



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
3rd Floor, Bertolino Building
Harrisburg, Pennsylvania 17105-2675

AUG 16 2007

TELEPHONE NUMBER
(717) 787-9200
FAX NUMBER
(717) 705-6334

KEVIN M. FRIEL
DIRECTOR

Ms. Janet Alling, Executive Director
STEP, Incorporated
P.O. Box 3568
2138 Lincoln Street
Williamsport, Pennsylvania 17701-8568

Dear Ms. Alling:

Enclosed is the final audit report of your agency completed by this office. Your agency elected not to have an exit conference. Your written response has been incorporated into the final report and labeled Appendix A.

The final report will be forwarded to the Department of Public Welfare's (DPW) Office of Child Development and Early Learning to begin the DPW's resolution process concerning the report contents. The staff of the Office of Child Development and Early Learning may be in contact with you to follow-up on the corrective action actually taken to comply with the report's recommendations.

I would like to express my appreciation for the courtesy and cooperation extended to my staff during the course of the fieldwork.

Please contact Tina Long, Director, Division of Financial Policy and Operations at (717) 705-2288 if you have any questions concerning this matter.

Sincerely,

A handwritten signature in cursive script that reads "Kevin M. Friel".

Kevin M. Friel

Enclosure

cc: Ms. Harriet L. Dichter
Mr. Todd Klunk
Mr. Mark Reinard



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KEVIN M. FRIEL
DIRECTOR

Ms. Harriet L. Dichter
Deputy Secretary for Child Development
and Early Learning
333 Market Street, 6th Floor
Harrisburg, Pennsylvania 17126-0333

Dear Ms. Dichter:

In response to a request from the Office of Child Development and Early Learning (OCDEL), the Bureau of Financial Operations (BFO) conducted an audit of the Lycoming-Clinton Counties Commission for Community Action (STEP), Inc. The audit was requested to determine if STEP has a cost allocation plan that results in a fair and equitable distribution of indirect/administrative costs to the child care grants funded through the OCDEL.

The mission of the BFO, accomplished through its audit and review activities, is to assist the Department of Public Welfare (DPW) management to administer human services programs of the highest quality, at the lowest cost, with integrity.

Results in Brief

- STEP's indirect/administrative costs are being equitably distributed to the CCIS and Keys grants with the methodology documented in its cost allocation plan.
- CCIS and Keys grant funds are invested in an interest bearing account with the interest accurately accounted for and refunded to DPW.
- STEP has retained unexpended grant funds of \$117,006 that should be returned to DPW. The unexpended funds primarily relate to Child Care Resource Development grant funds totaling \$110,088 applicable to the two year grant period ended June 30, 2000.
- The OCDEL should evaluate the need to implement enhanced administrative budget controls for the Keys grant similar to the controls in place for the CCIS grant. The controls would include implementation of a recap form to calculate funds due DPW, establishing a maximum allowable percentage of administrative costs, and grantee submission of a budget that identifies positions by title, FTE's and salary.

Results in Brief (Continued)

Background

STEP, Inc. is a 501(c)(3) private, non-profit community action agency that provides an array of services to low-income and disadvantaged individuals and families residing in Lycoming and Clinton Counties. STEP was officially incorporated on July 25, 1966 as the Lycoming County Commission for Community Action. STEP's headquarters are located at 2138 Lincoln Street, Williamsport, Pennsylvania. The major services provided through STEP are Head Start, Child Care, Aging, Workforce Development, Housing Assistance and Transportation.

For the fiscal year ended June 30, 2006, STEP had support and revenues of \$27.2 million with revenues exceeding expenses by \$380,000. For the two child care programs included in the scope of this audit, revenues for the Child Care Information Services (CCIS) grant was \$3.64 million and revenues for the Pennsylvania Early Learning Keys to Quality (Keys) grant was \$3.56 million. The revenues for these two programs represent 26 percent of STEP's total revenue and support.

The grant agreement between DPW and STEP to manage the subsidized day care program in Lycoming and Clinton counties identifies STEP as a CCIS agency.

The primary functions of a CCIS agency are:

- Provide consumers with education and resource and referral services, and ensure parent choice.
- Determine and redetermine eligibility.
- Establish agreements with child care providers who meet state and local laws.
- Assure payments to providers for services rendered.

The DPW also has a grant agreement with STEP to manage the Keys Program in the Central Region. The Keys is a quality improvement system in which early learning programs and practitioners are financially supported to improve child outcomes. Child care providers receive grant funds to increase capacity and purchase equipment. Grant funds are also provided for quality improvement purposes, and for providers that meet or exceed performance standards.

Objectives, Scope and Methodology

The objectives of the audit were:

- To determine if STEP has a cost allocation plan that results in a fair and equitable distribution of indirect/administrative costs and if these costs are necessary for the efficient administration of the DPW grants.

Objectives, Scope and Methodology (Continued)

- To determine if STEP has cash management procedures that results in investment of available DPW funds, with earned interest recorded and tracked to ensure it is used to increase services and/or be returned to the DPW.

In pursuing our objectives, the BFO reviewed internal accounting and financial records, grant agreements, expenditure reports, the cost allocation plan and the independent CPA audit reports. We also held discussions with staff of OCDEL and STEP and tested for compliance with applicable CCIS audit guideline requirements and cost allocation methodologies included in the Office of Management and Budget Circular No. A-122. Our fieldwork was primarily directed towards Fiscal Year 2005-06.

Government auditing standards require the BFO obtain an understanding of management controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of compliance with generally accepted accounting principles. Based on BFO's understanding of the controls, no significant deficiencies came to our attention.

The audit fieldwork was conducted intermittently between May 3, 2007 and May 17, 2007. On May 18, 2007, a closing conference was held with STEP management to discuss the contents of this report.

The BFO's fieldwork was conducted in accordance with generally accepted government auditing standards. The report, when presented in its final form, is available for public inspection.

Results of Fieldwork**Issue No. 1 - Indirect/Administrative Costs Are Being Equitably Distributed to CCIS and Keys Grants**

The methodology used by STEP to allocate indirect/administrative costs results in a fair and equitable distribution of these costs to the CCIS and Keys grants. STEP has a cost allocation plan (CAP) that complies with OMB Circular A-122. STEP's CAP is based on the direct allocation method. The direct allocation method treats all costs as direct costs except general administrative costs that cannot be readily identified with a particular cost objective. STEP has elected to direct charge all administrative costs to the CCIS and Keys grants using the basis most appropriate for that specific cost being allocated.

Our review of the personnel costs allocated to CCIS and Keys grants for Fiscal Year 2005-06 identified:

Results of Fieldwork (Continued)

- The salaries and benefits for CCIS and Keys administrative staff were charged to the grants based on the results of timesheets completed by all employees. This includes executive positions such as the president, executive director, and fiscal director whose services benefit all programs. Our testing of timesheets identified personnel costs charged to the grants was being accurately recorded based on the hours reported on the timesheets.
- The CCIS approved budget identifies administrative positions by title, percent of FTE's, annual salary and amount charged to the grant. The salaries reported per the CCIS final expenditure report closely paralleled the positions, FTE's, and salaries included in the initial approved budget. We noted no significant shifting of costs from approved positions normally considered as direct service or program to administrative positions/salaries.
- The percentage of reported CCIS administrative costs to total of grant costs was 14.5 percent for Fiscal Year 2005-06.¹ Per the CCIS audit guidelines, the DPW will participate in reimbursement of FSS costs up to a maximum of 13 percent. A higher percent may be allowed based upon OCDEL approval. The 14.5 percent of reported FSS costs exceeds the 13 percent maximum by \$55,673. DPW written approval to exceed 13 percent was not documented in the approved grant budget. However, the actual expense of 14.5 percent of FSS costs is lower than the 15.9 percent included in the original budget.
- The Keys grant does not include a line item budget for personnel costs which identifies positions by title, percent of FTE's, and annual salary.
- The Keys grant does not include a maximum administrative/FSS percentage. The reported administrative/FSS costs were 16.9 percent of total expenditures for Fiscal Year 2005-06.
- Our testing of occupancy, computer services and travel costs charged to the CCIS and Keys grants identified an appropriate basis was used to allocate and charge each of these costs.

Subsequent Event

Per confirmation with the OCDEL, the 14.5 percent of FSS costs reported per the CCIS final expenditure report for Fiscal Year 2005-06 is acceptable since it is lower than the 15.9 percent in the original approved budget.

¹ The CCIS grant defines administrative costs as family support services (FSS).

Results of Fieldwork (Continued)

Recommendations

The BFO recommends if STEP or any CCIS grantee is allowed to exceed the maximum 13 percent for FSS costs, the OCDEL should provide the grantee with written notification to document the approval.

The BFO also recommends the OCDEL consider the need to implement enhanced administrative budget controls in the Keys grant similar to those in place in the CCIS grant. This would include reporting of and approval of personnel costs by position, percent of FTE's and annual salary, and establishing a maximum allowable percent of administrative costs.

Issue No. 2 - Interest Earned On CCIS and Keys Grant Funds Is Being Accurately Reported to DPW

STEP has cash management procedures that require investment of available DPW funds in an interest bearing account. The interest applicable to the CCIS and Keys grants for Fiscal Year 2004-05 and 2005-06 has been accurately reported and returned to the DPW.

For Fiscal Year 2005-06, the interest reported for the CCIS and Keys grants was \$272 and \$1,795 respectively. The annual interest rate earned was .50 or ½ percent for the grant funds deposited in STEP's business checking accounts. According to the STEP finance director, STEP has pursued negotiation of a higher rate of return on its business checking accounts. However, a higher rate was not available without incurring costly fees for overdraft protection and high volume transactions.

Issue No. 3 - Prior Year Advances of \$117,006 is Due to DPW

STEP has retained prior year Child Care Resource Development (CCRD)² and CCIS funds of \$117,006 that is due back to DPW. The CCRD portion of the advance is \$111,106. The \$111,106 is comprised of \$110,088 applicable to the two year grant period ended June 30, 2000, and \$1,018 applicable to Fiscal Year 2000-01. The CCIS portion is \$5,900 which primarily relates to Fiscal Year 2003-04.

The \$117,006 is recorded as a refundable advance on the Statement of Financial Position and the Schedule of Federal and State Awards included in STEP's independent CPA audit. The funds have been maintained in an interest bearing

² Prior to Fiscal Year 2005-06, the Keys grant was named the Child Care Resource Development (CCRD) grant.

Results of Fieldwork (Continued)

account and used to support the needs of the grant programs. Since Fiscal Year 1999-2000, the interest reported to the DPW for the child care grants includes interest earned on the refundable advances.

According to STEP officials, there was uncertainty on return of the CCRD funds due to:

- The first year of the CCRD grant was Fiscal Year 1998-99. Excess grant funds in Fiscal Year 1998-99 were rolled into Fiscal Year 1999-00. There was uncertainty if Fiscal Year 1999-00 excess funds would be rolled into year three or be transferred to another CCRD grantee.
- DPW had not implemented a system to recover the excess funds, and DPW never requested return of the funds. A recap form similar to what is used to recover unexpended funds in the CCIS grant does not exist for the CCRD/Keys grant.

A review of the CCRD grant payment provisions from Fiscal Year 1998-99 identified a requirement for unexpended funds to be returned to the DPW with the final expenditure report. We believe that this requirement supports our conclusion that the \$111,106 be returned to DPW.

The origin of the \$5,900 CCIS refundable advance primarily relates to Fiscal Year 2003-04, which comprises \$5,126 of the total. According to the STEP Finance Director, DPW switched its computer software used by the CCIS agencies to make provider payments during Fiscal Year 2003-04. During this transition, multiple problems occurred resulting in over and under payments to providers. STEP received verbal and written instructions from DPW to make providers whole for under payments and to recover over payments. STEP complied with these directives and as part of the Fiscal Year 2003-04 Recap Packet informed DPW that \$5,126.29 was being set up as a reserve for doubtful recoupments and CCIS data fix liabilities.

Recommendations

The BFO recommends OCDEL recover the \$111,106 in CCRD prior year advances.

The BFO also recommends OCDEL recover a minimum of \$774 of the \$5,900 CCIS prior year advances. A decision concerning the remaining \$5,126 must be made and should consider the circumstances that created the Fiscal Year 2003-04 overpayment. A decision to not recover the remaining \$5,126 would require STEP to account for and return any future collections received from the accounts included in the \$5,126 reserve for doubtful recoupments.

Results of Fieldwork (Continued)

The BFO finally recommends OCDEL evaluate the need to implement a recap form in order to improve accountability and tracking of CCRD/Keys funds due to DPW.

STEP elected not to have an exit conference. STEP's response is attached to the report and labeled Appendix A.

In accordance with the BFO established procedures, please provide a response within 60 days to the Audit Resolution Section concerning actions to be taken to ensure the report recommendations are implemented.

Please contact Ms. Tina Long, Director, Division of Financial Policy and Operations at (717) 705-2288 if you have any questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,


Kevin M. Friel

Attachment

cc: Mr. Todd Klunk
Mr. Mark Reinard
Ms. Janet Alling

**AUDITEE'S RESPONSE
APPENDIX A**

2138 Lincoln Street
P.O. Box 3568
Williamsport, PA 17701
(570) 326-0587 FAX: (570) 322-2197



JANET ALLING
President & CEO

Lycoming-Clinton Counties Commission for Community Action (STEP), Inc.

August 10, 2007

Mr. Jack Hoover
Room 325 Scranton State Office Building
100 Lackawanna Avenue
Scranton, PA 18503

Dear Mr. Hoover:

This letter is to serve as a formal response to the "draft" audit report of the Lycoming-Clinton Counties Commission for Community Action (STEP), Inc. as prepared by the Commonwealth of Pennsylvania's Department of Audit and Review (DAR). The responses provided will address the following issues:

1. Indirect/Administrative Costs Are Being Equitably Distributed to CCIS and Keys Grants.

STEP agrees with the analysis of DAR in reviewing the allocation methodologies being utilized to distribute indirect/administrative costs. STEP intends to continue to comply with cost principles as defined within OMB Circular A-122 and further directives provided by the Department of Public Welfare (DPW) for administering the CCIS and Keys Grants.

2. Interest Earned on CCIS and Keys Grant Funds is Being Accurately Reported to DPW.

STEP concurs with the analysis of DAR that current practices allow for distinct identifiable recording of interest earnings for both the CCIS and Keys Grant funds. STEP will continue to maintain separate identifiable interest-bearing accounts for both of the aforementioned grant funds.

3. Prior Year Advances of \$117,006 is DUE to DPW.

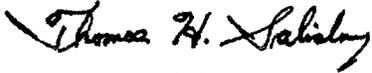
STEP agrees with the amount of \$117,006 being due to DPW. Disclosed within STEP's Single Audit document, the break out of the refundable advance amounts is as follows:

<u>Program</u>	<u>Fiscal Period</u>	<u>Refundable Advance</u>
CCRD	7/1/98-6/30/99	\$ 6,367.31
CCRD	7/1/99-6/30/00	\$103,720.57

STEP will await further instructions on the disposition of the funds as defined above.

Thank you for the opportunity to provide this written response to your "draft" audit report. It was a pleasure dealing with you and your staff during the review process. If any additional information is required or further clarification of STEP's response is needed, please feel free to contact me at 570-326-0587.

Sincerely,



Thomas H. Salisbury
Director of Fiscal Administration