
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PENNSYLVANIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

March 2010 A-77-10-00003

**MANAGEMENT
ADVISORY REPORT**



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: March 8, 2010

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Commonwealth of Pennsylvania for the Fiscal Year Ended June 30, 2008 (A-77-10-00003)

This report presents the Social Security Administration's (SSA) portion of the single audit of the Commonwealth of Pennsylvania for the Fiscal Year ended June 30, 2008. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Pennsylvania Auditor General and Ernst and Young, LLP performed the audit. The results of the desk review conducted by the Department of Health and Human Services (HHS) concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Pennsylvania Auditor General and Ernst and Young, LLP and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.¹

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Pennsylvania Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Department of Labor and Industry (L&I) is the Pennsylvania DDS' parent agency.

¹ In January 2009, the President's Council on Integrity and Efficiency was superseded by the Council of the Inspectors General on Integrity and Efficiency, Inspector General Reform Act of 2008, Pub. L No. 110-409 § 7, 5 U.S.C. App. 3 § 11.

The Office of Vocational Rehabilitation (OVR) in L&I provides vocational rehabilitation services to Social Security beneficiaries. SSA reimburses OVR for direct costs of items purchased for these individuals and indirect costs related to administrative, placement, and counseling services as well as tracking and monitoring work activity.

The single audit reported:

1. OVR could not provide complete documentation to support SSA reimbursements totaling \$16,025 for vocational rehabilitation services (Attachment A, pages 1 and 2). The corrective action plan indicated that supporting documentation for the SSA reimbursements will be obtained from its mainframe system (Attachment A, pages 1 and 2).
2. Documentation was not maintained for the authorization and testing of changes to the DDS' VERSA application. Further, access to the test and production libraries in VERSA was not limited to authorized staff (Attachment A, pages 3 through 6). The corrective action plan indicated emails documenting authorization and testing of program changes are now retained and that only authorized staff has access to both the test and production environment (Attachment A, pages 4 and 5).
3. The Commonwealth of Pennsylvania is not in compliance with the *Cash Management Improvement Act* (CMIA) regulations and procedures for clearance pattern requirements and interest calculations. As a result, the interest liability on the CMIA Annual Report, as submitted to the Department of the Treasury, was misstated by at least \$5.6 million (Attachment A, pages 7 through 15). The corrective action plan indicated a new check clearance study had been completed (Attachment A, pages 12 through 14).

We recommend that SSA:

1. Determine whether the reimbursements to OVR totaling \$16,025 were appropriate and, if not, request a refund of the unallowable costs.
2. Ensure OVR is maintaining adequate documentation to support SSA reimbursements for vocational rehabilitation services.
3. Verify that the identified weaknesses in computer controls over the DDS' VERSA application have been adequately resolved.
4. Ensure that DDS cash draws are based on the CMIA.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- Adequate documentation was not maintained to support contracting and procurement (Attachment B, pages 1 through 3).
- General computer controls needed improvement (Attachment B, pages 4 through 13).
- Procedures were not in place to reverify that existing vendors had not been debarred or suspended (Attachment B, pages 14 and 15).
- Control deficiencies existed in the charging of personnel costs (Attachment B, pages 16 and 17).

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.

A handwritten signature in black ink, appearing to read "Pat O'Carroll Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2008

Finding 08 – 40:

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

Control Deficiency Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in Unsupported Program Income (A Similar Condition Was Noted in Prior Year Finding #07-38)

Condition: As part of rehabilitating Social Security beneficiaries, OVR is permitted to request reimbursement from SSA for the costs incurred while serving eligible vocational rehabilitation clients in the RSBS program. These SSA reimbursements are considered program income to the RSBS program and deducted from expenditures reported on the SEFA. OVR received approximately \$6.8 million in program income from SSA during state fiscal year ended June 30, 2008, based on the claims submitted.

In order to request SSA payment, OVR prepares and submits a Vocational Rehabilitation (VR) Provider Claim form to SSA for each eligible client. For SFYB June 30, 2008, we selected five clients' reimbursement requests, which totaled \$309,657 in RSBS program income for the year (as part of Document No. RE94039150 posted to the SAP System on September 21, 2007). However, for the third year in a row, OVR could not provide complete documentation supporting the VR Provider Claim forms for our review. In particular, our testwork disclosed that for four clients out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which were required to support \$16,025 of direct costs claimed for the clients in question.

Criteria: 34 CFR 80.20 provides the following standard for financial management:

(b)(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

34 CFR 80.42 regarding record retention states:

(b) Length of retention period. (1) ...records must be retained for three years...

(c)(3) Records for income transactions after grant or subgrant support. In some cases grantees must report income after the period of grant support. Where there is such a requirement, the retention period for the records pertaining to the earning of the income starts from the end of the grantee's fiscal year in which the income is earned.

Cause: OVR personnel stated that in response to the prior year finding, they began to implement procedures to retain copies of the claim documentation at the OVR Central Office to ensure that the documentation is retained and available for audit purposes, as opposed to returning the claim documentation to the originating OVR district office after the claim has been processed. However, at the time the claims in question were prepared, these procedures were not yet in place.

Effect: Since there was no documentation to substantiate the proper determination of the SSA claims for program income recorded for RSBS in violation of federal regulations, and OVR provides little assurance that the SSA income received by L&I in the RSBS program for these items was correct and legally earned in the current year. In addition, without adequate procedures for properly documenting the VR Claim Forms submitted to SSA, there is little assurance that future claims will be adequately supported. Finally, the SEFA may also be misstated as a result.

Recommendation: OVR should pursue appropriate settlement of the \$16,025 in unsupported program income with SSA and ensure it has adequate documentation on file to support all program income received from SSA in the current fiscal year under audit. Also, OVR should implement procedures to ensure that all VR Provider Claim forms and supporting documents which substantiate the proper determination of the claim for reimbursement are retained for the time period required by the Federal government.

Agency Response: The finding states that OVR could not provide complete documentation supporting the VR Provider Claim forms, in particular the OVR-208 Form required to support direct costs claimed. For the service time indicated,

Finding 08 – 40: (continued)

OVR was using a mainframe system which automatically generated an invoice to be sent for payment. The invoices are based on Mainframe 45 screens. Supporting documentation can be provided from the IT area to generate the necessary Mainframe 45 screens which will document the costs. The Mainframe 45 screen system provided an automated system with checks and balances that fulfilled the audit documentation requirements.

Auditors' Conclusion: Regarding the Agency Response, the Mainframe 45 screens are not sufficient documentation on their own since they do not contain evidence that the invoiced services were actually rendered. In comparison, the OVR-208 Forms contain the signatures of the OVR Counselor and the vendor which indicate that the invoiced services were performed on behalf of the OVR client. Since no OVR-208 Forms were provided to show that the \$16,025 costs were incurred on behalf of the clients in question, the \$16,025 costs claimed for reimbursement from SSA are still considered to be unsupported. The finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Finding 08 – 72:

CFDA #17.207, #17.801, #17.804 – Employment Services Cluster

CFDA #17.225 – Unemployment Insurance

CFDA #17.245 – Trade Adjustment Assistance

CFDA #17.258, #17.259, and #17.260 – Workforce Investment Act Cluster

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

CFDA #96.001 – Social Security – Disability Insurance

Deficiencies in Information Technology Controls at L&I

Condition: In connection with our audit of the L&I major programs for the year ended June 30, 2008, we performed an information technology (IT) general controls review over the significant applications identified for these major programs, and noted the following deficiencies that need to be addressed by Commonwealth management:

- **CareerLink**-A total of 19 of 170 terminated users were found in the CareerLink system (used for WIA and TAA and replaced by CWDS in September of 2007) whose access was not removed timely. Also, appropriate documented approvals for four of 25 new users selected were not obtained and documentation was not provided. Further, documentation provided for six of the 25 new users was from outside of the audit period.
- **Commonwealth Workforce Development System (CWDS)**-Changes were made directly to production data without following the controlled change management process. Also, there are no formal monitoring procedures in place surrounding changes that were moved into production. Further, there is a segregation of incompatible duties issue relative to user role listings since at least one user has the ability to both develop and promote changes. Additionally, appropriate documented approvals for at least four of the 25 new users selected were not obtained and users were found in CWDS whose access was not removed in a timely fashion. Also, there is no formal documented review to make sure user access is authorized and appropriate. CWDS was implemented in September of 2007 and is utilized in the WIA Cluster, TAA, and RSBS programs.
- **Unemployment Compensation (UC)**-Four of 19 separated users tested still appeared on the active user listing, indicating that access was not disabled/deleted.
- **VERSA**-There is no formal documented process in place surrounding the authorization and testing of changes for the VERSA application used for the DDS program. Changes are informally discussed among BDD Directors through e-mail or verbal communication, but no documentation is retained. Unit testing and User Acceptance Testing (UAT) is performed by OIT, however, no documented evidence is retained around the testing performed. Additionally, changes are reviewed informally and are not conducted with any specific frequency and evidence of review is not retained. Also, individuals with non-limited command line access are able to access libraries in both the test and production environments.
- **Financial Management System (FMS)**-Changes to FMS (used for WIA and TAA) or its supporting infrastructure are not made through a formalized Change Management Process. The authorization, testing, and approval of FMS changes are communicated verbally or through e-mail and are not documented. A formalized Change Management Process has not been created due to the infrequent rate of FMS changes and the limited resources assigned to FMS. Additionally, the production environment is not monitored for unauthorized changes (application changes or infrastructure). Due to the small number of changes being made to FMS, and the limited number of individuals involved with development and maintenance of FMS, L&I has not implemented a monitoring procedure. Also, FMS developers are also responsible for moving changes into the production environment, indicating that a segregation of incompatible duties does not exist within the manage change environment. Further, there have been no minimum password length or complexity requirements established for FMS passwords. Also, a periodic appropriateness review of access rights assigned to active users is not documented and performed, and documented reviews of database audit logs are not completed.

Finding 08 – 72: (continued)

Criteria: Good internal control 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: Management has not been able to improve its operations within the overall agency general computer controls areas to resolve the control deficiencies reported above. The main cause relates to limited staffing/budgets available to the agencies. Commonwealth management also believes that, although strong general computer controls are clearly important in agency operations, there are additional manual internal controls in place elsewhere within these integrated agency operations that serve to directly mitigate the impact of the general controls deficiencies reported above.

Effect: The weak controls noted above could result in inappropriate system access, unauthorized changes, and noncompliance with federal regulations.

Recommendation: We recommend that L&I management review and resolve the weaknesses in IT controls noted above to ensure that: 1) only properly documented, authorized, and appropriate individuals are granted access to the above-noted systems on a regular basis, and 2) all changes are properly authorized, tested, documented, and monitored by management.

Agency Response: In regard to the condition involving the CareerLink system, the CareerLink system has been fully integrated into the CWDS system. The former CareerLink system was fully paper based authorization and controlled at central office location. The new CWDS system allows for decentralized system administration and tighter access controls and role based application security design.

The first statement noting that CWDS changes are made directly in Production gives the reader an incorrect impression that no change control management process is followed or instituted in the CWDS application system and the Department takes issue with that. CWDS does have a controlled change management process, does provide for segregation of testing and production level changes, and does have monitoring of errors and system functionality. It should be noted that during this audit period, the CWDS application system had just been launched in September of 2007 and was not fully integrated with all Workforce Partner Agencies until the end of November 2007. This was the culmination of an aggressive complex 22-month design, development, testing and training effort. During a roll out and implementation of any new fully integrated system with multiple user levels of access with an application system the size and scope of the CWDS system, it would not be unexpected that unforeseen outages or circumstance would arise that had not been seen or planned for during system integration and testing. Some changes were not able to be replicated in the lower test environments due to the complexity of the technology and nature of the errors that had occurred. However, all of the changes were fully discussed, authorized and given management oversight and monitoring during any of those instances. The L&I CWDS project management took every precaution and due diligence in handling these corrections, and disputes the broad statement as stated above.

The Department recognizes that the ideal situation would be to have fully delegated and segregation of all IT duties in development, testing and administration of system change process. L&I further recognizes that it would be ideal to have multiple staff in key positions to allow for oversight and monitoring of any and all changes. L&I CWDS project management team further recognizes and has instituted a full change management and approval process for all CWDS Production level changes. It is noted that the L&I is constrained in the IT staffing levels necessary to have the full segregation of every IT duty and process; however, mitigation strategies are in place to minimize this. It is recognized that there may be some key management staff that do have both a development and production level access to the application system. The L&I does take due diligence in ensuring those management staff are aware of their responsibilities and reviews and gains signature agreement with the access rights and user agreements with such system administrators. The L&I CWDS project management team has developed, reviewed and elevated to the executive management teams at L&I and DPW and the IT staff fully supports and manage the CWDS project.

In regard to the information for documented approvals for users and also the statements indicating separated users still appeared on the active user listing indicating access was not disabled or deleted, there was not enough time to conduct the research necessary to determine the validity or background of these statements before preparing this response. The Department will review this to ascertain if further action is necessary.

Finding 08 – 72: (continued)

In regard to the VERSA program, it was stated that there is no formal documented process in place surrounding the authorization and testing of changes for the VERSA application used for the DDS program. It was further stated that changes are informally discussed among BDD Directors through e-mail or verbal communication but no documentation is retained. It should be noted that all changes are approved by BDD management. The OIT staff now archives electronic copies of the e-mails that document authorizations of the program changes.

It was stated that unit testing and User Acceptance Testing (UAT) is performed by OIT, however, no documented evidence is retained around the testing performed. Additionally, changes are reviewed informally and are not conducted with any specific frequency and evidence of review is not retained. We are in disagreement with this in that User Acceptance Testing for major releases is conducted by OIT staff and BDD program area staff using a test plan provided by SSA specifically for the release. OIT staff frequently adds steps to this test plan to concentrate on areas of particular concern. Results are recorded via e-mail reporting to BDD management. This e-mail is also used to formally request permission to implement the release in the production environment. Testing of bug fixes is done on an as-needed basis in response to when these fixes are received from VERSA. Depending on the nature of the fix, testing is performed by OIT alone, or by OIT and the BDD program staff. When a bug is reported to VERSA by OIT staff, the specific steps needed to recreate the error are documented and sent to VERSA via e-mail. When the fix is received, these same steps are used to verify that the problem no longer occurs. The results of the testing are sent to BDD management via e-mail along with a request for formal approval to implement the fix in the production environment. Testing procedures are well-established and consistently followed but up to now, not well-documented. Likewise, testing results were informally recorded and reported. The original testing materials and testing results were also retained informally. However, OIT has recently implemented more formal e-mails and document retention strategies to ensure a more thorough audit trail of the process.

Lastly, it was stated that individuals with non-limited command line access are able to access libraries in both the test and product environment. Only limited OIT staff authorized by BDD have this ability.

Regarding the Financial Management System and the information cited, it should be noted that the Department acknowledges the current FMS system is outdated and slated for termination in July 2010. The development of additional controls, changes and enhancements were delayed and held to avoid any duplication of costs incurred since the system was always planned to be integrated as part of the CWDS application. Again, the Department recognizes that it would be ideal to separate all duties in an application life cycle to segregated staff and roles, however the current staffing situation does not allow for this. Any erring on the side of good responsible customer service and application system availability, the Department's OIT management team provides oversight on any and all Production changes. The Department acknowledges that there are key management staff having development, testing and production level administration access. It is additionally noted that the two staff having these access rights are Management OIT staff who are held duly accountable and who must acknowledge their roles and responsibilities with Department User and System Administrator agreements and review and sign those documents yearly.

Auditors' Conclusion: Regarding the CareerLink system, we agree with L&I that CareerLink was replaced with CWDS in September 2007. However, the CareerLink system remained active for three months into the audit period, and therefore the deficiencies cited in the condition would still be relevant for the period under audit.

Regarding the CWDS and changes made directly to production data, we agree with L&I that a change management process was established for CWDS. We walked through and documented the established change management process with CWDS representatives (approvals, documenting and tracking of changes through use of IBM Rational ClearQuest, testing in Mercury Quality Center test system, etc.). However, in our discussions with CWDS personnel, it was communicated, as indicated in the finding that changes were made to production data (e.g. combining records), without following the controlled change management process including documentation of the changes in the appropriate systems.

Regarding the documented approval for granting access to CWDS, we noted during our testing that at least three users were acknowledged by local office staff to have been granted access to CWDS without the completion of the appropriate forms.

Finding 08 – 72: (continued)

Regarding the removal of terminated users from CWDS, we noted during our testing that separated users still were active in the system. Per discussion with the Information Technology Generalist Administrator I, it was acknowledged that the mechanism to synchronize users between Active Directory and CWDS, which would remove old users, was not working adequately.

Regarding the documentation of VERSA changes (authorization, testing, approvals), we agree with the process described and improvements to be implemented by L&I. However, based on our testing, emails containing the documentation were not being retained during our audit period.

Regarding individuals with non-limited (command line) access to VERSA, a review of the User Profile Report showed that the majority of active accounts (account is enabled, password is not set to none, and initial menu is not set to *SIGNOFF) have non-limited access (limited capability = *YES). Since no formal change monitoring has been established, and the informal review is conducted by personnel with command line access, there is still a risk that unauthorized changes may be made.

Regarding the lack of controls around the Financial Management System, we understand that the system has been slated for decommission in July 2010. However, the only measures in place are agreements signed off by the users and administrators and there are no formal monitoring processes in place, either of changes made or user activity logs.

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

Finding 08 – 73:

CFDA #10.555 – National School Lunch Program for Children
CFDA #10.561 – State Administrative Matching Grants for Food Stamps Program
CFDA #17.260 – Workforce Investment Act Dislocated Workers
CFDA #20.205 – Highway Planning and Construction
CFDA #23.003 – Appalachian Development Highway System
CFDA #66.458 – Capitalization Grants for State Revolving Funds
CFDA #84.010 – Title I Grants to Local Educational Agencies
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 – Child Care and Development Block Grant
CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
CFDA #93.658 – Foster Care – Title IV-E
CFDA #93.659 – Adoption Assistance
CFDA #93.667 – Social Services Block Grant
CFDA #93.767 – State Children's Insurance Program
CFDA #93.778 – Medical Assistance Program
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
CFDA #96.001 – Social Security – Disability Insurance

Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$5.6 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #07-75)

Condition: The Commonwealth of Pennsylvania has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement, the Commonwealth has developed policies and procedures contained in Comptroller Operations Directive #540.1 and has developed the CMIA Drawdown System (CDS) which calculates and provides recommended drawdown amounts for most federal programs using the Average Daily Clearance (ADC) method.

For the fifteenth year in a row, since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994, the following control weaknesses remain unresolved:

Check clearance studies to determine the ADC for applicable Federal programs, the last of which was performed untimely about 10 years ago during the period of February 1, 1999 through May 31, 1999, included the following deficiencies:

- The Commonwealth did not reconcile expenditure totals from the check clearance study to its general ledger to ensure the accuracy and completeness of data used in the ADC study. Further, as noted in our Single Audits since SFYE June 30, 1994, each Voucher Transmittal (VT) can only be captured in the study under one appropriation, regardless of how many appropriations are present on the VT. Since some appropriations are used for more than one program, but are assigned to only one program for the ADC study, some programs had significantly less or significantly more expenditures in the study than were actually incurred.

Finding 08 – 73: (continued)

- The posting dates used for the clearance studies did not always agree to the actual general ledger posting dates. As a result, this material weakness regarding incorrect posting dates from the study caused material noncompliance with CMIA during SFYE June 30, 2008 since the Commonwealth is still using ADC patterns established from the February 1, 1999 through May 31, 1999 clearance study.
- A disproportionate amount of payroll cost was included in the clearance studies for CFDA #20.205, Highway Planning and Construction (HPC). We believe this occurred due to the fact that appropriations other than HPC related appropriations were included on the payroll VTs which were used in the HPC studies.

Further, starting on July 1, 2002, the Commonwealth began decommissioning its legacy accounting system with a phased implementation of an Enterprise Resource Planning (ERP) software known as SAP that impacted all Commonwealth business functions, including the timing of the payment process. However, the Commonwealth has yet to perform a new check clearance study for SAP to ensure the accuracy of the delay of draw for federal programs, all of which are now using SAP.

Excess cash on hand results from the rejection of payment invoices by the PA Department of Treasury if timely adjustments are not made (as indicated in the first four bullets below) and interest due to the federal government for such transactions is not recorded by CDS. While the Commonwealth has improved its system by modifying CDS to record adjustments immediately and not subject them to a draw delay, not posting adjustments to the Commonwealth accounting system on a timely basis (i.e., from Treasury rejections) results in unrecognized interest liabilities.

Our testing of monthly draws for Food Stamps Admin (CFDA #10.561) program costs allocated through DPW's department-wide Cost Allocation Plan (CAP) disclosed that PHHS Comptroller Office did not draw these federal funds in accordance with the CMIA Treasury-State Agreement. The Treasury State Agreement requires monthly draws for DPW CAP costs to be made at the beginning of each month to fund activity of the prior month and shall be an estimate based on the actual allocation of costs for the preceding six months and reconciled monthly. However, DPW's monthly draws for its CAP costs were routinely based upon actual DPW CAP costs for the previous month and were made approximately 20 to 30 days after month end. This draw procedure violated the Treasury-State Agreement.

Within the RSBS program, CFDA #84.126, we noted that the LECS Comptroller Office posted three expenditure adjustments during September 2007 totaling \$10.4 million, to transfer federal expenditures to the state ledger. The transfers were made to increase underfunded state expenditures to the required state match percentage for the RSBS grant that was closing out on September 30th. The result of these transfers was an excess federal cash balance in violation of the CMIA State-Treasury Agreement, since the funds had already been drawn down and deposited as federal for the expenditures transferred. Further testing revealed that as of June 30, 2008, or nine months later, the required state match for the two open RSBS grants was still underfunded by approximately \$9.3 million, so the excess federal cash remained on hand. Although this is a violation of CMIA, the CDS system does not record a state interest liability in situations where state matching funds are not being timely posted and excess federal cash is drawn down early to temporarily fund program state match. As a result, CMIA interest is owed on this excess RSBS federal cash for SFYE June 30, 2008 to be remitted during SFYE June 30, 2009.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2007 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2008, was misstated by a minimum of \$5,621,120 as follows:

- We noted that invoice #KR1901529620 selected for testing during SFYE June 30, 2007 posted \$21,694,007 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on June 27, 2006; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until August 21, 2006. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 55 days, the Commonwealth's interest liability was understated by \$162,670.

Finding 08 – 73: (continued)

- We noted that DPW reposted invoice # KR190152960 as invoice #KR1901764056 for \$21,694,007 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on March 15, 2007; however, the PA Treasury Department once again rejected the invoice and the funds were not returned to HHS until April 30, 2007. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 46 days, the Commonwealth's interest liability was understated by \$137,314.
- We noted that invoice #KR1901529857 selected for testing during SFYE June 30, 2007 posted \$10,094,562 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on July 12, 2006; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until August 14, 2006. Since the Commonwealth only paid interest to the federal government for 10 days that these excess funds were on hand as opposed to the 33 days the cash was actually on hand, the Commonwealth's interest liability was understated by \$31,947.
- We noted that invoice #KR1901715472 selected for testing during SFYE June 30, 2006 posted \$10,897,448 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on January 16, 2007; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until March 8, 2007. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 51 days, the Commonwealth's interest liability was understated by \$76,474.
- Within the Medical Assistance program, DPW's PROMISe system processes a file of medical claims on a weekly basis. Included within these claims are expenditures made by school districts for school-based medical services. For all school based medical expenditures DPW submits a check to PDE, who administers the school-based medical program. PDE then in turn reimburses the school districts for the medical services provided. Once DPW pays the money to PDE, the funds are subsequently drawn from the federal government. However, our review of the account used by PDE to reimburse the school districts disclosed that PDE is not reimbursing the school districts in a timely manner as this account had a balance of \$106,917,750 at June 30, 2007, with a carry-forward balance from the prior fiscal year of \$96,662,550. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any interest on the balance maintained within this account, even though it represents federal funds drawn down in excess of amounts paid to school districts. As a result, assuming the average balance in the account was approximately \$101.79 million during the June 30, 2007 fiscal year, the state's interest liability was understated by an estimated \$5,110,000 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$118.08 million as of June 30, 2008, so additional CMIA interest is owed for SFYE June 30, 2008 to be remitted during SFYE June 30, 2009.
- Within the Food Stamps Admin program (CFDA #10.561), we noted that the LECS Comptroller Office posted document #EA7803051881 to SAP on April 2, 2007 to transfer \$2,332,745 of federal Food Stamp expenditures to TANF MOE as a result of a prior year closeout of subgrantee contracts for the SFYE June 30, 2006. The funds were subsequently returned to the federal government on May 16, 2007. Since these funds related to the SFY that ended on June 30, 2006, the Commonwealth owes CMIA interest on these funds from at least July 1, 2006 to May 16, 2007, or 320 days. However, we noted that the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand. Therefore, the Commonwealth's interest liability was understated by \$102,715 for the period in question.

Criteria: 31 CFR 205.20 provides the following regarding clearance patterns:

States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

- a. A clearance pattern must be auditable.*

Finding 08 – 73: (continued)

- b. *A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. *A clearance pattern must include seasonal or other periodic variations in clearance activity.*

Also, 31 CFR 205.22 (a) on the accuracy of clearance patterns states:

If a State has knowledge, at any time, that a clearance pattern no longer reflects a Federal assistance program's actual clearance activity, or if a Federal assistance program undergoes operational changes that may affect clearance activity, the State must notify us, develop a new clearance pattern, and certify that the new pattern corresponds to the Federal assistance program's clearance activity.

The Commonwealth's CMLA Agreement with the U.S. Treasury Department Section 6.2.4 related to the monthly draws under Cost Allocation Plans states:

Monthly Draws

The State shall request funds at the beginning of each month to fund the activity of the prior month. The amount of the request for a given month's activity shall be an estimate based on the actual allocation of costs for the preceding six months and shall be reconciled monthly. This funding technique is interest neutral.

31 CFR 205.14(a)(2), pertaining to federal interest liabilities, states:

- (2) *If a State pays out its own funds for Federal assistance program purposes without obligational authority, the Federal Program Agency will incur an interest liability if obligational authority subsequently is established. However, if the lack of obligational authority subsequently is established. However, if the lack of obligational authority is the result of the failure of the State to comply with a Federal Program Agency requirement established by statute, regulation, or agreement, interest liability may be denied. A Federal interest liability will accrue from the day a State pays out its own funds for Federal assistance program purposes to the day Federal funds are credited to a State bank account.*

31 CFR 205.15 states the following pertaining to state interest liabilities:

- (a) *General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*
- (b) *Refunds. (1) A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.*
- (d) *Mandatory matching of Federal funds. In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.*

31 CFR 205.29(d) states the following regarding compliance and oversight:

- (d) *If a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in §205.11, §205.12, or a Treasury-State agreement, we may deny the State payment or credit for the resulting Federal interest liability, notwithstanding any other provision of this part.*

Finding 08 – 73: (continued)

Further, 31 CFR 205.26(a) related to the Annual Report states:

- (a) A State must submit to us an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends. We will provide copies of Annual Reports to Federal agencies. We will prescribe the format of the Annual Report, and may prescribe the format of the Annual Report, and may prescribe that the Annual Report be submitted by electronic means.*

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.1.6 states:

With several programs subject to the Act, the primary State agency administering a program will subgrant portions of the program to secondary state agencies. As costs in support of the program are incurred, the secondary agency charges the primary agency, which in turn draws down Federal funds.

In all such cases, the secondary agency shall charge the primary agency no earlier than the day transactions post to the accounts of the secondary agency. The procedures governing the request for funds from the primary agency, and the payment of such requests, shall be in accordance with the agreement between the primary and secondary agencies.

Cause: Regarding the accuracy and completeness of the data used in the ADC studies, BFM personnel stated that the current system in place to calculate the ADC can only sort expenditures by appropriation. Therefore, each voucher transmittal could only be included in a study under one appropriation, regardless of how many appropriations are included on the voucher. Since some appropriations are used for more than one program, in these instances, the appropriation must be assigned to one program for ADC purposes.

For the differences noted between the actual posting dates and the posting dates used in prior ADC studies, we found that the date used for the ADC study was the date on which magnetic tapes were forwarded to Treasury for payment, not the date the expenditures were actually posted to Commonwealth's accounting system which is used by CDS. As in prior years, the Commonwealth had no controls in place to make sure the correct posting dates were included on these magnetic tapes and incorporated into check clearance studies.

Regarding the issue of payments rejected by PA Treasury causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, PA Treasury rejecting payments is outside the control of BFM and is an inherent limitation within the CDS system because the draw delay is based on general ledger postings and not check issuance. Therefore, when PA Treasury rejects paying an invoice, excess cash can result under the current system. While BFM has continued to state that number of invoices rejected by the State Treasury is minimal, no proof of this assertion has ever been provided.

For other items addressed in the condition relating to errors and weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they either did not agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

Effect: As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2007 are not accurate. Our testing disclosed a minimum estimate of \$5,621,120 in understatements in the state interest liability to the federal government.

Finding 08 – 73: (continued)

Because of the overall pervasiveness of the check clearance discrepancies involving untimeliness, new ERP system, incorrect populations and posting dates, etc., we cannot determine the overall impact of these weaknesses on major program check clearance patterns.

Also, various transactions that create interest liabilities, such as adjustment transactions, cancelled payments, etc. are not recognized by CDS as interest-generating transactions. Since manual adjustments are not made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

Recommendation: We recommend that BFM pursue appropriate settlement with the federal government regarding the \$5.6 million in additional interest owed to the U.S. Treasury.

For future audit periods, we recommend BFM personnel implement a system to ensure that the clearance patterns developed and utilized on CDS accurately represent the flow of federal funds as required by 31 CFR 205.20.

In addition, BFM personnel should determine the additional amount of June 30, 2008 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that BFM modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that BFM calculate any prior-year additional June 30, 2007 CMIA interest due to the U.S. Treasury as a result of the system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

Also, we recommend BFM pursue amending the Commonwealth's CMIA Agreement to reflect the current actual monthly draws methodology used by PHHS Comptroller for DPW CAP costs.

Agency Response:

Check Clearance Study:

Regarding the auditors' statement that "a disproportionate amount of payroll cost was included in the clearance studies for CFDA #20.205..." the Commonwealth historically selected appropriations that contained payments to CFDA No. 20.205. The new check clearance study has been completed which identifies all VTs and payments for CFDA No. 20.205. A separate check clearance pattern is not required for payroll; the check clearance study is based on all expenditures for a program. For this reason, it is appropriate that we continue to include payroll costs in our study.

The statement that "the Commonwealth has yet to perform a new check clearance study" is inaccurate, as one was completed during this audit period. As stated in our response to the prior year finding, a new check clearance study has been completed which identifies all VTs and SAP payments for a specific CFDA. This study was completed in June of 2008 and was implemented in July. Thus, the results of the new check clearance study are in effect for the Commonwealth's 2008-09 fiscal year. As stated previously, we believe that this new study will alleviate the concerns identified in the finding.

Monthly Draws

As a result of discussions with the auditors about the draw process for the Food Stamps Admin (CFDA #10.561) program, the Treasury-State Agreement should be changed to reflect the use of a 12 month period in regard to the request for funds rather than a 6 month period. This change will be included in the 2009-10 Agreement.

Finding 08 – 73: (continued)

RSBS Program

The EA documents in question were processed to increase state match obligations and expenditures to the required match calculated for the final award amount, including reallocated funds, by the end of the initial year of the grant. This action was taken in accordance with the US Department of Education, Rehabilitation Services Administration's Policy Directive RSA-PD-01-01 dated October 26, 2000. The directive states "Section 19 of the Rehabilitation Act (the Act), as amended, permits unobligated formula grant funds appropriated for one Federal fiscal year to be carried over for obligation by the end of the next Federal fiscal year provided that any applicable matching requirement for the carryover funds has been met in the year of appropriation."

The auditors refer to two RSBS grants in their finding:

- The first grant is for the two-year period of October 1, 2006 to September 30, 2008. RSA policy requires that the state match for this grant be achieved by September 30, 2007. As noted in the finding, this was achieved by transferring \$10.4 million from the federal share to the state share during September 2007. Because the Federal G5 draw system and Pennsylvania's Treasury Department cannot accommodate a negative total draw, the Commonwealth had no choice but to reject the negative draws in CDS until sufficient expenditures were posted to offset the negative amounts. The federal funds were returned to RSA through this offset process by October 31, 2007.
- The second grant is for the two-year period of October 1, 2007 to September 30, 2009. The state match for this grant must be achieved by September 30, 2008. The auditors indicate that this match was not met by June 30, 2008. This is irrelevant since the state match need not be met until September 30, 2009. Thus, the auditors' comment that the state match was underfunded by \$9.3 million at June 30, 2008 should be removed from the finding.

TANF Program

- The original invoice was rejected by Treasury over concerns with the backup documentation containing potential duplicate items. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$162,670 to the US Treasury.
- The original invoice was rejected by Treasury over concerns with the backup documentation containing potential duplicate items. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$137,314 to the US Treasury.
- The original invoice was actually part of a group of five invoices rejected by Treasury due to Treasury's inability to redline individual invoices that had been bank assigned and wrapped together. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$31,947 to the US Treasury.
- The original invoice was rejected by Treasury over concerns with the backup documentation containing potential duplicate items. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$76,474 to the US Treasury.

Finding 08 – 73: (continued)

The Commonwealth intends to resolve these issues by a change in procedures, particularly in regard to notifications of redlined invoices. Discussions will be held with all of the affected parties to formulate a method to prevent such occurrences in the future.

Medical Assistance Program

In 1988, Congress enacted the Medicare Catastrophic Coverage Act (PL 100-360). This law provides that federal Medicaid funds must be available to reimburse expenditures for health-related services included in each child's individualized education program (IEP), individualized service plan (ISP), or individualized family service plan (IFSP) for all children who are also Medicaid eligible.

The Pennsylvania Department of Education (PDE) developed the ACCESS Program in response to this legislation. ACCESS is a means for gaining medical assistance (MA) reimbursements for the cost of the health-related services currently being provided to MA eligible students. Billable services include speech therapy, occupational therapy, physical therapy, psychological services, etc. Local education agencies (LEAs) must enroll as medical assistance providers in order to submit their invoices to MA for the billable services they are providing to the eligible students.

Based on the claims submitted for valid MA eligible expenditures incurred by the LEAs, DPW pays PDE on behalf of the LEAs and draws down the funds in accordance with the Treasury State Agreement and MA program guidelines. The funds received from MA are reported as expenditures on the Single Audit and are maintained in LEA specific accounts managed by PDE and may accumulate over several state fiscal years. Each LEA controls its own draw down of reimbursements through the filing of ACCESS Requests with PDE. ACCESS funds must be used by LEAs to enhance or expand special education services and programs for students with disabilities.

As in prior years, the Commonwealth again maintains that the medical access funds were drawn for program purposes in accordance with the Treasury State Agreement. The funds were drawn based on approved expenditures, and each LEA requested their funds at their discretion. Therefore, the Commonwealth continues to disagree that CMIA interest is due.

In a letter from the US Department of Health & Human Services dated November 7, 2008, a status of this issue was requested. The Commonwealth reiterated our position that no CMIA interest was due in regard to this matter. In a follow-up telephone call, we explained the process noted above. DHHS indicated that they may call us for further discussion, but to date no such call has been received from them.

Food Stamps Admin Program

As part of the closeout process for the Joint Jobs Initiative program the Local Workforce Investment Area (LWIA) fiscal agents send requests to the Comptroller's Office to transfer their WIA FMS draws to align them with their actual expenditures as reported in FMS. FMS draws and draw transfers crosswalk to SAP as expenditures. Since FMS expenditures and draws are in agreement after all the LWIAs' closeouts are complete, expenditures are then correct based on participant data and are recorded as such in SAP. The final draw transfer was not posted until September 29, 2006.

Final expenditure figures for the 05/06 program year were sent to DPW's Office of Income Maintenance and Office of the Budget on December 28, 2006 for their review and preparation of the final closeout figures. Those numbers were emailed to the Comptroller's Office on February 26, 2007, but all parties were not in agreement on the final distribution of the expenditures until April 2, 2007, the date the EA was processed.

We recognize that some CMIA interest may be due in relation to the date the funds were returned to the federal government; however, the amount noted in the finding is incorrect, because the entire amount of the EA was not on hand at July 1, 2006. The federal funds were drawn over a period a time which included dates after July 1.

Finding 08 – 73: (continued)

Auditors' Conclusion: Based on our review of the Office of the Budget's response, we note that the Commonwealth did not implement the results of their new check clearance study until after our current audit period ended June 30, 2008, or nine years since the last study was performed in 1999. For the current audit year, our finding remains and implementation of the new study will be tested in our subsequent audit.

Regarding the RSBS program, federal regulation 31 CFR 205.15(d), which applies to cash management of all Federal programs, clearly states:

Mandatory matching of Federal funds. In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.

Since L&I was not properly matching RSBS funds at the time of the drawdowns the Commonwealth owes interest to the Federal Government until the match is adequately funded by the Commonwealth. The agency response fails to address this cash management regulation.

Regarding the excess Medicaid cash on hand at PDE, no new relevant information was provided in the agency response and, as in prior years, we do not agree that no CMIA interest is due. The federal funds were drawn by the state in advance of the payments made to LEAs; therefore, we believe CMIA interest should be paid until the federal funds are disbursed to the LEA. The Commonwealth should resolve this issue with U.S. Treasury.

Regarding the Food Stamps Admin, since we could not determine the actual date the excess cash arose related to the SFYE June 30, 2006, and no additional documentation was provided to support how long the excess Food Stamps funds were on hand, we continue to believe that interest could be due, at a minimum from July 1, 2007, and the Office of the Budget should perform a review to determine if any additional interest is actually due the Fed.

Based on the agency response, since no new or additional information or documentation was provided, our finding and recommendations, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

Finding 08 – 2:

**Office of the Budget
Office of Administration**

Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #07-11)

Condition: During prior audit periods, the Commonwealth awarded numerous statewide technology contracts to modernize and upgrade the Commonwealth's information systems technology, to outsource agency data center computer operations, and to consolidate the acquisition of telecommunications services. The contracts awarded for these types of technology services involve all major agencies in the Commonwealth. In our prior-year audits for the fiscal years ended June 30, 2000 to June 30, 2007, (for eight fiscal years in a row), we reported that management refused to provide us with key procurement documentation to enable us to audit the awarding of these contracts and to verify compliance with Commonwealth procurement regulations. We also disclosed weaknesses in the Commonwealth's internal controls over documentation supporting procurement of these contracts in those prior years. It should be noted that these prior-year findings also included contract awards, other than for statewide technology, which involved specific agencies and funds.

Our current year follow up for the fiscal year ended June 30, 2008, disclosed that, as in the prior years, management continues its policy of refusing to provide us with key procurement documentation to enable us to audit the awarding of contracts to verify compliance with Commonwealth procurement regulations. Documentation again not provided to us for the above contract awards consisted of the following:

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

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

Evaluation Committee 25. Performs final technical and cost evaluations after discussions have been completed (i.e., score sheets)

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

Finding 08 – 2: (continued)

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

Management also indicated that on February 14, 2008, Governor Rendell signed the Right To Know Law (RTKL) and they are currently analyzing that law and may meet with the auditors to explore potential solutions in accordance with the provisions of that law. However, management has not yet provided any potential solutions.

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

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

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts disclosed above. More specifically, we could not verify that management awarded contracts to the most qualified vendors or that the appropriate Commonwealth officials conducted proper fiscal reviews of amendments that substantially increased contract costs. We also cannot ascertain whether proper controls are in place to prevent fraud, abuse, or other inappropriate activity from occurring during the contract procurement process. In short, management imposed scope limitations on our audit procedures.

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

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

Agency Response: We recognize and acknowledge the need for our auditors to verify the propriety of our contracting procedures. As part of the implementation of the RTKL, losing vendors’ proposals will be made available to those who request them for a period of six months after the contract is awarded. During this period, the auditors will have access to this information for audit purposes.

Finding 08 – 2: (continued)

Regarding the remaining five bulleted items to which the auditors have requested access, we are developing a document that will summarize and attest to the process and results of the RFP process and its compliance with federal regulations and Commonwealth policy and the accuracy and propriety of the information being disclosed. We believe such document should satisfy the auditor's needs relative to testing our compliance with federal procurement regulations and Commonwealth policy.

Auditors' Conclusion: We disagree with only providing auditors access to losing proposals for a management-imposed period limited to six months. Management should not restrict availability of these procurement documents to the Auditor General since this is clearly a violation of the Commonwealth Procurement Code quoted in the finding above which states: *Retention of procurement records. All procurement records, including any written determinations issued in accordance with section 561 (relating to finality of determinations), shall be retained for a minimum of three years from the date of final payment under the contract and disposed of in accordance with records retention guidelines and schedules as provided by law. In accordance with applicable law, all retained documents shall be made available to the Auditor General upon request. (62 Pa.C.S.A. § 563)*

Furthermore, if management attempts to only provide us with summary and attest documents and continues in its refusal to provide the original documentation we seek in the remaining five bulleted items above, this is again a clear violation of the Commonwealth Procurement Code quoted above, and all the scope limitations described above on our audit will continue into the future. Therefore, based on the agency response, the finding and recommendation, with the above clarifications, remain as previously stated. We will further review corrective action in the subsequent audit.

Finding 08 – 19:

**Office of the Budget
Office of Administration**

General Computer Controls in Various Commonwealth Agencies Need Improvement

Condition: Our review of general computer controls at numerous Commonwealth agencies during the fiscal year ended June 30, 2008 disclosed the following internal control deficiencies that need to be addressed by Commonwealth management:

Pennsylvania Lottery

1. The production environment is not monitored for unauthorized changes.
2. Password complexity rules have not been established within the Back Office application.
3. One employee appeared on the data center access list twice with two separate badge numbers.
4. Periodic access appropriateness reviews or auditing of privileged IT functions are not completed.
5. One employee appeared on the list of developers and was on the active user listing on the UNIX production server indicating that he could both develop and promote changes.

Department of Labor and Industry

1. There is no formal monitoring of changes in place.
2. There were three RACF User IDs listed as both a promoter and developer for the GPSS group (Change Control Authority Group).
3. There is no documentation recorded surrounding the solutions to a failed backup.
4. Evidence of change authorization is not retained.
5. There is currently no periodic access appropriateness review conducted.
6. A change was approved by an employee to move into production. It was noted that the employee did not appear on the authorized list of promoters.

Office of Administration

1. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment.
2. There are five accounts which share root access. Best security practices recommend that administrators perform the "su" (substitute or switch user) command to access the root, not share group membership with it.
3. There is currently no periodic access appropriateness review conducted.
4. Auditors were unable to obtain evidence to support the description of the processes in place for physical access.
5. Auditors were unable to obtain evidence to support the description of the processes in place for data back-up.
6. Auditors were unable to obtain evidence to support the description of the processes in place for job scheduling.

Department of Public Welfare

1. CMCB meeting minutes authorizing changes are not retained.
2. The MD205.34 (new user) form does not list what level(s) of access are being requested nor does it contain authorization from a data owner(s).
3. There is currently no periodic review of access appropriateness or auditing of privileged IT functions completed.
4. There is currently no process in place to monitor changes that move into production.

Finding 08 – 19 (continued):

5. Four of 40 separated users tested did not have access disabled or deleted timely.
6. Auditors were unable to obtain evidence to support the description of the process in place for privileged IT access.

Department of Transportation

1. CMS does not have a separate development environment; development is done within the test environment.
2. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment.
3. 57 users had inappropriate privileged IT access (users with the 'SPECIAL', 'AUDITOR', or 'OPERATIONS' attribute).
4. On the data center access list, there were three duplicates.
5. There is currently no periodic access appropriateness review or privileged IT function auditing conducted for DOT applications.
6. Change 18008-IMSDAY Upgrade from V8.1 to 9.1 was authorized by Change Management Unit PennDOT_BIS. This user was on the authorized SRS user listing. However, Change Management Unit PennDOT_BIS is a group account and the specific authorizer of change 18008 could not be identified.
7. Evidence to indicate that Change 18008 was tested was not available.

Department of Health

1. There is no formal change management process for the MCH application.
2. One individual was listed as both a developer and a user with the ability to promote into production.
3. There is not a formalized monitoring process in place to monitor the production environment for unauthorized changes.
4. There is currently not a formal process in place for requesting and granting access to DOH applications. Requests are informally communicated through e-mails which are not retained.
5. There is currently not a formal process in place for removing access to DOH applications. Requests are informally communicated through e-mails which are not retained.
6. A periodic review is completed for executables on user systems. However, documentation and findings of this review are not retained.
7. Auditors were unable to obtain evidence to support the description of the processes in place for physical access.
8. Auditors were unable to obtain evidence to support the description of the processes in place for data back-up.
9. Auditors were unable to obtain evidence to support the description of the processes in place for job scheduling.

Department of Education

1. No periodic access review (i.e., no revalidation of users) is conducted.
2. No monitoring of user access violations is conducted.

Department of Revenue

1. Lack of segregation of duties: programmers can promote changes to production in both the client server and mainframe environments.

Liquor Control Board

1. No periodic access review (i.e., no revalidation of users) in the mainframe, point of sale, and warehouse management systems.

Finding 08 – 19 (continued):

2. No monitoring of user activity for access violations in the mainframe, point of sale, and warehouse management systems.
3. Lack of segregation of duties – programmers can promote changes to production in the point of sale and warehouse management systems.
4. Lack of physical access controls over the point of sale and the warehouse management systems

Criteria: Good internal control dictates that sound general computer controls be established and functioning to best ensure that overall agency operations are conducted as closely as possible in accordance with management's intent.

Cause: Management has not been able to improve its operations within the overall agency general computer controls areas to resolve the control deficiencies reported above. The main cause relates to limited staffing/budgets available to the agencies. Commonwealth management also believes that, although strong general computer controls are clearly important in agency operations, there are additional manual internal controls in place elsewhere within these agency operations that serve to directly mitigate the impact of the general controls deficiencies reported above.

Effect: If general computer control areas are not improved in the various agencies, computer and other agency operations may not be conducted in accordance with management's intent. Based on the results of our audit testwork, we agree with management's conclusion that there are additional manual internal controls in place elsewhere within various agency operations which, if functioning effectively, directly mitigate the impact of the exceptions reported above. However, collectively we consider all the above exceptions to be control deficiencies under generally accepted auditing standards, and many of these control deficiencies are considered to be significant under these standards, most importantly where outside manual controls are removed or become ineffective in certain agencies. The auditing standards define deficiencies as significant when a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Lottery Response:

1. The production environment is not monitored for unauthorized changes - We concur with this finding. We agree that the production environment is not correctly monitored for unauthorized changes. We will develop and implement a procedure and mechanism to monitor for unauthorized changes in the production environment.
2. Password complexity rules have not been established within the Back Office application - We concur with this finding. We will develop password complexity rules and enforce them in the production environment. We will also request an enhancement from the software vendor to develop password complexity rules on the back office application.
3. One employee appeared on the data center access list twice with two separate badge numbers - We concur with this finding. Our evaluation found that the employee had previously replaced a damaged badge and the damaged badge account had not been deactivated on the system. Lottery Security took immediate action and deactivated the old damaged badge account on February 12, 2009.
4. Periodic access appropriateness review or auditing of privileged IT functions are not completed. - We concur with this finding. The Lottery will develop a procedure to periodically perform an appropriateness review on the production environment. We will develop a procedure for the audit of privileged IT functions in the production environment.

Finding 08 – 19 (continued):

5. One employee appeared on the list of developers and the was on the active user listing on the UNIX production server indicating that he could both develop and promote changes. - We believe this finding to be acceptable as written. We have reviewed this finding and agree that the employee appears on both the developers list and on the Unix Production Server. We will create a plan and procedure to ensure that a developer does not have access to the check in control system on the UNIX production server.

Labor and Industry Response:

1. There is no formal monitoring of changes in place. - Further clarification needed. - Security Division Change Control staff are notified by either "e-mail" or the "TSO Notify process" that a mainframe change request has been submitted. Change Control staff only action those Elements requested and then ensure that those Elements have been successfully promoted. Only the Requester can determine, for certain, the Element changed is correct.
2. There were three RACF User IDs listed as both a promoter and developer for the GPSS group (Change Control Authority Group). - Unacceptable. - The three individuals listed all have authority to create and promote member Elements in the Endeavor Production (NDVRPROD) environment as so identified. Two of these individuals are current Security Division Change Control staff and the third is a former staff member who is available as an emergency backup. These individuals are performing only "Endeavor Administrator" roles after the Endeavor element has already received "Requester" and "Approver" roles accomplished in the lower, Endeavor Test (NDVRTEST) environment.
3. There is no documentation recorded surrounding the solutions to a failed backup. - Failed backups are tracked on a daily basis through an automated monitoring system within Tivoli Storage Manager (TSM). Each morning a report is generated and emailed to the TSM Administrators. Every server on the report is thoroughly checked and any issues that would have prevented a normal nightly backup are fixed. In some cases an incremental backup is kicked off during the day, however normally the following night's backup will cover any missed files from the day before.
4. Evidence of change authorization is not retained. - Unacceptable. - Change Control staff retains "hard" copies of the following "Production Change Request" Activity: i. All Program change requests that require BUR-3076; ii. All Sort Card requests and; iii. All "Delete" and "Sign IN" Element requests.
5. There is currently no periodic access appropriateness review conducted. - Through feed from the IES system, Remedy tickets are generated for separations and transfers. As part of this process, emails are automatically created and sent to the supervisor in the bureau the employee is leaving to ask them to review the employee's access and request removal of access, as appropriate.
6. A change was approved by an employee to move into production. It was noted that the employee did not appear on the authorized list of promoters. - Answer provided by OIT support at SWIF: "...it would depend on what it was that the employee approved. She, as well as other SWIF UC's, do sign off on test items for SWIF."

Office of Administration Response:

1. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.
2. There are five accounts which share root access. Best practices recommend that administrators perform a "su" (substitute or switch user) to access the root, not share group membership. - The finding is correct and the OA accepts this finding. The process identified in the finding had been used to provide accountability of those accessing the system in support roles. The OA will review the logs available with the system to determine if users can be identified through "su" access. The goal will be to have a complete audit trail from the "su" access.

Finding 08 – 19 (continued):

3. There is currently no periodic access appropriateness review conducted - The agency accepts this finding. Although users should be removed as part of the exit process when leaving an agency, that process may not always be followed. OA will look to develop a process to periodically review the user base and generate reports for user agency reviews.
4. Auditors were unable to obtain evidence to support the description of the processes in place for physical access. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.
5. Auditors were unable to obtain evidence to support the description of the processes in place for data backup. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.
6. Auditors were unable to obtain evidence to support the description of the processes in place for job scheduling. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.

Department of Public Welfare Response:

1. Change Management Control Board (CMCB) meeting minutes authorizing changes are not retained. - Further clarification needed. We are unsure of the basis for #1. Specifically, DPW requests information pertaining to the questions posed by the audit team and who was interviewed that led to the finding. DPW does in fact have sustainable CCMB processes and does track changes accordingly.
2. The MD205.34 (new user) form does not list what level(s) of access are being requested nor does it contain authorization from a data owner(s). - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

Finding 08 – 19 (continued):

3. There is currently no periodic review of access appropriateness or auditing of privileged IT functions completed - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

4. There is currently no process in place to monitor changes that move into production. Further clarification needed. - We are unsure of the basis for #4. Specifically, DPW requests information pertaining to the questions posed by the audit team and who was interviewed that led to the finding. DPW does in fact have sustainable CCMB processes and does track changes accordingly.
5. Four of 40 separated users tested did not have access disabled or deleted timely - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Finding 08 – 19 (continued):

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

6. Auditors were unable to obtain evidence to support the description of the process in place for privileged IT access. - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

Department of Transportation Response:

1. CMS does not have a separate development environment; development is done within the test environment. Unacceptable. - It is true that a separate development environment **does not** exist for the CMS application, as stated in the "Weakness" category. However, a separate development environment **does exist** for the CARATS and DL&C environments; in addition to a 'dev' environment, there are two additional test environments to support System Test and User Acceptance Test.

CMS is a legacy application which contains engineering contract information still needed and accessed by the new ECMS system. No new development is done in CMS, but when changes to ECMS affect the interface to CMS, the test environment may be utilized for system testing.

This clarification may not alter the overall 'severity' which included items 2, 6 and 7, but the lack of a development environment for CMS only would not exacerbate the overall risk represented by the other findings.

Finding 08 – 19 (continued):

2. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment - The Department does not have a tool or manual process to detect if unauthorized changes have been placed into the production environment.

Changes going into the production environment are documented through the change management process. The number of personnel who make changes in the production environment is limited. There is a separation of duties; for example, application developers do not have access to move new code into production. Change requests must be submitted and only the Automations Unit staff can move the new code to production.

3. 57 users had inappropriate privileged IT access (users with the 'SPECIAL', 'AUDITOR', or 'OPERATIONS' attribute). - We agree with this finding and its severity. The inappropriate users who had access were removed during the first quarter of 2009. We will institute a quarterly review of privileged access to determine the suitability of this capability. Details will be forthcoming in our corrective action plan.
4. There is currently no periodic access appropriateness review or privileged IT function auditing conducted for DOT applications. - We agree with this finding and its severity. As part of our corrective action plan we will develop a procedure to annually review access.
5. On the data center access list, there were three duplicates. - We agree with this finding and its severity. The duplicates have been removed. We will develop a strategy to review access on a quarterly basis. Details will be forthcoming in the corrective action plan.
6. Change 18008-IMSDAY Upgrade from V8.1 to 9.1 was authorized by Change Management Unit PennDOT_BIS. This user was on the authorized SRS user listing. However, Change Management Unit PennDOT_BIS is a group account and the specific authorizer of change 18008 could not be identified. Further clarification needed. - An authorized person did approve the request, so perhaps clarification it needed to understand the approval process.

Data PowerHouse (DPH) utilizes Remedy to track their change tickets. The Department does not have access to DPH's Remedy System, so email notifications of all DPH change tickets are sent to the Department. When they are received, the Change Management Unit enters the information in the SRS system for tracking and information sharing. The official approval for a change ticket is sent to DPH in an email. The email will indicate the person who approved the ticket. Change ticket 18008 was approved by an authorized person on September 18, 2008. This person is included on the list of personnel authorized to approve change tickets. Personnel in the Change Management Unit are responsible for updating the status for SRSs that are DPH change tickets. That is why the group id is in the SRS. The email is the official approval.

7. Evidence to indicate that Change 18008 was tested was not available. - Further clarification needed. - Change 18008 was tested prior to implementation. Change ticket number 18007 upgraded IMS from version 8.1 to 9.1 in the test environment. Change 18007 was implemented on September 14, 2008. After the change was made, testing was coordinated with the technical support staff, including application developers. Testing was conducted and the results were discussed, before approving ticket 18008 on September 18, 2008. There was a production system checkout after the change was implemented.

The documentation is in multiple change tickets, SRS request and emails. It could be improved, so the information is more readily accessible.

Finding 08 – 19 (continued):

Department of Health Response:

1. There is no formal change management process for the MCH application. Further clarification needed. - This was generally discussed in the February 27 draft findings review meeting with Auditor General and Ernst & Young staff. It is not clear what led to this conclusion, which appears to have been first identified in the June 30, 2007 audit. While there are infrequent changes to the MCH application, which is in a "contain" status, such changes go through a change review process.
2. One individual was listed as both a developer and a user with the ability to promote into production. - The agency agrees with this finding. The individual, a contracted developer, was given rights for promotion during a previous testing/ implementation cycle and the rights remained. A remedy ticket is being submitted to deactivate the rights.
3. There is not a formalized monitoring process in place to monitor the production environment for unauthorized changes. - The agency agrees with the finding. Current procedures will be reviewed to establish an auditable monitoring process.
4. There is currently not a formal process in place for requesting and granting access to DOH applications. Requests are informally communicated through e-mails which are not retained. - The formal process for such requests, the online Remedy ticket system, was implemented during the audit period and is the method of choice. The use of this process as the exclusive request mechanism for such changes is being reinforced to management and requestor staff. Recipients of email requests are being advised to return these request unfulfilled.
5. There is currently not a formal process in place for removing access to DOH applications. Requests are informally communicated through e-mails which are not retained. - The agency agrees with the finding. Its resolution is similar to that taken for #4. Current procedures will be reviewed to establish an auditable monitoring process.
6. A periodic review is completed for executables on user systems. However, documentation and findings of this review are not retained. - The agency agrees with the finding. Current procedures will be reviewed to establish an auditable monitoring process.
7. Auditor was unable to obtain evidence to support the description of the processes in place for physical access. Further clarification needed. - This was not discussed in the February 27 draft findings review meeting with auditor staff. It does not appear that this information was requested on the Client Assistance List or during the audit. The processes are in place and can be demonstrated if requested.
8. Auditor was unable to obtain evidence to support the description of the processes in place for physical data back-up. Further clarification needed. - This was not discussed in the February 27 draft findings review meeting with auditor staff. It does not appear that this information was requested on the Client Assistance List or during the audit. The processes are in place and can be demonstrated if requested.
9. Auditor was unable to obtain evidence to support the description of the processes in place for physical job scheduling. Further clarification needed. - This was not discussed in the February 27 draft findings review meeting with auditor staff. It does not appear that this information was requested on the Client Assistance List or during the audit. The processes are in place and can be demonstrated if requested.

Department of Education Response:

1. No periodic access review (i.e., no revalidation of users). Further clarification needed. - The Pennsylvania Department of Education is unable to present an appropriate management decision based on the information provided for this reference of the finding. The reference does not provide any audit detail of the finding under the following categories: Rationale for categorization - Finding vs. MLC, Condition, Criteria, Cause, Effect, and Recommendation.

Finding 08 – 19 (continued):

2. No monitoring of user access violations Unacceptable. - The Pennsylvania Department of Education (PDE) is unable to provide an appropriate management decision based on the information provided for this reference of the finding. The audit finding detail does not relate to the weakness as discussed at the auditor's GAAP Exit Conference with PDE as listed under the following categories: Rationale for categorization - Finding vs. MLC, Condition, Criteria, Cause, Effect, and Recommendation.

Department of Revenue Response:

1. Lack of segregation of duties programmers can promote changes to production in both the client server and mainframe environments. - The Keystone Integrated Tax System (KITS) currently requires that production implementation of program changes be performed by two designated management employees. In most other mainframe and client/server systems it is operationally impractical to have quality assurance employees migrate programs into production. The expertise needed for program migration to production lies with the programming staff, and programmers implement their production program changes under the direction and control of a lead analyst. The bureau understands the risk created by the current method.

PA Ligon Control Board Response:

1. No periodic access review (i.e., no revalidation of users) in the mainframe, point of sale and warehouse management systems. - The Audit findings are acceptable. The agency does not have a periodic access review. However, what we do have on a regular basis is a review of user account usage in our 3 warehouses. User account usage is monitored by our Security Team and if the user account has not been used the account is locked. A locked out user will need approval from supervisors to re-gain the lost access.
2. No monitoring of user activity for access violations in the mainframe, point of sale and warehouse management systems. - The agency does not monitor this type of activity, however, we do have a lock-out of an account after a user attempts to log on and the log on fails a certain number of times.

Also, some of our transactional activity is role-based, therefore, users without a specific role cannot perform functions that are not associated with that role.

3. Lack of segregation of duties programmers can promote changes to production in the point of sale and warehouse management systems. - While we do not have segregation of duties for programmers of the Point-of-Sale system, extensive testing is completed by the user community before migrating code to the production environment.

The warehouse management system (RIMS) is purchased software. PLCB programmers cannot make changes to production RIMS software. If changes are required, PLCB needs to contact the software vendor (Robocom). PLCB programmers can create custom reports that can be promoted to the production environment by the developer.

While the Agency recognizes the need for separation of duties, lack of funding has limited the expansion of staff for complete separation of duties.

4. Lack of physical access controls over the point of sale and the warehouse management systems. - The POS upgrade project has taken into consideration the need for lockable storage units for IT related equipment. Project implementation is planned for 2010.

Also, lockable storage units have also been planned for with future enhancement at warehouse distribution centers.

Auditors' Conclusion: Based on the agency responses above, our findings and recommendations remain as previously stated. We will review any additional information and clarifications provided in the agency responses, along with all proposed corrective action, and discuss any additional clarifications with auditee officials as soon as possible in our subsequent audit.

Finding 08 – 41:

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

A. Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #07-36)

Condition: As a result of federal resolution of multiple prior Single Audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, OVR is required to check all vendors receiving RSBS funding during the fiscal year for suspension/debarment. As part of our current year testing in this area, we determined that OVR's procedures are to only check new vendors against the Federal Excluded Parties List System (EPLS) website to ensure they are not suspended or debarred. OVR performs this check when the vendor is first input into L&I's Commonwealth Workforce Development System (CWDS) system but does not have procedures to re-verify the status of these vendors or other existing vendors on an on-going basis. In addition, we tested a sample of 22 vendors receiving RSBS payments in SFYE June 30, 2008, to verify whether OVR checked the respective vendor against the debarment list prior to making payments to that vendor. For all 22 items tested, OVR provided us with a screen from the CWDS system which indicated that the vendors were verified against the EPLS system. However, for 10 out of 22 items, the "Debarment List Verify Date" as indicated in OVR's CWDS system was after the date of the payment being tested.

Criteria: USDE Regulation 34 CFR 85.300, regarding participants' responsibilities for debarment and suspension, states in part:

Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?

Doing Business With Other Persons

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- a. Checking the Excluded Parties List System; or*
- b. Collecting a certification from that person if allowed by this rule; or*
- c. Adding a clause or condition to the covered transaction with that person.*

34 CFR 80.36(a) states:

When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Commonwealth Management Directive 215.9, Section 7.a.(2)(B), dated 4-16-99, states:

If the agency makes a written determination of responsibility, the determination shall contain a statement that the contractor was determined to be responsible pursuant to this directive. This statement shall be included in the agency's contract file.

Cause: OVR personnel indicated that they attempted an interface to check the debarment more frequently for existing vendors, but due to technology limitations, they were not able to implement the feature into CWDS. Regarding the vendors that were checked after the date of the payment, OVR did not provide any information as to why this occurred. However, it appeared that OVR had only checked these particular vendors after our audit requests.

Effect: Since OVR personnel are not ensuring, on an ongoing basis, that all vendors are not suspended or debarred before entering into a covered transaction, a control deficiency exists and there is limited assurance that RSBS funds are not paid to service providers who have been excluded or disqualified from participating in federal programs.

Finding 08 – 41: (continued)

Recommendation: We recommend that OVR personnel check the Federal Excluded Parties List System prior to authorizing a payment to a RSBS service provider in order to ensure that the service provider is not debarred or suspended. As part of this process, we recommend that OVR work with federal audit resolution officials and establish procedures to check all existing vendors, on an on-going basis as agreed upon by OVR and federal officials, to ensure that RSBS funds are not paid to service providers who have been debarred or suspended from participating in federal programs.

Agency Response: It was cited that a weakness exists in OVR's procurement system related to Debarment and Suspension and that current procedures are to only check new vendors against the Federal Excluded Parties Listed System (EPLS) website to ensure they are not suspended or debarred. While new vendors constitute the bulk of those being verified, vendors requiring any kind of change to their records also provide the impetus for such verification as well as other types of checks. Additionally, as noted under the cause of the finding, as part of the ongoing efforts to comply with the regulations on this, an interface utilizing OVR's CWDS computer system with the federal EPLS website was attempted but did not provide the desired results. However, testing still continues on this in the hope that the two systems can effectively interact to achieve this verification process through a more automated methodology.

In the interim, the Department has initiated other processes to ensure compliance with this regulation. One such initiative is to ensure that all contracts contain language whereby the vendor will certify that it is not suspended or debarred. In a resolution letter dated December 16, 2008 for the 2003-2004 audit period, USDE has approved this procedure. Additionally they have recognized OVR's and the Department's efforts to coordinate the CWDS and EPLS systems. Lastly, they noted that since the efforts are ongoing from the 2004 audit on, whenever vendors are cited, documentation should be submitted as part of the resolution process indicating the cited vendors are not suspended or debarred. The finding for 2004 was then considered closed.

In our continuing efforts to resolve this, some additional considerations have recently come to light. Our oversight federal agency will first be consulted for approval and if our suggestions are deemed acceptable, meetings will be held internally between the audit coordinator, program staff, IT and CWDS personnel to determine feasibility on the implementation.

Auditors' Conclusion: The agency response states that OVR has initiated procedures to ensure that all contracts contain language certifying that the vendor is not debarred/suspended. However, the majority of OVR vendors paid out of OVR's general ledger account 6600900 (Payments to Third Parties) do not have contracts with OVR but instead are paid according to OVR's Fee Schedule. Therefore, the majority of these vendors, payments to whom historically make up between 30 percent to 40 percent of OVR's annual RSBS expenditures, do not have contracts which contain debarment certifications, so these vendors would require a separate check for debarment/suspension. Although USDE-RSA closed the 2004 debarment finding, closure does not indicate that the finding is resolved. USDE-RSA stated in its correspondence dated December 16, 2008 that it "agrees with the state auditor's position, that any vendor receiving funding during the fiscal year in review should be checked by the state for suspension/debarment." We will evaluate any corrective action during the subsequent audit period. The finding and recommendation remain as stated.

Finding 08 – 42:

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

Noncompliance and Control Deficiency Over Charging of Personnel Costs Results in Unknown Questioned Costs of at Least \$72,851 (A Similar Condition Was Noted in Prior Year Finding #07-39)

Condition: As represented by OVR personnel in prior and current year audits, nearly all employees charging personnel costs to RSBS work solely on Vocational Rehabilitation-related activities, and their salaries and benefits are charged 100 percent to RSBS and, therefore, do not maintain timesheets as supporting documentation. In lieu of timesheets, OVR previously implemented a federally required semi-annual certification process during the fiscal year ended June 30, 2005 to certify and document that these OVR employees worked solely on the RSBS program.

During the state fiscal year ended June 30, 2008, OVR incurred personnel expenditures of \$33,219,325 in salaries and \$11,634,975 in fringe benefits, or \$44,854,300 in total (federal portion only) for the RSBS program. This represents 41 percent out of total RSBS expenditures of \$109 million reported in the current-year SEFA.

During our audit, we randomly selected a sample of 19 personnel transactions totaling to \$8,856 in salaries (federal portion only) out of the \$33,219,325 in salaries charged to RSBS. Our review of these salary transactions paid to 19 different employees disclosed that, for one transaction in our sample for \$116 (in paid leave) paid to an OVR District Office employee who was charged 100 percent to the RSBS program, this employee was initially listed on the semi-annual certifications as working 100 percent on the RSBS program, but was crossed off the list by the district office manager since the employee was subsequently found to work less than 100 percent on the RSBS program. Additional inquiries confirmed that this employee did not prepare a timesheet or equivalent documentation to distribute this employee's personnel costs to the various functions on which this employee worked.

Based on the bi-weekly salary and benefit amounts for this particular employee, \$72,851 (federal share) was charged to the RSBS program during the fiscal year under audit. Without the timesheets or equivalent documentation required by OMB Circular A-87 to support allowability, we are unable to determine how much, if any, of this individual's salary and benefits for the year should have been charged to the RSBS program, and they are, therefore, considered to be unallowable and questioned.

Furthermore, we also noted that a small number of additional OVR employees (approximately 50) were identified and crossed off the semi-annual certifications by OVR district managers indicating that these individuals may also have worked less than 100 percent on the RSBS program, but may have been charged 100 percent to RSBS. However, as noted above, OVR personnel do not normally maintain timesheets, so additional individuals may have also been charged 100 percent to the RSBS program in violation of OMB A-87. As a result, an additional unknown amount of salaries and fringe benefits needs to be investigated by OVR since they may also be unallowable.

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

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*
- j. Be adequately documented.*

In addition, OMB Circular A-87, Attachment B, Section 8(h), pertaining to the support for salaries and wages states, in part:

- (3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

Finding 08 – 42: (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...*

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

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

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

Cause: OVR Central Office personnel stated that they were aware that employees who work on multiple programs should use timesheets or similar documentation to support hours worked. However, in the case of this one particular employee, OVR District Office personnel stated that they were not fully aware of this requirement. As a result, employee salaries and benefits were improperly charged 100 percent to the RSBS program in violation of OMB A-87. OVR management did not provide any additional explanations for why no action had been taken to remove all less than 100 percent employees from certifications and implement time sheets to support allowability of these charges.

Effect: Since adequate documentation was not available as required by federal regulations to support the 100 percent charging of personnel costs for our sampled employee in question, \$72,851 in salary and fringe benefits for this employee are questioned as unallowable. Furthermore, an additional undetermined amount of salaries and benefits are also questioned since OVR may be charging 100 percent of their employees' salaries and benefits to the RSBS program even though some employees are working on other functions other than the RSBS program. In addition, a control deficiency exists since OVR does not have adequate procedures in place to ensure that all employees who work on multiple programs document their hours worked on timesheets or similar documents as required by OMB Circular A-87.

Recommendation: OVR should pursue appropriate settlement with USDE for the \$72,851 in questioned costs, plus investigate the possibility of any additional unknown questioned costs, as identified above. In addition, OVR management should strengthen internal controls to review and ensure that personnel costs charged to the RSBS program are allowable and properly supported in accordance with OMB Circular A-87.

Agency Response: The employee in question supervises one Orientation and Mobility Instructor (O & M Instructor) within a regional office of Blindness and Visual Services. The O & M Instructor serves both Federal and State customers. The supervisory time allocated to the state program would be small and difficult to calculate as it would depend on the O & M Instructor's allocation. However, all staff will be instructed to complete time sheets if they are not working exclusively on the federal program.

We have included as a reference, a copy of a memo that was distributed in December 2007 from the Deputy Executive Director of the Office of Vocation Rehabilitation (OVR) instructing all staff, counselors, supervisors and clerical personnel to adhere to the guideline to charge hours using the Cross Application Time Sheet (CATS) in order to differentiate between time worked on the State Vocational Rehabilitation (VR) Program and those hours worked on federal programs. Included within that memo are the actual instructions on how to fill out the CATS timesheets. Also included as a reference, is a memo issued by the Director of the Bureau of Blindness and Visual Services (BBVS) on June 2, 2009 advising all staff that effective immediately, they are required to complete CATS timesheets to ensure accountability and reporting purposes. Additionally, beginning with the January 09 to the June 09 certifications, new instructions will be provided where nothing will be crossed off. The signing authority will indicate either 100 percent VR activities or that timesheets will be used.

Auditors' Conclusion: Based on the agency response, it appears that OVR is in agreement with the auditors' finding and recommendation. Therefore, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.