
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
COMMONWEALTH OF PENNSYLVANIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

APRIL 2011 A-77-11-00010

**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: April 26, 2011

Refer To:

To: Frances Cord
Director
Audit Management Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the Commonwealth of Pennsylvania for the Fiscal Year Ended June 30, 2009 (A-77-11-00010)

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, 2009. 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 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 & Young, LLP and the reviews performed by HHS. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

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

The Office of Vocational Rehabilitation (OVR), within 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 \$9,722 for vocational rehabilitation services (Attachment A, page 1 and 2). The corrective action plan indicated that supporting documentation is now maintained electronically (Attachment A, page 2).
2. The Commonwealth of Pennsylvania was not in compliance with the *Cash Management Improvement Act* (CMIA) regulations and procedures for clearance pattern requirements and interest calculations. As a result, the CMIA Annual Report submitted to the Department of the Treasury misstated the interest liability by a minimum of \$3.4 million (Attachment A, pages 3 through 10). The corrective action plan indicated the Commonwealth revised its agreement with Treasury and will remit interest due. (Attachment A, pages 8 through 10).

We recommend that SSA

1. Determine whether the reimbursements to OVR totaling \$9,722 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.¹
3. Ensure that BDD cash draws are based on the CMIA.¹

The single audit also disclosed the following findings that may affect BDD operations although 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. Specifically, the Commonwealth of Pennsylvania did not

- maintain documentation to support contracting and procurement (Attachment B, pages 1 through 4).
- have adequate general computer controls (Attachment B, pages 5 through 13).
- have procedures to re-verify debarment or suspension of existing vendors (Attachment B, pages 14 and 15).

¹ We made this recommendation to SSA in a prior report (Management Advisory Report: *Single Audit of the Commonwealth of Pennsylvania for the Fiscal Year Ended June 30, 2008* (A-77-10-00003)). Although we issued the prior report in March 2010, SSA has not completed corrective action on the recommendation. Therefore, we repeat the recommendation in this report.

Page 3 – Frances Cord

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 P. O'Carroll Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

Finding 09 – 45:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster

A Control Deficiency Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (A Similar Condition Was Noted in Prior Year Finding #08-40)

Federal Grant Numbers: H126A090056, H126A080056, H126A070056, and H390A90056 (ARRA)

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 VR Cluster. These SSA reimbursements are considered program income to the VR Cluster and deducted from expenditures reported on the SEFA. OVR received approximately \$1.5 million in program income from SSA during the state fiscal year ended June 30, 2009, 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 SFYE June 30, 2009, we selected five clients' reimbursement requests, which totaled \$256,738 in VR Cluster program income for the year. These five claims were part of the largest Refund of Expenditure Document (No. RE94050244 totaling \$589,185) posted to the SAP System as VR program income during the current year (under Federal grant number H126A080056 on July 23, 2008). However, for the fourth 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 two clients out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which were required to support \$9,722 of direct costs claimed for the two 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 and copies of the OVR-208 Forms in the respective clients' case files at the district offices to ensure that the documentation is retained and available for audit purposes. However, at the time the claims in question were prepared, these procedures were not yet in place.

Effect: Since complete documentation was not retained to substantiate the proper determination of the SSA claims for program income recorded for the VR Cluster in violation of federal regulations, OVR provides limited assurance that the SSA income received by L&I in the VR Cluster 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 limited assurance that future claims (including any future VR program income claims that are made after June 30, 2009 involving Pennsylvania's ARRA award under CFDA #84.390) will be adequately supported.

Recommendation: 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 case files in question cover multiple years where adequate procedures were not yet in place to retain copies of SSA claim documentation. As indicated in prior findings OVR began to implement procedures to retain copies of claim documentation at the OVR central office and copies of the OVR-208 forms in the client files at the district offices. Also SSA did not dispute or reject any of the questioned claims and found the supporting documentation to be sufficient to pay these claims. These forms are now kept electronically in CWDS.

Auditors' Conclusion: Since OVR could not provide complete documentation to support the VR Provider Claim forms which we selected for testing in the current audit period, the finding and recommendation remain as stated. OVR's statement that SSA did not reject the questioned claims is not relevant to our finding since SSA does not perform an on-site audit of submitted claims and does not review the completed supporting documentation that is part of our Single Audit. We will review any corrective action in the subsequent audit.

Finding	State	Finding Title/Corrective Action
	Agency	
09-45	L&I	A Control Deficiency Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #08-40) No additional information provided. See Agency response in the body of the finding.

Finding 09 – 77:

CFDA #10.555 – National School Lunch Program for Children
CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.558 – Child and Adult Care Food Program
CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
CFDA #20.205 – Highway Planning and Construction
CFDA #23.003 – Appalachian Development Highway System
CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds
CFDA #84.010 – Title I Grants to Local Educational Agencies
CFDA #84.027 – Special Education – Grants to States
CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #84.367 – Title II - Improving Teacher Quality State Grants
CFDA #93.558 – Temporary Assistance for Needy Families
CFDA #93.563 – Child Support Enforcement (including ARRA)
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.575 – Child Care and Development Block Grant
CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
CFDA #93.658 – Foster Care – Title IV-E (including ARRA)
CFDA #93.659 – Adoption Assistance (including ARRA)
CFDA #93.667 – Social Services Block Grant
CFDA #93.767 – Children’s Health Insurance Program
CFDA #93.778 – Medical Assistance Program (including ARRA)
CFDA #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 \$3.4 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #08-73)

Federal Grant Numbers: 1PA300305, 2009IW100341, 2009IW100641, 2008IW100341, 2008IW100641, 2008IW500341, 2008IW551041, 2008CW500341, CS-42-0001-06, CS-42-0001-07, CS-42-0001-08, S010A080038A, H027A080093, H126A090056, H126A080056, H126A070056, S367A080051A, 0902PATANF, 0802PATANF, 0901PATAN2, 0904PA4004, 0904PA4002 (ARRA), 0804PA4004, 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PACCDF, 0801PACCDF, 0901PA1401, 0801PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 0801PA1407, 0901PASOSR, 0801PASOSR, 50805PA5021, 50905PA5021, 0905PA5028, 5-0905PAARRA, 0805PA5028, TI010044-09, TI010044-08

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 sixteenth year in a row, since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994, numerous control weaknesses remain unresolved.

During our current audit period, the Commonwealth implemented new ADC patterns based on a new check clearance study for the first time since 2000. However, we noted the following exceptions in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns:

- The ADC patterns were developed based on business days, while the ADC patterns implemented by the Commonwealth to actually draw the funds on CDS are based on calendar days. Therefore, beginning July 1, 2009, for most major programs subject to CMIA, the Commonwealth has been drawing funds early and owes interest to the federal government. Furthermore, the annual CMIA State-Treasury Agreement requires actual drawdown patterns to be based on business days, not calendar days, so the CDS drawdown methodology is in violation of the State-Treasury Agreement.
- The check clearance study was based on the date that the invoices were sent to PA Treasury for payment as opposed to the date posted to SAP. The date sent to PA Treasury was known as the “clearance date”; however, our testing of drawdowns disclosed that CDS was programmed to apply the draw delay based on the SAP posting date. As a result, since the “clearance date” was usually after the SAP posting date, funds drawn would be received earlier than if the study was based on the SAP posting date.
- The check clearance study for the MA program (CFDA #93.778) properly excluded all SAP adjustment documents that are used to record MA funding to the county MR subrecipients. However, since these costs are prefunded with State Funds and subsequent adjustments are posted to SAP to transfer costs from the state to the federal ledger and to draw the Federal funds, and they represent a material portion (approximately 10 percent) of the MA program, the Commonwealth is violating the State-Treasury Agreement which should be changed to indicate a draw technique of monthly draws (similar to cost allocation transfers) instead of Average Clearance for these funds.
- Within the State-Treasury Agreement for the WIC program (CFDA #10.557), we noted that the categories of expenditures identified were WIC Benefit Payments at 93 percent and Payroll/Direct payments at 7 percent. Our review of the expenditure categories disclosed that this breakout was not accurate, as Benefit Payments represent only about 80 percent and Payroll/Direct are 20 percent of the WIC program, respectively. Further, since nearly all of the Payroll/Direct category actually represents outside payments to subgrantees and contractors, the one-day clearance pattern reported in the State-Treasury Agreement (normally used for payroll only) is too short given the normal payment process for these outside costs.
- Excess cash on hand can result from the rejection of payment invoices by the PA Department of Treasury (which happens routinely) if timely adjustments are not made (as indicated in the first bullet 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 the Supplemental Nutrition Assistance 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 an average of the actual allocation of costs for the preceding six months and reconciled monthly. However, DPW’s monthly draws for its CAP costs were not based on this required methodology, but were routinely based upon actual DPW CAP costs for the previous month and were made approximately 20 to 30 days after month end. 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 August and September 2008 totaling \$9.9 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, 2009, or nine months later, the required state match for the two open RSBS grants was still underfunded by approximately \$5.9 million, so the excess federal cash remained on hand. Although this is a violation of CMIA, the CDS system does not record a state interest liability in situations where state matching funds are not being timely posted and excess federal cash is drawn down early to temporarily fund program state match. As a result, an unknown amount of CMIA interest is owed on this excess RSBS federal cash for SFYE June 30, 2009 to be remitted during SFYE June 30, 2010.

Also, the State interest liability on the CMIA Annual Report for SFYE June 30, 2008 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2009, was understated by a minimum of \$3,399,824 as follows:

- We noted that invoice #ZI2203064901 selected for testing during SFYE June 30, 2008 posted \$102,883 of payments to a subgrantee on SAP. As a result, federal funds were received under the CWSRF program, CFDA #66.458, on September 27, 2007; however, the PA Treasury Department rejected the invoice and the funds were not returned to EPA until November 16, 2007. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 50 days, the Commonwealth's interest liability was understated by \$421.
- Within the CCDF program (CFDA #93.575), we noted that DPW posted 30 transactions to SAP totaling \$13,796,240 on July 17, 2007 for payments to subgrantees for Child Care Services. As a result, federal funds were drawn and received on July 30, 2007; however, these transactions were subsequently reversed on August 29, 2007 through August 30, 2007 with the funds being returned to HHS on September 6, 2007. On the Commonwealth's interest report, we noted that interest was only calculated on these funds from the date the 30 reversing documents posted to SAP (August 29, 2007 through August 30, 2007) until the funds were returned on September 6, 2007. Since the Commonwealth only paid interest to the federal government for 6 to 8 days, as opposed to the 38 days that the cash was actually on hand, the Commonwealth's interest liability was understated by \$35,403.
- 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 \$118,081,451 at June 30, 2008, with a carry-forward balance from the prior fiscal year of \$106,917,750. 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 \$112.50 million during the June 30, 2008 fiscal year, the state's interest liability was understated by an estimated \$3,364,000 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$137.66 million as of June 30, 2009, so additional CMIA interest is owed for SFYE June 30, 2009 to be remitted during SFYE June 30, 2010.
- Within our testing of Federal Revenue Collected in Advance, we noted a \$1,765,605 balance at the Department of Labor and Industry. Our inquiry of Comptroller Office personnel disclosed that this balance represented the remaining balance of SSA reimbursements received. In addition, these funds were to be treated as program income and expended before any additional federal funds were to be drawn. Since additional SSA funds have been drawn since these funds were initially received, the Commonwealth would owe an undetermined amount of interest on these funds.

Further, we noted that the check clearance study was performed by one person and not subject to supervisory review.

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

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

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

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 CMIA Agreement with the U.S. Treasury Department Section 6.2.4 related to the monthly draws under Cost Allocation Plans states:

Monthly Draws

The State shall request funds at the beginning of each month to fund the activity of the prior month. The amount of the request for a given month's activity shall be an estimate based on the actual allocation of costs for the preceding 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.*

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 ADC patterns in the check clearance study being based on business days, while the draws were based on calendar days, Office of Comptroller Operations (OCO) personnel indicated that they identified this error in February 2010 and developed a computer program to calculate the interest owed to the federal government. An OCO e-mail dated May 17, 2010 sent to US Treasury stated that exact interest figures are not available yet, but for 2008-09 it appears over \$400,000 is owed to US Treasury.

Regarding the issue of payments rejected by PA Treasury causing unrecognized interest liabilities, OCO personnel have indicated that this issue is not significant. Also, PA Treasury rejecting payments is outside the control of OCO 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 OCO has continued to state that number of invoices rejected by the State Treasury is minimal, no proof of this assertion has ever been provided, because the invoices rejected by PA Treasury are not tracked.

Regarding the failure to address the prefunded subrecipient costs within the State-Treasury Agreement for MA, OCO personnel indicated that they properly excluded adjustment documents from the check clearance study and no other action was deemed necessary. However, 10 percent of MA program costs are prefunded and not properly reported in the State-Treasury Agreement. With regards to the expenditure categories within the WIC program, OCO personnel indicated that they would verify the breakout of expenditures with Comptroller personnel to verify the accuracy of the expenditure breakout.

For other items addressed in the condition relating to errors and weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they would review the documents identified and determine if they 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, 2008 are not accurate. Our testing disclosed a minimum estimate of \$3,399,824 in understatements in the state interest liability to the federal government.

Because of the overall pervasiveness of the check clearance discrepancies involving drawing funds based on calendar days versus business days, incorrect posting dates, and differences in expenditure populations, 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.

Finally, these cash management deficiencies have a material impact on compliance with federal regulations in the Commonwealth's ARRA-funded programs.

Recommendation: We recommend that OCO pursue appropriate settlement with the federal government regarding the \$3.4 million in additional interest owed to the U.S. Treasury.

For its check clearance studies, we recommend OCO personnel implement a strong control 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, and include supervisory reviews of the study and implementation of the study.

In addition, OCO personnel should determine the additional amount of June 30, 2009 CMIA interest due to the federal government as a result of all of the additional above noted discrepancies for CMIA-covered programs, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that OCO 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 OCO calculate any prior-year additional June 30, 2008 CMIA interest due to the U. S. Treasury as a result of the drawdown system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

Finally, we recommend OCO consider amending the Commonwealth's CMIA State-Treasury Agreement to reflect the current actual monthly draws methodology used by the Comptroller for DPW's CAP costs and for the MR subrecipient portion within the MA program. The CMIA State-Treasury Agreement should also be in agreement with the CDS drawdown system methodology in terms of using business days vs. calendar days in applying the draw delay for each major program.

Agency Response:

Average Daily Clearance Pattern

Comptroller Operations developed a new Average Day Clearance (ADC) pattern. In the development of that study it was identified that additional controls could be put in place by incorporating IT system rules that calculated the delay of draw based on the date at which the transaction was sent for payment to Treasury rather than the date at which it posted to the accounting system. This limits the chance of a document being drawn and then later being reversed and never sent for payment. Comptroller Operations worked with US Treasury to revise the State-Treasury Agreement to make these changes effective in November 2008. The new Average Day Clearance study was based on business days, rather than calendar days, which is what previous patterns were based on. As noted in the finding our CMIA Draw Down System (CDS) inadvertently was drawing based on calendar days rather than business days. This error was due to a breakdown

of communication between Comptroller Operations and IT staff. This discrepancy was identified subsequently by Comptroller staff, and Comptroller Operations has discussed the issue with US Treasury and agreed that repayment of interest will be made with the next interest payment scheduled for March 2011.

The auditor states that CDS was programmed to apply the draw delay based on the SAP posting date rather than the clearing date. This is incorrect, because as of November 2008 CDS was applying the draw delay based on clearing date. The auditor stated that their testing showed that the SAP posting date matched the date that was used in CDS for draw down. Based on discussions with the auditor it was communicated that in most instances the SAP Posting date is the same as the clearing date. Supporting documentation was provided to the auditors that demonstrated documents where the SAP Posting Date was usually the same as clearing date. In addition, examples of documents not in the auditor's test sample were provided demonstrating that CDS was using clearing date. During the testing the auditors only tested SAP Posting date to CDS and did not request information on the clearing date or change documentation supporting the change to CDS.

WIC Program

The majority of WIC program (CFDA #10.557) is paid using an advancement account and the Commonwealth expends the money prior to being reimbursed. Based on the method by which the WIC programs payments are made there would be a negative delay of draw for those payments that are processed through the advancement account. Since a negative draw is not possible it was agreed upon that the Commonwealth would use a 1 day delay of draw. Comptroller Operations will review the categories of expenditures and modify the State-Treasury Agreement if needed to reflect the appropriate percentages of expenditure categories.

Supplemental Nutrition Assistance

As indicated by the auditors, the monthly draws for the DPW CAP Costs were not based on the required methodology, however the draws based upon actual DPW CAP costs for the previous month that are made approximately 20 to 30 days after month end had no adverse effect on the Federal government.

CWSRF Program

Invoice #ZI2203064901 was rejected by Treasury and the funds were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and the Commonwealth's interest liability was understated.

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.

Ongoing discussions are proceeding with HHS to finalize a resolution for this issue.

Other

Comptroller Operations has no additional comments related to the other items mentioned in the finding.

Auditors' Conclusion: Based on our review of the above agency response, our finding and recommendation remain as previously stated. Regarding the issue of the use of clearing date vs. posting date on CDS, a significant control deficiency existed during at least the first five months of our current audit period (November 2008) since CDS used the SAP posting date, thus allowing differences in these dates to raise the risk of early drawdowns as reported in the finding. No further documentation or evidence has been provided by management to resolve this part of the finding. We will review any corrective action and further documentation on this exception in the subsequent audit.

Finding	State Agency	Finding Title/Corrective Action
09-77	OB/OCO	<p>Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$3.4 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #08-73)</p> <p><u>Average Daily Clearance Pattern:</u> The Commonwealth has contacted the US Treasury and informed them of the discrepancy between business days and calendar days. An analysis has been done and the Commonwealth will remit the interest due with the next interest payment scheduled for March 2011. To accommodate current system requirements the Average Daily Clearance Pattern was recalculated to determine calendar days delay of draw. The Treasury State Agreement for July 1, 2010 has been revised to reflect the draw based on calendar days and the system will be revised on July 1 to draw based on the ADC pattern of calendar days.</p> <p><u>Supplemental Nutrition Assistance:</u> The Treasury State Agreement will be modified to reflect the actual draw procedures.</p> <p><u>CWSRF Program:</u> The next interest report will be adjusted to include the \$421 in interest due and the Commonwealth will remit payment to the US Treasury.</p> <p><u>CCDF Program:</u> The Commonwealth will review the 30 transactions identified by the auditor and review the Commonwealth's interest liability. Based on confirmation of that review and agreement with the auditor's proposed calculations the Commonwealth will include the \$35,403 in interest due in the next interest payment and will remit payment to the US Treasury.</p> <p><u>Medical Assistance Program:</u> The Treasury State Agreement will be revised to reflect the actual draw technique related to monthly draws for the MR subrecipients in the MA Program (#93.778). Ongoing discussions are proceeding with HHS as it relates to DPW's PROMISE system process for medical claims related to school-based medical program to finalize a resolution for this issue.</p> <p><u>WIC Program:</u> The WIC Program expenditure categories will be reviewed for appropriate percentages and the Treasury State Agreement will be revised. This review will occur each year going forward.</p> <p><u>Excess Cash on Hand from Rejected Invoices:</u> The Commonwealth will maintain a list of rejected and redlined invoices to identify those invoices related to Federal funds. Once invoices have been identified that relate to federal funds a report will be generated to determine the amount of days lapsed between the original draw date and reversal of the draw. Interest liability will be reviewed for materiality and the interest report will be adjusted appropriately.</p>

Finding 09 – 13:

**Office of the Budget
Office of Administration**

Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #08-2)

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, 2008, (for nine 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 deficiencies 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, 2009, disclosed that, as in the prior years, management continues its policy of refusing to retain and 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 various contract awards consisted of the following:

- List of proposal evaluation committee members.
- Copies of losing vendor proposals.
- Original detailed scoring sheets used by evaluation committee members for each proposal submitted for review. (Note: In some limited cases, overall summaries of the scoring process were provided to us but no detailed scoring documents were given to us as support.)
- Original contract 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.
- Original contract documentation to support that evaluation committee members verified that prospective vendor cost proposals were reasonable.

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: In responding to our prior-year findings on this issue, management has recognized and acknowledged the need for the auditors to verify the propriety of its contracting procedures. As part of the recent implementation of the Right-to-Know Law (RTKL), losing vendors' proposals are to be made available to those who request them for a period of six months after the contract is awarded. According to management, during this period the auditors are supposed to have access to this information for audit purposes. After the six-month period is over, losing vendor proposals are no longer available to the auditors.

Regarding the other bulleted items above to which the auditors have requested access, management has developed a document that summarizes and attests 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. Management believes this document satisfies the auditor's needs relative to testing our compliance with federal procurement regulations and Commonwealth policy.

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 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 bulleted items above, this is again a clear violation of the Commonwealth Procurement Code quoted above, and the scope limitations described above on our audit continue to exist.

In prior audits, management also 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" resolved 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 resolved since in many cases 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.

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 as quoted above. (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: With respect to this finding and prior audit findings regarding the Auditor General's review or performance audit of contract documents to determine whether the executive agency in question followed the proper statutory and internal processes and policies, the Auditor General has continually stated as follows:

"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."

Despite our responses reflecting both legal and audit standards issues involved in the delivery of such documents, the Auditor General has continually characterized our refusal to provide such documents as based upon a "confidentiality" argument. Notwithstanding the error of such a statement, we have again reviewed the finding in light of the recent enactment of a new "Right to Know Law" and recent changes in the processes used by the Department of General Services for procurements. As a result of that review and in order to further the spirit of cooperation between the Auditor General and the executive branch, we will provide the following:

- Copies of losing vendor proposals (these proposals will generally be retained for 4 years in accordance with published document retention schedules).
- Detailed scoring sheets showing the scores of each committee member by category with committee member names redacted.
- Summary information regarding the procurement as contained in the memorandum required to be completed by each committee (a copy of the memorandum template is attached with submission of the response to this finding). Contained in this memorandum will be information regarding the reasonableness of cost and minority participation.

We will not automatically provide the names of individual committee members. We have asserted before that we believe this information is not necessary in your review of whether the committee and the agency acted in accordance with procurement laws and practices and that its disclosure as a general matter will have a chilling effect upon employee participation on procurement committees. This does not mean, however, that we will prohibit the Auditor General from

obtaining that information in all cases. If the Auditor General makes a request to interview an individual committee member or members and provides a compelling reason for such an interview in light of the audit we will review each such request separately and determine if we agree that such reasons are compelling and that such an interview is necessary. If we agree, interview access will be provided.

We hope that this new approach will satisfy your concerns regarding the sufficiency of information available to the auditors and resolve this finding. We will make ourselves available to discuss any questions or comments you may have at your convenience.

Auditors' Conclusion: The auditors will evaluate the adequacy of management's procurement documentation provided in future audits to allow us to verify that Commonwealth procurement is performed in accordance with procurement laws and regulations and that procurements occur in a strong control environment. Based on the agency's response, the finding and recommendation for our current audit period remain as previously stated.

Finding 09 – 16:

**Office of the Budget
Office of Administration**

General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #08-19)

Condition: Our review of general computer controls at numerous Commonwealth agencies during the fiscal year ended June 30, 2009 disclosed the following internal control deficiencies that need to be addressed by Commonwealth management:

Pennsylvania Lottery

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. Password complexity rules within the Back Office application have not been established.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented

Department of Labor and Industry

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.

State Workers' Insurance Fund

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.

Department of Transportation

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. Adequate password complexity and logical access rules within the dotGrant application have not been established.

Office of Administration – Office for Information Technology

Bureau of Services and Solutions

1. A formal problem management policy has not been implemented. Incidents are handled through informal face to face discussions or through email correspondence, which is not retained.
2. One of the 10 User Security Authorization Request forms does not specify the Comptroller group for the user (the level of access being requested). Access to Comptroller groups is granted based on the individual granting access knowing which authorizers belong to each Comptroller group and the job function of the employee.

Bureau of Infrastructure and Operations

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Privileged IT access is not reviewed because of the limited number of individuals with privileged IT access and low turnover.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process for the Cash Drawdown System and the Loan Accounting System.

Bureau of Integrated Enterprise System

1. Objects in production SAP instances do not have a protection level configured indicating overwriting is permissible. Leading industry practices recommend protection against the overwriting in production.
2. Two users have inappropriate access to the SE11, SE16, and SE37 development transaction codes.
3. One user has inappropriate access to privileged SAP user profiles.
4. One user has inappropriate access to execute programs.
5. 12 of the 25 changes selected for testing did not include the proper approvals because approval records were deleted as a result of PC1 during the final import for the ERP upgrade.

Department of Public Welfare

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. While an informal review is performed periodically, no documentation is created or maintained to evidence the review.
3. No fire suppression system is in place in the generator area. This is due to a lack of funding, and steps are being taken to remediate this issue as soon as possible. Also, there are no water sensors in the generator area.
4. Supervisor approval for requesting access to PROMISE was not provided for 11 of 25 sampled users.

Department of Health

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. One account with privileged IT access to the database was created for a contractor who has since been terminated. The account was not removed upon termination.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
4. Through inspection of a listing of developers and referencing it to a list of administrators (individuals able to promote changes), it was noted that five individuals were both developers and administrators.

Department of Education

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.

Department of Revenue

1. A lack of segregation of duties exists because programmers can promote changes to production in both the client server and mainframe environments.

Liquor Control Board

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the mainframe, point of sale and warehouse management systems.
2. Monitoring of user activity for access violations in the mainframe, point of sale and warehouse management systems is not conducted.
3. Programmers can promote changes to production in the point of sale system resulting in a lack of segregation of duties.
4. Physical access controls are lacking over the point of sale and the warehouse management systems.
5. Individuals accessing Oracle Retail Management System and Business Intelligence applications cannot change their own passwords.
6. Adequate password complexity and logical access rules within the mainframe, point of sale, and warehouse management applications have not been established.
7. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process in the warehouse management system.
8. A standard systems development methodology was not followed for implementation of Oracle Wave II and Wave III. Critical test defects were not resolved prior to "go live".
9. Proper segregation of duties do not exist with respect to the procurement and store operations personnel.

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

Cause: Management has not addressed the general computer control deficiencies because of various reasons, but many of the deficiencies are a result of limited staffing and budgets. Some of the deficiencies also are a result of software limitations. Commonwealth management believes that, although strong general computer controls are clearly important in agency operations, there are manual compensating internal controls within agency operations that mitigate the impact of the general computer control 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. Management's contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date; however, reliance on manual compensating internal controls becomes increasingly problematic as the Commonwealth experiences personnel changes and/or procedural changes that reduce the effectiveness or eliminate the manual controls. Also, the Commonwealth has demonstrated its intention to rely more on computer controls and less on manual controls as evidenced by the Finance Transformation initiative, which in part, automated the invoice approval process. Further, Commonwealth management has communicated its intentions to rely more on the capabilities and stability of the SAP Enterprise Resource Planning implementation. Finally, these computer control deficiencies preclude us from conducting the audit with reliance on computer controls and ultimately creating audit efficiencies.

We consider all the above exceptions collectively 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. 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. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. 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 within the Back Office application have not been established. Acceptable as written. We concur with this finding. We will develop password complexity rules and request an enhancement from the software vendor to develop password complexity rules on the back office application.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. We concur with this finding. The Lottery will develop a procedure to periodically perform a privileged access review in the production environment. We will develop a procedure for the audit of privileged access.

Labor and Industry Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. While a process to remove global user access via their CWOPA credentials is in place, a periodic business area review of access has not been established to date.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. While manual processes (as noted in the finding) are in place, there is currently no automated means of detecting these changes. This could provide a short coming in the overall process of tracking these events.

State Workers' Insurance Fund Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. While a process to remove global user access via their CWOPA credentials is in place, a periodic business area review of access has not been established to date.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. While manual processes (as noted in the finding) are in place, there is currently no automated means of detecting these changes. This could provide a short coming in the overall process of tracking these events.

Department of Transportation Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written.

PennDOT review and evaluation:

A process to review the appropriateness of ECMS users with privileged access has been implemented. Biannual reviews of ECMS user accounts are to occur in January and July of each year (January review was completed). ECMS Privilege Requests are received centrally by the ECMS support desk and filed. This process started in January, 2010.

A process to review the appropriateness of dotGrants users with privileged access must be developed. The process will include annual reviews of dotGrant user accounts and privileged access.

A process to review the appropriateness of users with privileged access has been implemented. An audit of these users was conducted on October 23, 2009 and will be conducted annually. In addition a daily process has been implemented to review CWOPA/RACF users. This process is conducted daily using the SAP PA40 report.

2. Adequate password complexity and logical access rules within the dotGrant application have not been established. Acceptable as written.

PennDOT review and evaluation:

The dotGrant application is a Commercial Off-The-Shelf product (COTS) with AGATE as the proprietary owner. The password complexity and logical rules that are provided within the dotGrant COTS do not meet current IT standards. A process to strengthen the password complexity and logical rules must be established to align with current OA/PennDOT IT standards.

Office of Administration – S&S Response:

1. A formal problem management policy has not been implemented. Incidents are handled through informal face to face discussions or through email correspondence, which is not retained. Unacceptable. The agency does not accept this finding. The OA utilizes Remedy software to document system issues and to assist with the prioritization of the business process owner initiatives. Associated email correspondence is retained to document ongoing communication on open issues and to provide historical reference on the method(s) of resolution. Face-to-face discussions are conducted as needed, but are only one of the options utilized in the resolution process.
2. One of the 10 User Security Authorization Request forms does not specify the Comptroller group for the user (the level of access being requested). Access to Comptroller groups is granted based on the individual granting access knowing which authorizers belong to each Comptroller group and the job function of the employee. Acceptable as written. The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.

Office of Administration – BIO Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Privileged IT access is not reviewed because of the limited number of individuals with privileged IT access and low turnover. Acceptable as written. The ITIM solution from IBM is in the process of being implemented in the OA and DPW environment by the end of May. This will put us in the position to meet the above requirements. When all agencies are licensed for the ITIM product, this will give us an automated way of dealing with access to the environment by all employees immediately. This would include those that leave the commonwealth, those that transfer, new employees, etc.

We update Active directory now, but it is a manual process on a nightly basis with a feed into IES/SAP and it points out what does not match between HR and our AD. It requires a script to make changes from that data. We have also moved our stale account clean up to quarterly from yearly to keep AD clean and accurate.

2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process for the Cash Drawdown System and the Loan Accounting System. Acceptable as written. The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.

Office of Administration – IES Response:

1. Objects in production SAP instances do not have a protection level configured indicating overwriting is permissible. Leading industry practices recommend protection against the overwriting in production. Acceptable as written. IES concurs with this finding. The protection level has been set to prevent overwriting. Client settings will be checked as part of routine system checks.
2. Two users have inappropriate access to the SE11, SE16, and SE37 development transaction. Acceptable as written. IES concurs with this finding. Inappropriate access to the listed transactions has been removed from the subject users. Pending implementation of an automated tool, the appropriateness of role, profile, and transaction access will be checked manually.
3. One user has inappropriate access to privileged SAP user profiles. Acceptable as written. IES concurs with this finding. Inappropriate access to privileged SAP user profiles has been removed from the subject user. Pending implementation of an automated tool, the appropriateness of role, profile, and transaction access will be checked manually.
4. One user has inappropriate access to execute programs. Acceptable as written. IES concurs with this finding. The subject user is no longer part of IES's complement. Pending implementation of an automated tool, the appropriateness of role, profile, and transaction access will be checked manually.
5. 12 of the 25 changes selected for testing did not include the proper approvals because approval records were deleted as a result of PC1 during the final import for the ERP upgrade. Acceptable as written. IES concurs with this finding. The STMS_QA logs for these transports no longer exist as a consequence of the changes made to the transport buffers/domains during the course of the ERP 6.0 upgrade project. IES Standard Operating Procedure 202, Transport Policy, establishes the overall transport policy for IES. The IES QA team will keep a separate record of approvals when they cannot be made or retained within the SAP system.

Department of Public Welfare Response:

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. The process is all open systems (server applications) changes follow the Application Implementation Request (AIR) and Emergency AIR processes and all mainframe application system changes follow the Element Transfer Request (ETR) and Emergency ETR process through the Change Management Board.

Open Systems applications are moved into production by DTE-EAU. Mainframe applications are moved to production by DIMO-Operations Scheduling. DTE Database controls modifications to Production databases. DTE Security Architecture governs policies and procedures and access management concerning authorization to production environments.

2. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. While an informal review is performed periodically, no documentation is created or maintained to evidence the review. Acceptable as written.

DPW does periodic access reviews to verify the access that the end users have into our applications. This process has been an ad-hoc process and was never formally documented. DPW's Security Architecture Section is working on formalizing this process so that periodic reviews are done in a timely manner and that the same process is followed by all program areas within DPW. This process will fall in line with DPW's User Provisioning project which is currently underway. As part of the User Provisioning project, DPW will have a formalized process which will be fully documented to handle review of users access into DPW's applications. The process for the review of users access will be documented by June 30th 2010 to align with the User Provisioning project.

3. No fire suppression system is in place in the generator area. This is due to a lack of funding, and steps are being taken to remediate this issue as soon as possible. Also, there are no water sensors in the generator area. Acceptable as written.

A GAAP Audit Finding pointed to the need for fire suppression equipment in the Willow Oak Data Powerhouse, generator room. A major fire in this space could take out a portion, or potentially all, of the data center's normal and emergency electrical power. The purpose of the suppression system would be to limit damage so that at least part of the electrical supply system could survive a fire. Other priorities and funding issues prevent this work from taking place until 2011. During the remainder of 2010 various alternatives will be investigated to identify the most feasible solution to this shortcoming. A funding request will be prepared and submitted in early 2011 with construction to take place as soon thereafter as practicable. As planned, this work should be completed by end September 2011. Water detection has also been specified and will be installed as part of this project, or sooner if existing alarm equipment will support its installation.

4. Supervisor approval for requesting access to PROMISE was not provided for 11 of 25 sampled users. Acceptable as written. The 11 users that don't have Supervisor approve for PROMISE access were identified as OIM users. There was an agreement in place between OMAP and OIM that all OIM users get read-only access into PROMISE. Since these were OIM users, there was no documented supervisor approval. This follows DPW RBAC/Provisioning model where application access is granted by job classification. There is now a formal letter in place between OMAP and OIM that documents this agreement.

Department of Health Response:

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. The agency agrees with the finding. Procedures are in place and security rights have been established to restrict the number of staff who can make production changes. The Division of Application Development staff no longer have write access to the WIC Production regions. Changes are documented through ClearQuest requests and promoted to the Production region by Division of Operations and Support staff.
2. One account with privileged IT access to the database was created for a contractor who has since been terminated. The account was not removed upon termination. Acceptable as written. The agency agrees with the finding. This account was reviewed at the time of the audit field work and the account was deleted. The account had not been accessed since the contractor's departure.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. The agency agrees with the finding. Procedures will be developed in the Corrective Action Plan to establish a periodic (quarterly) execution of the example scripts provided by the auditors during the review. Staff will execute the scripts and review the listed access rights against prior lists and for appropriateness.
4. Through inspection of a listing of developers and referencing it to a list of administrators (individuals able to promote changes), it was noted that five individuals were both developers and administrators. Acceptable as written. The agency agrees with the finding. Procedures are in place and security rights have been restricted to correct this condition.

Department of Education Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. No response provided.

Department of Revenue Response:

1. A lack of segregation of duties exists because programmers can promote changes to production in both the client server and mainframe environments. Acceptable as written. We concur with this finding. The Department is in the procurement process for the Integrated Tax System (ITS) and should begin work this FY. As each taxing system is phased into the ITS, the issue with role-based authorizations will be resolved. We have implemented an interim solution where management is required to approve production changes prior to cutover.

PA Liquor Control Board Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the mainframe, point of sale and warehouse management systems. Unacceptable.

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. The privileged user access is also reviewed on a quarterly basis.

POS system support access (admin) is reviewed and controlled by Second Level Support via Storegazer software. New users or personnel leaving the PLCB are added/deleted based on new hires for Help Desk, 2nd level support, or tech. support.

In POS, we basically do this every time we force everyone that has privileged access to change their passwords.

While the LCB did have a Mainframe at the time of the GAAP Audit, it has been decommissioned as of 1/31/2010. Therefore future GAAP Audits will not include the Mainframe.

2. Monitoring of user activity for access violations in the mainframe, point of sale and warehouse management systems is not conducted. Acceptable as written. 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. POS system monitors user activity via Storegazer and logs all pertinent messages related to PCI compliance. While the LCB did have a Mainframe at the time of the GAAP Audit, it has been decommissioned as of 1/31/2010. Therefore future GAAP Audits will not include the Mainframe.

3. Programmers can promote changes to production in the point of sale system resulting in a lack of segregation of duties. Acceptable as written. 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. While the Agency recognizes the need for separation of duties, lack of funding has limited the expansion of staff for complete separation of duties. PLCB is in the process of implementing change control and a quality assurance team. This particular finding should not be an issue once these two processes are firmly established
4. Physical access controls are lacking over the point of sale and the warehouse management systems. Acceptable as written. The POS upgrade project has taken into consideration the need for lockable storage units for IT related equipment. Project implementation is planned for 2010.
5. Individuals accessing Oracle Retail Management System and Business Intelligence applications cannot change their own passwords. Acceptable as written. Both the Oracle Retail Management System (ORMS) and the Business Intelligence applications do not provide the ability for users to change their own passwords. Password

resets/administration is completed by the MIS IT Security staff for all 90 day password updates as a manual process. Business Intelligence does provide a lock out after 90 day capability, however, after that 90 day expiration users are locked out, not prompted to change their passwords. ORMS doesn't provide 90 day expiration or the ability for users to change their own passwords.

6. Adequate password complexity and logical access rules within the mainframe, point of sale, and warehouse management applications have not been established. Unacceptable. POS software uses all password rules related to PCI compliance. There are documented rules (given to you in previous sessions) that show parameters in RIMS that control length and mix of password along with duration before renewing. RIMS is in compliance with all Office of the Administration standards.

While the LCB did have a Mainframe at the time of the GAAP Audit, it has been decommissioned as of January 31, 2010. Therefore future GAAP Audits will not include the Mainframe.

7. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process in the warehouse management system. Acceptable as written. We are addressing this finding in future audits.
8. A standard systems development methodology was not followed for implementation of Oracle Wave II and Wave III. Critical test defects were not resolved prior to "go live". Acceptable as written. At the time of the Wave II go-live readiness assessment there was one critical issue open and fifteen high defects in open status. The agency choose to go-live with Wave II knowing that there was one critical issue open which was expected to be closed shortly before or after go-live. The high defects were reviewed by the project team and a determination was made that each could be corrected at a future date due to low business impact or an acceptable work around.

At the time of the Wave III go-live readiness assessment review one high defect was still open with regard to the store scanner time out. The agency decided to go forward with the implementation because there was a work around to the issue.

9. Proper segregation of duties do not exist with respect to the procurement and store operations personnel. Acceptable as written. Due to staffing limitations, there are several persons who have known role conflicts. As a compensating control, their supervisors are to monitor the employees work to mitigate the risk for fraud. Specifically, in the procurement area there are several persons who have both a purchase order creator and a purchase order approver role. The general rule is that if these individuals create a purchase order they have another person approve the purchase order. However, there may be emergency procurements where this does not occur.

Auditors' Conclusion: Based on the agency responses above, the Commonwealth has addressed or begun to address many of the noted deficiencies. Our findings and recommendations remain as stated above. We will review any additional information and clarifications provided in the agency responses, along with all proposed corrective actions, as soon as possible, in the subsequent audit.

Finding 09 – 46:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster

A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #08-41)

Federal Grant Numbers: H126A070056, H126A080056, H126A090056, and H390A090056 (ARRA)

Condition: As a result of federal resolution of multiple prior Single Audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, OVR is required to check all vendors receiving \$25,000 or more of VR Cluster 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 or vendors which required a change in contact information (for example, address or phone number) 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) or when vendor contact information is updated in CWDS, but does not have procedures to re-verify the status of these vendors or other existing vendors on an on-going basis. We consider this to be inadequate. In addition, OVR did not have procedures in place to identify those vendors who receive VR Cluster funds of \$25,000 or more (the federal contract threshold) which requires OVR to then check the EPLS website to ensure that such vendors are not debarred or suspended.

We tested a sample of 23 vendors receiving VR Cluster payments under federal grant numbers H126A080056 and H126A090056 in SFYE June 30, 2009, to verify whether OVR checked the respective vendor against the debarment list prior to making payments to that vendor. For all 23 items tested, OVR provided us with a screen from the CWDS system which indicated that the vendors were verified against the EPLS system, supposedly (according to OVR's established procedures) only when they were new or when there was a change in contact information which, as stated above, we consider inadequate. Furthermore, for 15 out of 23 items, the "Debarment List Verify Date", as indicated in OVR's CWDS system, was after the date of the payment being tested. OVR personnel stated that these 15 vendors were not new, but had contact information that was updated in CWDS, so the EPLS was re-checked by OVR. However, there was no other documentation supporting that debarment/suspension was checked at any earlier date (e.g., when each vendor was new) before payments, which we also consider inadequate.

Criteria: USDE Regulation 34 CFR 85 regarding government-wide debarment and suspension, states in part:

Section 85.220 Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part –

- (1) Do not include any procurement contracts awarded directly by a Federal agency, but*
- (2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions (see appendix to this part).*

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

- (1) The contractor is awarded by a participant in a nonprocurement transaction that is covered under §85.210, and the amount of the contract is expected to equal or exceed \$25,000.*

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

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

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

34 CFR 80.35 states the following regarding subawards to debarred and suspended parties:

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

34 CFR 80.36(a) states:

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

Commonwealth Management Directive 215.9, Section 7.a.(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 timely and more frequently for existing vendors, but due to technology limitations, they were not able to implement the feature into CWDS. In addition, OVR personnel indicated they were unaware of the federal requirement to identify and check on vendors who received payments of \$25,000 or more during a contract. Regarding the vendors that were checked after the date of the payment, OVR personnel indicated that contact information was updated in CWDS for these vendors. OVR personnel stated that OVR's policy is to perform an EPLS verification when an informational update occurs.

Effect: Since OVR personnel are not ensuring, on an ongoing basis, that all vendors which receive payments of \$25,000 or more during a contract are not suspended or debarred before entering into a covered transaction, they are not complying with federal regulations and a control deficiency exists. Also, there is limited assurance that VR Cluster funds (including ARRA) are not paid to service providers who have been excluded or disqualified from participating in federal programs.

Recommendation: We recommend that OVR personnel work with RSA, the federal awarding agency, and establish procedures to identify all outside vendors in the VR Cluster which receive, or are expected to receive, payments of \$25,000 or more during a contract and to check the Federal Excluded Parties List System prior to authorizing a payment to these VR Cluster service providers in order to ensure that the service provider is not debarred or suspended. Additionally, OVR should retain documentation of all EPLS verifications so they are available for auditor review.

Agency Response: An interface was established utilizing OVR's CWDS system and the Federal Debarment EPLS web site. This interface never worked because the Federal Debarment EPLS web site provided inaccurate data resulting in the L&I OVR providers showing as inactive.

In a near future CWDS update/release, all contracts and all invoices, will require language whereby the vendor will certify they are not suspended or debarred from participating in any federal programs or receiving any federal funds.

We are also currently working on a feature to generate a report that will reflect all vendors that are potentially debarred. OVR staff will then manually verify these vendors.

Auditors' Conclusion: As we stated in the finding recommendation, OVR should work with RSA to help ensure that any new procedures which OVR implements related to debarment/suspension will be adequate to ensure compliance with federal regulations and RSA guidance. We will evaluate any corrective action during the subsequent audit. The finding and recommendation remain as stated.

Overview of the Office of the Inspector General

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