.658 – Foster Care – Title IV-E (including ARRA)
CFDA #93.659 – Adoption Assistance (including ARRA)

Weaknesses in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Public Welfare Office of Children, Youth and Families

Federal Grant Numbers: G1302PATANF, G1202PATANF, G1201PA1401, G1201PA1402 (ARRA), G1301PA1401, G1201PA1407, G1201PA1403 (ARRA) and G1301PA1407

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

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

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

- DPW did not provide documentation to support that an on-site inspection was performed for one CCYA selected for testing prior to the issuance of our finding. Subsequently, DPW provided the inspection report; however, we noted the inspection was not reviewed or approved by the supervisor or Regional Director until December 16, 2013 or over nine months after completion of the inspection on March 8, 2013;

- On-site inspections of three of the 13 CCYAs tested were not completed within one year of the completion of the prior on-site inspection The current year inspections were completed 12 to 111 days late;

- The on-site inspections were not reviewed or approved by the supervisor or Regional Director before the expiration of the prior license for nine of the 13 CCYAs tested, including the one inspection that was not provided prior to the issuance of our finding;

- The on-site inspections were not signed or dated by the Regional Director for two of the 13 CCYAs tested; and

- The licenses issued to five of the 13 CCYAs were not issued before the expiration of the prior year license; however, the effective date of the new license was back-dated to avoid any compliance gaps.

Regarding our testing of DPW Quality Assurance Compliance Reviews, we noted that one review was performed during March 2013 or one month after the February 2013 required due date. Based on the risk level of the CCYA, a review was required nine months after the last review performed during May 2012.

Also, as part of our testing of monitoring, we noted that DPW did not perform any procedures to determine if CCYAs were monitoring their subrecipients or contractors.

Finding 13-DPW-03: (continued)

Total Foster Care program payments made by DPW to its 67 CCYA subrecipients during the fiscal year ended June 30, 2013 were $168 million, $273,000 of which was ARRA funding, (or 92.6 percent) of total Foster Care expenditures of $181.6 million reported on the June 30, 2013 SEFA. Total Adoption Assistance program payments made by DPW to its 67 CCYA subrecipients during the fiscal year ended June 30, 2013 were $68.6 million, $5,000 of which was ARRA funding, (or 79.6 percent) of total Adoption Assistance expenditures of $86.2 million reported on the June 30, 2013 SEFA. Total TANF Child Welfare program payments made by DPW to its 67 CCYA subrecipients during the fiscal year ended June 30, 2013 were $55.6 million (or 11.5 percent) of total TANF expenditures of $483.3 million reported on the June 30, 2013 SEFA.

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

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

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

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

DPW Quality Assurance Compliance Review procedures require that reviews be performed on three, six or nine month intervals depending on risk.

Cause: DPW personnel did not explain why they could not provide us with documentation to support the inspection of the one CCYA that was completed during March of 2013 until after the issuance of our finding.

In addition, DPW personnel did not explain why three inspections were not performed timely.

DPW personnel could not explain why the on-site inspections were not reviewed and approved by the supervisor or Regional Director prior to the expiration of the prior license, or why two of the inspections were not signed or dated by the Regional Supervisor. DPW personnel could also not explain why the licenses issued to five of the CCYAs were not issued prior to the expiration of the prior year license.

With regard to the Quality Assurance Compliance Review that was performed late, DPW personnel indicated that the review that was required to be done in May of 2012 was started on May 30 and completed on June 1. As a result, DPW personnel indicated the next review would be required to be done in March 2013, nine months after June 2012, not in February 2013, nine months after the May 2012 required review date.

DPW did not explain why there are no procedures for monitoring CCYA subrecipients or contractors.

Effect: CCYAs could be operating in noncompliance with federal regulations without the timely detection and correction by DPW management.

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

Agency Response: OCYF agrees with the following exceptions presented related to on-site licensing inspections:

- The on-site inspections were not reviewed or approved by neither the supervisor nor Regional Director before the expiration of the prior license for nine of the 13 county children and youth agencies (CCYAs) tested;

Finding 13-DPW-03: (continued)

- The on-site inspections were not signed or dated by the Regional Director for two of the 13 CCYAs tested.

- On-site inspections of two of the 13 CCYAs tested were not completed within one year of the completion of the prior on-site inspection. The current year inspections were completed 16 to 111 days late.

OCYF does not agree with the following exceptions in the preliminary findings presented related to on-site licensing inspections:

- *On-site inspections of one of the 13 CCYAs tested was not completed within one year of the completion of the prior on-site inspection.*

  In accordance with Title 55 PA Code §20.31, which states that an authorized agent of the Department will conduct an on-site inspection of a facility or agency at least once every 12 months, Luzerne County's on-site inspection was completed within the one year timeframe. Upon reviewing the PA Code, it does not specifically state the inspection needs to be completed based on a date-to-date timeframe; therefore, OCYF's interpretation is that it can be completed based on the month of prior year inspection.

- *The licenses issued to five of the 13 CCYAs were not issued before the expiration of the prior year license; however, the effective date of the new license was back-dated to avoid any compliance gaps.*

  Because of due process requirements, renewal licenses remain valid even after the expiration date, unless enforcement action is initiated by the Department pursuant to 55 Pa. Code §20.71 (relating to conditions for denial, nonrenewal or revocation). License Issuance Based on Renewal Application (LIBRA) virtually eliminates the number of regularly-licensed agencies and facilities who do not receive their renewal license prior to the expiration date of their current license.

  As previously stated, while the Department has initiated this process in recognition of the business advantages to the agencies and facilities it regulates, it is important to recognize that it is the on-site regulatory inspections, and the implementation and monitoring of plans of correction, that provide protections to children and adults receiving regulated services, rather than the issuance of the licensing document itself. Of the counties cited in this section of the audit, only one inspection was begun outside of the 12-month time period. The 2012 inspection for Luzerne County was completed on January 12, 2012, and the 2013 inspection was initiated on January 22, 2013.

  OCYF disagrees with the exception presented related to QA reviews. OCYF QA review protocol identifies a risk-based approach to monitoring sub-recipients based on a county's compliance in the previous QA review. The finding noted that one review was performed during March 2013 or one month after the February 2013 required due date. Based on the risk level of the CCYA, a review was required nine months after the last review performed during May 2012. OCYF contests that the last review did not conclude until June 2012; therefore, a March 2013 review was appropriate. Furthermore, some reasonableness with regards to the review schedule is expected due to the number of county staff required to attend and with consideration for the period under review. Please note that the only expectation by the federal agency around QA reviews is that they are held; there is no expectation by the federal agency as to the frequency or content of the visits.

  OCYF requests clarification regarding the lack of and type of procedures for monitoring CCYA subrecipients or contractors.

OCYF extends an invitation to the auditors to join our on-site licensing inspections or QA reviews with our staff to make recommendations for improving our internal controls within our procedures.

Auditors' Conclusion: We do not agree with DPW's interpretation that inspections can be completed based on the month of prior year inspection and can be considered within the 12-month time period. We do not believe the 2012 inspection that was completed on January 12, 2012, and the 2013 inspection that was initiated on January 22, 2013 meets the requirements of the 12-month time period.

Finding 13-DPW-03: (continued)

Further, while LIBRA may reduce the number of facilities who do not receive their renewal license prior to the expiration date of their current license, we believe the practice of back-dating licenses to the effective date of the new license to avoid any compliance gaps is not appropriate.

Also, we do not agree with DPW's position regarding the untimely QA review. Under DPW procedures the CCYA noted in our finding was required to be reviewed in May 2012 and then in February of 2013. We do not agree that since the review that began in May 2012 was not concluded until June 2012 that an additional month should be added to the timeframe for the next review. Further, the expectation for any during-the-award monitoring, such as the QA reviews, is that it be completed timely, prior to OMB A-133 subrecipient audits, and that at a minimum would include procedures to ensure subrecipient costs are for allowable and eligible activities. In addition, DPW should ensure that CCYAs are appropriately monitoring their subrecipients or contractors to ensure they are only billing costs for allowable and eligible activities.

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 13-DPW-04:

CFDA #93.558 – Temporary Assistance for Needy Families

Department of Public Welfare Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients

Federal Grant Numbers: G1302PATANF, G1202PATANF

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2013 the Department of Public Welfare (DPW) paid $52.4 million in Temporary Assistance for Needy Families (TANF) funding to subrecipients within the New Directions, Cash Grants and Alternatives to Abortion appropriations (or 10.8 percent) out of total federal TANF expenditures of $483.3 million reported on the June 30, 2013 SEFA.

Our testing of the DPW during-the-award monitoring of these subrecipients disclosed that effective July 1, 2012 on-site monitoring is no longer conducted. DPW management stated that current subrecipient monitoring procedures are pre-payment invoice reviews and validation of employment and training placement reports generated by the Commonwealth Workforce Development System (CWDS) for each subrecipient, or other statistical data. However, DPW was not monitoring to ensure that subrecipients were in compliance with applicable federal regulations. For example, DPW did not perform procedures to ensure subrecipient invoices agree to the books and records of the subrecipient and the records are adequate to support the allowability of costs paid by DPW. Also, DPW did not perform procedures to ensure that TANF funds subgranted by DPW subrecipients were properly monitored for compliance with applicable federal regulations, including ensuring that all required OMB Circular A-133 audits were obtained by all DPW subrecipients.

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

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

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

A pass-through entity is responsible for:

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

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

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

Finding 13-DPW-04: (continued)

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

Agency Response: DPW disagrees with this finding.

The Department has contractual language with the grantees requiring them to do programmatic and fiscal monitoring of any funds sub-granted to other entities. In addition to the grantee monitoring and oversight, the Department has several methods of ensuring that grantees are operating within required parameters for both fiscal operations and programmatic operations.

In the Work Statement (Rider 2) of each Employment Advancement & Retention Network (EARN) Grant Agreement, it states under the Monitoring section that "the Department will monitor compliance with the Grant Agreement requirements at least annually but may conduct more frequent monitoring at its discretion." Under the Audit Provisions section of the Standard Grant Terms and Conditions for Services (Rider 4), it states that "the Commonwealth shall have the right, **at reasonable times and at a site designated by the Commonwealth,** to audit the books, documents and records of the Grantee to the extent that the books, documents and records relate to costs or pricing data for the Grant."

DPW does compare the EARN provider's Cost Reimbursement Invoice or Cash Needs Request (CNR) against its corresponding Cost Reimbursement Expenditure Detail Report to ensure that the EARN provider is invoicing the Department against the appropriate cost category(ies). The EARN provider who submits a Cash Needs Request cannot invoice for more than $1/9^{th}$ of the cost reimbursement portion of the total grant amount minus the Cash Needs Payments received for each of the first three months of the Grant Agreement. DPW also compares the Expenditure Report against the contracted budget and any discrepancies are addressed with the provider. Discrepancies must be corrected prior to an invoice or CNR being processed.

DPW is in the process of creating policies and procedures to perform Quality Assurance reviews of the cost reimbursement allocations, comparing the EARN Providers' fiscal records to their invoices and Expenditure Detail Reports. If this review brings to light negligence on the grantee's part, then we can request an additional audit as mentioned in Audit Clause A - "The Commonwealth reserves the right for federal and state agencies, or their authorized representatives, to perform additional audits of a financial and/or performance nature, if deemed necessary by Commonwealth or federal agencies."

For the pay-for-performance portion of the budget, the Department conducts monthly validation of all performance goals resulting in a performance payment. Performance payments are issued on a monthly basis to EARN vendors who achieved payment benchmarks in the reporting month based on information entered in the Commonwealth Workforce Development System (CWDS). EARN vendors are required to substantiate all performance payments by providing all documentation related to the achievement of the performance payment to DPW for review. If any payments were deemed invalid, DPW will adjust the next payment invoice for the vendor's failure to provide adequate documentation to support the performance payment.

DPW conducted on-site monitoring of all EARN programs in the spring of 2013. All deficiencies noted in the visit were discussed with the grantee at an exit conference. DPW also participates in quarterly meetings and monthly conference calls with grantees to ensure that they are aware of all of the policies and procedures for operating the EARN program. In addition, the Department samples cases each month to assess compliance with the EARN Policy and Procedure Manual. This combination of in-person and computer based reviews allows the Department to monitor the EARN program in a cost effective fashion. The Department does not conduct on-site visits as frequently as in the past due to updates to technology that allow the review of case records and files to be conducted efficiently and remotely using the CWDS computer system. The current process ensures the EARN program is being run efficiently and the clients they serve are getting all necessary and appropriate services while at the same time safeguarding taxpayer funds by using technology to reduce travel expenses.

Finding 13-DPW-04: (continued)

Auditors' Conclusion: While DPW included clauses in their subrecipient contracts regarding monitoring and performed pre-payment reviews of invoices and validated performance goals on CWDS, DPW did not provide any documentation to support that monitoring procedures were performed to ensure that subrecipient invoices agree to the books and records of the subrecipient and the records are adequate to support the allowability of costs paid by DPW. Also, DPW did not provide any documentation to support that monitoring procedures were performed to ensure that TANF funds subgranted by DPW subrecipients were properly monitored for compliance with applicable federal regulations, including ensuring that all required OMB Circular A-133 audits were obtained by all DPW subrecipients. While DPW does not necessarily have to monitor all subrecipients on-site each year, DPW should at a minimum develop a risk-based approach to monitor TANF subrecipients, and develop and maintain written documentation to support the performance of the monitoring of its subrecipients in accordance with its risk-based approach.

With regard to the on-site monitoring performed by DPW in the Spring of 2013, we obtained a sample of what monitoring was performed. Based on our review, we found that this monitoring did not resolve the deficiencies identified in the finding. Based on the agency response and subsequent documentation provided, our finding and recommendations remain as previously stated. We will review and test any additional corrective action in the subsequent audit.

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

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

Department of Public Welfare

Finding 13-DPW-05:

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 12-DPW-03)

Federal Grant Numbers: 1102PATANF and 1202PATANF

Type of Finding: Material Weakness, Material 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 three stratified random monthly samples of 250-300 cases (one for each month in the quarter) for submission to HHS.

In order to determine whether the data on the file submitted to HHS was complete and accurate, we obtained the final file submitted to HHS to meet the March 31, 2013 cut-off date for the submission of complete and accurate data for the month of September 2012. We selected a sample of 65 out of the 257 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 contain the necessary documentation. Based upon review of the TANF Work Verification Plan, our testing disclosed reporting errors and/or documentation discrepancies to support the hours and/or the amount of subsidized child care reported on the ACF-199 for nine of the 65 cases, or 14 percent, as follows:

- Six of the 33 cases that contained work activity, or 18 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	33	*	*
B - Adult #2	30	*	*
C - Adult #1	32	*	*
D - Adult #1	36	34	2
E - Adult #2	21	20	1
F - Adult #1	48	*	*

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

Finding 13-DPW-05: (continued)

- 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
G - Adult #1	34	8	26

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

Case	Amount of Child Care Received	Amount of Child Care Reported	Difference
C	$1,829	$2,750	$921
H	600	660	60
I	641	1,258	617

DPW reported the amount of child care received in August 2012 for all three cases.

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

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

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

(III) Unsubsidized employment
(V) Job Search
(VI) Job skills training or on-the-job training
(VII) Vocational Education

(xii) Information necessary to calculate participation rates under section 407.

In addition, 45 CFR Section 265.3 states:

(b) TANF Data Report. The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.

(1) Disaggregated Data on Families Receiving TANF Assistance – Section one. Each State must file disaggregated information… such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.

Also, DPWs federally-approved TANF Work Verification Plan states:

I. Countable Work Activities

A. Unsubsidized Employment

Finding 13-DPW-05: (continued)

1. ***Definition***

   The Commonwealth of Pennsylvania (Commonwealth) identifies unsubsidized employment as full- or part-time employment in the public or private sector, including self-employment, apprenticeships, internships, work study and employment resulting in income-in-kind compensation, in which neither the employer nor employee receives a subsidy from TANF or other public funds.

2. ***Countable Hours of Participation***

   Unsubsidized Employment
   The number of countable hours of Unsubsidized Employment counted towards participation is determined based on the hours of work, including any paid breaks built into the schedule and any paid leave time, including personal, vacation and holiday time, granted by the employer.

3. ***Verification of Actual Hours of Participation***

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

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

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

H. Vocational Educational Training

2. Countable Hours of Participation

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

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

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

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.

Finding 13-DPW-05: (continued)

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

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

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

Cause: Regarding the current-year discrepancies in work hours reported, DPW management indicated that hours were reported in accordance with its federally-approved TANF Work Verification Plan. However, based on our test results, management does not have adequate controls in place to ensure hours are calculated in accordance with its TANF Work Verification Plan.

In regard to reporting the cost of child care services, DPW management indicated that the services were properly reported. However, based on our test results, management does not have adequate controls in place to ensure child care costs are reported in the correct period.

Effect: 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.

Recommendation: DPW should strengthen its existing procedures over their review of the monthly sample of cases to ensure that all reported work activities are properly documented, supported, and classified in 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.

Agency Response: DPW disagrees with the errors cited in this finding, as detailed below.

In four of the cases, the auditors claim that DPW reported employment hours that could not be determined per review of the case file. For Case A, DPW used a 2011 IRS Form 1040 to verify self-employment work activity hours to arrive at a weekly average for unreported income. An overpayment for benefits received in September 2012 was processed. Self-employment is difficult to document since records are maintained by the TANF recipient and DPW used an official document to determine hours of participation. For cases B, C and F, DPW maintains that the hours of participation were valid. As DPW promotes a "work first" goal to prevent ongoing dependence on public assistance benefits, we revised our Employment and Training policies and procedures in July of 2011 and July of 2012. Frequently, non-traditional means of employment are the first step on the road to self-sufficiency. Disallowing hours of participation or requiring additional documentation detracts from the available work hours for TANF recipients and adds further roadblocks to end the cycle of dependency.

For case E, DPW reported 21 hours of participation and the finding is for a reporting discrepancy for only one hour. This does not change the Work Participation Status of the case and/or individual since the individual was accurately reported as Work Participation Status (WPS) code 18, Required to Participate but not Meeting Minimum Participation. Additionally, DPW recognizes that cases C, H, and I have child care discrepancies but child care payments do not affect the work participation rate calculation.

Remedial review of calculation of hours with field staff 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 as well as child care payments to ensure reporting

Finding 13-DPW-05: (continued)

consistency. 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. All these improvements allow greater analysis of trends to better anticipate the needs of the residents of the Commonwealth with economy fluctuations and to provide tools for our staff to make it easier for them to meet these needs and ensure that resources are managed effectively.

Auditors' Conclusion: Regarding case A, the DPW Work Verification Plan only allows the projection of employment hours for a six month period; therefore, use of the 2011 IRS Form 1040 to project work hours for September of 2012 is not in compliance with the Work Verification Plan.

Regarding cases B, C and F the only documentation provided to support employment hours were copies of checks or net pay statements. No pay stubs reporting hours worked or documents from the employers showing actual hours worked were provided as required by the Work Verification Plan.

For case E we agree the difference is not significant and would not change the Work Participation Status.

With regard to cases C, H, and I we agree that the child care payments do not affect the work participation rate calculation; however, the child care payments were not accurately reported.

Further, DPW provided no response for the errors related to, case D employment hours, and case G vocational education hours.

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 13-DPW-06:

CFDA #93.563 – Child Support Enforcement
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 #93.667 – 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 (HHS)-Required Automatic Data Processing (ADP) 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 12-DPW-04)

Federal Grant Numbers: 1304PA4004, 1204PA4004, 1104PA4002 (ARRA), G-11B1PALIEA, G-12B1PALIEA, G-13B1PALIEA, G1301PA1401, G1201PA1401, G1201PA1402 (ARRA), G1301PA1407, G1201PA1407, G1201PA1403 (ARRA), 1301PASOSR, 1201PASOSR, 1305PA5028, 1205PA5028, 05-1105PA5021, 05-1205PA5021

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to ADP Risk Analysis and System Security Review

Condition: This finding is being re-issued from the prior year and while the condition has been partially remediated, it continues to exist for a number of programs. The Commonwealth of Pennsylvania's Department of Public Welfare (DPW) did not conduct an Automatic Data Processing (ADP) risk analysis and system security review in accordance with 45 CFR Part 95, Subpart F. These provisions require a biennial ADP risk analysis and system security review for existing systems that received Federal Financial Participation (FFP) funding to support, maintain, or develop their information systems. This condition existed during the fiscal year for the following programs at DPW:

- 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),
- Child Care and Development Block Grant (CCDBG),
- Child Care Mandatory and Matching Funds,
- 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). It should be noted that PID performed an ADP risk analysis and system security review of one of the three applications used to support the CHIP.

Finding 13-DPW-06: (continued)

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' SSAE 16 Service Organization examination reports. In addition, DPW relies on JP Morgan Chase Treasury Services and Xerox to process electronic benefit transactions, and Unisys/IBM to host and support their IT infrastructure. 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 13-05. Since DPW did not conduct an ADP risk analysis for all of its programs and analyze the overall impact associated with deficiencies at the service organizations, the overall impact and risk to DPW is undetermined.

Criteria: DPW and PID are required to conduct an ADP risk assessment and system security review for all programs funded by the U.S. Department of Health and Human Services (HHS) according to the provisions of 45 CFR Section 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 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 Section 95.621 in prior years, and a delay in implementing a process after the requirements were clarified.

Effect: Because DPW and PID 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 Section 95.621 to ensure appropriate, cost-effective safeguards are incorporated into new and existing systems. Failure to adequately document and understand the risks associated with data processing and to conduct a regular security review can result in inappropriate access or changes to the applications.

The effect can include loss of data, intentional or unintentional undocumented modifications to the functionality of systems, inability to rely on systems to function in accordance with applicable standards and regulations, breach of personal information, loss or interruption of services for recipients, and inability to provide adequate reporting.

Recommendation: We recommend that DPW and PID continue to implement the ADP Risk Assessment process to meet the requirements of 45 CFR Section 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 SSAE 16 Service Organization report or independent testing by DPW and PID.

Agency Response: The Department of Public Welfare, Bureau of Information Systems (BIS), has recently completed a very extensive self-assessment on the following programs, eCis, Compass, CAPS and PACSES. Following the completion of the self-assessment BIS –plans to meet with all program offices to establish the functionality of each the above mentioned programs. This process is expected to be completed by May of 2014 which will close the above referenced finding.

Finding 13-DPW-06: (continued)

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

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 13-DPW-07:

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 12-DPW-06)

Federal Grant Numbers: G1101PACCDF, G12011PACCDF, G13011PACCDF

Type of Finding: Significant Deficiency, 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 is required to 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 on a random basis.

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 and to a high of 4 percent in August 2012. In July 2013, the past due rate was 0.22 percent. Although DPW has made significant improvements in this area, including implementation of a process to identify required upcoming inspections and to monitor the scheduling of inspections, we identified exceptions in our current year testing. For 2 of the 65 child care providers tested (60 child care centers and group homes and five family child care homes), the on-site inspection occurred subsequent to the effective date of the issued certificate of compliance. The approximate time period that elapsed from the effective date of the certificate of compliance to the date of inspection was 13 days for one facility and 21 days for the other. Both instances were during the first four months of the fiscal year. There were no late inspections identified by our testing in the last eight months of the year.

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).

Finding 13-DPW-07: (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) The facility is subject to inspections as follows:
(1) for purposes of the random sample on an announced or unannounced basis.

Cause: OCDEL 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 for child care centers and group child care homes are conducted prior to the expiration of a child care provider's certificate of compliance.

Finding 13-DPW-07: (continued)

Agency Response: OCDEL is in agreement with the preliminary finding. However, as noted in the finding, there have been significant improvements in the timeliness of on-site child care facility inspections due to increased personnel as well as the ability to maintain a full complement. The overall past due inspection percentage was 3 percent during the first four months of the fiscal year, down 1 percent from the prior year, and no instances during the last eight months. The July 2013 past due inspection rate had decreased to .22 percent. OCDEL is confident, while maintaining a full complement and continuing to utilize the newly implemented process of identifying required upcoming inspections, they will continue to occur timely.

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

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

Department of Public Welfare

Finding 13-DPW-08:

CFDA #93.575 – Child Care and Development Block Grant

Noncompliance and Internal Control Weakness in DPW's Contracting With Child Care Subgrantees

Federal Grant Numbers: G1201PACCDF, G1301PACCDF

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Cash Management

Condition: The Department of Public Welfare (DPW) had contracts with seven Keys during the audit period to improve and support quality initiatives among child care providers in the Commonwealth. The Keys provide technical assistance, financial resources, including grants and awards and professional development opportunities to early childhood and school age providers. The Keys accounted for approximately $26 million or 8 percent of the Child Care and Development Fund (CCDF) Cluster expenditures for the fiscal year ended June 30, 2013. A significant portion of the Keys funding is used to provide merit awards and grants to providers of early childhood education under the STARS program. As part of our monitoring procedures, we determined that DPW provides advance funding not to exceed 25 percent of the total agreement amount to the Keys at the beginning of the grant year to facilitate their operations and to ensure cash is available to fund merit awards and grants. The advances, as well as subsequent cash disbursed, consist of both State and Federal Funds. Rider 1 to the contracts with the Keys includes the following provisions in Section B:

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

In our testing of two of the seven Keys, we compared Federal cash disbursed to Federal expenditures reported by the Keys and determined that one Key had excess Federal cash on hand for four months, while the other had excess Federal cash on hand for five months. The amount of excess cash per month held by one Key ranged from approximately $52,000 to $1.1 million; for the other Key, excess monthly cash ranged from approximately $873,000 to $1.3 million.

Our review of the monthly expenditure reports for the two Keys tested disclosed that neither Key disbursed any funds for provider grants until October and that disbursements for these grants continued through February. The 25 percent advances had a Treasury pay date of August. In addition, because funds were also disbursed for actual expenditures reported on July, August, and September expenditure reports submitted by the Keys (in addition to the advances), the amount of Federal cash held by the Keys continued to increase during the first quarter of the fiscal year.

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

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

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

Finding 13-DPW-08: (continued)

Cause: DPW management indicated that the advances of up to 25 percent of the award amount to the Keys are necessary to ensure that the Keys have adequate cash on hand to meet monthly expenditure needs, particularly for provider grants which are to be awarded early in the year.

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

Recommendation: DPW should re-evaluate its procedures for making advances of up to 25 percent of the award amount to the Keys to comply with Federal Cash Management requirements and to ensure that excess Federal cash is not held by its subrecipients. One possible alternative would be to advance only the State share of the awards, then use Federal monies to reimburse the Keys for actual expenditures. In addition, CCDF contracts should be thoroughly reviewed to ensure provisions conform to Federal program regulations.

Agency Response: OCDEL provides 25 percent of the total grant amount in working capital. This payment method supports the program expectation that all provider grant awards be funded within the first three quarters of the fiscal year. OCDEL does not desire to fund quality grant awards in the last quarter of the fiscal year simply because child care providers need adequate time to budget, purchase, expense, and report their quality purchases.

The auditors note that the Treasury pay date was August and that Regional Key payments were distributed in October. This makes logistical sense, considering that the Regional Keys are required to have funds in their account before they can issue a payment requisition. It is not uncommon for a payment request to take 30 days to process after requisition. Also, the Regional Keys were reimbursed in July through October for general operation expenses that they paid out from the beginning of the grant period.

Additionally, the working capital advance has alleviated the need for the Regional Keys to acquire bank lines of credit to pay subrecipient provider contracts/grants. This saves the Regional Keys from having to pay interest charges on those lines of credit.

Regardless, PA will monitor cash flow in FY 2014-15 to determine if future grant language needs to be changed.

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

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

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

Department of Public Welfare

Finding 13-DPW-09:

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 12-DPW-07)

Federal Grant Numbers: 1301PASOSR, 1201PASOSR, T1010044-13, and T1010044-12

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

Compliance Requirement: Cash Management, Subrecipient Monitoring

Condition: For the twenty-first consecutive year, 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. The inadequately monitored subgrantees received $41.0 million (or approximately 43 percent) of total SSBG program expenditures of $96.3 million on the current Schedule of Expenditures of Federal Awards (SEFA). DPW did not perform adequate during the award monitoring and on-site visits by state officials did not occur. In addition, we determined that the same Homeless Services program subgrantees that received SSBG funding, and that 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, 2013. Total SAPT expenditures on the current SEFA were $54.0 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 $39.1 million (or approximately 41 percent) of SSBG program expenditures, without adequately monitoring the reasonableness of the subgrantee cash balances. In particular, for the Legal Services components of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Mental Retardation, Homeless Services 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, 2013.

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

Criteria: 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 13-DPW-09: (continued)

45 CFR Section 92.37, Subgrants, states:

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

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

In addition:

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

Cause: DPW management indicated that on-site monitoring was not performed due to staffing issues. However, DPW is in the process of forming a new division that will perform monitoring for all subgrantees, including SSBG and SAPT. DPW management stated that once the new division is established, on-site monitoring related to SSBG and SAPT subgrantees would be performed.

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 during-the-award monitoring procedures for SSBG and SAPT subgrantees to ensure timely compliance with all applicable federal regulations. On-site monitoring visits by state officials should be supported by documentation to show the monitoring performed, areas examined, conclusions reached, and that the monitoring was performed in compliance with applicable regulations. Also, we suggest that 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 dedicated monitoring position within the Office of Administration, Bureau of Financial Operations (BFO). This position has the benefit of centralized monitoring and evaluation through both on-site monitoring visits and the review of supporting documentation (desk reviews). The monitoring position was previously staffed from November 20, 2010 through June 16, 2011. The BFO obtained approval to fill the position in April 2013 and the

Finding 13-DPW-09: (continued)

vacancy was filled on July 29, 2013. The pilot for the Human Services Block Grant program (HSBG) began July 1, 2012. With the implementation of this program, a County Human Services Planning and Monitoring Unit has been created. The Unit will be responsible for SSBG and HSBG monitoring.

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

The counties are chosen for monitoring in accordance with a risk assessment based on the SSBG total allocations to each county and the presence of program findings noted in each county's single audit report. Counties with higher allocations and findings are considered to be high risk and therefore, 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; however, the new monitoring unit created by DPW did not have any staff until subsequent to June 30, 2013. As a result, 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 13-DPW-10:

CFDA #93.778 – Medical Assistance Program (including ARRA)

Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 12-DPW-08)

Federal Grant Numbers: 1205PA5028, 1305PA5028

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Activities Allowed or Unallowed, 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, 2013, of the $11.6 billion expended, as reported on the Schedule of Expenditures of Federal Awards (SEFA), $11.0 billion (95 percent) was provided to individuals.

We selected one payment each from 95 individuals collectively totaling $150,836, 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 $4,437 in benefit payments contained the following exceptions:

- Four case files did not contain the reapplication document for the time period that services were rendered. 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 to verify that the individual was disabled for the time period that services were rendered. Therefore, documentation did not exist to substantiate that the individual was eligible for MA at the time these services were rendered.

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

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

- Income verification that made the recipient ineligible in the category of MA benefits they were receiving at the time services were rendered. DPW acknowledged this fact, but verified that the recipient would be eligible for another MA category during the time services were rendered. Therefore, no question costs resulted from this error; however, DPW controls were not adequate to ensure income verification was properly addressed for this case.

- Citizenship was not verified prior to the time services were rendered. After auditor inquiry, DPW found that the wrong Social Security Number (SSN) was recorded on its system for the recipient and was not verified by the Social Security Administration (SSA). Subsequently, DPW obtained the correct SSN which was then verified by the SSA. Therefore, no question costs resulted from this error; however, DPW controls were not adequate to ensure citizenship and SSNs were properly verified.

Criteria: 45 CFR Section 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.

Finding 13-DPW-10: (continued)

55 PA Code Section 150.1 Citizenship/Identity states in part:

An applicant for MA shall declare in writing, under penalty of perjury, that the applicant is a citizen or a national of the United States or an alien in satisfactory immigration status, and submit supporting verifications.

55 PA Code Section 178.11 determining Non-Money Payment (NMP) – MA (Category Code PC) eligibility states in part:

NMP-MA applicants or recipients shall meet the resource requirements of the category of NMP-MA for which they are eligible.

The PC category is a TANF-related category and designates an NMP individual who is one of the following.

(i) A person under 21 years of age, regardless of school attendance, emancipation or marital status.
(ii) An individual 21 years of age or older and under 65 years of age who meets the requirements of a specified relative.
(iii) A pregnant woman 21 years of age or older who is a member of a two parent household.

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.

*55 P*A Code Section 141.61 disability verification for General Assistance (GA) (Category Code PD) related MA states in part:

(i) An individual is eligible to receive GA for an indeterminate period due to medical, social, or related circumstances.
(ii) A person who has been assessed by a physician or psychologist as having a temporary or permanent disability which precludes him from working in any gainful employment.
(iii) Documentation which demonstrates the relationship between disability and the inability to work shall be provided by the client during application and re-determination for recipients.

55 PA Code 140.231 income eligibility limitations states in part:

(a) For the Healthy Horizons Categorically Needy and Healthy Horizons QMB Cost-Sharing Programs, net family income after applicable deductions and disregards cannot exceed 100% of the current Department of Health and Human Services Annual Update of Federal Poverty Income Guidelines for the appropriate family size.

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 Long Term Care (LTC), (excluding MA special allowances) for which he was not eligible.*

Finding 13-DPW-10: (continued)

Cause: With regard to the lack of documents, DPW management at the respective CAOs indicated that the documents either could not be found or were not necessary. Regarding the lack of recoupment of MA overpayments, DPW management indicated that funds could not be recouped due to untimely agency action and fault for the overpayment not being with the recipient. DPW management did not explain why the category classification was not updated as a result of income verification, nor why no follow up was performed to verify citizenship with SSA until after auditor inquiry.

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. Further, failure to follow up on income or citizenship verification could lead to individuals obtaining benefits they are 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;
- Ensure that overpayment referrals are completed for all payments made on behalf of individuals that were not eligible to receive MA; and
- Ensure that income or citizenship verification is properly followed up on to substantiate the eligibility of individuals.

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

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

DPW Response: DPW agrees with this deficiency. In the three cases in which the annual renewal was due, each CAO narrated that the appropriate documentation was received. However, in all three instances, the documentation was not properly scanned into imaging or retained in the hard copy of the case file maintained by the CAO. In the fourth case, a semiannual renewal was due and timely action was not taken by the CAO to close the recipient's benefits when they failed to return their semiannual renewal form.

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

DPW Response: DPW agrees with this deficiency. While the CAO did not authorize benefits until the PA 1663 Employability Assessment Form and PA 1671 Health Sustaining Medication Form were received, both of these documents indicate the condition begins with the date the documents were signed, which was the day before the CAO completed its processing. The CAO incorrectly issued retro coverage for that month.

3. Deficiency: One case file contained a recipient who did not meet the non-financial requirements (age) and therefore was not eligible for MA at the time these services were rendered. DPW closed the case, but did not initiate any attempt to recoup the MA overpayment. One case file did not contain required verification of citizenship. Therefore, documentation did not exist to substantiate that the individual was eligible for MA at the time these services were rendered.

DPW Response: DPW disagrees, in part, with this deficiency. DPW agrees that individual for case record 22-0170151 did exceed the age limit for the MA benefits she was receiving during the audit period and the CAO failed to terminate her MA timely. However, per the Supplemental Handbook Section 910.22, "An overpayment will not be established or referred in the following situations: When a Medical Assistance or Buy In overpayment is not caused by the client's

Finding 13-DPW-10: (continued)

intentional misrepresentation or fraud, the overpayment is considered administrative error and no restitution is required. Since the client is not required to make restitution no referral should be made to the OIG." Since the client did not purposely hide her age, she is not at fault for this period and an overpayment is not to be established or referred for her improper benefits.

4. Deficiency: Income verification that made the recipient ineligible in the category of MA benefits they were receiving at the time services were rendered. DPW acknowledged this fact, but verified that the recipient would be eligible for another MA category during the time services were rendered. Therefore, no question costs resulted from this error; however, DPW controls were not adequate to ensure income verification was properly addressed for this case.

DPW Response: DPW agrees with this deficiency. As stated in the deficiency, the individual was placed in the incorrect MA category; however, she would have been eligible for another MA category during the time services were rendered.

5. Deficiency: Citizenship was not verified prior to the time services were rendered. After auditor inquiry, DPW found that the wrong Social Security Number (SSN) was recorded on its system for the recipient and was not verified by the Social Security Administration (SSA). Subsequently, DPW obtained the correct SSN which was then verified by the SSA. Therefore, no question costs resulted from this error; however, DPW controls were not adequate to ensure citizenship and SSNs were properly verified.

DPW Response: DPW disagrees with this deficiency. The child on case record 51-3542781 did not need to provide documentation of citizenship. Per Medical Assistance Eligibility Handbook (MAEH) Section 322.11, "Newborns that are eligible for MA or CHIP because their mother was getting MA or CHIP at the time of birth are considered to have satisfactory documentation of citizenship and identity by the sole fact of being born in the U.S. Citizenship and Identity documentation for the newborn is not required at birth or at any renewal or future application for MA or CHIP."

Cause

AG: With regard to the lack of documents, DPW management at the respective CAOs indicated that the documents either could not be found or were not necessary. Regarding the lack of recoupment or MA overpayments, DPW management indicated that funds could not be recouped due to untimely agency action and fault for the overpayment not being with the recipient. DPW management did not explain why the category classification was not updated as a result of income verification, nor why no follow up was performed to verify citizenship with SSA until after the auditor inquiry.

DPW: With the exception of the Deficiency above, the necessary documentation was not correctly retained in the electronic case record.

Effect

AG: 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. Further, failure to follow up on income verification could lead to individuals obtaining benefits they are not eligible to receive.

DPW: Due to 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.

All 95 case records subjected to the audit were reviewed by DPW. The necessary documentation was found in 90 of the 95 cases and all documentation has been scanned into the CIS imaging repository.

Auditors' Conclusion: We acknowledge that DPW has agreed with many of the deficiencies identified in the finding. However, regarding Deficiency #3 that DPW disagrees, in part, with, regardless of the DPW policy on the establishment of an overpayment to be collected from the recipient, DPW has acknowledged the benefit was improper.

Finding 13-DPW-10: (continued)

Also, regarding Deficiency #5 that DPW does not agree with, DPW entered the recipient's SSN incorrectly into the DPW Client Information System (CIS) system. As a result of this error, the CIS system indicated that the SSN of the recipient was not verified by SSA. This lack of verification was an item on CIS that should have resulted in a DPW follow up; however, no DPW follow up was performed until after the issuance of our finding. DPW then obtained the correct SSN entered it into CIS and the SSN of the recipient was verified by SSA. Further, regardless of the DPW policy on documentation of citizenship for newborns, it is vital to have the correct SSN on CIS as an SSN verified by SSA is a requirement for all MA recipients.

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

Questioned Costs: Known questioned costs for sample items were $4,437.

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 13-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 12-PennDOT-01)

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 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 indicated that it strengthened and re-emphasized its policy to the district offices. 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 58 out of 221 federally-funded locally-sponsored projects with construction expenditures in the audit period. The 58 projects sampled totaled $14.5 million of the $227 million paid to PennDOT subrecipients. Of these 58 projects, we found that eight projects (that incurred expenditures of $1,456,624) contained deficiencies. Specifically, in regards to the approval for local project staffing, we found that PennDOT lacked approval by the appropriate PennDOT personnel as required by PennDOT's policies and procedures for the eight projects. Monitoring checklists were received and appeared adequate for all projects tested.

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 Section 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 13-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.

Cause: PennDOT management indicated that 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 adequate approval of local inspection staffing 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 to prevent control deficiencies related to local project oversight and ensure compliance with federal regulations.

Agency Response: The eight projects for which the auditors noted discrepancies in the area of District approval of local project staffing were located in only three of the Department's 11 Engineering Districts (Districts 3-0, 5-0, and 10-0). As a result, the Bureau of Project Delivery proposes to work with each of these three Districts directly to ensure that their procedure for reviewing and approving local project staffing in advance of the start of construction operations is in full compliance with the requirements of Publication 740, Chapters 3 & 7 (formerly Publication 39). It is our belief that the deficient Districts are indeed reviewing the qualifications of the proposed inspection staff for the local projects they oversee. However, it appears as though these Districts may be doing so in a less formal manner than some of the other Districts and they may not be retaining all of the documentation needed to demonstrate that required procedures are being followed.

Questioned Costs: The amount of questioned costs from the $1,456,624 in current year project expenditures for the projects that lacked proper PennDOT approval for local project staffing 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 13-PennDOT-02:

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 12-PennDOT-03)

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 Authorization 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 management was unable to provide a complete list of all roles that had final approver authority. Also, we noted that there was a segregation of duties weakness in ECMS, whereby certain individuals could both prepare and approve construction estimates (invoices), while management did not have procedures in place to maintain oversight over transactions initiated and approved by the same individual. In addition, we noted that PennDOT did not have formal policies and procedures in place to periodically review appropriateness of Signature Authorization Forms on file or to revoke signature authority when it was no longer required. During the current audit, we found the following control weaknesses:

- Some employees continued to have roles that allowed them to create construction estimates and approve those estimates for payment. However, the ECMS management team developed a compensating control and reviewed paid estimates for the quarter January 1, 2013 to March 31, 2013 to identify estimates that were prepared and approved by the same individual.

- In September 2013, management remediated a prior year weakness by developing formal procedures to revoke Signature Authorization Forms (STD-275) on file with OB-OCO upon employee termination or when an employee's job responsibilities change.

- In September 2013, management remediated a prior year weakness by revoking all current Signature Authorization Forms (STD-275) on file with OB-OCO. All individuals needing signature authority to perform their job responsibilities were then required to complete a new Signature Authorization Form.

In the audit of the Commonwealth's Basic Financial Statements (BFS) for the fiscal year ended June 30, 2013, the use of a local shared administrator account was reported in BFS Finding 13-05. In addition, internal control weaknesses regarding segregation of duties in the overall SAP computer environment were reported in BFS Finding 13-04.

Finding 13-PennDOT-02: (continued)

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 205.4, *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 Authorization 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: Management indicated that they sometimes have a business necessity to grant certain individuals the Inspector-In-Charge (IIC) role, which creates construction estimates, along with the ECMS_ACE_ACM or ECMS_ADE_ADM_CONSTRUCTION or ECMS_ADE_ADM_MAINTENANCE or ECMS_ADE_DESIGN or ECMS_DE_DA role, which allow approval of estimates for payment. Management justifies this need for an individual to both create and approve construction estimates for a period of no longer than six months to compensate for personnel shortfalls in remote areas. To compensate for the segregation of duties situation, the ECMS management team developed a query that is run against the ECMS database which identifies who input the construction estimate and who approved the construction estimate for every transaction entered in ECMS. An additional function of the query identifies any estimates that were created and approved by the same individual. When this query was performed for the period January 1, 2013 to March 31, 2013, no estimates were identified that were prepared and approved by the same individual.

Until September 2013, OB-OCO was maintaining Signature Authorization Forms in .pdf format in a network folder. This procedure made it difficult for management to manage and maintain a population of employees with approved signature authority. Therefore, management revoked all authority and required all employees to complete a new form. At that time, management developed a database which serves as the repository for Signature Authorization Forms. The Bureau of Office Services has been charged with managing this database and performing periodic access reviews of the forms on file in the database.

Effect: The users with the roles that enable them to prepare and approve estimates 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 when appropriate and the lack of a periodic review of the Signature Authorization 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: Since PennDOT management believes there is a justified need for individuals to temporarily have the ability to prepare and approve estimates, management should ensure that the review of all paid construction estimates is conducted quarterly to identify construction estimates that were prepared and approved by the same individual. All estimates that are identified should be reviewed for appropriateness, and evidence of the review should be documented and available for audit. See additional auditor recommendations to improve IT general controls in BFS Finding 13-05 for PennDOT agency systems and BFS Finding 13-04 for the statewide SAP accounting system.

Finding 13-PennDOT-02: (continued)

Agency Response: ECMS management team had implemented a query against the ECMS database which indicates who input the invoice and who approved the invoice for every transaction that takes place in ECMS. The query shows on a report whether any of the invoices were acted on in both situations (invoice creation & invoice approval) by the same person. The report is run on a quarterly basis. Since the implementation, there were no invoices which were input and approved by the same person as verified by the business process owner responsible for reviewing the report. Contact by ECMS team with the Assistant District Executive for Construction for that project is initiated if these situations exist to verify proper protocol is followed. Documentation for any of these types of instances is maintained and available for auditor review. Reports can also be run on an adhoc basis. Any report is reviewed and acted upon as necessary by ECMS Business Process Owners. The process was reviewed by the Federal Highway Administration (FHWA) and found PennDOT's corrective action satisfactory. The auditors have had some follow-up questions after the audit period to which PennDOT's IT group meet with them on January 23, 2014 and on January 29, 2014 for a walk-through.

For the Signature Authorization PennDOT has completed the requirements of this corrective action and the Federal Highway Administration (FHWA) has reviewed the finding and found PennDOT's corrective action satisfactory and considers this closed as well. The auditors met with the Bureau of Office Services, the custodians of the service, for a demonstration of how the system is setup and works on January 29, 2014. No follow-up requests were received.

Auditors' Conclusion: We acknowledge PennDOT's significant efforts to correct the weaknesses cited in prior years by developing queries to identify construction estimates that may have been input and approved by the same person and by developing a database repository for Signature Authorization Forms.

As noted in the finding, PennDOT provided the quarterly query of construction estimates performed against the ECMS database for the period January 1, 2013 to March 31, 2013. We reviewed this documentation and we found no instances where construction estimates were input and approved by the same person. However, PennDOT did not provide evidence that the quarterly queries were run for all the quarters of the audit period.

Further, the corrective actions related to Signature Authorization Forms were completed after June 30, 2013. While we acknowledge PennDOT provided a favorable demonstration of this database, we will perform full testing of corrective actions implemented after the end of the audit period 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.

Finding 13-SW-01:

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 #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.048 – Career and Technical Education – Basic Grants to States
CFDA #84.287 – Twenty-First Century Community Learning Centers
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.658 – Foster Care – Title IV-E (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 #93.917 – HIV Care Formula Grants
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA #97.067 – Homeland Security Grant Program
CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster
CFDA #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
CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)
CFDA #84.027 and 84.173 – Special Education Cluster
CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)
CFDA #93.044, 93.045, and 93.053 – Aging Cluster
CFDA #93.575 and 93.596 – 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 Finding 12-OB-04)

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 (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

Finding 13-SW-01: (continued)

deemed acceptable by OB-BOA, the reports are transmitted to the various funding agencies in the Commonwealth and each agency in the Commonwealth's resolution system must make a management decision on each finding within six months of receipt by the Commonwealth to ensure corrective action is taken by the subrecipient. The agency is also responsible for reviewing financial information in each 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: Pennsylvania Department of Education (PDE), Insurance Department (Insurance), Department of Transportation (PennDOT), and Department of Public Welfare (DPW), we noted that 27 out of 40 audit reports with findings at PDE and DPW were untimely processed and resolved between approximately 6.3 months to over 19 months after originally received by OB-BOA.

- PDE: The time period for making a management decision on findings was approximately seven months to over 13 months for 33 out of 60 subrecipient audit reports with findings. Management decisions had not been made on 12 out of the 33 audit reports. There were also delays in the completion of SEFA reconciliations.

- PennDOT: The time period for making management decisions on findings was within the six month timeframe required by OMB Circular A-133. Although all SEFA reconciliations were completed timely, one out of the six audit reports tested was not properly followed up on.

- DPW: The time period for making management decisions on findings ranged from approximately 6.5 months to over 13 months for 31 out of the 59 subrecipient audit reports with findings on DPW’s audit report tracking list. We also noted that management decisions had not been made for 29 out of the 31 subrecipient audit reports. 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.

- Pennsylvania Department of Aging (PDA): The time period for making management decisions on findings ranged from approximately seven months to over eight months for four out of six subrecipient audit reports with findings.

- Department of Drug and Alcohol Programs (DDAP): Although the listing provided did not contain subrecipient audit reports with findings, we noted that there were delays in the completion of SEFA reconciliations.

- Department of Health (DOH): The time period for making a management decision on findings was approximately 6.5 months for 1 out of 11 subrecipient audit reports with findings.

- Department of Labor and Industry (L&I): The time period for making a management decision on findings was over 7.1 months for 1 out of 5 subrecipient audit reports with findings since no management decision had been made on this particular audit report as of the date of our testwork.

- Pennsylvania Infrastructure Investment Authority (PENNVEST): The time period for making management decisions on findings ranged from 8 months to over 13 months for 8 out of 22 subrecipient audit reports with findings. We also noted that management decisions on findings had not been made for 4 out of the 8 subrecipient audit reports as of the date of our testwork.

Finding 13-SW-01: (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 28 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, 2012) for which audits were required to be submitted in the current year (the fiscal year ended June 30, 2013). Our testwork disclosed that for 14 out of the 28 major programs/clusters, unaudited dollars were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133, and 10 out of 28 major programs/clusters did not have unaudited dollars. However, for 4 out of 28 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, 2012 Expenditures		
CFDA #	Program Name	Total Subgranted Funds Per OB-BOA Universe	Total Subgranted To Entities Without Audits *	Number of Unaudited Subrecipients
66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	$147,215,693	$ 9,420,355	4
66.468	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	69,956,747	19,830,429	1
93.658	Foster Care – Title IV-E (including ARRA)	199,424,798	12,325,865	2
93.778	Medicaid Cluster (including ARRA)	325,391,780	973,412,359	Unknown number up to 224

* 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.

Regarding the Medicaid Cluster unaudited dollars, the subrecipient audit universe erroneously excluded subgranted expenditures related to the DPW - Office of Developmental Programs' (ODP) providers in the amount of $1,019,404,768, of which $973,412,359 represented entities receiving $500,000 or more which were required to submit audits in our current audit period. Since the subrecipient universe for the Medicaid Cluster was understated, the Commonwealth was not aware of the need to follow up on these subrecipient expenditures, and did not follow up on the $973,412,359 to ensure that the proper audits were obtained.

Criteria: The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments to adhere to provisions of OMB Circular A-133.

OMB Circular A-133, Section 400, states the following:

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

Finding 13-SW-01: (continued)

(2) *Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*

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

(4) *Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*

(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) *General. The audit shall be completed and … submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.*

To ensure Commonwealth enforcement of OMB Circular A-133 for subrecipient noncompliance with audit requirements, Commonwealth Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, Section 5 related to policy states, in part:

(a) Agencies must develop and implement a progressive series of remedial actions to be taken against recipients who fail to comply with performance, reporting, and resolution requirements for audits of Commonwealth-funded programs.

(c) Where recipients receive Commonwealth financial assistance from multiple state agencies, the agency providing the largest amount of such assistance (as reported in the SEFA) shall be the lead agency, responsible for coordinating the imposition of remedial actions, in accordance with the provisions of this directive.

(d) The progressive series of remedial actions should be tailored to the unique aspects of each program… Such actions should be implemented in a timely and judicious manner to ensure that those recipients who fail to comply with the requirements of OMB Circular A-133 and/or Commonwealth policy, rules, and regulations related to audit performance, reporting, and resolution, are promptly brought into compliance or are properly sanctioned.

Overall time frames for the implementation of the series of remedial actions should not exceed six months from the date the first remedial action is initiated. At the end of the six-month time period, either the appropriate corrective action should be taken by the recipient or the final stage of progressive remedial action should be imposed on the recipient.

Cause: The common reason provided by Commonwealth management for untimely audit resolution in the various agencies and the late submission of subrecipient audit reports was either a change in staff or a lack of staff to follow up on and process A-133 subrecipient audit reports more timely. 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.

Finding 13-SW-01: (continued)

Regarding the unaudited subrecipients, the unaudited dollars for the Capitalization Grants for Drinking Water State Revolving Funds Program and some of the unaudited dollars identified for the Capitalization Grants for Clean Water State Revolving Funds Program and the Foster Care - Title IV-E Program were subgrants to the City of Philadelphia which received federal funds totaling $272,142,256 from the Commonwealth during the fiscal year ended June 30, 2012. DPW was the lead agency responsible for follow up on this audit report. The audit report was not obtained by the Commonwealth until February 4, 2014, after we notified OB-BOA that the audit report had been received by the Federal Audit Clearinghouse on January 9, 2014, over 9 months after the March 31, 2013 due date. These three federal programs and immaterial funds under the Community Development Block Grants – State-Administered CDBG Cluster and the Homeland Security Grant Program were deemed to be unaudited since they were not included on the subrecipient's audit report SEFA.

OB-BOA personnel stated that they believed they fulfilled their responsibilities regarding the City of Philadelphia by sending a dunning letter to the unaudited subrecipient in May 2013 and by transmitting the unaudited subrecipient's information to the respective lead agency personnel (DPW) for follow up in August 2013. As a result of this action, the lead agency personnel at DPW would be responsible for implementing remedial action procedures. DPW stated that they have remedial action procedures available, including the withholding of state funds, but had monitored the status of the late audit report via telephone inquiries to the subrecipient. PENNVEST, which subgranted federal funding to the subrecipients under the Capitalization Grants for Drinking Water State Revolving Funds and the Capitalization Grants for Clean Water State Revolving Funds programs, was also responsible for obtaining the required subrecipient audit.

Regarding the understatement of the subrecipient universe related to the Medicaid Cluster, DPW personnel stated that they rely on the OB-BOA to perform follow up procedures to ensure that all required subrecipient Single Audits were conducted. OB-BOA personnel stated that during a prior audit period, OB-BOA became aware that the ODP Medicaid Cluster subrecipient universe contained payments to both subrecipients and vendors. OB-BOA did not have a method to determine which amounts were subrecipient payments. OB-BOA was also informed by DPW that the ODP providers would begin receiving vendor contracts beginning July 1, 2012, so OB-BOA ceased dunning the ODP providers. The OB-Bureau of Quality Assurance changed the subrecipient universe for the Medicaid Cluster for the fiscal year ended June 30, 2012 to include only payments to subrecipients, but erroneously excluded the subrecipient payments to ODP providers. OB-BOA personnel stated that DPW never converted the ODP providers to vendor contracts, and OB-BOA was not aware that subrecipient payments to ODP providers were excluded from the subrecipient universe and required follow up. OB-BOA personnel stated that they were unable to ascertain whether the required subrecipient audits related to ODP providers were submitted to the Commonwealth during the current audit period, and indicated that they plan to implement corrective action to follow up on subrecipient audits required for ODP providers.

Effect: Since the Commonwealth did not make the required management decisions within six months of receipt to ensure appropriate corrective action was taken on audits received from subrecipients, the Commonwealth did not comply with federal regulations, and subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner. Further, noncompliance may recur in future periods if control deficiencies are not corrected on a timely basis, and there is an increased risk of unallowable charges being made to federal programs if corrective action and recovery of questioned costs is not timely. With respect to the SEFA reviews 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 DPW and PENNVEST 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 DPW and PENNVEST to enforce compliance. Finally, a weakness exists since the OB-BOA did not follow up on the subrecipient payments to ODP providers to ensure the required subrecipient audit reports were submitted to the Commonwealth.

Finding 13-SW-01: (continued)

<u>Recommendation</u>: 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.

We also recommend that DPW and PENNVEST continue their efforts to obtain A-133 audits from the unaudited entities and ensure audit coverage of the unaudited federal funds. DPW and PENNVEST should adhere to the steps and timeframes in their respective remedial action plans and consider withholding funding on a timely basis from subrecipients which do not comply with audit submission requirements. Finally, OB-BOA and DPW should implement corrective action to ensure that the Medicaid Cluster subrecipient universe is complete and proper follow up is conducted to ensure the required subrecipient audits are conducted and submitted to the Commonwealth for review.

<u>Agencies' Responses</u>:

<u>BOA Response</u>: BOA concurs with the finding as written.

<u>PDE Response</u>: The PDE, Bureau of Budget and Fiscal Management, Audit Section has implemented corrective action which was evident by the improvement during this year's review (2012-2013). The Audit Section will continue addressing these issues in accordance with OMB Circular A-133.

<u>PennDOT Response</u>: PennDOT disagrees with the finding. Per the agency's guidelines, there is an obligation to investigate reported expenditures on an entity's SEFA if the amount is under 5% of what was passed through. If the SEFA reports expenditures above what PennDOT provided there is no threshold stipulation requiring an investigation and the assumption is that additional funding sources were used.

<u>Aging Response</u>: The Department of Aging agrees with the finding.

<u>DDAP Response</u>: The Department of Drug and Alcohol Programs recognizes the concerns indicated by the Auditor General regarding timely completion of reconciliations to submitted Schedules of Expenditures of Federal Awards (SEFAs). The Department became operational on July 1, 2012 and assumed the responsibilities of an executive agency at that time, including the agency-level management of subrecipient audits. This newly formed agency is in the process of developing the appropriate protocols and procedures to address all outstanding issues related to funds distributed by the predecessor agency, the Department of Health, and to fully assume management of funds distributed under the separate agency, the Department of Drug and Alcohol Programs. As part of this agency transition, it is the intent to establish procedures to address reconciliation of SEFA submissions in a more timely manner, as well as to seek and finalize corrective action to audit findings of subrecipients, should such findings occur.

<u>DOH Response</u>: DOH agrees with the condition cited in the report. The report cited in the condition was included on DOH's subrecipient single audit tracking report, which identified this report as a report with findings. However, the audit report was later inadvertently overlooked when examining the single audit tracking report for identified single audit reports with findings for DOH review.

<u>L&I Response</u>: The Auditor General cites L&I for making a management decision over 7.1 months for 1 out of 5 subrecipient audit reports with findings. The finding relates to a Bucks County for the audit period ending June 30, 2012. Bucks County submitted the report to the PA Bureau of Audits (BOA) on September 20, 2012, within the 9 month time period required by OMB A-133 Circular. The BOA subsequently forwarded the audit report to L&I on March 1, 2013. This is five & one-half months after the audit was originally submitted to BOA. Under the Auditor General's interpretation of the finding condition, L&I would be left with two-weeks in order to issue a management decision. L&I disagrees with this interpretation for the following reason:

Finding 13-SW-01: (continued)

OMB Circular A-133, Section 400, (e) 5 reads, "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action." L&I did take remedial action within 6 months of when L&I received the audit report from BOA. Remedial action included SEFA reconciliation and corrective action pertaining to a finding. L&I issued an Initial Determination on October 10, 2013. A Final Determination was sent November 19, 2013. L&I considers this finding resolved.

PENNVEST Response: PENNVEST does agree with the stated finding as it applies to the period between July 1, 2012 and June 30, 2013. It should be noted that the finding is a continuation of the previous audit period and is being addressed under the Corrective Action Plan (CAP) submitted for that audit finding. The CAP required the building of a new tracking structure which needed to be incorporated into all the other new systems being built. Due to the heavy workload, other staff was helping to file documentation and it may have been misfiled. Additional staff started January 18, 2014 and is getting up to speed to help resolve this problem as well as work continuing on the CAP from the prior year.

PENNVEST does not agree with the finding that it took longer than the 6 months allowed for management to make a decision on the subrecipient findings. Management makes a response to the borrower within that time frame; however, the borrower's often do not respond in a timely manner and we are contacting them again or it takes longer to resolve the audit finding issues. The finalizing of the workout is not the management decision point.

As to the Philadelphia audit issues, PENNVEST is not the lead agency and it was advised several years ago not to pursue the single audits until it was passed to PENNVEST from BOA.

DPW Response: The following is provided in response to Single Audit Finding #13-SW-01 as presented to DPW. The finding indicates there is a material weakness, material noncompliance.

The finding consists of four components:

1) The timeliness of finding resolution
2) Subrecipients without single audits
3) The requirement to review/reconcile the SEFA
4) Enforcement of the subrecipients' submission deadlines

<u>The timeliness of finding resolution</u>

The DPW concurs with the auditors that resolution of some subrecipient single audit reports and the related required management decisions have not been timely. We are working to rectify this issue, and plan to have this corrected by June 30, 2014.

<u>Subrecipients without single audits</u>

The DPW strongly disagrees with this part of the finding.

<u>For the Medicaid Cluster:</u>

Although this amount was excluded from the subrecipient audit universe originally provided to the auditors, information was later provided that included this information.

Additionally, the Commonwealth was well aware of the need to follow up on these subrecipient expenditures. Information was also provided to the auditors that documents that the Commonwealth is in fact receiving these subrecipient audits as required. This information included reference to the fact that of the 224 subgranted entities identified in the finding, 148 of them had previously been provided to the auditors as entities for which DPW had received the single audit reports from OB-BOA during the period July 1, 2012 through June 30, 2013. In addition, this information included reference to the fact that DPW has received single audit reports from OB-BOA for 212 of the 224

Finding 13-SW-01: (continued)

entities identified in the finding, although not all of these were received during the period July 1, 2012 through June 30, 2013 (some were received prior to July 1, 2012, and some were received subsequent to June 30, 2013). Finally, of the remaining 12 subgranted entities identified in the finding (most, if not all of which are for-profit entities for which OB-BOA does not handle), 11 entities had submitted their audit reports to DPW. DPW concedes that there is one entity for which an audit report has not been located. Upon receiving this documentation, the auditors responded to DPW by stating that "*Based on my review of the (information) you provided, the vast majority of the audit reports you stated you have received for the subrecipients in question relate to FYE June 30, 2010, June 30, 2011, or some other period. The vast majority of the audit reports you received are <u>not</u> for the FYE June 30, 2012 in question. This supports the fact that the Commonwealth was not following up on these audits.*" Apparently the auditors misinterpreted the information they were provided – of the 224 entities identified in this finding, DPW has audits for 152 of the entities (67.86 percent) covering a fiscal year ended in 2012 (e.g. June 30, 2012, December 31, 2012, etc.). This documents that DPW does in fact have audit reports for the period in question for the vast majority of these entities, and further, this demonstrates that DPW is in fact obtaining these required audits in the normal course. It should also be highlighted, that as described in the finding, the Commonwealth's review and resolution of subrecipient single audit reports is a two stage process – accordingly it is a reasonable assumption that at any given point in time, there will be audit reports that have been submitted to the Commonwealth, but have not yet been transmitted from OB-BOA to DPW (or any other Commonwealth Agency). Given this fact, it is a reasonable assumption that many more of these audit reports covering the fiscal year ended June 30, 2012 have been received by the Commonwealth, but not yet in DPW's possession (especially those without findings).

<u>For the Foster Care – Title IV-E Program (including ARRA)</u>:

For the Foster Care – Title IV-E Program (including ARRA) that was subgranted to the City of Philadelphia, DPW disagrees with the auditors' characterization that these awards were unaudited. As addressed below, while this subrecipient's single audit report was submitted late, there was an audit performed. As stated in this finding, the Commonwealth did not receive this audit report until February 4, 2014; consequently, the resolution process for this audit report has not yet been completed. Any deficiencies identified in the audit report will be addressed by the Commonwealth in accordance with established procedures.

<u>The requirement to review/reconcile the SEFA</u>

The DPW disagrees with this part of the finding.

The condition cited in this part of the finding states the following:

> "The agency is also responsible for reviewing financial information in each audit report (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."
>
> "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."

Our understanding is that OB-BOA, as part of its centralized desk review process, verifies that all Catalog of Federal Domestic Assistance (CFDA) numbers for which the Commonwealth provided funding are listed on the subrecipients' SEFA. Additionally, it is not appropriate to adjust the Commonwealth's records based on a review of a subrecipient's SEFA, as explained below.

Finding 13-SW-01: (continued)

The criteria cited in this part of the finding are as follows:

> "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"

DPW's position on this is:

a. OMB Circular A-133 does <u>not</u> require a SEFA reconciliation: There is no language in OMB Circular A-133 that makes any mention to a SEFA reconciliation. It is DPW's contention that the framers of OMB Circular A-133 did not include such language because a SEFA reconciliation is not practical or worthwhile, as discussed below.

b. The auditors are misinterpreting Section __.400(d)(6): The auditors have argued that even though OMB Circular A-133 does not explicitly state that a SEFA reconciliation is required, it is implied because it is the only way to meet the requirements of Section __.400(d)(6). That is not true for the following reasons:

    i. That section states: "Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records". The key word in that sentence is "consider". We believe that this is referring to the resolution of items on the Schedule of Findings and Questioned Costs, which may need to be recovered from the subrecipient, and the DPW's records would then need to be adjusted accordingly. In addition, our cost settlement process (comparison of DPW payments to the subrecipient's actual expenditures followed by an additional payment to the subrecipient, recovery from the subrecipient, or no monies due, as appropriate) also fulfills this requirement.

Finding 13-SW-01: (continued)

c. A SEFA reconciliation does not provide any value: A difference between what is shown on a subrecipient's SEFA and what is in the DPW's records will not determine whether the DPW needs to adjust its records. The SEFA, by definition, reflects the subrecipient's expenditures while the DPW's records document what was paid the subrecipient (the subrecipient's revenue from DPW). In most cases, the subrecipient's revenue will not equal its expenditures, so this comparison is not sufficiently accurate for DPW to adjust its records. Often a subrecipient's expenditures as noted on the SEFA do not match DPW's payment records, but in most cases that is due to the timing (as described above). In addition, although materiality for the Single Audit testing is calculated separately for each major program and is generally 3-5 percent of a major program's expenditures, the SEFA is subject to the same materiality thresholds as used in the audit of the basic financial statements, so the very best opinion provided is "The SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole"; the audit report does not state that the SEFA is accurate to the dollar, which would be necessary for DPW to adjust its records. As such, there can be misstatements in the amounts reported on the SEFA, and as long as they are under the materiality threshold for the basic financial statements, DPW would have no way of knowing the effect(s) of any such misstatements. Given that the SEFA may not be sufficiently accurate for DPW to adjust its own records, we are struggling to understand the purpose of a SEFA reconciliation.

d. A SEFA reconciliation is duplicative given the cost settlements DPW performs: The DPW Single Audit Supplement requires separate supplemental schedules for DPW-funded county programs that are $300,000 and above. DPW also requires a similar supplemental schedule for program-funded DPW contracts over $300,000. These schedules are prepared based on a June 30 fiscal year end and are used for cost settlement (which may result in funding adjustments and an "adjustment of the pass-through entity's own records"). In addition, these supplemental schedules are to be subjected to an Agreed-Upon Procedures (AUP) engagement performed by the subrecipient's independent auditors. The AUP consist of the following procedures:

    i. Verify by comparison of the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to DPW for fiscal year ended June 30,XX, have been accurately compiled and reflect the audited books and records of (Auditee). Also verify by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by the DPW Single Audit Supplement pertaining to this period.

    ii. Inquire of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to DPW for the period in question.

    iii. The processes detailed in paragraphs (i) and (ii) above disclosed the following adjustments and/or findings which have (have not) been reflected on the corresponding schedules: (List each separately. Indicate whether it has/has not been reflected on the schedule.)

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties (AT§201.25). DPW has not agreed to any definition of materiality. While the amounts included in the subrecipient's books and records are subject to materiality, any differences between those amounts and the supplemental schedules are not. The cost settlements are much more detailed than a SEFA reconciliation and are based on supplemental schedules that are presented without reference to any materiality; therefore, they are more reliable to use as a source for DPW's adjustment of the pass-through entity's own records. Accordingly, it would be duplicative and unnecessary to also reconcile the SEFA.

Finding 13-SW-01: (continued)

e. The Administration for Children and Families (ACF) did not state that they want/expect SEFA reconciliations: Representatives from ACF, within the US Department of Health and Human Services met with representatives from DPW and the auditors in May of 2012. The ACF representatives were asked if they expected SEFA reconciliations and they answered that it is a "gray area". Clearly, if the expectation was that states do such reconciliations the ACF representatives would have said so definitively.

Additionally, this finding has been identified as a material weakness/material noncompliance. A prior year's finding, 11-DPW-16, which is referred to in this finding, and specifically related to SEFA reconciliations, was also identified as a material weakness/material noncompliance. DPW questions the noncompliance with the criteria provided. There is no noncompliance with any of the criteria cited by the auditors, and we are unaware of any other guidance from the federal government requiring a SEFA reconciliation. We do not believe that not following the auditors' (The PA Department of the Auditor General's and KPMG, LLP's) <u>opinion</u> should be considered noncompliance (material or otherwise).

Finally, the auditors seem to suggest that we cannot place any reliance on the audit reports, including an opinion on the supplemental schedules (including the SEFA). If this is the case, why is such an audit report required by OMB Circular A-133 and why are the auditors not taking exception to the fact that we are using Federal and State funds to pay for such an audit? In addition to just relying on a CPA firm's audit report, OB-BOA also performs quality assurance around the CPA firms (e.g., verifying the firms' license, etc. as well as more detailed procedures when necessary). It should be noted that in order to maintain a CPA license, CPA firms are also subject to peer review.

Although not reflected in this finding, during a meeting between DPW and the auditors to discuss the prior year's finding, 12-OB-04, after it was issued, the auditors briefly mentioned the following concern: "DPW may not identify a program that was not tested but should have been tested as a major program, which may occur if funding was misclassified on the SEFA.". Although that concern has never been mentioned in the criteria of the finding and DPW believes the chance of an auditor making a mistake of that magnitude is extremely unlikely, we have developed some high-level, risk-based procedures to address that concern.

<u>Enforcement of the subrecipients' submission deadlines</u>

The DPW disagrees with the auditors' characterization that a weakness exists since DPW was not following their remedial action plans, or the plans were inadequate. As stated during discussions with the auditors in relation to the prior year's finding, 12-OB-04, DPW does have procedures in place, which can include the withholding of a percentage of State funds until the subrecipient submits its single audit. This procedure was instituted during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2012, DPW issued dunning letters to 9 subrecipients, in which the subrecipients were advised that DPW would withhold 5 percent of their State funding until such time as they submitted their single audits, unless their audits were submitted by the date provided in that letter. Eight (8) of the 9 subrecipients submitted their delinquent single audits prior to that date and 1 subrecipient did not. DPW withheld 5 percent of the State funding from that subrecipient in the next quarterly advancement. As a result of this, that subrecipient submitted their delinquent single audit report shortly thereafter, and DPW provided the State funding previously withheld in the next quarter. DPW continues its efforts to obtain the required single audits from subrecipients, which includes continuing to consider withholding a percentage of State funding.

As the auditors stated in this finding, "DPW stated that they have remedial action procedures available, including the withholding of state funds, but had monitored the status of the late audit report via telephone inquiries to the subrecipient." We continued to monitor the status of this audit report until it was submitted to OB-BOA. DPW did in fact follow its remedial action plans, which is to <u>*consider*</u> withholding a percentage of State funding. There were numerous discussions within DPW regarding this consideration, but ultimately the decision was made to <u>not</u> withhold, as any withholding could adversely impact the provision of human services.

Finding 13-SW-01: (continued)

Auditors' Conclusion: Regarding PennDOT's SEFA reconciliation procedures, good internal controls would dictate that PennDOT personnel would have procedures in place to investigate large differences between a subrecipient's SEFA and PennDOT's payments records, regardless of whether the subrecipient's SEFA appeared to be overstated or understated.

Regarding the subrecipient audit report in question at L&I (Bucks County Workforce Investment Board), according to the documentation L&I provided, L&I received the subrecipient audit report from OB-BOA on March 1, 2013 and no management decision on findings had been made by L&I as of the test date, October 8, 2013, which was over 7 months from the date L&I received the subrecipient audit report. The 7 months did not include any processing time at OB-BOA.

Regarding the timing of management decisions on findings at PENNVEST, the time periods for management decisions were calculated based on documentation provided by PENNVEST.

Regarding DPW's response for the Medicaid Cluster, the overall problem was that the Commonwealth did not have procedures in place to follow up on Medicaid Cluster (ODP providers) subrecipient audit reports related to the Commonwealth's subrecipient audit universe for the fiscal year ended June 30, 2012 which were due to be submitted to the Commonwealth by March 31, 2013, making the outstanding audit reports over 10 months late as of the February 2014 date of this finding. Any outstanding Medicaid Cluster subrecipient audit reports for the fiscal year ended December 31, 2011 (which was also part of our audit scope), would be over 16 months late as of the date of this finding.

DPW should improve its communication with OB-BOA and ensure that procedures are implemented so all required subrecipient audit reports are properly followed up. DPW provided subsequent information which appeared to indicate that 74 of the 224 fiscal year ended June 30, 2012 subrecipient audit reports were submitted to DPW, which appeared to indicate that 150 subrecipient audit reports were still outstanding as of February 2014.

Regarding DPW's response for the Foster Care Program and SEFA reconciliations, DPW's Foster Care payments to the City of Philadelphia totaled $81,270,175 for the fiscal year ended June 30, 2012, but the City of Philadelphia's SEFA only reported $69,467,949 under the Foster Care Program, resulting in $11,802,226 of Foster Care expenditures remaining unaudited as of February 2014, which was over 10 months from the March 31, 2013 due date of the City of Philadelphia Single Audit. Detection and remediation of this type of error is why DPW should implement sufficient procedures to ensure the accuracy and completeness of the subrecipient SEFAs.

Regarding DPW's response for subrecipients' audit submission deadlines, the Commonwealth subgranted a total of $272,142,256 to the City of Philadelphia during the fiscal year ended June 30, 2012. DPW was the lead agency designated by the Commonwealth to follow up on the late City of Philadelphia audit report. Since DPW did not implement effective remedial action, this funding remained unaudited until January 2014, over 9 months after the due date of the subrecipient audit report. Further, the Capitalization Grants for Drinking Water State Revolving Funds program was completely excluded from the City of Philadelphia's SEFA and remained unaudited as of February 2014, along with the Foster Care expenditures of $11,802,226 noted in the preceding paragraph and Capitalization Grants for Clean Water State Revolving Funds expenditures of $7,365,414.

DPW personnel should consider contacting their federal cognizant agency to determine what procedures should be implemented to enable DPW to comply with OMB Circular A-133, including procedures to ensure that required subrecipient audit reports are adequate and are obtained on a timely basis, procedures to ensure the completeness and accuracy of the subrecipient SEFAs, and procedures to ensure that management decisions on subrecipient audit findings are appropriately and timely performed.

We will evaluate any corrective action during 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.

Finding 13-SW-02:

CFDA #17.245 – Trade Adjustment Assistance
CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)
CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #96.001 – Social Security – Disability Insurance

General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (A Similar Condition Was Noted in Prior Year Finding 12-OB-03)

Federal Grant Numbers: TA-19728-10-55-A-42, TA-21240-11-55-A-42, TA-22679-12-55-A-42, TA-24365-13-55-A-42, FS-993577-12, H126A130056, H126A120056, C14011, C24012, and C34013

Type of Finding: Significant Deficiency, Noncompliance for RS-VR and SSDI
Significant Deficiency for TAA and DWSRF

Compliance Requirement: Allowable Costs (Effort Reporting)

Condition: The Trade Adjustment Assistance (TAA), Rehabilitation Services – Vocational Rehabilitation Grants to States (RS-VR), and Social Security – Disability Insurance (SSDI) 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 approval of employee hours worked. As noted in the Basic Financial Statement (BFS) Findings 13-04 and 13-05, deficiencies in the information technology general controls (ITGC) of the SAP environment were identified. As a result, the operating effectiveness of the automated controls in the SAP payroll system could not be relied upon 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. Payroll transactions represented approximately 4.6, 3.9, 29, and 34 percent, respectively, of the TAA, DWSRF, RS-VR, and SSDI programs.

Additionally, we noted that there are two types of employees that charge time to the RS-VR and SSDI programs, employees which work exclusively for L&I's Office of Vocational Rehabilitation (OVR) and L&I's Bureau of Disability Determination (BDD) and charge 100 percent of their time to the RS-VR and SSDI programs, respectively, and employees which work for other bureaus within L&I's Central Services Offices and allocate only a portion of their time to these programs. Both types of employees utilize the Employee Self Service (ESS) method to enter time information into the Cross Application Time Sheet (CATS), which ultimately transfers time to SAP. OVR and BDD employees that charge 100 percent of their time to the RS-VR and SSDI programs enter only exceptions to their scheduled hours into CATS via ESS. Those exceptions must be reviewed and approved electronically. It should be noted that the payroll costs which are charged 100 percent by RS-VR employees are properly covered by semi-annual certifications and are excluded from this finding. L&I employees that charge a portion of their time to the RS-VR, TAA and SSDI programs enter all hours into CATS via ESS. Timesheets (effort reporting) for L&I employees are reviewed and approved electronically by the employees' supervisors or by Human Resources (HR) personnel (Time Advisors), who are not aware of the respective employee's daily activities, in instances where supervisors have not approved the hours reported within 96 hours. We noted the following specific conditions during the performance of our audit procedures which indicate there are weaknesses in the design of controls related to supervisory approvals:

- As part of our audit of TAA, we audited 25 payroll transactions for compliance with federal requirements (i.e., allowability). For TAA transactions tested, we found four employees timesheet records that contained approvals by HR Time Advisors rather than the employees' supervisors. With 10 workdays in a two week pay cycle, these four employees had their time charges approved by HR for 14 out of 40 days.

Finding 13-SW-02: (continued)

- During our audit of SSDI for the year ended June 30, 2013, we noted that the timesheet supporting charges of $1,872 for one of the 25 employees' timesheets in our sample (12 employees were BDD employees which were charged 100 percent to the SSDI program) with total payroll of $42,329 was not reviewed and approved by the employee's supervisor or by an HR Time Advisor. This employee's time was coded 100 percent to the SSDI fund (SAP fund #7002912000); however, a review of the employee's position description reflected no reference to the BDD or the SSDI program. Upon further review, it was noted that L&I followed proper payroll procedures for this employee (i.e. labor distribution was appropriately entered in CATS via ESS and approved by a supervisor or HR Time Advisor) through March 1, 2013. However, at the time of initial auditor inquiry in September 2013, no labor distributions or approvals existed beyond March 1, 2013. Labor distributions and subsequent approvals were entered on September 24, 2013, upon discovery of the error as a result of auditor inquiry. The amount charged to SSDI for the period March 1, 2013 through June 30, 2013 was $23,578 (600 hours). Based on the adjustment made in September 2013, payroll amounting to $20,606 (525.5 hours) was transferred out of SSDI to five other non-SSDI SAP fund numbers. Based on a review of the SSA-4513 reports, which must be submitted to SSA on a quarterly basis, we determined that approximately 4.5 percent of the $54,851,871 total personnel expenditures for the SSDI program are attributable to L&I employees that allocate only a portion of their time to the program. Additionally, we noted that 3 out of 21 position descriptions for the employees in our sample were not updated with the employee's new position after they were promoted or transitioned into another position.

- During our audit of RS-VR for the year ended June 30, 2013, we noted that the total hours reported on the timesheet supporting federal charges of $807 for one of the 25 employees' timesheets in our sample totaling $14,742 did not appear to be appropriately reviewed/approved by the employee's supervisor. It should be noted that 15 of the 25 sampled employees were OVR employees who were charged 100 percent to the RS-VR program and were covered by semi-annual certifications. Based on the weaknesses in the ITGC over SAP payroll processing (approvals) identified in the prior year, we performed additional audit procedures for Single Audit payroll transactions related to employees who completed time sheets and were not covered by semi-annual certifications. As part of these additional procedures, we inquired of the applicable employee's supervisor/manager whether they would approve the tested timesheet and/or transaction. For 1 of the 10 timesheet approvals tested, the supervisor indicated that he would not have approved the timesheet because the hours charged for one day, July 23, 2012, only totaled 3.0 hours but should have totaled 4.5 hours. (The employee's normal work day was 7.5 hours, of which 3.0 hours represented annual leave taken, resulting in the 4.5 hours balance subject to approval.) Instead of entering 4.5 hours worked into the appropriate codes in SAP, the employee entered 3.0 hours worked. SAP automatically coded the 1.5 hour difference in hours worked (which represented RS-VR expenditures of $47) to the employee's default coding, which was the RS-VR program, even though the individual was employed by L&I's Bureau of Administrative Services and was not a full-time employee of OVR. L&I personnel could not provide any documentation to substantiate the propriety of charging the 1.5 hours to RS-VR. The Commonwealth's Bureau of Payroll Operations personnel confirmed that SAP is programmed to automatically charge/code the difference to the employee's default position coding. When the supervisor approves the timesheet, the approval screen lists each day with the total regular hours worked. The daily total equals the time entered by the employee and the time automatically charged by SAP. The supervisor does not see the hours which SAP automatically charges to the default coding. We determined that personnel expenditures in the amount of $6,825,901 out of the total $119,362,363 RS-VR expenditures charged during the fiscal year ended June 30, 2013 related to L&I employees that allocated only a portion of their time to the RS-VR program.

Criteria: OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B.8.h., states:

(3) Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Finding 13-SW-02: (continued)

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)… Such documentary support will be required where employees work on:

(a) More than one Federal award,
(b) A federal award and a non Federal award.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated,
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee.

AICPA Professional Standards in AUC Section 315 state in part:

> *.A98: From the auditor's perspective, controls over IT systems are effective when they maintain the integrity of information and the security of the data such systems process and when they include effective general IT controls and application controls.*
>
> *.A99: General IT controls are policies and procedures that relate to many applications and support the effective functioning of application controls. They apply to mainframe, miniframe, and end-user environments. General IT controls that maintain the integrity of information and security of data commonly include controls over the following: Data center and network operations; System software acquisition, change, and maintenance; Program change; Access security; and, Application system acquisition, development, and maintenance.*
>
> *.A100: Although ineffective general IT controls do not by themselves cause misstatements, they may permit application controls to operate improperly and allow misstatements to occur and not be detected. For example, if deficiencies in the general IT controls over access security exist and applications are relying on these general controls to prevent unauthorized transactions from being processed, such general IT control deficiencies may have a more severe effect on the effective design and operation of the application control*

AICPA Professional Standards in AUC Section 315.A68 state:

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements. Implementation of a control means that the control exists and that the entity is using it. Assessing the implementation of a control that is not effectively designed is of little use, and so the design of a control is considered first. An improperly designed control may represent a significant deficiency or material weakness in the entity's internal control.

Cause: ITGC deficiencies in the SAP environment reduce the operational effectiveness of automated internal controls in the SAP payroll workflow. Sufficient manual controls were not present to compensate for the ITGC deficiencies.

In addition, the design of the CATS/ESS policies and procedures state that employee timesheets are to be approved by a first or second level supervisor within the SAP workflow and if these workflow items reach a Human Resources Time Advisor's workflow box, the items will be "automatically" approved. As such, the "approval control" is not appropriately designed to meet the federal effort reporting compliance requirements set forth in OMB Circular A-87 (and POMS DI 39518 for SSDI). The timesheet for the SSDI L&I employee was not reviewed on a timely basis which resulted in 100 percent of the employee's time being charged to the SSDI default code. The reason for the failure to appropriately charge this employee's time has not been determined.

Effect: Lack of effective ITGC could result in inappropriate payroll costs to be charged to these federal programs. For example, if information technology access controls and/or segregation of duties controls (i.e. general computer controls) are weak and exploited, this could result in appropriate supervisory approval controls (i.e. application controls) over the

Finding 13-SW-02: (continued)

payroll process to also be compromised. Additionally, when timesheets for employees which allocate time between departments are not reviewed and approved, controls are not operating effectively to detect errors and costs may not be appropriately allocated to federal programs.

Recommendation: The Commonwealth of Pennsylvania (Commonwealth) through its Office of Information Technology should continue its efforts to remediate the ITGC weaknesses, and Commonwealth agencies should review and adopt user protocols to comply with ITGC policies and procedures. If deemed cost beneficial by management, Commonwealth agencies could develop manual compensating controls (for example, a quarterly or more frequent manual certification from the supervisors confirming their electronic approvals for the period) to ensure payroll is properly processed and approved until the deficiencies identified in the SAP general controls environment have been remediated. Additionally, we recommend that Commonwealth management review and enhance the existing procedures over the review and approval, including the automatic HR Time Advisor approval, of timesheets for employees that allocate their time between departments to ensure that future personnel expenditures are accurately charged to the applicable program or programs.

Agency Response:

Labor & Industry Response:

1. In regards to TAA, we acknowledge the finding.

2. In regards to SSDI, we acknowledge the finding and as a result, corrected the charges after the audit period.

3. In regards to RS-VR, we acknowledge that an employee omitted 1.5 hours from their timesheet.

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 should be independently reviewing the time reported by employees and approve/reject the time as reported by the employees. The supervisors should be drawing 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 13-04, there are no specific conditions identified as weaknesses in the Commonwealth's payroll system in either that finding or Finding 13-05. 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 at this time.

Auditors' Conclusion: BAFM Management has not disagreed with the two main points of our finding; 1) the IT General Controls are not effective, 2) there are not manual compensating controls. While we agree that designing manual controls to compensate for the ineffective IT controls is not efficient, the issue remains that management is accepting that there is a weakness in the payroll controls that provides risk of misstatement as long as the IT controls are not fixed.

Questioned Costs: Known questioned costs of $67 for the RS-VR program (which represents the federal personnel expenditures of $47 for the 1.5 hours of employee time not properly approved and related benefits of $20. Known questioned costs of $31,746 for the SSDI program (which represents the federal personnel expenditures of $20,606 for the 525.5 hours not properly approved and the related estimated benefits of $11,140). No known questioned costs for the TAA or DWSRF programs.

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 13-SW-03:

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
CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)
CFDA #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement
CFDA #93.658 – Foster Care Title IV-E (including ARRA)
CFDA #93.659 – Adoption Assistance (including ARRA)
CFDA #93.667 – Social Services Block Grant
CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)
CFDA #93.917 – HIV Care Formula Grants
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 12-OB-01)

Federal Grant Numbers: 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, B-12-DC-42-0001, AA-18664-09-55, AA-20216-10-55, AA-21418-11-55, AA-22958-12-55, AA-24115-13-55, N78000, N78ARR, S010A120038, S367A120051, S377A090039, S377A100039, S377A110039, S388A090039, G1302PATANF, G1202PATANF, 1304PA4004, 1204PA4004, G1301PA1401, G1201PA1401, G1201PA1402, G1301PA1407, G1201PA1407, G1201PA1403, 1301PASOSR, 1201PASOSR, 1305PA5028, 1205PA5028, 2X07HA00023-20, 2X07HA00022-20, TI010044-12, and TI010044-13

Type of Finding: Material Weakness, Material Noncompliance for CDBG
Significant Deficiency, Noncompliance for All Other Programs/Clusters

Compliance Requirement: Subrecipient Monitoring, Special Tests and Provisions related to Awards with ARRA Funding

Condition: For the major federal programs listed above, the state agencies did not identify federally-required information in subrecipient award documents 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 which federally-required award information was missing from subrecipient award documents at the time of award.

Finding 13-SW-03: (continued)

Program	Amount Passed to Subrecipients (in thousands)	CFDA Title	CFDA Number	Award Name	Federal Grant Number	Federal Awarding Agency
CDBG	$50,779	-	-	-	No	-
CDBG – ARRA	$231	-	-	-	No	-
WIA Cluster	$82,884	-	No*	-	No*	No*
HPC Cluster	$227,675	No	No	-	-	-
Title I	$603,674	-	-	-	No	-
Improving Teacher Quality	$104,698	-	-	-	No	-
School Improvement	$24,157	-	No**	-	No***	No***
School Improvement - ARRA	$39,098	-	No**	-	No***	No***
TANF – New Directions	$52,410	-	-	No	No	No
TANF - Child Welfare	$55,579	No	No	No	No	No
CSE	$113,310	-	-	No	No	No
Foster Care	$176,118	-	No	No	No	No
Foster Care - ARRA	$273	-	No	No	No	No
Adoption Assistance	$83,320	-	No	No	No	No
Adoption Assistance - ARRA	$5	-	No	No	No	No
SSBG – Child Welfare	$12,021	No	-	No	No	No
SSBG – Mental Health	$10,366	-	-	No	No	No
SSBG – Mental Retardation	$7,451	No	-	No	No	No
SSBG – Homeless Services	$4,183	-	-	No	No	No
SSBG – Domestic Violence	$5,765	-	No	No	No	No
SSBG – Family Planning	$1,859	-	-	No	No	No
SSBG – Rape Crisis	$1,721	-	No	No	No	No
SSBG – Legal Services	$5,049	No	No	No	No	No
MA	$100,167	No	No	No	No	No
HIV Care Formula Grants – Consortia	$10,176	-	-	No	No	-
HIV Care Formula Grants – ADAP	$33,229	No	No	No	No	No
SAPT - DPW	$1,983	-	-	No	No	No

* - For the Workforce Investment Act (WIA) Cluster, we found that the Department of Labor and Industry (L&I) did not provide subrecipients with the federal grant number or federal awarding agency at the time of award for 15 of 40 expenditures tested or the CFDA number for 1 of 40 expenditures tested. Note that L&I made changes to its Comprehensive Workforce Development System in July 2012 which incorporated this information for awards made to subrecipients after July 2012. We found no discrepancies for awards made after this timeframe.

** - The incorrect CFDA number was included in the subrecipients' award documents.

*** - For the School Improvement Grants Cluster, we found that the Pennsylvania Department of Education (PDE) did not provide subrecipients with the federal grant number at the time of award for seven of eight expenditures tested, and PDE did not provide subrecipients with the federal awarding agency on award documents for three of eight expenditures tested.

In addition, PDE did not provide the required ARRA award information to its subrecipients at the time of disbursement, as shown (i.e., No) on the following chart.

Finding 13-SW-03: (continued)

Program	Federal Grant Number	CFDA Number	Amount of ARRA Funds
School Improvement Grants - ARRA	No	-	-

<u>Criteria</u>: 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:

<u>Responsibilities for Informing Subrecipients</u>:

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.

<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 or missing CFDA numbers or federal grant 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.

Finding 13-SW-03: (continued)

<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 and federal grant 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. No instances of omissions or improper identification of program expenditures have been reported by the auditor's annually dating back to the auditors first reporting this issue as a statewide finding for the fiscal year ended June 30, 2011. Therefore, subrecipients are being properly informed of the applicable federal award information related to their subawards.

The Commonwealth complies with the requirements of OMB Circular A-133 Compliance Supplement that states when ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program by identifying the related 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>:

L&I agrees with the finding, but the issue has been corrected (as noted in the finding).

<u>Department of Transportation (PennDOT) Response</u>:

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. Documentation will be provided to the auditors supporting the agency's response.

<u>Department of Public Welfare (DPW) Response</u>:

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 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 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.

Finding 13-SW-03: (continued)

Department of Health (DOH) Response:

DOH disagrees with this finding. DOH complies with the requirements of Management Directive 305.21, Payments to Local Governments and other Subrecipients, wherein we must identify the amounts of Federal and state funding we provide to Grantees. This identification includes the breakdown of Federal and state dollars provided and the related Federal and state financial assistance program name and number. DOH will continue to comply with the requirements of the most current version of Management Directive 305.21.

Department of Education (PDE) Response:

The Pennsylvania Department of Education, Bureau of Teaching and Learning, Division of Federal Programs (DFP) will implement corrective action in addressing this finding.

Department of Community and Economic Development (DCED) Response:

DCED disagrees with the finding. Since being informed of this issue at the 2012 Single Audit Exit Conference, the Department has included the Federal Award Number in the Award Letters issued to the sub-recipients. The Department has not issued any contracts without the award number since being informed that it was not in compliance; therefore the Department requests removal from this finding.

Auditors' Conclusion: L&I and PDE agree with the condition of this finding related to the programs they administer. Any corrective action will be evaluated in our subsequent audit.

BAFM, PennDOT, DPW, DOH, and DCED disagree with the condition of this finding for the programs they administer. BAFM 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. This 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 that funds may not be properly audited.

Additionally, the Commonwealth believes that its procedures in regard to disbursements of ARRA funds are adequate for compliance with OMB Circular A-133 due to the fact that a remittance advice containing a state contract number is sent to the subrecipient at the time of disbursement. Commonwealth management stated that the subrecipient can then refer to the federal award information included in the subgrant agreement. We disagree. The first table in the condition of the finding details a list of 13 major federal programs in which the Commonwealth is not providing all of the required federal award information at the time of award, or subgrant agreement. Therefore, the contracts included on the remittance advices may likely not include the required federal award information. Additionally, these remittance advices are not maintained and cannot be provided for any of our sample items in any of our major federal programs audited for SFYE June 30, 2013. Therefore, no audit trail exists to test this process.

Furthermore, PennDOT states in regard to the HPC Cluster Program that award information in question is presented to the subrecipients on the signature page of the reimbursement agreements; however, our review of the reimbursement agreements found that PennDOT has not specifically identified the CFDA Title and CFDA number in all cases.

Finally, DCED states in regard to the CDBG program that it now provides the federal grant numbers in contracts with subrecipients; however, this corrective action was not completed until after the 2012 Single Audit Exit Conference which was held on March 4, 2013. Therefore, this condition still existed for SFYE June 30, 2013.

Finding 13-SW-03: (continued)

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 13-SW-04:

CFDA #10.555 – National School Lunch Program
CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
CFDA #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.027 – Special Education – Grants to States
CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.575 and 93.596 – 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)
CFDA #96.001 – Social Security – Disability Insurance

Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (A Similar Condition Was Noted in Prior Year Finding 12-OB-02)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Cash Management

Federal Grant Numbers: 2013-1PA300305, 2012-PA300305, 11111PA705W1006, 11111PA705W1003, 11111PA705W5003, 12121PA705W1006, 12121PA705W5003, 13131PA705W1006, 13131PA705W1003, 13131PA705W5003, S010A090038, S010A100038, S010A110038, S010A120038, H027A100093, H027A110093, H027A120093, H126A130056, H126A120056, S367A120051, S367A110051, S367A100051, G1202PATANF, G1302PATANF, 1204PA4005, 1304PA4005, 11B1PALIEA, 12B1PALIEA, 12B2PALIE2, 13B1PALIEA, G1101PACCDF, G1201PACCDF, G1301PACCDF, 1201PA1401, 1301PA1401, 1201PA1407, 1301PA1407, 05-1105PA5021, 05-1205PA5021, 1205PA5MAP, 1305PA5MAP, 04-1104PADI00, 04-1204PADI00

Condition: The Commonwealth of Pennsylvania (Commonwealth) has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement (TSA), the Commonwealth has developed policies and procedures contained in the Comptroller Operations' Directive #540.1 and has developed the CMIA Grant Drawdown System (GDS) which calculates and provides recommended drawdown amounts for most federal programs using the Average Daily Clearance (ADC) method.

As in prior years, we noted various weaknesses in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns, as follows:

Finding 13-SW-04: (continued)

- The Office of the Budget's Bureau of Accounting and Financial Management (BAFM) conducted a new check clearance study to be incorporated into the SFYE June 30, 2013 TSA. However, in order to establish the delay of draw, the date the invoice was sent to Pennsylvania Treasury for payment that BAFM used in the study is a SAP-generated date. Due to the weakness in IT General Controls (ITGC) noted in the SAP system as reported in findings in our current-year audit of the Commonwealth's Basic Financial Statements, there is a possibility that system generated dates could be modified and not detected, and therefore, we cannot place any reliance on dates posted on SAP.

- Section 6.2.4 of the TSA contains a paragraph specific to CFDA #10.557 Benefit Payments (only) which states that these benefit payments are to be received in accordance with the Modified Zero Balance Account (ZBA) – Next Day Payment method. However, in Exhibit II of the TSA, the Payments to Local Agencies category of expenditures are lumped together with these Benefit Payments for the related federal revenues to be received by this same method. In our current year audit of the CFDA #10.557 program, we noted that Payments to Local Agencies are a separate and different type of payment and should not be subject to the Modified ZBA – Next Day Payment method. The Commonwealth's new calculation of ADC patterns implemented in the TSA for the SFYE June 30, 2013 indicated that the ADC for CFDA #10.557 was seven days. This is despite the fact that Benefit Payments, Payments to Local Agencies and Direct Payroll expenditures account for 99 percent of total program expenditures and are subject to receipt of federal funds the next day after requested. This indicates that the payments to local agencies should in fact be accounted for, and the related drawdowns, be requested separately.

- The new check clearance study implemented for the TSA agreement dated July 1, 2012 through June 30, 2013 was completed in May 2012, using all applicable transactions from the SFYE June 30, 2011. In the fall of 2012, BAFM questioned their calculation of the new draw delay for the Medical Assistance program which dropped from 10 days in the prior TSA agreement to two days in the current agreement. Although BAFM did not know what the correct draw delay should be, in accordance with 31 CFR Section 205.22, they timely amended the agreement on February 6, 2013 and changed the draw delay back to 10 days until they could determine the correct draw delay. BAFM then discovered that an error occurred in calculating the check clearance for all programs with a "VT Doc Type". BAFM recalculated the check clearance study correcting the error in the logic and produced a new study, completed in October 2013, which indicated a corrected draw delay for only one program, the Medical Assistance program, with a draw delay of 14 days. We tested the CMIA Annual Interest Report submitted for the SFYE June 30, 2013 and found that all applicable Medical Assistance program drawdowns were properly included in the calculation of the state's interest liability in this report.

- Within our drawdown testing of 65 haphazardly selected transactions, we identified one transaction which was not in compliance with Section 6.1.3 of the TSA for the SFYE June 30, 2013. The noncompliance occurred due to the fact that the transaction posting date of November 7, 2012 plus the draw delay of 19 days per the TSA equaled a projected receipt date of Monday, November 26, 2012; however, the funds were requested by the state on November 21, 2012 and receipted on Friday, November 23, 2012 (the day after Thanksgiving). Since the day after Thanksgiving is a state holiday but not a federal holiday, the language in section 6.1.3 of the TSA requires that the state should have requested the funds for deposit the day following, not prior to, the scheduled day. As such, the funds should have been requested by the state on Monday, November 26, 2012 for deposit on November 27, 2012 and were therefore receipted four days early. Commonwealth officials represented that the logic used in their Grants Management Drawdown System (GDS) is standard and consistently applied. As a result, all federal programs with drawdown scheduled receipt dates of Monday, November 26, 2012 (and November 25, 2012 since the same GDS logic is applied) would have been drawn down four days early and the state's interest liability was understated by an indeterminate amount. This error in the GDS logic will continue to occur each year for the Sunday and Monday after Thanksgiving until it is corrected.

Also, the state interest liability on the CMIA Annual Report for the fiscal year ended June 30, 2012, which was submitted to the U.S. Treasury during our current audit period fiscal year ended June 30, 2013, was understated by a minimum of $85,499 as follows:

Finding 13-SW-04: (continued)

- Within the Medical Assistance program, Department of Public Welfare's (DPW's) PROMISe system processed $67.7 million in school-based medical claims for the fiscal year ended June 30, 2013. 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 ($119 million during the fiscal year ended June 30, 2013) 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 $173 million and a balance of $128 million as of June 30, 2013, which means PDE is not reimbursing the school districts prior to OCO's drawdown of federal funds. We also reviewed the GM Interest Report which disclosed that the Commonwealth did not pay any interest on the balance of federal funds maintained within this account. As a result, the state's interest liability was understated by an estimated $85,499 for the Medical Assistance Program, CFDA #93.778.

Criteria: 31 CFR Section 205.20 provides the following regarding clearance patterns:

States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

a. A clearance pattern must be auditable.

b. A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

c. A clearance pattern must include seasonal or other periodic variations in clearance activity.

31 CFR Section 205.15 states the following pertaining to state interest liabilities:

(a) General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.

The Commonwealth's TSA with the U.S. Treasury Department in effect until June 30, 2013, Section 6.0 related to Funding Techniques states:

6.1.3 In instances where the receipt of funds is scheduled for a Saturday, the State shall request funds for deposit on Friday. In instances where the receipt of funds is scheduled for a Sunday, the State shall request funds for deposit on Monday. In instances where the receipt of Federal funds is scheduled for deposit on a day when the State is not open for business, the State shall request funds for deposit the day following the scheduled day; in instances where the receipt of Federal funds is scheduled for deposit on a day when the Federal Government is not open for business, the State shall request funds for deposit the day prior to the scheduled day.

Also, the Commonwealth's TSA with the U.S. Treasury Department Section 8.6 related to State Interest Liabilities states:

8.6.1 The State shall be liable for interest on Federal funds from the date Federal funds are credited to a State account until the date those funds are paid out for program purposes.

8.6.2 The State shall use the following method to calculate State interest liabilities on Federal funds:

8.6.3 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.

Finding 13-SW-04: (continued)

The Commonwealth's TSA 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

NOTE: This clearance pattern for the Medical Assistance Program was corrected to be 14 days in October 2013, retroactively effective for the entire SFYE June 30, 2013.

Cause: As for the error that occurred in the check clearance study, BAFM represented that the ADC calculations were performed by an employee who was not familiar with prior ADC check clearance study detail procedures. It was further stated that Office of Comptroller Operations (OCO) lacked sufficient transfer of knowledge on how the previous check clearance study was completed. This resulted in confusion between OCO and the Department of Treasury relating to whether the agency or Treasury Voucher Transmittal (VT) number was required for Treasury to provide paper check information for completion of the study. This resulted in incomplete data being passed from Treasury to OCO leading to an incorrect calculation of CFDA #93.778. The fact that the data provided by Treasury was incomplete was not identified due to a reconciliation error of the VT information received.

In addition to this, BAFM officials stated that the detail workpapers for generating the ADC patterns for the federal programs and for inclusion in the TSA agreement are not subject to a supervisory review to help ensure the accuracy of the check clearance study.

Effect: As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR Part 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for the fiscal year ended June 30, 2012 are not accurate. Our testing disclosed a minimum estimate of $85,499 in understatements in the state interest liability to the federal government.

Recommendation: We recommend that OCO:

- Calculate any prior year additional June 30, 2012 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.

- Change the GDS logic for drawdown of federal funds to appropriately follow section 6.1.3 related to instances when the Federal Government is open for business but the State is not open for business. Also, the state should accumulate all affected drawdowns and account for the understatement in the state's interest liability to the Federal Government.

- Change the GDS drawdown of federal funds related to the Payments to Local Agencies under CFDA #10.557 to be drawn down in accordance with the calculated ADC pattern of seven days.

- Implement procedures for documented supervisory review and approval of future check clearance study workpapers to ensure accuracy.

Finding 13-SW-04: (continued)

Agency Response: The Office of Comptroller Operations (OCO) disagrees with the condition that computer control weaknesses prevented the auditor from relying on the dates posted in SAP. The dates used to determine the day invoices are sent to Treasury for payment are system generated and cannot be edited by users. These facts provide assurance to the auditors that dates cannot be modified.

The OCO disagrees with the auditor's condition indicating that the payments to local agencies should in fact be accounted for, and the related drawdowns, be requested separately for CFDA #10.557. Section 6.3.2 of the TSA specifically states that the CFDA #10.557 Supplemental Nutrition Program for Women , Infants and Children benefit payment/payments to local agencies components will be funded using the technique identified as and described under Modified ZBA – Next Day Payment (CFDA #10.557 Benefits Payment). As part of the TSA, FNS has approved this funding technique for the benefit payment/payments to local agencies components of the Supplemental Nutrition Program for Women, Infants and Children, CFDA #10.557.

The liability associated with the incorrect draw delay for CFDA #93.778 was calculated and included in the 2012/2013 Annual Report submitted to the U.S. Treasury. The corrected check clearance study was signed off on by a supervisor in BQA. A supervisor will sign off on all future check clearance studies to signify their review was completed.

The OCO disagrees with the auditor's conclusion citing noncompliance with Section 6.1.3 of the TSA for the SFYE June 30, 2013. As indicated by the auditors, the identified transaction had a scheduled receipt date of Monday, November 26, 2012, a Commonwealth workday. Since this date is not Saturday, Sunday or a day in which the State or Federal Government was not open for business as outlined by the criteria under Section 6.1.3, our request for funds on Wednesday, November 21, 2012 (the prior workday) is not in violation of any terms contained within TSA.

The OCO disagrees with the auditor's condition that the Commonwealth owes interest on money currently held by the Pennsylvania Department of Education (PDE) for the Medical Assistance Program. This program was established as a result of the Medicare Catastrophic Act (PL 100-360). This law stated that federal Medicaid funds must be available to reimburse for the cost of health related services found in a child's individualized service plan (IEP), or individualized family service plan (IFSP). As a result of this law, state education agencies are eligible for federal reimbursement for the health related services provided to children who are eligible for Medicaid. The PDE developed the School Based ACCESS program (SBAP) as a method to identify and collect eligible claims related to services provided to Medical Assistance eligible students. Due to the complexity of the program, the PDE has contracted with a service provider to enroll and train LEAs and to periodically collect and submit the claims to the Department of 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 the LEAs request funds as they deem necessary. The auditor's assertion that a large carry-forward balance exists and that the PDE is not reimbursing school districts is inaccurate. The auditors have been provided a copy of the MOUs that describe the process, copies of provider agreements completed by the schools that specifically direct payment to PDE, approval by CMS of a review that was performed of the process (including the MOU that describes the process), and offered additional information such as training materials that are provided to the LEAs and forms used to request money when the schools want the funds disbursed. It was also communicated to the auditors that the program is voluntary for the LEAs. Given the process described and all of the information provided we disagree that the states interest liability was understated by an estimated $85,449. Additionally OCO believes the auditor's statement that "PDE is not reimbursing the school districts prior to OCO's drawdown of federal funds" is misleading. The auditor's statement incorrectly implies that the federal fund drawdowns are tied to the PDE payments to the school districts. The drawdown of federal funds occurs after DPW receives and processes the eligible health related service claims for services provided to medical assistance eligible students.

Finding 13-SW-04: (continued)

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. Department of the Treasury during the SFYE June 30, 2011 audit and discussed whether or not to retain the identified weaknesses. The CMIA program representative requested that we forward the draft findings and agency response for review, which we did. Consequently, the CMIA program representative noted that he had no basis to recommend that we remove the conditions from our finding.

With regard to the OCO referencing section 6.3.2 of the TSA for CFDA #10.557, it should be noted that section 6.2.4 of the TSA states that the terms in section 6.2.4 shall be implemented in section 6.3.2. However, as stated in the current year TSA, there is a discrepancy between section 6.2.4 and section 6.3.2 for CFDA #10.557. Also, section 6.3.2, entitled Benefit Payments, includes a sentence stating "The remaining draws shall be based upon the actual clearance activity of the WIC bank account." We believe this statement applies to payments to local agencies and therefore the condition remains as stated.

During the subsequent audit period we will test the corrected check clearance study that was completed in October 2013, as well as the OCO claim that review procedures have since been implemented in this area. As for the remainder of the finding, management provided no additional information or documentation from federal officials to support the removal of any of the conditions from the finding. Thus the finding remains as stated.

Questioned Costs: $85,499

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

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Summary Schedule of Prior Audit Findings

Commonwealth of Pennsylvania

Finding	State Agency/Finding	Comments
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2012</u>:		
OFFICE OF THE BUDGET (OB)		
12-OB-01	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and At The Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 11-OB-02)	Disagreement with this finding was expressed by DPW, OB, PennDOT, DDAP and PENNVEST. DOH states they are in compliance with the current management directive. DCED, L&I and PDE have taken corrective action for future grants/contracts.
12-OB-02	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 and at Least a $198,529 Known Understatement of the Cash Management Improvement Act of 1990 Interest Liability (Prior Year Finding 11-OB-03)	The Office of the Budget, Bureau of Accounting and Financial Management disagrees with this finding and has determined that corrective action is not necessary.
12-OB-03	General Information Technology Control Weaknesses Affecting the Payroll Process	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.

Finding	State Agency/Finding	Comments
OFFICE OF THE BUDGET (OB) (Continued)		
12-OB-04	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings 11-OB-04 and 11-DPW-16)	Corrective action was taken by BOA, L&I and PDE. Process updates for DPW, DOH, Aging and PENNVEST are as follows: DPW has a contract in place for auditor staff augmentation; we currently have some staff from that contract devoted to the single audit review backlog. The streamlined process along with additional resources should be sufficient to reduce and then eliminate the backlog. DOH is currently utilizing an annuitant to perform the work of the unfilled subrecipient audit review position that is assigned to do this work. The Department of Aging has hired a person within the Contracting Division whose primary responsibilities include processing SEFA reviews. The process is currently being updated and the backlog of reviews will soon be eliminated. PENNVEST will track that it is responding to the Single Audit finding within the 6 month time frame. Additional staff is being reclassified (HR is complete, it is to OA now before posting to fill the vacancy) that will help assure a timely tracking and response.
DEPARTMENT OF AGRICULTURE (AGRI)		
12-AGRI-01	Internal Control Weaknesses and Noncompliance With Recordkeeping and Reporting to Verify Commodity Receipts and Distributions (Prior Year Finding 11-AGRI-01)	Corrective action was taken.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
12-DCED-01	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 11-DCED-01)	Two additional staff have been hired to assist with a new program, Disaster Recovery funds which will not require existing staff involvement. Also, DCED staff are working with a HUD TA provider to assist with implementing additional procedures for desk monitoring. HOME contracts are being monitored by Weatherization staff and the ESG program will be obtaining additional staff to perform monitoring functions.

Finding	State Agency/Finding	Comments
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED) (Continued)		
12-DCED-02	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)	Corrective action was taken.
12-DCED-03	Deficiencies in Information Technology Controls at the Department of Community and Economic Development (Prior Year Finding 11-DCED-04)	Corrective action was taken.
DEPARTMENT OF EDUCATION (PDE)		
12-PDE-01	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 11-PDE-02)	The PDE has implemented corrective action on an on-going basis. The roll out phase of the net platform left to complete is SFSP, March 2014. The Deployment Log/Serve Log Comparison has been completed as part of the corrective action. The PDE is awaiting USDA's Program Determination Letter.
12-PDE-02	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding 11-PDE-03)	BOA implemented new procedures for audits of FFYE 9/30/11. The number of audits to be conducted is discussed annually between PDE and BOA.
12-PDE-03	Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of Child and Adult Care Food Program Subrecipients (Prior Year Finding 11-PDE-04)	Corrective action was taken.
12-PDE-04	A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding 11-PDE-06)	The PDE has completed the corrective action measure of adding additional data in the SRCs for the auditors' review as of September 2012. The comparison of DRC's and EdNA data will be completed by September 30, 2013. The comparison of students tested and enrollment will be completed by August 31, 2013, and the new management review will be implemented once the 2013 SRC and CSPR is completed, November 2013. The PDE continues to work with the vendor implementing changes to address the exceptions of the Finding. The anticipated completion date remains November 1, 2014.

Finding	State Agency/Finding	Comments
DEPARTMENT OF EDUCATION (PDE) (Continued)		
12-PDE-05	A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality State Grants Subrecipients (Prior Year Finding 11-PDE-07)	PDE is working with Leader Services to improve the monitoring instrument and adding a Division Chief sign off.
12-PDE-06	A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data	The PDE disagrees with this finding. However, additional assurances are being implemented and PDE is awaiting USDE's Program Determination Letter.
12-PDE-07	A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Compliance With Earmarking Requirements, and Monitoring of Subrecipients	The PDE disagrees with this finding and has provided follow-up from SIG Contacts to the USDE. The PDE is awaiting USDE's Program Determination Letter.
12-PDE-08	Noncompliance and Internal Control Deficiencies in Pennsylvania Department of Education's Monitoring of ARRA Funds (Prior Year Finding 11-PDE-09)	The PDE disagrees with this finding and is awaiting USDE's Program Determination Letter. This finding was not repeated during the current audit.
DEPARTMENT OF HEALTH (DOH)		
12-DOH-01	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions and Vendor Overcharges	1. In late June 2013, BIT developed an application that provides a quick comparison of the Fulton to QuickWIC process. Program staff is manually able to compare values from the application developed against SAP. To completely address the issue, BIT has identified the need to modify QuickWIC to include a "processed date" to match against the Fulton file. QuickWIC redemption dates now match the Fulton file. Values were verified. 2. Updating the auto-voided Cap Lancaster FIs eliminated most of the $500,949 reconciliation problem. 3. DOH is in discussions with USDA regarding manipulating historical data due to the risk of introducing data integrity errors.

Finding	State Agency/Finding	Comments
DEPARTMENT OF HEALTH (DOH) (Continued)		
12-DOH-02	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third-Party Subrecipient Contractor Results in an Undetermined Amount of Questioned Costs (Prior Year Finding 11-DPW-15)	DOH /SPBP has hired a full time Data Specialist who has implemented the following: collection of all federal and state performance and monitoring standards specific to the program, identification, receipt and review of all appropriate data reports, maintenance of the Decision Logic Tables used by the vendor specific to eligibility determination, development and maintenance of tracking tools including all Customer Service Activities, monitoring data and the quality measures identified to complete the SPBP Quality Management process.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
12-L&I-01	Deficiencies Noted During Re-Calculation of Experience Based Employer Tax Rate	Corrective action was taken.
12-L&I-02	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 11-L&I-01)	SuperUser role permissions were changed to remove the ability to edit the fee schedule. BWDP issued an email reminder to all offices concerning removing separated users' access.
12-L&I-03	Internal Control Weaknesses in Approving of the Trade Adjustment Assistance Training Payments	L&I disagreed with this finding. This finding was not repeated during the current audit.
12-L&I-04	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)	L&I disagreed with this finding. This finding was not repeated during the current audit.
12-L&I-05	A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations	L&I arranged for the reports to be sent out monthly and communicated the importance of moving cases through the process timely.
12-L&I-06	Internal Control Weakness in the Preparation, Review, and Approval of the Quarterly Form SSA-4514 Reports Submitted to the Social Security Administration	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
12-DMVA-01	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of $35,422 (Prior Year Finding 11-DMVA-01)	As stated in their response to the finding, DMVA disagreed with portions of the finding and took corrective action for the period of availability and matching portions of the finding they agreed with. OB disagreed with their portion of the finding.
12-DMVA-02	Noncompliance and Internal Control Deficiencies Related to Equipment Management and Accountability	Corrective action was taken.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)		
12-PEMA-01	Material Weakness and Material Noncompliance Over Equipment and Real Property Management	During monitoring visits with state departments/agencies, policies and procedures related to management of equipment purchased with HSGP funds were reviewed. Our focus was to verify that equipment is being managed in compliance with the requirements set forth in 44 CFR § 13.32 and the Federal Grant Programs Administrative Manual developed by the SAA. Departments/agencies were reminded to keep information updated and current for each piece of equipment purchased with HSGP funds per 44 CFR part 13 until disposition occurs.
12-PEMA-02	Material Weakness and Material Noncompliance Over Subrecipient Monitoring	Corrective action was taken.
12-PEMA-03	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement	PEMA will continue to work towards obligating Homeland Security Grant Program subgrant awards within 45 days by using a three pronged approach. The Homeland Security Grant Program does not have enough subgrant agreements to qualify for form approval from the Office of General Counsel and Office of Attorney General. However, PEMA will submit a waiver to request form approval for these subgrant agreements due to the 45 day requirement. PEMA will also work with subgrantees to have them return signed grant agreements to PEMA on timely basis. Finally, PEMA will work subgrantees to provide as much detail as possible on grant applications to minimize inquiries from the Department of Homeland Security which delay the obligation process.

Finding	State Agency/Finding	Comments
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
12-PENNVEST-01	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)	Corrective action was taken.
12-PENNVEST-02	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 11-PENNVEST-03)	A replacement system for tracking the Workflow of Annual reviews will be developed in the Fall of 2013 due to IT delays. A new methodology has been put in place to track the Annual Financial Statements for submission and review.
12-PENNVEST-03	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding 11-PENNVEST-02)	An implementation plan was drafted to procure and implement control software to manage production releases. Target date to transition systems to be completed October 2013. Additional application controls to be implemented for management of public roles and accesses to ensure public users are aware of policy and procedures. Application changes are underway and scheduled for September 2013 production release.
12-PENNVEST-04	Internal Control Weakness Over Matching Requirement Resulted in Material Noncompliance and Questioned Costs of $6,313,514	Corrective action was taken.
DEPARTMENT OF PUBLIC WELFARE (DPW)		
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 (Prior Year Finding 11-DPW-01)	Corrective action was taken.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
12-DPW-02	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Known Questioned Costs of $33,272 (Prior Year Finding 11-DPW-05)	Corrective action was taken.
12-DPW-03	Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (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.
12-DPW-04	U.S. Department of Health and Human Services Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Public Welfare and Insurance Department Systems (Prior Year Finding 11-DPW-08)	Risk assessments were prepared for CHIP during the SFY 2013.
12-DPW-05	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)	DPW disagrees with this finding. DPW believes that adequate internal controls are in place to operate effectively. This finding was not repeated during the current audit.
12-DPW-06	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 11-DPW-11)	DPW has added positions and changed some business practices to help resolve the issue.
12-DPW-07	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)	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.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
12-DPW-08	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (Prior Year Finding 11-DPW-14)	DPW disagrees that there are "Material Noncompliance and Internal Control Weaknesses". DPW took corrective action to address the portions of the finding with which they agreed.
DEPARTMENT OF TRANSPORTATION (PennDOT)		
12-PennDOT-01	Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (Prior Year Finding 11-PennDOT-03)	As part of the development of the new Local Project Delivery Manual (Pub 740), the Bureau has worked to update policy and procedures related to Local Project inspection staffing to clarify what approval actions are required of the responsible District.
12-PennDOT-02	Internal Control Deficiencies Related to Buy American ARRA Provisions (Prior Year Finding 11-PennDOT-01)	Corrective action was taken.
12-PennDOT-03	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding 11-PennDOT-02)	ECMS management team has developed a query against the ECMS database which indicates who input the invoice and who approved the invoice for every transaction that takes place in ECMS. That query is further processed to indicate on a report whether any of the invoices were acted on in both situations (invoice creation & invoice approval) by the same person. This report is run on a quarterly basis. All individuals requiring signature authority will be required to complete a new STD-275, Signature Authorization Form and have approved by Sept 3, 2013. All previous delegations will be revoked as of that date. 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.

Finding	State Agency/Finding	Comments
FINDINGS FOR THE YEAR ENDED JUNE 30, 2011:		
OFFICE OF THE BUDGET (OB)		
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)	Refer to finding 12-OB-01 for the status of this issue.
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)	Refer to finding 12-OB-02 for the status of this issue.
11-OB-04	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #10-102)	Refer to finding 12-OB-04 for the status of this issue.
DEPARTMENT OF AGRICULTURE (AGRI)		
11-AGRI-01	Internal Control Weaknesses and Noncompliance with Recordkeeping and Reporting to Verify Commodity Receipts and Distributions	Corrective action was taken.
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)	Refer to finding 12-DCED-01 for the status of this issue.
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)	Corrective action was taken.

Summary Schedule of Prior Audit Findings - June 30, 2013

Finding	State Agency/Finding	Comments
DEPARTMENT OF EDUCATION (PDE)		
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)	Refer to finding 12-PDE-01 for the status of this issue.
11-PDE-03	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding #10-28)	Refer to finding 12-PDE-02 for the status of this issue.
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)	Corrective action was taken.
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)	Refer to finding 12-PDE-04 for the status of this issue.
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)	Refer to finding 12-PDE-05 for the status of this issue.
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)	Refer to finding 12-PDE-08 for the status of this issue.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings - June 30, 2013

Finding	State Agency/Finding	Comments
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)	Refer to finding 12-L&I-02 for the status of this issue.
11-L&I-02	Control Weaknesses Exist in Labor & Industry's Subrecipient Monitoring of Eligibility Determinations for Individuals (Prior Year Finding #10-41)	Refer to finding 12-L&I-04 for the status of this issue.
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)	Refer to finding 12-DMVA-01 for the status of this issue.
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)	Corrective action was taken.
11-PENNVEST-02	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding #10-53)	Refer to finding 12-PENNVEST-03 for the status of this issue.
11-PENNVEST-03	Internal Control Improvements Needed in Subrecipient Loan Monitoring System	Refer to finding 12-PENNVEST-02 for the status of this issue.

Finding	State Agency/Finding	Comments
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)	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)	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)	Refer to finding 12-DPW-03 for the status of this issue.
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)	Refer to finding 12-DPW-04 for the status of this issue.
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)	Refer to finding 12-DPW-05 for the status of this issue.

Finding	State Agency/Finding	Comments
DEPARTMENT OF PUBLIC WELFARE (DPW) (Continued)		
11-DPW-11	Noncompliance and Internal Control Weakness Over Health and Safety Requirements	Refer to finding 12-DPW-06 for the status of this issue.
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)	Refer to finding 12-DPW-07 for the status of this issue.
11-DPW-14	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses	Refer to finding 12-DPW-08 for the status of this issue.
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)	Refer to finding 12-DOH-02 for the status of this issue.
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)	Refer to finding 12-OB-04 for the status of this issue.
DEPARTMENT OF TRANSPORTATION (PennDOT)		
11-PennDOT-02	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding #10-45)	Refer to finding 12-PennDot-03 for the status of this issue.
11-PennDOT-03	Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects (Prior Year Finding #10-47)	Refer to finding 12-PennDot-01 for the status of this issue.

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Corrective Action Plans

Commonwealth of Pennsylvania

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-01			**Ineffective Methodology in Estimating Escheat Liability (A Similar Condition Was Noted in Prior Year Finding 12-07)**	
	Treasury	Cynthia Cranmer, Comptroller	Further evaluation of old year property returns will be conducted to develop an alternative methodology for the long term portion of the escheat liability.	**06/30/2014**
13-02			**General Computer Controls in the PA Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 12 - 04)**	
	Treasury	Cynthia Cranmer, Comptroller	1. 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.	**04/30/2014**
			2. The previous versions of OnBase had security issues which unfortunately necessitated the current configuration. BUCD anticipates a newer version of OnBase that should allow the modification of the user rights to a stricter, more appropriate security setting.	**09/30/2014**
			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 currently includes 136 officials (124 capitol and state police, 12 DGS fire and safety personnel) as required by Labor and Industry. These individuals have been established as a separate access group. Since December 2010, BUCD conducts regular reviews of authorized users with Department of General Services.	**N/A**
			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.	**06/30/2014**
			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	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-02 (cont'd)			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.	**N/A**
			6. 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.	**N/A**
			7. Although Treasury had an executed the contract with Xerox and L&I, Treasury had 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.	**Completed**
13-03			**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 12-02)**	
	OB-BPS	Deb Chernicoff, Director	2. Current SAP functionality does not exist to perform this check electronically. This will be incorporated into new policy.	**12/31/2014**
			4. Current SAP functionality does not exist to perform this check electronically. This will be incorporated into new policy.	**12/31/2014**
			5. Although SAP is not configured to require additional approval, if a one-time vendor is entered by a Comptroller Office Supervisor, the Manager, Assistant Director or Director will be required to unblock the invoice to separate the entry and approval process.	**N/A**
	OB-BAFM	Andy Cameron, Assistant Director	1. BAFM disagrees with this finding item.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-03 (cont'd)		Brian Seno, Assistant Director	3. BAFM disagrees with this finding item.	**N/A**
13-04			**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 12-03)**	
	OB-BPS	Deb Chernicoff, Director	2a. Access has been removed.	**Completed**
			2b. 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.	**N/A**
			2c. The Bureau of Quality Control is coordinating the GRC project to review all SAP roles	**06/30/2014**
			2d. Although there is not a system-enforced segregation of duties, BPS is prevented from printing the checks since this function was physically moved to the Office of Administrative Services and we no longer have the check printer or check stock available for our use.	**Completed**
	OB-BQA	Joshua Naylor, Assistant Director	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 all Office of the Budget user risks by June 30, 2014 and a majority of other (agency) user risks by December 31, 2014. As agency user risks are identified and reported, the mitigating control (waiver) process will be rolled out across the Commonwealth.	**12/31/2014**
13-05			**General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 12-08)**	
	OA	Colby Smith, IES Director Kinzer Shearer, IES Assistant	1. Due to the size and complexity of Commonwealth agencies and operations, numerous feeder systems pass significant financial data to SAP. -- 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. Completed May 2012.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Director for Technical Operations	2. Establish new Management Directive setting policy and procedures on End-User Computing. – Completed November 2013. MD 205.4 – Quality Assurance for Business Productivity Tools issued November 23, 2013.	**Completed**
		John Clark, Special Assistant to the Secretary of Administration	3. Control deficiencies related to AIX (the operating system for SAP production servers) and Oracle (the database for SAP) were noted as follows: 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. Completed March 2012.	**Completed**
		Lanny Black, Commonwealth Chief Technology Officer	4. Operating exceptions noted in the Data Power House (DPH) -- SSAE16 Unisys CAP minor changes re-submitted September 2013. Completed September 2013.	**Completed**
	DOR-Lottery	James Morgan, Director of Lottery Security Douglas Miller, IT Manager for Lottery & Casino Gaming Technology Support	1. One clarification to this finding is that contractors never had unrestricted access to the root directory. The only directory accessible to the contractors is the ICS application directory. The contractors have never had root-level access to the servers. Monitoring of access and activities on the servers has been in place since April 2013. Monitoring is accomplished via email alerts from the servers whenever a user logs into them; a "User History" email and a "LogWatch" email. The "User History" email details who has logged into which server and lists the commands that were executed. The "LogWatch" email provides details of any system logs that change, and also lists users who access the system and the method of access. Both emails are sent to distribution lists that include Lottery IT Support staff and Lottery Security Staff. These emails are reviewed as they are received. Multiple examples of these emails have been provided as part of the audit and do provide adequate monitoring. We feel that these monitoring processes are sufficient to ensure that only authorized personnel are accessing the ICS servers. All change requests are sent to Lottery Security and Lottery IT Support staff for review and approval. A "System Implementation Document" is used to document changes and includes signoffs for each area of responsibility for the servers.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Douglas Miller, IT Manager for Lottery & Casino Gaming Technology Support	2. Settings have been configured to lock out remote users after three unsuccessful login attempts. Settings have not been configured to lockout users accessing the servers via the local consoles that are connected directly to the servers. Because all contractor access to the servers is via VPN (remote) access, this configuration does provide adequate security. Settings for locking out users after three unsuccessful login attempts at the local consoles connected directly to the servers have been developed. Once implemented, user accounts will be locked after three unsuccessful login attempts.	**Competed**
		Giff Thompson, Pa Project Manager for SGI	3. SGI has indicated that the 11 VPN users in question, no longer have accounts on the SGI's systems. SGI is in the process of updating their list of authorized users.	**04/01/2014**
	L&I	Michael Sage, IT Manager Security Division	1. A standard System Development Life Cycle is currently being developed for use by all Labor & Industry system development projects. At this time the area responsible for defining data migration process has not provided the formal procedures. It is expected that a procedure will be developed as part of any future data migration effort.	**12/31/2014**
			2. Finding is acknowledged. However, all code deployments within the mainframe environment are tracked within Endevor. This includes code promoted by non-development staff and development staff. All Endevor logs are reviewed on a regular basis. Any code promotions outside of the standard/documented changes control process would be identified and audited. For this reason it has been determined that no corrective actions are needed.	**N/A**
			3. Due to current staffing levels the documented access has been determined to be necessary. L&I will develop a policy or procedure for granting power user attributes in the mainframe environment. This policy will be developed by December 31, 2014. L&I OIT is currently under hiring restrictions, limiting the number of OIT staff members. Until these hiring restrictions are removed selected staff members will need to be granted multiple elevated attributes to ensure the mainframe environment is supported. It is not anticipated that the hiring restrictions will be removed during the 2014 calendar year.	**12/31/2015**
			4. Due to the current nature of the UCMS application this level of access has been determined to be	**12/31/2015**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)			necessary. The UCMS application support team does not currently have the resources available to support a review of the UCMS application roles and access levels, which would be required to reduce the number of privileged users. L&I OIT is currently under hiring restrictions, limiting the number of OIT staff members. Until these hiring restrictions are removed OIT will not have the resources available to conduct reviews of all user access levels within the UCMS application. It is not anticipated that the hiring restrictions will be removed during the 2014 calendar year. The L&I OIT Security Division will create annual reports documenting all users within the privileged user roles, and supply these reports to the UCMS application support team. However, as desired above the UCMS application support team will not be able to act on these reports until staffing restrictions are lifted.	
			5. Due to current staffing levels resources do not currently exists to conduct the access reviews on a regular basis. L&I OIT is currently under hiring restrictions, limiting the number of OIT staff members. Until these hiring restrictions are removed OIT will not have the resources available to conduct reviews of all user access levels within the UCMS application. It is not anticipated that the hiring restrictions will be removed during the 2014 calendar year. The L&I OIT Security Division will create annual reports documenting all users within the UCMS application roles, and supply these reports to the UCMS application support team. However, as desired above the UCMS application support team will not be able to act on these reports until staffing restrictions are lifted.	**12/31/2015**
			6. Due to current staffing level and lack of expert knowledge on specific systems, some key personnel have been granted access that normally would not, to ensure stabilization of the UCMS application. L&I OIT is currently under hiring restrictions, limiting the number of OIT staff members. Until these hiring restrictions are removed selected staff members will need to be granted multiple elevated attributes to ensure the UCMS application is supported. It is not anticipated that the hiring restrictions will be removed during the 2014 calendar year.	**12/31/2015**
			7. Due to the current/pending OA data computing services contract with Unisys it has been determined that updates to the physical access for the L&I data center would not be cost effective. It is anticipated that when the L&I data center is consolidated, the physical access requirements for the current L&I data would change and this requirement will no longer be needed.	**12/31/2015**
	L&I-SWIF	Michael Sage, IT Manager Security	1. Prior year weakness was remediated. 2. Prior year weakness was remediated.	**Completed** **Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Division	3. It is expected that a procedure will be developed as part of any future data migration effort.	**12/31/2014**
			4. Due to the current architecture of the PowerComp, Freedom Financial and Iworks applications security setting/configurations cannot be updated at this time. However, there is a plan to modernize and/or replace these applications, which will include an updated security model thus meeting these security requirements. This modernization effort is currently in the planning stage. It is anticipated that this effort will be completed by December 31, 2019.	**12/31/2019**
			5. Users are required to be logged in with their CWOPA credentials to access PowerComp. SWIF is planning on replacing their existing system. This issue will be addressed when the system is replaced.	**12/31/2019**
			6. Prior year weakness was remediated.	**Completed**
			7. A standard System Development Life cycle is currently being developed to be used for all Labor and Industry system development projects.	**12/31/2014**
	PennDOT	Lara Livergood, Div. Manager, Bureau of IT Project Development & Delivery Joyce Black, Manager, Network Administration Division Doreen Wallen, Div. Manager, Bureau of Business	1. An attribute assignment policy plan was implemented on 7/3/13. A copy of the policy was provided to the auditors for review after the audit period.	**Completed**
			2. Corrective action had been implemented after the audit period. In June of 2013 the shared admin accounts for ECMS were eliminated by creating local accounts for the administrators. The auditors did a walk-through on 9/24/13 and a follow-up meeting may be requested and scheduled. Demonstrations will be conducted on the process for generating logs in addition to showing the log for a system deployment if there is a follow-up meeting. In addition, an added enhancement was done which involved extending the active directory structure to the servers. After the auditors have completed their review, the local accounts will be eliminated and the administrators will use their CWOPA accounts thus there will be no need to track those accounts.	**Completed**
			3. PennDOT agrees this statement is correct. However there are controls in place that mitigate potential risk. dotGrants uses a delegated user administration model. Each agency has a security administrator who is responsible for the user accounts within their agency. It falls to them to ensure that only appropriate users within their agency have access to dotGrants and to deactivate accounts for people who should no longer have access. These agency security administrators are also responsible for assigning	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Solutions & Services	user roles within dotGrants for their agency users to control which accounts have read-only access versus edit capabilities. Any changes to funding and/or grant information made by an outside agency user would be visible to all users within their agency. In addition, those changes would need to follow the standard workflow which requires review and approval by multiple PennDOT personnel. All invoices must be accompanied by documentation that is kept as a file attachment within dotGrants. It is PennDOT's position that the responsibility of outside agency user administration should remain with the outside agency. PennDOT could provide a report within dotGrants that would give agency security administrators an easier way to review their agency user accounts. In addition, PennDOT could send a periodic email to all agency security administrators to remind them of their responsibility to review their agency user accounts.	
	DPW	Pam Skelton-ISS 2	1. DPW agrees with this finding and is in the process of integrating "Non-Commonwealth" CWOPA accounts into our existing provisioning system. This will enable the provision and de-provision all CWOPA accounts.	**April 2014**
		Pam Skelton-ISS 2	2. The DPW upgraded the OpCons application on 3/4/11. This upgrade also included the elimination of shared user IDS. Anyone that has access to use this application now has their own user account created.	**Completed**
		Pam Skelton-ISS 2	3. As of February 2014 DPW is in compliance with CIS password requirements.	**Completed**
		Andy Tiazkun, Fin. Planning Manager	4. DPW Acknowledges the audit findings concerning the SOC1 report for JP Morgan. It is the opinion of DPW that these findings will not be repeated since DPW no longer contracts with JP Morgan.	**Completed**
			5. Since JP Morgan is no longer a subservice contractor of DPW the SOC 1 examination will no longer contain these deficiencies.	**Completed**
		Ralph Reichert, Director, Division of	6. a. Xerox is converting the Linux servers from Linux accounts to Active Directory accounts access via Active Directory groups. Active Directory enforces all the Xerox password configuration policy settings standard requirements and was completed on February 10, 2014.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Office Services	b. The review of all accounts on production database and application servers was completed on January 28, 2014.	**Completed**
			c. A change to bring the EPPIC password configuration policy setting in alignment with Xerox password configuration policy setting standard requirements was completed on February 10, 2014.	**Completed**
			d. The review of accounts for the EPPIC AT was completed on February 10, 2014.	**Completed**
			e. This is the same as issue #2 above and was completed on January 28, 2014.	**Completed**
		Denise Luce, Welfare Program Executive 1	7. a. This finding has been reviewed and measures have been taken to review all user access to the Oracle databases. No accounts were accessed.	**Completed**
			b. This issue occurred through the termination of an employee as a contractor employee to a hired HP employee. At which time the employee was issued a new badge by the Securitas Security officer but without the proper authorization request through the Automated Physical Access Request System (APARS). A formal request is required and has been reviewed with facility Securitas Security staff to ensure an APARS request is submitted for any badge requests in the future.	
		Denise Luce, Welfare Program Executive 1 Terry Findling, Program Manager, Unisys Gayle Fajardo-Lane, Account Executive, HP (Unisys sub-contractor for	8. Unisys previously completed an investigation of available options that can be used to monitor production code libraries for unauthorized changes. After discussing this further with our technical staff, I believe that the system Unisys has in place to monitor production code libraries for unauthorized changes is sufficient and provides an acceptable level of risk.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		HP)		
	DOH	Mike Matter, ITG Admin Physical Security Mgr. Karen Ford, Enterprise Development Services Director George Nace, Database Team Manager Patricia Hopple, LAN Team Manager Paul Przewoznik, Information Security Officer	1. Multiple technical staff personnel have access to the room for their day-to-day tasks (network staff, database staff, and server team staff). Also, administrative and maintenance staff personnel have infrequent access. Senior management personnel have access to provide unplanned, accompanied access during after-hours responses. DOH's Bureau of Information Technology will continue to monitor access requirements and minimize the distribution of access badges wherever possible. 2. Regarding Generic UserID's having access to Server and Domain Administration, the DHProdAdmin account has been deactivated. Applicable managers have been directed to use named accounts. Additionally, managers have been directed to monitor accounts periodically to verify compliance. Applicable managers are meeting on a regular basis to develop applicable policy. Regarding Generic UserID's having access to WIC Database Administration; generic Database Administrator accounts have been removed from the Database Administrator Group within Active Directory, and from the Global Address List. Named Accounts/Unique Accounts for production database access are now in-place for individuals requiring system access that exclusively identifies the individual to whom it is assigned. Also, BIT Applications Division staff members do not have Named Accounts or Shared Accounts for production database access. Applicable managers are meeting on regular basis to develop policy needed to address Service Account requirements and restrictions for generic accounts/shared accounts. Domain Administration access for two terminated employees was removed. There are two processes in place that should mitigate this risk in the future. DOH's Bureau of Information Technology has a Remedy process that is used to add and delete Domain Administration rights for users. This process also maintains a tracking history. All Administrator 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. Applicable managers are meeting on a regular basis to develop applicable policy. Draft policy has been written to address 12-08 GAAP findings, and policy exceptions/updates required to comply with OA/OIT ITB-SEC007. This draft policy has been distributed within the Bureau of	**Completed** **03/31/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)			Information Technology for review and comments. Draft policy has also been distributed to the OA/OIT Enterprise Technology Security Council (ETSC) for review and comments. The anticipated completion date is 3/31/14.	
		Karen Ford, Enterprise Development Services Director William Cramer, Director, Bureau of WIC	3. Part #1 - When new user requests are made for Bureau of Information Technology staff (state and contractor), DOH will continue to follow the existing IT policy, requiring the request to be submitted via the Remedy System. Part #2 - WIC Local Agencies have a lot of clinic staff that require access to QuickWIC and local user account creation is a WIC Local Agency/ DOH Program Office function. In order to complete a CAP, an amended Policy and Procedure will need to be approved by USDA. In addition, changes to the MIS system will need to be made to accommodate the Pending Status of new users. Development for support ticket #8076 addressing this audit finding is currently in progress and nearing UAT deployment. Once implemented, WIC Local Agency staff will no longer be able to add new users and will be required to submit a request to the DOH Program Office for user access.	**Completed** **04/30/2014**
	PDE	Chief, Division of Data Quality, Center for Data Quality and Information Technology	1. Management remediated a prior year weakness. Corrective action was taken in June 2013. 2. Securely document results of monthly production server access log reviews to identify and investigate any unexplained vendor accesses; document results found for any unexplained access. March 31, 2014 - Review and update procedures, begin monthly log generation and review, documenting any unexplained vendor staff access. April 30, 2014 - Confirm that eScholar annual software update workbook correctly identifies coders and deployers, and that there is no overlap. June 30, 2014 - Management review of PIMS production server access log reviews through June 2014 to ensure procedure compliance; report review results to CIO and IT audit coordinator. 3. Management remediated a prior year weakness. Corrective action was taken in June 2013. 4. Management remediated a prior year weakness. Corrective action was taken in June 2013.	**N/A** **06/30/2014** **N/A** **N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		LAN Team Manager, Division of Information Technology, Support Center for Data Quality and Information Technology	5. Existing PDE procedures for reporting necessary machine-level logins on production servers to PDE Managers, and for reviewing server access logs to identify and investigate any unreported logins, will be updated and reviewed with all Servers Administrators. March 31, 2014 - Review and update procedures, conduct refresher training for Administrators, continue access log reviews. June 30, 2014 - Management review of login reports, server log reviews to ensure procedure compliance.	**06/30/2014**
	DOR	Michael Dailey, IT Manager 2	1. Please note 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. DOR implemented (January 2010) 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 was 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.	**July 2015**
		Bernard Stakem, Director, BIDM Michael Dailey, IT Manager 2	2. The TMS application is a 3rd party COTS package and DOR is currently upgrading its TMS software to include a change that all TMS operators will need to log into CWOPA and will use their CWOPA credentials. Change will be implemented by July 2014. The ETIDES Internet filing system has a large number of public users, many of whom only access the system one time each year. As time permits DOR will examine business requirements to determine how to implement password requirements while minimizing end-user disruption.	**July 2014**
		Christopher Dressler, IT Manager 1	3. DOR implemented an access review procedure and has completed the review of three in-scope systems (Pari Mutuel, Malt Beverage & Vehicle Rental Tax). DOR will continue to expand the periodic access review procedure to the remaining in-scope systems.	**July 2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Michael Dailey, IT Manager 2 Rodney Hawk, IT Manager 1	4. Corrective action was implemented in August 2012.	**Completed**
		Bernard Stakem, Director BIDM Michael Dailey, IT Manager 2	5. DOR commissioned a study (October 2011) 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. Specifically with respect to the SoftTrac Imaging equipment, certain additional protections are available. a. SoftTrac is third party software whose only function 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 follow CWOPA login/password guidelines. b. 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 scanner 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. c. Any changes made to a scan job with malicious intent will be caught immediately because other parts of the system look for particular format, locations, names etc., and such a change will affect only scanning area. Regarding the three employees with duplicate badge access, this part of the finding has been remediated as the duplicate access has been corrected.	**Not Determined**
		Bernard Stakem, Director BIDM	6. Corrective action was implemented in December 2012. 7. Disagree with this finding and the finding is misleading. BIDM operations require that all jobs be	**Completed** **N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)		Michael Dailey, IT Manager 2	available to all users for keying. They need the flexibility to move people around and cross-train them. 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 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 2	8. Disagree with this finding. This was a finding in the prior year and we had one change for IFTA and none for Cig Tax during this review period. Documentation for the IFTA change is available.	**Completed**
		Michael Dailey, IT Manager 2	9. Due to peaks and volumes of invoices received we need to be able to change operations schedules as needed. Do not have sufficient staff available to segregate duties and still address business requirements for timely processing.	**Not Determined**
		Michael Dailey, IT Manager 2	10. Due to the small number of resources in the client/server development group, more senior developers also have the ability to promote changes to production and change the operations schedule. However, 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. Compensating control was implemented January 2010.	**Not Determined**
		Bernard Stakem, Director BIDM	11. Corrective action was implemented in February 2013.	**Completed**
		Michael Dailey, IT Manager 2	12. Disagree with this finding. Log sheets documenting testing and management approvals were provided to the auditors at the same time as the information for item 11 above. Corrective action was implemented in February 2013.	**Completed**
		Michael Dailey, IT Manager 2	13. DOR will work with the service provider to correct. The vendor has submitted the results of the 2012-2013 SOC Audit Report; and has requested that the Commonwealth review the current report which outlines the status of the items previously identified.	**July 2014**
		Michael Dailey, IT Manager 2	14. DOR will work with the service provider to correct. The vendor has submitted the results of the 2012-2013 SOC Audit Report; and has requested that the Commonwealth review the current report	**July 2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-05 (cont'd)			which outlines the status of the items previously identified. The current audit report was forwarded to the PA Office of the Budget/Bureau of Audits/Comptroller Operations on 1/13/2014.	
	PLCB	Oren Bachman, Director, Financial Operations Brian Coons, Chief, IT Business Process Division	1. Corrective action was implemented in February 2013. 2. On May 30, 2013, at the end of the warranty period for the IBMS upgrade project, the change request was sent to DPH requesting privileged access be revoked for the additional users and contractors. DPH completed the changed request. Corrective action was implemented in June 2013. Policy was created to grant access to PLCB systems. It defines which groups should have privileged access and for what purpose. Corrective action was implemented in June 2013. Policy for monitoring actions of privileged users is currently being developed for PLCB projects and should be completed by April 30, 2014. 3. Corrective action was implemented in February 2013. 4. This is a third-party proprietary system that does not log this information. 5. A standard System Development Life Cycle is currently being developed for PLCB projects and should be completed by June 30, 2014. 6. Corrective action for password complexity requirements for IBMS was implemented in February 2013. Corrective action for password complexity requirements for the warehouse management systems was addressed with a waiver reviewed, analyzed and granted by the Office of Administration in August 2013.	**Completed** **04/30/2014** **Completed** **N/A** **06/30/2014** **Completed**
13-DCED-01	**DCED**	Brad Shover, Director of Compliance Monitoring Jamesetta Reed,	**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 12-DCED-01)** DCED agrees with this finding and has begun to address the monitoring backlog by implementing the following: The Center for Community Financing (CCF) has now limited the workload for its Grant Managers to CDBG and HOME only. Other areas under the Deputy Secretary for Community Affairs and Development are providing monitoring services to the CDBG grants.	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DCED-01 (cont'd)		Director of Reporting and Evaluation Lynette Praster, Director, Center for Community Services Ed Geiger, Director, Center for Community Financing Donna Enrico, Division Chief, Community Development Operations	During 2013-2014 state fiscal year, DCED Financial Management Center's, Compliance Monitoring Division started its fiscal monitoring responsibilities for the CDBG program. Effective March 1, 2014, CCF will require all CDBG and HOME subrecipients provide an invoice for review and approval prior to drawing funds down in IDIS. The initial review and approval will be performed by the Financial Management Center's Quality Assurance & Operational Support Division. A 2nd review will be performed by the Center's Compliance Monitoring Division quarterly and on a sample basis.	
13-PDE-01	**PDE**	State Director, Child Nutrition Programs Div. of Food and Nutrition, Bureau of Budget and Fiscal Management	**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 12-PDE-01)** The following is the Pennsylvania Department of Education, Bureau of Budget and Fiscal Management, Division of Food and Nutrition (DFN) response/corrective action to the Recommendations of the Audit Finding: 1. The DFN has requested a separate CWOPA account for the second individual that may deploy as a back-up. "System-generated listings" had never been requested in the past. The method which this information had been provided in the prior audit reviews has always been acceptable by the auditors with no indication of any deficiencies. The DFN will contact the vendor to discuss the capability of providing "system-generated listings" however it is not a requirement of the DFN's contract with the vendor. Therefore, DFN cannot require the vendor to provide "system-generated listings" if they do not	**Not Determined**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PDE-01 (cont'd)			have this capability. 2. Not enough information has been provided by the auditors to understand the deficiencies compared to our current process. Each year, DFN responds to this finding by enhancing the current process in attempts to reach sufficient oversight. The DFN will not change any current processes until the auditors provide detail regarding their expectations that will allow these deficiencies to be corrected completely and permanently thus resolving the finding and preventing any further reoccurrence. Our current process is documented and retained for review. The process will not occur within a "48 hour" timeline recommended by the auditors. 3. The vendor will continue to have around the clock access as PDE does not have the ability to deploy code at the necessary times and frequency. We disagree with the recommendation regarding compensating controls as stated in Item #2. 4. For the CACFP, the PEARS .net System met all requirements except for the need to force a special character, number or upper case letter. This is currently optional, not forced and will require a code change. It should be noted that the system security screen for PEARS .net has been provided to the auditors for the last two (2) audit years, and there had been no indication at any time that the parameters were not sufficient. If the auditors would have identified that the .net security parameters did not fully meet the requirements of the IT Bulletin, the PEARS .net System could have been changed to accommodate the requirements while the system was in test. Unfortunately, this creates an inefficient use of monetary resources since the auditors were not forthcoming for the last two (2) audit years. The DFN has a strong desire to resolve the finding and will work towards addressing the issues where we believe a sufficient amount of information has been provided by the auditors allowing DFN to completely and permanently correct the deficiencies. If DFN does not receive the necessary information from the auditors that will allow the finding to be completely and permanently resolved, DFN will not utilize taxpayer resources as it will be an exercise of futility. A completion date cannot be determined at this time due to the lack of information needed from the auditors related to some aspects of the finding, as described above. In addition, requirements, such as "system-generated lists" of deployers and security parameters, were not included in the contract. The contract with the current vendor expires February 2015. A Request for Proposal will be issued in the upcoming weeks. For this reason, work that can be performed within the current contract is limited.	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PDE-02			**Noncompliance and Internal Control Weaknesses Related to Reimbursement for Lunches Served by School Food Authorities**	
	PDE	State Director, Child Nutrition Programs, Div. of Food and Nutrition, Bureau of Budget and Fiscal Mgmt.	The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management, Division of Food and Nutrition (DFN) had resolved this exception prior to being identified during the audit review due to implementation of .NET System in PEARS. The business rule is working properly to ensure that only schools that serve 60% or more receive the high reimbursement rate. The system displays the percentage. While approving the sponsor application, DFN staff will view the percentage and check that the proper indicator was populated in PEARS.	**Completed**
13-PDE-03			**For-Profit Subrecipients Are Not Being Audited in a Timely Manner (A Similar Condition Was Noted in Prior Year Finding 12-PDE-02)**	
	PDE	State Director, Child Nutrition Programs Div. of Food and Nutrition, Bureau of Budget and Fiscal Mgmt.	The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) has implemented a process effective with the 2013-2014 Child and Adult Care Food Program (CACFP) Program Year (October 1, 2013), that audits will be performed on entities as required by federal regulations (OMB Circular A-133) which expend more than $500,000 in federal reimbursement. For the 2013-2014 Program Year, an audit will be performed on two (2) entities in accordance with federal regulations. The CACFP staff sends a letter to the CACFP entity indicating the Findings, Corrective Action, and Fiscal Action once the Audit Report is provided to DFN by Office of Budget, Comptroller's Operations, Bureau of Audits. A tickler system has been created to ensure all entities receive a letter.	**Completed**
	OB-BOA	John Kaschak, Director	The external auditors offer no criteria for timeliness within this finding. PDE has consistently utilized BOA reports to take necessary remedial action when warranted. We maintain our disagreement with this finding as it is written.	**N/A**
13-PDE-04			**A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants Subrecipients (A Similar Condition Was Noted in Prior Year Finding 12-PDE-05)**	
	PDE	Monitoring Manager,	The Pennsylvania Department of Education, Division of Federal Program (DFP) monitoring staff will meet with Leader Services to review the FedMonitor business rules that are needed to ensure sections are	**04/01/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PDE-04 (cont'd)		Division of Federal Programs, Bureau of Teaching and Learning	completed and not overlooked within the monitoring instrument. A plan will be made jointly between PDE and Leader Services to address these issues prior to Spring 2014 monitoring. Additionally, DFP staff will conduct monitor training in March 2014. The training will include the review of the business rules within FedMonitor to allow the monitor to assist with identifying and isolating potential FedMonitor discrepancies. The DFP staff responsible for overseeing the monitoring process will enter a date into the system to demonstrate the LEA has submitted the appropriate documentation. This will close out the corrective action process.	
13-PDE-05	**PDE**	Chief, Division of Performance Analysis and Reporting Chief, Division of Data Quality, Center for Data Quality and Information Technology	**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 12-PDE-04)** The Pennsylvania Department of Education, Division of Performance Analysis and Reporting (DPAR) beginning with the 2013-2014 Fiscal Year, will compare the PIMS Enrollment File at or close to the time of testing to the number of test booklets returned to DRC. This will identify any significant numbers of students who are enrolled but not being tested. A number of reports have been updated and others have been added for 2012-2013: •The Review Procedures have been updated to include the changes recommended by the Commonwealth Single Audit, 2011-2012. Adherence to these procedures by management will be strictly enforced. •The managerial check off procedure has been amended to include the number of matches and non-matches for graduation, attendance and highly qualified teachers. If a second round of matches and non-matches is required, a second managerial form will be completed. •All review forms will include a percentage difference that will generate an examination and clarification of the difference. The Pennsylvania Department of Education, Division of Data Quality's (DDQ) Corrective Action Plan in addressing the segregation of duties includes requesting a listing of vendor staff with their specified roles to ensure proper segregation of duties, performing monthly server access log reviews, and the implementation of NT server groups limiting the permission to promote code in production to one primary vendor staffer and a designated backup, neither of whom program the application.	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PDE-05 (cont'd)			Additionally, the time frame for server log review was reduced from once a month to every two weeks. The DDQ is currently working with OA/OIT to have our server automatically monitored by the Security Information and Events Management System (SIEM). The DDQ has established the user groups and populated the appropriate vendor staff. This will ensure that the ability to promote code into production is limited to the individual and backup identified by the vendor. All actions with the exception of the Enrollment – Returned Test Booklet Comparison will be completed by the publication of the 2012-2013 CSPR and the Required Federal Reporting Measures (Formally the State Report Cards). The Enrollment – Returned Test Booklet Comparison will be completed with the completion of the 2013-2014 Required Federal Reporting Measures. Establish and populate the user groups – January 15, 2014. Review and update procedures, convert to the automated SIEM tool, implement monthly log generation and review – March 31, 2014. Confirm that eScholar annual software update workbook correctly identifies coders and deployers, with no overlap – April 30, 2014. Management review of automated server access logs to ensure compliance – June 30, 2014.	
13-PDE-06	**PDE**	Chief, Division of Subsidy Data and Admin., Bureau of Budget and Fiscal Management	**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 (A Similar Condition Was Noted in Prior Year Finding 12-PDE-06)** The Pennsylvania Department of Education, Division of Subsidy and Data Administration (DSDA) continues to disagree with this finding as it relates to ADA used to report the State Per Pupil Expenditure. As explained during the audit, LEAs are the owners of their data and are responsible for its accuracy. The DSDA provides training and validation reports to 1) help LEAs understand the data being submitted and 2) perform their own analysis to ensure accuracy of the data. In addition, DSDA reviews submitted data and, when data appear to fall outside of normal ranges, contacts LEAs to notify them of potential errors.	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PDE-06 (cont'd)		Chief, Division of Data Quality, Center for Data Quality and Information Technology	As additional assurance that LEAs understand the importance of ADA data, in June 2013 DSDA added ADA data to the Accuracy Certification Statement (ACS) submitted by each individual LEA following its submission of end-of-year attendance and membership data to DSDA. This will result in each LEA's Chief School Administrator officially attesting to the accuracy of the submitted data. The Pennsylvania Department of Education, Division of Data Quality's (DDQ) Corrective Action Plan in addressing the segregation of duties includes requesting a listing of vendor staff with their specified roles to ensure proper segregation of duties, performing monthly server access log reviews, and the implementation of NT server groups limiting the permission to promote code in production to one primary vendor staffer and a designated backup, neither of whom program the application. Additionally, the time frame for server log review was reduced from once a month to every two weeks. The DDQ is currently working with OA/OIT to have our server automatically monitored by the Security Information and Events Management System (SIEM). The DDQ has established the user groups and populated the appropriate vendor staff. This will ensure that the ability to promote code into production is limited to the individual and backup identified by the vendor. Division of Subsidy Data and Administration June 30, 2014 Division of Data Quality, Center for Data Quality and Information Technology Establish and populate the user groups – January 15, 2014 Review and update procedures, convert to the automated SIEM tool, implement monthly log generation and review – March 31, 2014 Confirm that eScholar annual software update workbook correctly identifies coders and deployers, with no overlap – April 30, 2014 Management review of automated server access logs to ensure compliance – June 30, 2014	

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PDE-07	**PDE**	Chief, Division of Federal Programs, Bureau of Teaching and Learning	**A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 12-PDE-07)** • The Pennsylvania Department of Education, Bureau of Teaching and Learning, Division of Federal Programs (DFP) will increase its oversight of awarding SIG allocations to include retaining sufficient documentation that supports the calculation of the SIG project scores and provides a trail between the scores and the related rubrics beginning with the 2013-2014 Grant Awards. • The DFP has instituted a Supervisory Review Process regarding the awarding of SIG allocations, earmarking requirements, and Subrecipient monitoring. Documentation of the allocations for the 2012-2013 SIG Grant were approved by the Division Chief and retained for record purposes. A process is in place that requires the Division Chief to review Subrecipient monitoring. The DFP has consistently monitored the earmarking process. (SPECIAL NOTE: The DFP believes that there is sufficient oversight of the earmarking requirements of the SIG Grant. At no time during the previous three (3) years of granting SIG allocations have the earmarking requirements been out of compliance. Applicants are screened during each application period for the numbers of eligible schools and the number of Transformation Model Schools. The LEAs have been informed in the past that applications would not be accepted when it included too many Transformation Model Schools. The DFP has maintained this documentation. • The DFP and the Office of Chief Counsel will determine if additional provisions are needed to the Master Agreement Rider requiring Subrecipients' compliance with the earmarking requirement. If changes are needed, they will be included in the 2013-2014 Grant Agreement.	**Completed**
13-DOH-01	**DOH**	Greg Johnson, Applications Developer Administrator, DOH BIT	**Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (A Similar Condition Was Noted in Prior Year Finding 12-DOH-01)** PA DOH's analysis and subsequent determinations are based on data and supporting documentation available for review. In addition to the standard approach that derives data for the 25 sample days based on the typical methods used in past audits, an alternative data retrieval mechanism leveraging .NET was utilized for an alternative analysis. The alternative approach focuses on identifying and including only those FIs contained in the sample Fulton paid files. This enables a much more accurate data sample for	**April 2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DOH-01 (cont'd)		Michelle Davies, Accountant 3 DOH, Bureau of WIC	reconciliation, which has been an issue since September 2011 when Fulton altered internal processing to include multiple FI redeemed dates in daily paid files. In the standard analysis, using the 25 sample days and identical methods used in the initial audit, PA DOH calculated a total discrepancy of $34,194 in SAP payments exceeding FI redemptions in Quick WIC, the $148,084 of FI redemptions exceeding SAP payments, and the $48,058 annual reconciliation difference. An explanation for the difference with the audit findings is as follows: Regarding the amount of questioned costs from the $34,194 in SAP payments exceeding FI redemptions in Quick WIC, the $148,084 of FI redemptions exceeding SAP payments, and the $48,058 annual reconciliation difference, in the alternative analysis, using the 25 sample days and methods previously described that identify and retrieve only those FIs contained in the sample days, PA DOH calculated a total discrepancy of $171.31. PA DOH believes that this is more accurate than the standard analysis because it truly reflects the Fulton paid files that were processed. The alternate data sample includes the additional other date redemptions contained in the daily files and excludes same date redemptions contained in other daily files, something the standard query cannot accomplish (supporting documentation is available for review). To update, the Fulton Bank process to begin using new file daily naming convention and process date – is assigned to CAI staff and is targeted to be implemented in April 2014.	
13-DOH-02	**DOH**	Julia Montgomery, Program Manager, DOH HIV Care Section Rose Paulus, Outreach and	**Weaknesses in Internal Controls Over Subrecipient and Contractor Monitoring (A Similar Condition Was Noted in Prior Year Finding 12-DOH-02)** A. DOH's Division of HIV/AIDS, Care Section Staff has completed the development of a comprehensive Monitoring tool and process that will meet all of the requirements of the Federal funders for HIV Care Support Services. Monitoring of ALL 7 HIV Care Sub-Grantees began on February 18, 2014 for the 2013-14 SFY and is scheduled to be completed by March 31, 2014. Annual On-site monitoring of all subgrantees will occur annually from this date forward. B. ADAP Enrollment and re-enrollment application sampling actions performed by the Pennsylvania Department of Aging and Magellan Health Services Quality Assurance Department:	**03/31/2014** **May 2014**

<table>
<tr><th>Finding</th><th>Agency</th><th>Contact Person & Title</th><th>Finding Title/Corrective Action</th><th>Anticipated Completion Date</th></tr>
<tr>
<td>13-DOH-02 (cont’d)</td>
<td></td>
<td>Enrollment Manager, Aging PACE Program

Cheryl Henne, Program Manager, DOH SPBP</td>
<td>On a weekly basis, the QA Coordinator or Technician samples all application receipts and documents for the ancillary programs.

1. Logs out applications from file room.
2. Performs the following procedures and documents discrepancies for each application:

a. Ensures the application denotes PA residence, the client/applicant is not institutionalized and that proper residency documentation has been submitted with the application.
b. If the applicant is applying for the first time, ensures a copy of the Social Security card or acceptable documentation for a Social Security Number has been submitted.
c. Ensures client/applicant is financially eligible based on the gross income requirement and proper income documentation has been submitted with the application.
d. If the applicant is applying for the first time, ensures acceptable documentation validating date of birth has been provided.
e. Ensures proper documentation validating health insurance has been submitted; if client has no health insurance, a reason must be documented on the application.
f. If re-enrolling, ensures the client has provided either CD4 and HIV-1 viral load lab results or a clinician’s signature.
g. If the applicant is applying for the first time, ensures the Attestation of HIV Diagnosis Statement has been completed by the prescribing clinician.

3. Based on results of 2a) through 2g) above, determines whether the client/applicant is eligible for the program. Note status of eligibility on PSPI. Document any discrepancies.
4. Ensures the following fields on PSPI have the data entered correctly from the application:

<table>
<tr><td>ACN</td><td>Consent Indicator</td></tr>
<tr><td>Applicant’s name</td><td>Case Manager Information</td></tr>
<tr><td>Address</td><td>Pregnancy Status</td></tr>
<tr><td>Social Security Number</td><td>Health Program & Insurance Information</td></tr>
<tr><td>Sex</td><td>Health Information</td></tr>
<tr><td>Date of Birth</td><td>Family Composition/Dependents</td></tr>
<tr><td>Race</td><td>Income Information</td></tr>
<tr><td>Ethnicity</td><td>Consent Information</td></tr>
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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DOH-02 (cont'd)			Language Preference / POA Information; Total Income / Prescribing Clinician Information; Medicare Pt A/B, dates, if applicable 5. Ensures the time elapsed from date of receipt (ACN) to date of notification (suspend or approve date) is within two work days. 6. Ensures an audit trail is maintained for all applicants. 7. Logs sample and findings onto an Application Sample form. 8. When discrepancies or deviations are found, completes a Quality Assurance Corrective Action Request 9. Discusses findings/resolves discrepancies with Cardholder Services Manager. 10. Incorporates findings and resolutions into the Monthly Quality Assurance Sample Summary. 11. At the end of the current month, reviews the client's PSPI record to ensure correction of the discrepancy. 12. Creates a fact sheet entry (PRFS) documenting QA follow-up has taken place. *A summary annual monitoring report will be developed by the Department of Aging and Department of Health. This report will be shared with the Auditor General staff within 60 days to ensure it meets their requirements. The intent is to develop an annual summary report to be provided to the Department of the Auditor General for each annual single audit.	
13-L&I-01	**L&I**	Keith A. Baker, Workforce Program Supervisor	**Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 12-L&I-02)** BWPO: • The bureau will send an email by Friday, March 14, 2014 to Workforce Investment Area offices copying PA CareerLink staff including CWDS Local Office System Administrators reminding the offices of the importance for immediate notification of separated employment to local CareerLinks. • The bureau will send an email by Friday, March 14, 2014 to CareerLink management staff and CWDS Local Office System Administrators reminding them of the requirement to follow the bureau's disabling policy which is to remove access for departed staff on the individual's last day of work or the first business day after.	**March 2014** **March 2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-L&I-01 (cont'd)			• The bureau will establish an ongoing semiannual assignment for CWDS Local Office System Administrators to review their office's active staff users starting March 31, 2014. This will reveal separated staff that may still have access to the system.	**03/31/2014**
			• Each CareerLink will be audited semiannually to ensure that disabled users' access has been removed from the system within a two week period of separation. The CareerLinks will be required to submit documentation that the separated user was disabled timely. This audit effort will be initiated on April 14, 2014.	**04/14/2014**
			• Ongoing technical support will be provided by the bureau's Central Office System Administrators to ensure that the disabling policy is being followed and that effective communication addressing local concerns continues.	**N/A**
		John Long, Descriptive Statistical Supervisor	UC Reporting (ETA 581 and ETA 227): As end-user computing applications are currently still required to complete these reports, DLI will begin putting systems in place and maintain records to meet Management Directive 205.43. Work to complete the ETA 581 in UCMS will resume upon completion of mandatory online filing for all Pennsylvania employers. The ETA 227 will continue to be compiled in end-user computing applications as the Department is determining the next steps for modernizing the mainframe benefits system. May 1, 2014 (ETA 227) and May 20, 2014 (ETA 581) for meeting Management Directive 205.43.	**05/20/2014**
13-L&I-02			**A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations (A Similar Condition Was Noted in Prior Year Finding 12-L&I-05)**	
	L&I	Ryan E. Hyde, Bureau Director, BCO	Starting in Spring of 2014 not meeting status over days will result in a "finding" on a case review for Level 3 cases. A finding can then be part of the EPR review for the manager of the office. For level 1 and 2 reviews findings for this issue will be implemented in 2015 that could be used in the EPR process for supervisors and counselors. Starting in November of 2013 Central Office developed an additional monitoring tool that compiles the Ad Hoc reports that are sent out to show if offices are making progress on cases that are over days. This tool is shared with the field bureau directors as requested.	**2015**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-L&I-03	**L&I**	Ryan E. Hyde, Bureau Director BCO Tia Petrovitz, Budget Analyst III	**A Control Deficiency Exists Over the Preparation and Submission of the Annual RSA-2 Report** OVR Agrees with the finding per our original response. However, we have already submitted the 2013 RSA2 and that will be the last time that version is used. Starting in 2014, a new RSA 2 is required to be submitted that has different instructions and requirements. OVR will be developing instructions based on the new process for 2014. When submitting the 2013 report OVR staff worked closely with the Comptroller and OIT to attempt to address any prior year issues and lack of experience with the report. There is no reason to implement a Corrective Action Plan for the old reports at this time as they will no longer be used moving forward.	**12/31/2014**
13-DMVA-01	**DMVA**	Greg Spittle, Budget Analyst	**Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement (A Similar Condition Was Noted in Prior Year Finding 12-DMVA-01)** Our agency is in disagreement with this finding as detailed in the agency response portion of the finding.	**N/A**
13-PEMA-01	**PEMA**	Mimi Myslewicz, Chief, Grants Management Div., Bureau of Financial Management	**Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (A Similar Condition Was Noted in Prior Year Finding 12-PEMA-03)** PEMA is under the constraints put in place by Office of Administration Management Directive 305.20 and the Commonwealth Attorney Act. MD 305.20 dictates the signature process for grant agreements. The Commonwealth Attorney Act allows for thirty days each for the Office of General Counsel and the Office of Attorney General review. PEMA will work with its legal staff to determine if there is any way that we may shorten the Commonwealth signature process. Additionally, PEMA will request a waiver of the 45 day obligation requirement from the Department of Homeland Security.	**08/01/2014**
13-PEMA-02	**OB-BAFM**	Danny Novak, Asst. Director, Federal Accounting	**Internal Control Weakness Over Expenditure Reporting on the SEFA** Office of Comptroller Operations (OCO) agrees that an error occurred in reporting the original SEFA expenditures. The cause was due to a process that is no longer recommended when the lead state agency awards a sub-grant to another state agency. Also, the transactions used to transfer expenditures and revenue between the agencies used incorrect GL accounts. OCO has reviewed its processes for	**07/31/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PEMA-02 (cont'd)			reconciling the SEFA and will include, as recommended in the finding, the reconciliation of the FFR totals to SEFA amounts to ensure accuracy.	
13-PEMA-03	**PEMA**	Mimi Myslewicz, Chief, Grants Management Div., Bureau of Financial Management	**Material Weakness and Material Noncompliance Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 12-PEMA-01)** PEMA will create a team of individuals, which will include hiring limited term staff by March 31, 2014, to review the equipment property records for all Commonwealth departments/agencies that have made equipment purchases with Homeland Security Grant Program (HSGP) funds and to conduct an inventory at PEMA. Additionally, PEMA will remind all departments/agencies to reconcile their asset records to total purchases, include all required information on their property records and conduct an annual inventory. Verification of compliance will be completed through yearly sub-grantee monitoring visits. This process should be completed in six to twelve months.	**February 2015**
13-PENNVEST-01	**PENNVEST**	Beverly L. Reinhold, Dep. Exec. Dir. for Fin. Mgmt.	**Internal Control Weaknesses in Subrecipient Monitoring of Davis-Bacon Requirements** Agency has contacted EPA Region III, which has confirmed there is no requirement that the agency review any certified Davis Bacon weekly payrolls either via the submission of payment requests or by periodic audit. They have advised that they will be submitting a follow up to this finding directly to the Bureau of Audits. PENNVEST will continue to rely upon the technical professionals for confirmation that the submission of billing information is in compliance with the Davis Bacon wage requirements. Further the methodology used for submitting payment requests to PENNVEST is such that they cannot bill for more than what was approved at the time of Settlement when the Davis Bacon wage rates were approved. PENNVEST will continue to have periodic spot checks by auditors of projects, as was previously done, though none were done during 2012-13.	**03/31/2014**
13-PENNVEST-02	**PENNVEST**	Beverly L. Reinhold, Dep. Exec. Dir.	**Internal Control Weakness and Noncompliance with Loan Amortization Requirements** A review of scheduled amortization dates is being done to see if there are loans that should be Interim Amortized that have not been done. In some cases, it is a matter of amending the loan documents to reflect changes that have occurred that cause a change in the scheduled amortization date. The new SAP	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PENNVEST-02 (cont'd)		for Fin. Mgmt.	Loan Accounting system establishes the amortization date at the time of settlement and will prevent this problem from occurring in the future.	
13-PENNVEST-03	**PENNVEST**	Laura Lewis, Dep. Exec. Dir. for IT Beverly L. Reinhold, Dep. Exec. Dir. for Fin. Mgmt.	**Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding 12-PENNVEST-03)** PENNVEST has modified 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 only addresses 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.	**Completed**
13-PENNVEST-04	**PENNVEST**	Beverly L. Reinhold, Dep. Exec. Dir. for Fin. Mgmt.	**Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 12-PENNVEST-02)** 1. A new process was put into place to identify projects that need to submit Financial Statements during FY 2013-14. 2. Work continued on improvements to the automated system to improve functionality and was completed during FY2013-14. 3. A new system for tracking Adverse Conditions and all related documentation is currently under development. 4. A new process to collect the transmittal of Financial Statements is to be developed.	**Completed** **Completed** **06/30/2014** **09/30/2014**
13-DPW-01	**DPW**	Marie Stokes, EBT Project	**Internal Control Deficiencies and Noncompliance at the Department of Public Welfare Related to Electronic Benefits Transfer Card Security** DPW will create a validated master list of personnel authorized to create EBT cards or grant pin numbers that is accessible by all EBT Coordinator/Alternate/Staff who handle EBT which will be	**07/01/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-01 (cont'd)		Officer	validated by the appropriate staff on a quarterly basis and updated as access is altered. EBT Coordinator/Alternate/Staff who handle EBT will be notified how they are able to access the master list eliminating the need for each CAO to maintain a list. Appropriate personnel will receive an updated policy for the quarterly validations to ensure that the validations are done uniformly. EBT Coordinator/Alternate/Staff who handle EBT must review OIM EBT Procedures Manual (updated 11/14/2013) and complete the EBT Security Procedures e-learning module (dated 6/2013). Revise EPPIC EBT Systems Application to include field for termination date. EBT Coordinator/Alternate/Staff who handle EBT must review OIM EBT Procedures Manual (updated 11/14/2013) and complete the EBT Security Procedures e-learning module (dated 6/2013).	
13-DPW-02	**DPW**	Marie Stokes, EBT Project Officer	**Internal Control Deficiency and Compliance Finding at the Department of Public Welfare Related to Electronic Benefits Transfer Daily Reconciliation** DPW has identified CIS reports that may be available for daily reconciliations, but need to validate the reports to ensure the accuracy of the information. Over the next 90-days validation of the reports will be conducted. After validation is completed the CIS reports that are generated will provide the information needed for daily reconciliation. At the end of each month the daily reconciliation report will be cross-checked against the monthly ARM358R02 report to ensure accuracy. DPW has corrected errors that existed within the reconciliation and will review the reports in a timely manner so that corrections can be made more quickly.	**05/01/2014**
13-DPW-03	**DPW**	Stephanie Weigle, Division Director	**Weaknesses in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Public Welfare Office of Children, Youth and Families** 1. OCYF agrees that on-site inspections were not completed for 2 of the 13 CCYAs within one year of completion date, as they are to be conducted within 12 months from the previous inspection. However, OCYF does not agree that 1 of the 13 CCYAs were completed outside that 12 month time period because it fell within the 12 month timeframe. OCYF interprets the 12 months by calendar month, not by calendar days. OCYF has a tracking mechanism in place to ensure timely inspections.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-03 (cont'd)			2. OCYF agrees that the onsite inspections were not reviewed or approved by the supervisor or Regional Director. In the future, OCYF will ensure these are reviewed and approved timely. Regional Directors have been notified to be conscientious of the timeliness of the county audits and to make sure the follow-up paperwork is processed in a timely manner so the cycle is completed within the proper timeframe. 3. OCYF does not agree with the licenses being issued to 5 of the 13 CCYAs in a timely manner. 4. OCYF does not agree with the testing of DPW Quality Assurance Compliance Reviews being untimely. 5. OCYF is unable to respond to the procedures regarding the subrecipients or contractors, as further clarification is needed.	**April 2014** **N/A** **N/A** **N/A**
13-DPW-04	**DPW**	Suzanne Connolly, Bureau Director, Bureau of Program Evaluation Tamila Lay, Director, Division of Employment and Training Bureau of Policy	**Department of Public Welfare Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients** DPW/BPE will continue to conduct monthly validations of all performance goals resulting in a performance payment. EARN vendors will continue to be required to substantiate all performance payments, entered on CWDS, by providing all documentation related to the achievement of the performance payment to DPW for review. If any payments were deemed invalid, DPW will adjust the next payment invoice for the vendor's failure to provide adequate documentation to support the performance payment. The Department will also continue to sample cases each month to assess compliance with the EARN Policy and Procedure Manual. These reviews of case records and files are conducted efficiently and remotely using CWDS and DPW's DocuShare systems. This process ensures that the EARN program is being run efficiently and the clients they serve are getting all necessary and appropriate services while at the same time safeguarding taxpayer funds by using technology to reduce travel expenses. DPW/BPE can provide the reports created for the validation of the EARN's performance goals and also for the EARN sampling process. DPW is to begin conducting on site monitoring of all EARN programs in March 2014. All grantees will receive at least one on site visit per program year with additional visits to follow should the need arise.	**03/31/2014** **06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-04 (cont'd)			The monitoring visits will include interviews with management staff, direct service staff, and clients. All interviews will be documented with a standardized interview form and will be scanned and saved on the DPW servers. Staff will conduct computer audits of client records using both the Client information System (CIS) and the Commonwealth Workforce Development System (CWDS) after the computer audit is completed staff will compare the information that was data entered into CWDS with the information contained within the physical files through an onsite inspection of the client records. Staff will use a standard record review form that will be saved by scanning the document into the DPW server. Once the onsite monitoring has been completed, DPW staff will conduct an exit interview with the contracted program management staff to ensure that they are aware of any deficiencies discovered during the visit. DPW staff will follow up on the exit conference with a letter outlining the concerns that were addressed during the exit conference. DPW staff will conduct ongoing technical assistance with grantees that have significant deficiencies. This combination of in-person and computer based reviews allows the Department to monitor the EARN program in a cost effective fashion. The Department does not conduct on-site visits as frequently as in the past due to updates to technology that allow the review of case records and files to be conducted efficiently and remotely using the CWDS computer system. The planned process ensures the EARN program is being run efficiently and the clients they serve are getting all necessary and appropriate services while at the same time safeguarding taxpayer funds by using technology to reduce travel expenses.	
13-DPW-05	**DPW**	Suzanne Connolly, Director, Bureau of Program Evaluation, Office of Income Maintenance	**Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 12-DPW-03)** DPW disagrees with this finding. It should also be noted the AG sampled cases from September 2012, which was prior to DPW's ability to implement the Corrective Action Plan for the Audit Finding #93558B (final revision issued February 14, 2013). Many of the cases identified by the AG as having reporting errors and/or documentation discrepancies, the Work Participation Status of the case and/or individual would have remained unchanged. 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. However, DPW will submit a revision to our TANF Work Verification Plan to HHS to include the use of the most recent IRS Form 1040 as an	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-05 (cont'd)			allowable means of verifying self-employment, as it is already an acceptable means of verification by DPW's policy. DPW has strengthened its existing procedures over the last several years to help ensure 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 2012, DPW started re-reviewing ten percent of all cases with work activities of employment and educational calculations, as well as child care payments to ensure reporting accuracy and consistency and plan to continue with this review. Headquarters staff will hold calls with supervisory units to ensure there is consistency in calculation, evaluation and reporting of cases. Additionally, DPW will review TANF Sampling procedures with County Assistance Offices in March 2014 to ensure understanding of the process, calculations and documentation requirements related to the ACF-199 report. DPW received clarification from ACF to address the calculation in case G. As a result, DPW will not change the methodology of calculation for families who receive a partial month of TANF and engage in work or work activities for the minimum number of hours in each full week they receive assistance; DPW's current practice follows the Code of Federal Regulation, 45 CFR 261.31 and 261.32.	
13-DPW-06	**DPW**	John Miknich, Acting Chief Information Security Officer Pamela Skelton, IT Generalist 2	**U.S. Department of Health and Human Services (HHS)-Required Automatic Data Processing (ADP) Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Public Welfare and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding 12-DPW-04)** The Department of Public Welfare, Bureau of Information Systems (BIS), has recently completed a very extensive self-assessment on the following programs, eCis, Compass, CAPS and PACSES. Upon completion BIS plans to meet with all programs offices to establish the functionality of each of the above mentioned programs. The process is expected to be completed by May of 2014 which will close the finding.	**May 2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-07	**DPW**	Terry Shaner Wade, Bureau Director, Certification Services	**Noncompliance and Internal Control Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 12-DPW-06)** OCDEL has changed and is in the process of continuing to maintain business practices that require a renewal application to be filed prior to an annual inspection. Under past business practices, the annual/renewal inspection was tied to the filing of an application – an indication that the facility wished to continue business. As a result, OCDEL did not schedule an inspection date until a renewal application was received. This was problematic when a legal entity filed 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. Changes in the past business practices gives OCDEL control over the scheduling of the annual inspection. The plan outlined below illustrates a high level look at the current business practices. This plan was developed based on discussion with legal counsel. Annual inspection – Business practice changed 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 expiration date. • Do not require receipt of a renewal application to schedule and conduct the annual inspection. Certificate of Compliance – Business practice changed regarding issuing a certificate of compliance and renewing the certificate as follows: • If not received prior to the inspection, obtain the completed, signed renewal application from the legal entity or legal entity representative at the renewal inspection. A new certificate will not be issued unless the signed application is received. • Issue a certificate of compliance designating the following: Legal entity Name and address of the facility Type of service provided i.e. child care center or group child care home Maximum capacity Restrictions, if applicable Title and chapter of the applicable regulations and the date the regulations were adopted “Effective” begin and end dates	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-07 (cont'd)			Certificate number MPI number • The certificate of compliance is generated and issued to the legal entity. In order to make the certificate less subject to fraudulent reproduction, the certificate is embossed with a seal as a form of authentication. Provisional Certificate of Compliance – 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. The word “PROVISIONAL” in large letters is watermarked on the certificate of compliance. • 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 provisional certificate of compliance. The above changes 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 also helps reduce travel costs and staff time spent traveling. Giving OCDEL control of scheduling inspections without requiring receipt of a renewal application first eliminates overdue inspections and solves the overdue problem cited through the CCDF audits.	
13-DPW-08	**DPW**	Shari Yiengst, Budget Analyst 4 Adrienne Smyth, Human Services Program Specialist Supervisor	**Noncompliance and Internal Control Weakness in DPW’s Contracting with Child Care Subgrantees** The Keys are provided 25% of their total fiscal year allocation 30-45 days after passage of the budget as working capital. The working capital funds are utilized to disburse funds for provider grants, as well as reimburse the Keys for general operating expenses, e.g. personnel and benefit costs, supplies, sub-contracts, conferences and meetings, occupancy, etc. during the time period while waiting on payment since the organization must continually operate on a 12 month cycle. During the current 13-14 FY, the working capital consisted of approximately 80% State and 20% Federal funds (down from 56% Federal in this 12-13 FY audit period). The funds are comingled in the same payment to the Keys, therefore it could be perceived that the 20% Federal portion is disbursed by the Keys before the State portion, as could be the case for subsequent payments. Therefore, there is no lengthy delay between receipt and disbursement of Federal funds and the Keys cash on hand is solely a	**08/31/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-08 (cont'd)			State portion. Moving forward to 14-15 and future fiscal years, following the auditor recommendation as a mechanism to avoid possible excess Federal cash on hand, the 25% working capital payment to the Keys will consist of 100% State funds. The 25% advance of the Keys total allocation is still necessary due to reimbursement for general operating expenses incurred, as well as supporting the program expectation that provider grants will be awarded expeditiously within the first three quarters of the fiscal year. The advance also alleviates the Keys need to borrow against a line of credit and incur interest expenses.	
13-DPW-09	**DPW**	Kelly Leighty, Director, Division of Financial Policy and Operations	**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 12-DPW-07)** In order to effectively monitor all funded programs, the DPW has a dedicated monitoring position within the Office of Administration, Bureau of Financial Operations (BFO), Division of Financial Policy and Operations. This position has the benefit of centralized monitoring and evaluation through both on-site monitoring visits and the review of supporting documentation (desk reviews). The monitoring position was previously staffed from November 20, 2010 through June 16, 2011. The BFO obtained approval to fill the position in April 2013 and the vacancy was filled on July 29, 2013. The pilot for the Human Services Block Grant program (HSBG) began July 1, 2012. With the implementation of this program, a County Human Services Planning and Monitoring Unit has been created within BFO. The Unit is responsible for SSBG and HSBG monitoring. It is 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	**06/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-DPW-09 (cont'd)			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).	
13-DPW-10	**DPW**	Tom Strickler, 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 12-DPW-08)** 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, DPW policy continues 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 continues to be placed on scanning documentation into CIS. This will cut down on misplaced and duplicated verification and allow easier access to these items.	**N/A**
13-PennDOT-01	**PennDOT**	Ed Fuhrer, Sr. Civil Engineer, Contract Mgmt. Division Jim Yee, Transportation Construction Manager,	**Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (A Similar Condition Was Noted in Prior Year Finding 12-PennDOT-01)** Since the issuance of the prior year finding, there have been actions implemented by PennDOT to improve compliance with publications 2 and 740 (formerly 39). The actions completed include: • An email correspondence, dated April 2, 2013, which was sent to the Assistant District Executives, reinforcing the PennDOT requirement to use monitoring check lists during all visits to locally administered projects. • A follow-up review by the PennDOT Contract Administration Unit revealing that 7 projects out of the 25 tested contained the required monitoring checklists and applicable staffing approved documentation. • PennDOT's Construction Quality Assurance (QA) Section verifies the completion of the checklist by the Districts during their QA inspection of Local Projects. The frequency of such reviews is 3 per	**June 2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-PennDOT-01 (cont'd)		Contract Mgmt. Division Mike Long, Section Chief, Contract Mgmt. Division	district annually. Also, a system enhancement to the Quality Assurance Reporting System (QARS) has been requested to capture the number of local projects for which the checklist has been completed. This enhancement will occur in June 2014.	
13-PennDOT-02	**PennDOT**	Lara Livergood, Div Manager, Bureau of IT Project Development & Delivery Kevin Connors, Division Chief, Highway Apps. Deb Reihart, Manager, Bureau of Project Delivery Roger Riley, Director, Bureau of Bus. Solutions & Services	**Deficiencies in Information Technology Controls in the Engineering and Construction Management System (A Similar Condition Was Noted in Prior Year Finding 12-PennDOT-03)** On February 20, 2014, PennDOT provided the auditors with documentation on procedures for running/ reviewing the CAS Invoice Check Report in ECMS for each quarter of the fiscal year. PennDOT will run quarterly queries in the system for all quarters of the upcoming audit period to provide the auditors for review. The auditors also indicated that they will be performing full testing on the corrective action plans related to the Signature Authorization Forms in the subsequent audit.	**February 2015**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-01			**Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding 12-OB-04)**	
	OB-BOA	Joseph Natoli, Assistant Director Denise Lovejoy, Audit Manager	Our approach is to dun the ODP Providers for both 6/30/2012 and 6/30/2013 in order to determine who did not comply with submitting the required single audit reports. We have already issued the dunning letters for 6/30/2012. We anticipate completion of the issuance of the 6/30/2013 dunning letters by 4/30/2014. It should be noted that of the 54 ODP Providers dunned for 6/30/2012, we already have received and/or resolved 44% [i.e., 24] of the ODP Outstanding Reports.	**04/30/2014**
	PDE	Audit Coordinator, Bureau of Budget and Fiscal Mgmt.	The PDE, Bureau of Budget and Fiscal Management, Audit Section, had 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. The Audit Section continues to address this exception for compliance of OMB Circular A-133.	**Completed**
	PennDOT	David Maynard, Audit Coordinator	PennDOT disagrees with the finding (See agency disagreement contained in the finding). Agency guidelines provide for an investigation if an entity's SEFA amount is less than 95% of the pass-through amount. If the SEFA reports expenditures in excess of the pass-through amount, this indicates that eligible expenses were greater than the grant amount. In cases where additional funding sources were used, investigation would not be necessary.	**N/A**
	DPW	David Bryan, Manager, Audit Resolution Section Alexander Matolyak, Director, Div. of Audit and Review	Regarding the timeliness of finding resolution, the DPW has taken steps to streamline its single audit review processes and has also hired some contracted staff to reduce and eventually eliminate the backlog of single audit reviews. We expect the backlog to be eliminated by 6/30/14. Regarding the areas where we disagree (subrecipients without single audits, the requirement to review/reconcile the SEFA, and enforcement of the subrecipients' submission deadlines - see DPW Response contained in the finding for a detailed explanation of the reasons why DPW does not agree with the auditors), the DPW has requested, and the auditors have agreed to, a meeting to discuss these items in detail with the hopes that we can come to some agreement. After the meeting, the DPW will assess whether any additional corrective actions are needed.	**06/30/2014** **N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-01 (cont'd)	**Aging**	Rob Heinlen, Contracting Division Chief	The position responsible for subrecipient audit resolution was vacant for an extended period but has been filled and the backlog of open reviews has been eliminated. Processing times are now current within the established parameters.	**04/30/2014**
	DDAP	Stephanie R. Guy, Budget Analyst 3 (Primary) Kimberly A. Coleman, Director, Division of Budget and Grants Management	The Department of Drug and Alcohol Programs (DDAP) became a separate cabinet-level department within the Commonwealth, effective July 1, 2012. Prior to that time, the Bureau of Drug and Alcohol Programs (BDAP), as recipient of funds under the Substance Abuse Prevention and Treatment Block Grant, existed as part of the Department of Health (DOH). Within DOH, the Bureau of Administrative and Financial Services (BAFS) served as the Single Audit Coordinator for all DOH sub-recipient audits. In March of 2012, DDAP began discussions with appropriate BAFS staff to learn all aspects of the sub-recipient audit review process in order to assume the role as Single Audit Coordinator for the newly formed agency. BDAP's role under the auspices of DOH was considerably less involved than it is currently as DDAP in that BDAP only received and processed sub-recipient audit reports with DOH findings, rather than all BDAP sub-recipient audit reports. All other functions of the sub-recipient audit review process were conducted by DOH. In August, 2012, DDAP assumed fifty-three (53) sub-recipient audit reports not yet reviewed by DOH. Receipt of these reports, coupled with the receipt of more current sub-recipient audit reports directly from the Office of the Budget, Bureau of Audits (BOA), as well as various obstacles inherit to any transition, resulted in the untimely completion of SEFA reconciliations. With two exceptions, DDAP has now completed SEFA reconciliations for all sub-recipient audit reports received during the audit period for State Fiscal Year Ending June 30, 2013. Currently, DDAP's Division of Budget and Grants Management has two staff members trained on sub-recipient audit report review procedures, with one member conducting the SEFA reconciliations and the other serving in a supervisory and review role. DDAP is in the process of revising all Division job descriptions, with plans to fill two current vacancies within the Division. The increase in Division staff and the revision of job duties will assist in alleviating the untimely processing of sub-recipient audit reports. In addition, DDAP has adopted DOH's tracking system in order to effectively track the receipt of sub-recipient audit reports from BOA and subsequent processing by DDAP. Division staff will continue to attend all future Commonwealth and other agency trainings relative to the audit process as applicable. Finally, following the transition from DOH, the Division is formalizing policies and procedures for activities conducted by the Division, including procedures for the processing of sub-	**09/30/2014**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-01 (cont'd)			recipient audits.	
	DOH	David DePeau, Chief, Audit Resolution Section	This single audit report was included on DOH's subrecipient single audit tracking report, which identified this report as a report with findings. However, the audit report was later inadvertently overlooked when examining the single audit tracking report for identified single audit reports with findings for DOH review. Subsequent to the single auditors' disclosure of this condition to DOH on December 2, 2013, DOH expedited the review and resolution of this report. DOH completed its review of this report on December 23, 2013 and achieved final resolution of this report on February 3, 2014. Subsequent to the disclosure of this condition, DOH has prepared and will maintain a separate subrecipient single audit tracking report for subrecipient single audit reports with findings to ensure that all identified subrecipient single audit reports with findings are reviewed and resolved as soon as possible after their receipt by DOH. In addition to the above steps that DOH has taken to resolve the condition cited in the finding, DOH is also utilizing an annuitant to perform the work of the unfilled subrecipient audit review position that is assigned to do this work.	**Completed**
	L&I	David Bohanick, Chief, Grants and Fiscal Operations, BWDA	It did take L&I more than 6 months to issue a "FINAL" management decision for the audit, however L&I took immediate action upon receipt of the report. L&I will work more diligently on getting final resolutions to the audits within 6 months of receipt from BOA.	**Completed**
	PENNVEST	Beverly L. Reinhold, Deputy Executive Director for Financial Management	1. PENNVEST has an addition to staff to help with audit tracking. 2. PENNVEST is currently developing and should shortly have in place a new SEFA tracking system that will monitor by time and allow all documentation related to the findings to be saved along with the finding.	**Completed** **March 2014**

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - June 30, 2013

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-02			**General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (A Similar Condition Was Noted in Prior Year Finding 12-OB-03)**	
	OB-BAFM	Michael Burns, Director	Corrective action is not necessary. Refer to agency response within the audit finding to view details regarding our disagreement.	**N/A**
	L&I	Heather Juritsko, Budget Analyst 3 Amanda Reigel, HR Analyst 2	For the TAA portion of this finding, the four employees whose timesheets were approved by Human Resources (HR) were done in this manner so payroll could pick these timesheets up correctly in its weekly processing. Final payroll processing is at noon on Tuesday after the end of each pay period (unless there is a holiday, processing may occur at noon on Wednesday or 5:00 pm on Monday). HR pulls data that shows any timesheet that was submitted by an employee and is over 96 hours from the original submittal time. The immediate supervisor can approve from the time of submittal, however after 48 hours, the immediate supervisor can still approve, but then approval is also possible by a secondary supervisor. After 96 hours, both primary and secondary supervisor can still approve, but HR now has the option to approve as well. Since from an accounting perspective it makes the most sense to have the time charged to the appropriate time codes, HR approves timesheets at this point. If HR chose not to process these time sheets, then individuals that are considered central service employees would have time charged to their default cost distribution which may vary greatly from where the time charges truly belong. The corrective action taken to prevent HR from approving these timesheets will be to have HR send out quarterly reminders to managers (both primary and secondary) to approve timesheets in a timely manner.	**Completed**
			For the SSDI portion of this finding, an employee was found to have no supervisory or HR approval of time for the period of March 2013 through September 2013. It was discovered that the reason no approval was on record was because the employee never completed a timesheet in the CATS system. Since no timesheet was submitted, this employee's time was coded 100% to the default coding which was SSDI. Upon discovery of this, the employee entered all missed timesheets in CATS and the time charges were retroactively updated to the correct programs within SAP. All questioned costs are now posted to their correct cost categories in SAP. The corrective action taken to prevent this situation from occurring in the future will be to have HR send out quarterly reminders to employees to submit their timesheets in a timely fashion and also, as stated in the CAP for TAA, a quarterly email to managers to approve timesheets in a timely manner. Managers will need to be more diligent in keeping track of timesheet submission by employees, as no current reports are available that track employees that completely omit submitting their time. This is a system limitation.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-02 (cont'd)			For the RS-VR portion of this finding, an employee input an incorrect timesheet in which they omitted 1.5 hours. Those 1.5 hours got charged to the default cost distribution of the employee which in this case was RS-VR programs. L&I HR confirmed that RS-VR is the default coding for this individual. When researching the actual time sheet that was submitted for this timeframe, the other 3 hours of that same day were charged by the employee to RS-VR programs, so even though the 1.5 hours missed were allocated to the default coding (RS-VR), it would have been the same coding entered by the employee had they completed their timesheet correctly. The questioned costs in this area have been appropriately charged to the correct area, and no further adjustment is needed. In terms of a corrective action plan for this scenario, again, HR will send a quarterly reminder to managers and employees to approve and input timesheets in timely and accurate manner. However, just like the SSDI portion of this finding, if a timesheet is not submitted or is approved incorrectly, it's now a system issue and limitations exist.	**Completed**
13-SW-03			**State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and At The Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 12-OB-01)**	
	OB-BAFM	Danny Novak, Assistant Director, Federal Accounting	Corrective action is not necessary. Refer to agency response within the audit finding to view details regarding our disagreement.	**N/A**
	PennDOT	Kelly Barber, Civil Engineer Consultant, Highway Delivery Div. Gary Kleist, Section Chief, Highway Delivery Div.	PennDOT disagrees with the finding (See agency disagreement contained in the finding). Someone in Comptroller Operations provided a sample of the signature page which shows the required information. PennDOT's Office of Chief Counsel also confirmed that this information is included on all reimbursement agreements.	**N/A**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-03 (cont'd)	**DPW**	David R. Bryan, Manager, Audit Resolution Section	See DPW Response contained in the finding for a detailed explanation of the reasons why DPW does not agree with the finding.	**N/A**
	PDE	Chief, Division of Federal Programs, Bureau of Teaching and Learning	The Pennsylvania Department of Education, Bureau of Teaching and Learning, Division of Federal Programs (DFP) had begun implementing corrective action for the 2013-2014 year. The new eGrants System was updated with the appropriate CFDA Numbers and this information is printed on each letter for all applicable federal funding sources administered by DFP.	**Completed**
	DOH	Terri A. Matio, Director, Bureau of Administrative and Financial Services	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.	**N/A**
	L&I	Dave Bohanick, Chief, Grants and Fiscal Operations BWDP	No further action needed per note stated in the content of the finding under the WIA Cluster. (*….underscoring "Note that L&I made changes to its Comprehensive Workforce Development System in July 2012 which incorporated this information for awards made to subrecipients after July 2012. We found no discrepancies for awards made after this timeframe".)	**Completed**
	DCED	Ed Geiger, Director, Center for Community Financing Donna Enrico, Division Chief, Community Development	DCED includes the federal award number on the approval letter issued to each grantee for CDBG funding.	**Completed**

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
13-SW-03 (cont'd)		Operations Brad Shover, Director, Compliance Monitoring		
13-SW-04	**OB-BAFM**	Danny Novak, Assistant Director, Federal Accounting	**Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (A Similar Condition Was Noted in Prior Year Finding 12-OB-02)** Corrective action is not necessary for a majority of the finding. Refer to agency response within the audit finding to view details regarding our disagreement. Supervisor sign off on the check clearance study, to signify their review, has been added to the check clearance study procedures.	**N/A** **Completed**

Appendix

Commonwealth of Pennsylvania

APPENDIX - Legend of Abbreviations - June 30, 2013

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
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
CDBG-R	Community Development Block Grant-ARRA
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHIP	Children’s Health Insurance Program
CIS	Client Information System
CMIA	Cash Management Improvement Act of 1990
CNC	Child Nutrition Cluster
CN-PEARS	Child Nutrition Program Electronic Application and Reimbursement System
CSBG	Community Services Block Grant
CSE	Child Support Enforcement
CWDS	Commonwealth Workforce Development System
CWSRF	Capitalization Grants for Clean Water State Revolving Funds
DCED	Department of Community and Economic Development
DDAP	Department of Drug and Alcohol Programs
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	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 Funds
EBT	Electronic Benefits Transfer
ED	United States Department of Education
EO	Executive Offices
EPA	United States Environmental Protection Agency

Legend of Abbreviations (Continued) - June 30, 2013

ABBREVIATION	DESCRIPTION
ES	Employment Services
ESEA	Elementary and Secondary Education Act
FC	Foster Care – Title IV-E
FEMA	Federal Emergency Management Agency
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration
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
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
MOU	Memorandum of Understanding
NCLB	No Child Left Behind
NGMO	National Guard Military Operations and Maintenance Projects
NSLP	National School Lunch Program
OA	Office of Administration
OB	Office of the Budget
OCO	Office of Comptroller Operations
OCYF	Office of Children, Youth and Families
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PennDOT	Pennsylvania Department of Transportation
PAG	Public Assistance Grants
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
QA	Quality Assurance
RS-VR	Rehabilitation Services - Vocational Rehabilitation Grants to States
SAPT	Block Grants for Prevention and Treatment of Substance Abuse
SAS	Statement on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards
SFSF	State Fiscal Stabilization Fund
SFYE	State Fiscal Year Ended

Legend of Abbreviations (Continued) - June 30, 2013

ABBREVIATION	DESCRIPTION
SIG	School Improvement Grants
SNAP	Supplemental Nutrition Assistance Program
SSA	United States Social Security Administration
SSBG	Social Services Block Grant
SW	Statewide Finding
SWIF	State Workers’ Insurance Fund
TAA	Trade Adjustment Assistance
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
VT	Voucher Transmittal
WAP	Weatherization Assistance for Low-Income Persons
WIA	Workforce Investment Act
WIC	Women, Infants, and Children