



May 15, 2013

Mr. Terry E. Roller  
President and Chief Executive Officer  
Lycoming-Clinton Counties Commission for Community Action (STEP), Inc.  
2138 Lincoln Street  
Williamsport, Pennsylvania 17701

Dear Mr. Roller:

I am enclosing the final audit report of Lycoming-Clinton Counties Commission for Community Action (STEP), Inc. that was recently completed by this office. Your response has been incorporated into the final report and labeled as an Appendix.

I would like to extend my appreciation for all the courtesy extended to my staff during the course of fieldwork. I understand you were especially helpful to Rich Kerpovich and Jason Seliga in expediting the audit process

The final report will be forwarded to the Office of Child Development and Early Learning (OCDEL).

If you have any questions concerning this matter, please contact David Bryan, Audit Resolution Section at (717) 783-7127.

Sincerely,

A handwritten signature in black ink that reads "Tina L Long". The signature is written in a cursive style and is enclosed within a dashed rectangular border.

Tina L. Long, CPA  
Director

Enclosure

c: Ms. Beverly Mackereth  
Ms. Barbara Minzenberg  
Ms. Traci Lowe, STEP's Chief Financial Officer

bc: Mr. Alex Matolyak  
Mr. David Bryan  
Mr. Brian Pusateri  
Mr. Tom Maurer  
Mr. Michael A. Sprow  
Ms. Shelley Lawrence  
File N1201-Z99



May 15, 2013

The Honorable Beverly Mackereth  
Secretary of Public Welfare  
Health & Welfare Building Room 333  
Harrisburg, Pennsylvania 17120

Dear Secretary Mackereth:

In response to a request from the Office of Child Development and Early Learning (OCDEL), the Bureau of Financial Operations (BFO) initiated a performance audit of the Lycoming-Clinton Counties Commission for Community Action (STEP), Inc. The audit was primarily directed at determining STEP's compliance with the allocation of administrative salaries and benefits in accordance with OMB Circular A-122. The audit covered the period from July 1, 2011 through September 30, 2012.

The auditors identified STEP's allocation methodology is in compliance with OMB Circular A-122.

The report is currently in final form and therefore does contain STEP's response to the report's observation. Step's response to the draft is included as Appendix A. The issue identified in the report observation was discussed with STEP's management at a closing conference held on February 21, 2013.

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

STEP is a private, non-profit community action agency headquartered in Williamsport, Pennsylvania. STEP provides an array of services to low-income and disadvantaged individuals and families residing in a twenty county service area that spans Central Pennsylvania. STEP's Department of Public Welfare (DPW) administered programs include Head Start, Head Start Supplemental, Early Head Start, Pre-K Counts, Parent-Child Home, Central Region Key, Work Ready, Child Care Information Services, and Medical Assistance Transportation.

The report has no findings or recommendations for corrective action although an observation of management's practices is summarized below.

OBSERVATION NO. 1	SUMMARY
<b>STEP manually calculates allocation percentages determined by time studies.</b>	The BFO identified applicable time studies or timesheets tested were not accurately calculated. However, these miscalculations did not have a material effect on the expenditure reports filed with DPW.

**Lycoming-Clinton Counties Commission for Community Action (STEP), Inc.**  
**July 1, 2011 through September 30, 2012**

**Background**

STEP received over \$35 million in federal and state awards for the fiscal year ended June 30, 2011. The majority of federal awards received were passed through the DPW by the United States Department of Health and Human Services. In addition, STEP received state awards from the Pennsylvania Departments of: Aging, Health, Community and Economic Development, Transportation, and Education.

**Objective, Scope and Methodology**

The audit objective developed in concurrence with the OCDEL was:

- To determine if STEP's allocated administrative salaries and benefits are in accordance with OMB Circular A-122.

In pursuing our objective, the BFO interviewed management and staff members from STEP. We also analyzed the cost allocation plan, time studies, payroll records, general ledgers, and other pertinent documentation necessary to achieve our objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards also require that we obtain an understanding of internal controls that are relevant to the audit objectives described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of those controls. Based on our understanding of the controls, no material deficiencies came to our attention. An area where we noted an opportunity for an improvement in management's control is addressed in the observation in this report.

Fieldwork for this audit took place between January 23, 2013 and February 13, 2013. The report, when presented in its final form, is available for public inspection.

**Results of Fieldwork**

**Observation No. 1 – STEP manually calculates allocation percentages determined by time studies.**

STEP requires executive management to complete times studies when a change to their organizational structure occurs. During the audit period, STEP conducted four time studies and charged the costs for the executive management in accordance with the percentages identified in the time studies. For positions STEP does not categorize as executive management, time studies are not required to be performed as their costs are directly charged to the particular cost center based on actual time documented on the individual's timesheet for each pay period.

**Lycoming-Clinton Counties Commission for Community Action (STEP), Inc.  
July 1, 2011 through September 30, 2012**

The BFO identified applicable time studies or timesheets tested were not accurately calculated. However, these miscalculations did not have a material effect on the expenditure reports filed with DPW. The discrepancies were attributed to Human error as total hours and allocation percentages were not calculated automatically via a spreadsheet application. Additionally, staff often rounded calculations for each program to the nearest whole hour and percentage despite tracking the time in half-hour intervals. STEP's Chief Financial Officer stated during audit field work that STEP will implement an automated time recording system to ensure time studies and timesheets are calculated accurately in the future.

**Conclusion on the Objective**

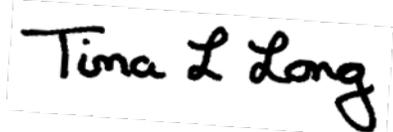
STEP was in compliance with the allocation of administrative salaries and benefits in accordance with OMB Circular A-122.

**Auditor's Commentary**

Based upon the results of the audit and the response provided by STEP, the BFO will consider this audit to be closed.

Please contact David Bryan, Audit Resolution Section, at (717) 783-7217 if you have any questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,

A handwritten signature in black ink that reads "Tina L Long". The signature is written in a cursive style and is enclosed within a dashed rectangular border.

Tina L. Long, CPA  
Director

Attachment

**LYCOMING-CLINTON COUNTIES COMMISSION  
FOR COMMUNITY ACTION (STEP), INC.**

**RESPONSE TO THE DRAFT REPORT**

**APPENDIX A**

2138 Lincoln Street  
Williamsport, PA 17701  
1-800-346-3020  
(570) 326-0587  
FAX: (570) 322-2197



124 East Walnut Street  
Lock Haven, PA 17745  
1-800-222-2019  
(570) 858-5800  
FAX: (570) 858-5808

Terry E. Roller, President & CEO

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

Step, Inc has implemented the automation of time studies that are completed by the executive management staff. This automation has reduced the miscalculations due to human error as well as discrepancies resulting from staff rounding calculations.

A handwritten signature in cursive script that reads "Linda Love".