

PERFORMANCE AUDIT REPORT

Pennsylvania Department of Human Services

Real Alternatives Grant

September 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

September 5, 2017

The Honorable Tom Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Dear Governor Wolf:

This report contains the results of the Department of the Auditor General's performance audit of the Pennsylvania Department of Human Services (DHS) with regard to Grant Number 4100060934 awarded to Real Alternatives for the period July 1, 2012 through June 30, 2017, which was for the purpose of providing services through DHS' Alternative to Abortion Services Program. The performance audit was conducted at the request of DHS following Real Alternatives' refusal to allow DHS' auditors access to review the expenditure documentation related to a three percent (3%) "Program Development and Advancement Fee" that Real Alternatives withholds from its service providers.

We conducted our audit under the authority of Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402 and 403, and in accordance with applicable generally accepted government auditing standards, as issued by the Comptroller General of the United States. 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.

Our performance audit had two objectives, including:

- Determine whether the audit procedures performed by DHS' Division of Audit and Review (DAR) for the audit of Grant Number 4100060934 released on April 25, 2016, were adequate and the conclusions reached appropriate.
- Review the expenditures and expenditure documentation for the three percent fee (3%) that the grantee assesses its service providers and determine whether this fee is an appropriate use of funds in accordance with the grant agreement.

Our audit period was July 1, 2012, through June 30, 2015, with updates through the report date. We offer two findings and eight recommendations. Four recommendations are for DHS to improve oversight of the grant with Real Alternatives, and four recommendation are for DAR when performing any audit under generally accepted government auditing standards (GAGAS).

Our auditors found that DHS' lack of adequate Grantee monitoring allowed Real Alternatives to withhold 3% of its service providers' grant reimbursement and to use the funds for purposes not permitted by the grant agreement for several years. Specifically, DHS' Office of Social Programs did not adequately monitor the grant to assess whether Real Alternatives is complying with the grant agreement.

Also, our auditors found that DAR performed adequate audit procedures and reached appropriate conclusions during its performance audit of Real Alternatives, but audit documentation should be improved. Specifically, our auditors found that DAR auditors did not document its assessment of audit risk, certain audit documentation did not contain evidence as to who prepared and/or reviewed the documents, and DAR auditors used an outdated GAGAS Performance Audit Checklist.

In closing, I want to thank DHS for their cooperation and assistance during the audit. DHS is in agreement with Finding 1 and its related recommendations, but disagrees in part with Finding 2 and all of the related recommendations. We will follow up at the appropriate time to determine whether and to what extent all recommendations have been implemented.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

Eugene A. DePasquale
Auditor General

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Executive Summary

The Department of Human Services (DHS) awarded a grant to Real Alternatives to “provide counseling, referral, and other specified services for alternatives to abortion” through DHS’ Alternative to Abortion Services Program for the period July 1, 2012 through June 30, 2017. DHS’ Office of Social Programs (OSP) is responsible to monitor the grant awarded to Real Alternatives. DHS’ Division of Audit and Review (DAR) conducted a performance audit of Real Alternatives covering the period July 1, 2012, to June 30, 2015, that was precipitated by an issue with incorrect billings by a service provider contracted to provide direct alternatives to abortion services.

We undertook this audit at the request of DHS following Real Alternatives’ refusal to allow DAR auditors access to review the expenditure documentation related to a three percent (3%) “Program Development and Advancement Fee” that Real Alternatives withholds from its service providers. Our audit objectives were to determine whether the audit procedures performed by DAR for the audit of the Real Alternatives grant released on April 25, 2016, were adequate and the conclusions reached appropriate. We also sought to review the expenditures and expenditure documentation for the 3% fee that the grantee assesses its service providers and determine whether this fee was an appropriate use of funds in accordance with the grant agreement.

This report presents two findings and offers eight recommendations to improve oversight of the grant with Real Alternatives and for DAR to follow when performing any audit under generally accepted government auditing standards (GAGAS). DHS is in agreement with Finding 1 and its related recommendations, but disagrees in part with Finding 2 and all of the related recommendations.

Finding 1 – The Department of Human Services’ lack of adequate Grantee monitoring allowed Real Alternatives to withhold three percent (3%) of its service providers’ grant reimbursement and to use the funds for purposes not permitted by the grant agreement for several years.

OSP did not conduct sufficient monitoring of Real Alternatives as one of DHS’ grantees. Additionally, the Commonwealth’s Single Audit reports have repeatedly cited DHS for a lack of monitoring Temporary Assistance to Needy Families program sub-recipients, which includes Real Alternatives. Adequate monitoring may have identified concerns related to the grant, such as the 3% fee, and helped to ensure that Real Alternatives used the grant funds in accordance with the agreement.

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Finding 2 – DHS performed adequate audit procedures and reached appropriate conclusions during its performance audit of Real Alternatives, but audit documentation should be improved.

Based on our audit procedures, we determined that DAR's audit procedures appear to be adequate to support that the conclusions reached by DAR auditors were appropriate. However, we identified areas where audit documentation should be improved. Specifically, we found that DAR auditors did not document its assessment of audit risk. Additionally, certain audit documentation did not contain evidence as to who prepared and/or reviewed the documents. Also, DAR auditors used an outdated GAGAS Performance Audit Checklist.

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Introduction and Background

The Department of the Auditor General, under the direction of Auditor General Eugene A. DePasquale, conducted this performance audit at the request of the Pennsylvania Department of Human Services (DHS) with regard to Grant Number 4100060934¹, awarded to Real Alternatives. This grant was awarded for the purpose of providing services through DHS' Alternative to Abortion Services Program which is described in more detail later in this report. The DHS audit request followed Real Alternatives' refusal to allow DHS auditors access to review the expenditure documentation related to a three percent (3%) "Program Development and Advancement Fee" that Real Alternatives withholds from its service providers.

Our audit objectives were to:

- Determine whether the audit procedures performed by DHS' Division of Audit and Review for the audit of Grant Number 4100060934 released on April 25, 2016, were adequate and the conclusions reached appropriate.
- Review the expenditures and expenditure documentation for the 3% fee that the grantee assesses its service providers and determine whether this fee is an appropriate use of funds in accordance with the grant agreement.

In the sections that follow, we present background information related to DHS, Grant Number 4100060934, Real Alternatives, and the DHS Division of Audit and Review's (DAR) audit of Real Alternatives.

DHS' Organizational Structure

DHS consists of six executive level offices and seven different program offices.² The Office of Social Programs (OSP), one of the executive offices within DHS, supports the work of DHS on issues such as reproductive services, including family planning and alternatives to family planning. OSP also provides oversight and monitors grants, including DHS' grant with Real Alternatives.³

One of the nine goals of the Office of Administration, another executive level office within DHS, includes dedicating financial resources to meet customer needs while ensuring accountability to taxpayers.⁴ As such, the Office of Administration oversees the Bureau of Financial Operations

¹ http://contracts.patreasury.gov/Admin/Upload/203444_4100060934.pdf (accessed August 10, 2017).

² <http://www.dhs.pa.gov/learnaboutdhs/dhsorganization/> (accessed July 17, 2017).

³ <http://www.dhs.pa.gov/learnaboutdhs/dhsorganization/OfficeofSocialPrograms/index.htm> (accessed July 17, 2017).

⁴ <http://www.dhs.pa.gov/learnaboutdhs/dhsorganization/officeofadministration/index.htm> (accessed July 17, 2017).

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(BFO). BFO plans, organizes, directs and controls financial support within DHS. One of the divisions within BFO includes DAR, which conducted the audit of Real Alternatives as mentioned above. Among other activities, DAR conducts performance audits and reviews of DHS-operated and funded programs,⁵ including the DHS' Alternative to Abortion Services Program.

Grant Number 4100060934 awarded to Real Alternatives

DHS (formerly the Department of Public Welfare⁶) awarded a five-year, \$30.2 million grant to Real Alternatives to “provide counseling, referral, and other specified services for alternatives to abortion” through DHS' Alternative to Abortion Services Program. This program provides pregnancy testing, counseling and other assistance to women experiencing a crisis pregnancy. The term of the grant was July 1, 2012, through June 30, 2017, with the option to renew the agreement for two additional one-year periods at the discretion of DHS.⁷ Effective July 1, 2017, DHS exercised a three-month extension of the grant agreement. The term of the extension continues until September 30, 2017, and is subject to the same terms and conditions set forth in the original agreement.⁸

According to the grant agreement, the following table identifies the grant's funding sources and how the grant money is to be spent:

Expenditures	Annual Funding Sources		Total Annual Budget	Total Five-Year Grant Budget
	Federal - TANF ^{a/}	State – General Fund		
Grant Administration	\$ 100,000	\$ 504,329	\$ 604,329	\$ 3,021,645
Payments to Service Providers	\$ 900,000	\$4,538,959	\$5,438,959	\$27,194,795
Totals	\$1,000,000	\$5,043,288	\$6,043,288	\$30,216,440

^{a/} Temporary Assistance for Needy Families

Source: Developed by Department of the Auditor General staff from information contained in DHS' grant agreement with Real Alternatives, Rider 3.

⁵<http://www.dhs.pa.gov/learnaboutdhs/dhsorganization/officeofadministration/bureauoffinancialoperations/index.htm> (accessed July 17, 2017).

⁶ The Department of Public Welfare was redesignated as DHS by Act 132 of 2014, effective November 24, 2014. See 62 P.S. § 103(a).

⁷ Standard Terms and Conditions of Grant Number 4100060934 between Pennsylvania Department of Human Services (formerly Department of Public Welfare) and Real Alternatives. Page 1.

⁸ Notice to Real Alternatives confirming Department of Human Services exercise of the three-month extension dated June 29, 2017. http://contracts.pat treasury.gov/Admin/Upload/420035_4100060934%20Ext%206-30-17.pdf (accessed July 20, 2017).

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Additionally, the grant requires that all individuals receiving services must be *Pennsylvania residents*.⁹ Individuals receiving services funded by Temporary Assistance to Needy Families¹⁰ (TANF) must meet federal TANF income guidelines and individuals receiving services funded by state monies are served without regard to income.¹¹

The grant agreement also contains an audit clause which reserves the right of state agencies to perform audits of Real Alternatives of both a financial and/or performance nature if deemed necessary by the Commonwealth. The audit clause further provides that Real Alternatives, “agrees to make available, upon reasonable notice...any of the books, records, and documents for inspection, audit, or reproduction by any state or federal agency or its authorized representatives.”¹²

Background on Real Alternatives

Real Alternatives, a private, nonprofit, charitable organization, has managed the statewide Alternatives to Abortion Services Program (Program) administered by DHS for the past 20 years.¹³ Under the Program, Real Alternatives provides free, confidential, and comprehensive life-affirming counseling and parenting support services to women experiencing a crisis pregnancy.

The mission of Real Alternatives is to:

Provide life-affirming pregnancy and parenting support services throughout the nation. These compassionate support services empower women to protect their reproductive health, avoid crisis pregnancies, choose childbirth rather than abortion, receive adoption education, and improve parenting skills.¹⁴

⁹ Emphasis added.

¹⁰ The Temporary Assistance to Needy Families (TANF) program is a time limited program that assists families with children when the parents or other responsible relatives cannot provide for the family’s basic needs. The Federal government provides grants to States to run the TANF program.

<http://www.dhs.pa.gov/citizens/cashassistance/tanfandmovingtoindependence/> (accessed July 21, 2017).

¹¹ Grant Number 4100060934 between Pennsylvania Department of Human Services (formerly Department of Public Welfare) and Real Alternatives. Rider 2 Work Statement. Page 1.

¹² Grant Number 4100060934 between Pennsylvania Department of Human Services (formerly Department of Public Welfare) and Real Alternatives. Audit Clause A.

¹³ Since 1993, the Pennsylvania General Assembly has provided an annual state appropriation of approximately 5 to 6 million dollars for a women’s health program, including pregnancy assistance for vulnerable individuals, referred to as “Expanded Medical Services for Women.” Former Pennsylvania Governor Robert P. Casey placed pregnancy and parenting support services program funding in the state budget during this time frame – 1993-1995.

<http://www.realalternatives.org/presskit/History.htm> (accessed August 10, 2017).

¹⁴ <http://www.realalternatives.org/aboutus/> (accessed July 18, 2017).

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Real Alternatives administers delivery of its services through a network of approximately 27 service provider vendors (including social services agencies, pregnancy support centers, maternity homes, and adoption agencies), who operate approximately 91 facilities throughout the Commonwealth. Real Alternatives contracts with service providers through a Service Provider Agreement.

The grant agreement requires Real Alternatives to pay specific reimbursement rates to each service provider:

In accordance with the . . . Service Provider Agreement, Real Alternatives will reimburse the Service Provider for services provided to eligible clients at the rate of \$1.05 for each minute of counseling and referral provided; \$10.50 for each pregnancy test kit per client visit; \$2.00 for each Food, Clothing or Furniture Pantry visit (not to exceed 4 visits per client per pantry type) as long as each visit is accompanied by at least 20 minutes of counseling; \$21.00 for each class per client taught; and \$5.25 for administrative time spent completing a . . . Billing Form only when funding levels permit...¹⁵

The grant agreement also requires Real Alternatives to conduct monitoring and inspections of its service providers and submit documentation of monitoring and inspections, along with its findings, to DHS quarterly. On-site monitoring of its service providers must be conducted at least once every three years.¹⁶

In addition to the Service Provider Agreement between providers and Real Alternatives, Real Alternatives executes a secondary agreement with service providers that is not disclosed in the grant agreement or Service Provider Agreement. This secondary agreement was identified by DHS during an audit of Real Alternatives that began in August 2015.¹⁷

DHS' Audit of Real Alternatives

DHS' Division of Audit and Review conducted a performance audit of Real Alternatives that was precipitated by an issue with incorrect billings by a service provider covering the period July 1, 2012, to June 30, 2015. The audit began with an entrance conference on August 4, 2015, and was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

¹⁵ Grant Number 4100060934 between Pennsylvania Department of Human Services (formerly Department of Public Welfare) and Real Alternatives. Work Plan. Pages 7 – 8.

¹⁶ Grant Number 4100060934 between Pennsylvania Department of Human Services (formerly Department of Public Welfare) and Real Alternatives. Rider 2. Page 2.

¹⁷ BFO Final Audit Report of Real Alternatives as prepared by the DAR.
http://www.dhs.pa.gov/cs/groups/webcontent/documents/document/c_226594.pdf.

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The audit was designed to investigate, analyze, and make recommendations regarding Real Alternatives' compliance with DHS' grant agreement and Real Alternatives' oversight and monitoring of its service providers. Specifically, the audit objectives were:

- To determine if Real Alternatives' expenditures are in accordance with the grant agreement and applicable regulations.
- To determine if Real Alternatives is in compliance with the grant agreement and applicable laws and regulations.
- To determine if Real Alternatives performs adequate monitoring of its sub-grantees (services providers).¹⁸

The final audit report, dated April 25, 2016, indicated that Real Alternatives was generally in compliance with the grant requirement. The audit identified three findings:

- Finding No. 1 – Inappropriate Billings Were Identified at Service Providers
- Finding No. 2 – Internal Control Weaknesses
- Finding No. 3 – Three Percent Fee

The Three Percent Fee noted in Finding No. 3 relates to a 3% fee that is charged to its service providers for program development and advancement as a result of the previously mentioned secondary agreement between Real Alternatives and its service providers. Instead of the service providers writing a check for the fee, Real Alternatives reduces its reimbursement from the grant funds provided by DHS for services rendered by the service providers. For example, a service provider invoices Real Alternatives for \$100 in services. Real Alternatives, in turn, requests DHS for the \$100. DHS pays Real Alternatives \$100, but Real Alternatives only reimburses the service provider \$97 and keeps the \$3 for program development and advancement. See additional information in Finding No. 1 of our audit report.

With regard to Finding No. 3, the DHS audit identified a scope limitation.¹⁹ DHS auditors “asked to analyze the expenses paid from the three percent fee, which are part of the secondary agreement, but [Real Alternatives] declined and stated that the fees collected were not state funds but corporate money and therefore...[the fees were] not subject to the BFO audit. For the fiscal periods ended June 30, 2013 through June 30, 2015, [Real Alternatives] had collected a total of \$497,368 and expended \$235,421.”²⁰

¹⁸ Ibid.

¹⁹ “[A]ny significant constraint imposed on the audit approach by information limitations or scope impairments, including denials or excessive delays of access to certain records or individuals.” Government Auditing Standards, December 2011, GAO-12-331G, paragraph 7.11.

²⁰ These amounts were reported in DHS' audit of Real Alternatives dated April 25, 2016. DHS reported that as of the close of their fieldwork, “Real Alternative's audited financial statements for the fiscal year ended June 30, 2015 had not been issued; as a result, the fee retained for the fiscal year ended June 30, 2015 was based on an estimate of three percent of the total service provider reimbursements. The expense amount for the fiscal year ended June 30, 2015 is unknown.”

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Also, the audit collectively offered a total of eight recommendations to address these findings: six recommendations directed at Real Alternatives and two recommendations directed at DHS' OSP. One of the OSP recommendations included "determine whether the collection and use of the three percent fee is appropriate."²¹ This was the impetus that led DHS to request the Department of the Auditor General to conduct this audit.

²¹ DHS audit of Real Alternatives, report dated April 25, 2016.

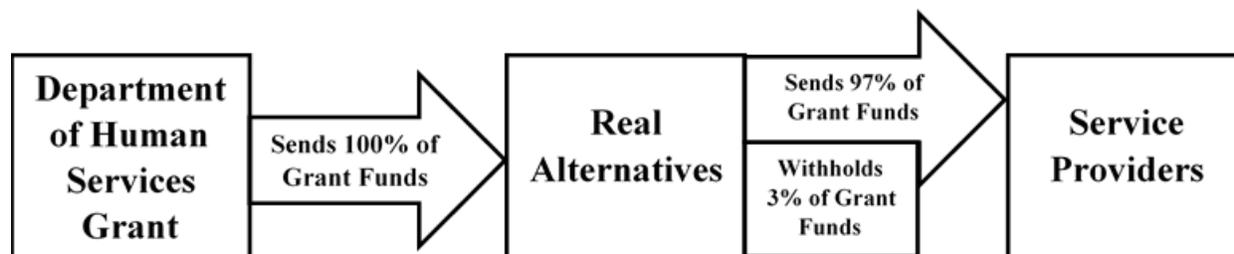
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Finding 1 – The Department of Human Services’ lack of adequate Grantee monitoring allowed Real Alternatives to withhold three percent (3%) of its service providers’ grant reimbursement and to use the funds for purposes not permitted by the grant agreement for several years.

The Department of Human Services (DHS) has been awarding grants to Real Alternatives since 1997 as part of its Alternatives to Abortion Services Program to provide counseling and other specified services for women experiencing a crisis pregnancy in Pennsylvania.²² According to Grant Number 4100060934, covering the term July 1, 2012 through June 30, 2017, Real Alternatives reimburses the service providers at specific rates for specific services.²³ However, during a DHS performance audit of Real Alternatives initiated due to incorrect billings by a service provider, DHS discovered Real Alternatives was withholding three percent (3%) of its service providers’ grant reimbursement by a secondary agreement.

The following chart illustrates the flow of funds from DHS to Real Alternatives to service providers, including the 3% withheld by Real Alternatives:



Source: Developed by the Department of Human Services and the Department of the Auditor General staff.

As noted earlier, during its audit, DHS’ auditors discovered that instead of the service provider writing a check to Real Alternatives in order to fund a Program Development and Advancement initiative, Real Alternatives executes a secondary agreement with the service providers that permits Real Alternatives to retain 3% from the grant’s reimbursement. This separate agreement is not identified within the grant agreement. DHS estimated that between July 1, 2012, and June 30, 2015, Real Alternatives collected \$497,368 from withholding the 3% fee and expended \$235,421.²⁴

²² <http://www.dhs.pa.gov/citizens/reproductivehealth/alternativestoabortionsservicesprogram/> (accessed August 8, 2017). According to DHS’ website link to the Alternatives to Abortion Services Program, “[t]he free and confidential services are available to women or men who are involved in an unplanned pregnancy or who think they might be, and to parents of infants up to 12 months of age.”

²³ Real Alternatives Work Plan, page 7, within Grant 4100060934. For example, \$1.05 for each minute of counseling and referral provided.

²⁴ These amounts were reported in DHS’ audit of Real Alternatives. DHS reported that as of the close of their fieldwork, “Real Alternative’s audited financial statements for the fiscal year ended June 30, 2015 had not been issued; as a result, the fee retained for the fiscal year ended June 30, 2015 was based on an estimate of three percent

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DHS requested Real Alternatives to provide access to documentation showing how the \$235,421 was expended, but Real Alternatives refused and stated that these funds were corporate money and not state money (i.e., grant funds). As a result, DHS requested the Department of the Auditor General to conduct this audit.

Our audit of the DHS' grant with Real Alternatives included an objective to review the expenditures and expenditure documentation for the 3% fee that the grantee assesses its service providers and to determine whether this fee was an appropriate use of funds in accordance with the grant agreement. Our Department requested, through DHS, to review Real Alternatives' 3% expenditure documentation. Based on our request, Real Alternatives hired legal representation. We had one conference call with its legal representatives who indicated that they would speak to Real Alternatives regarding our request.

In lieu of providing the requested documentation, Real Alternatives initiated legal proceedings in the Pennsylvania Commonwealth Court to block us from further pursuing this documentation. The Commonwealth Court determined that the Department of the Auditor General's review of the 3% expenditure documentation was unnecessary because Real Alternatives admitted that it had **not** spent the 3% funds in accordance with the grant agreement. However, based on this admission and this honorable court's unequivocal acknowledgement,²⁵ we believe that Real Alternatives inappropriately used the 3% funds for purposes not permitted by the grant agreement.

Although Real Alternatives has been deducting a percentage²⁶ of funds from its service providers since 1997, DHS had not previously been aware of the issue and did not identify the issue due to inadequate monitoring of Real Alternatives.

of the total service provider reimbursements. The expense amount for the fiscal year ended June 30, 2015 is unknown."

²⁵ As observed by the Commonwealth Court, "...RA enters into a separate 'secondary' '**Program Development and Advancement Agreement**' with its service providers, the purpose of which is "to provide funding for the development and advancement of [RA's] life-affirming programs and missions, both locally and nationally...." [Emphasis added in the original; the Department's Emphasis in bold and underline.] http://www.pacourts.us/assets/opinions/Commonwealth/out/106MD17_7-3-17.pdf?cb=1 p. 4, (accessed August 8, 2017).

²⁶ Documents obtained by DHS from Real Alternatives indicates that initially Real Alternatives withheld 2% from the service providers. No documents were provided regarding when the amount increased to 3%.

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DHS' Office of Social Programs (OSP) did not adequately monitor the grant awarded to Real Alternatives.

In order to support DHS' work on such issues as reproductive services, including family planning and alternatives to family planning, OSP is to provide oversight and monitoring of grants, including DHS' grant awarded to Real Alternatives.²⁷

As part of our audit, we gained an understanding about how OSP monitored Real Alternatives during the audit period and requested reports of the monitoring that occurred during our audit period. We found that OSP staff review the monthly invoices that Real Alternatives submits to DHS. The invoices present expenses in a summarized manner and, therefore, this review does not provide OSP with specific detail on the expenditures. OSP also reviews quarterly administrative reports that provide information on the program as well as Real Alternatives' monitoring of its service providers. OSP's review of these documents, however, does not provide sufficient information to assess whether Real Alternatives is complying with the grant agreement.

Periodic on-site monitoring would allow DHS to verify that the information contained in the administrative reports and the invoices are accurate and may identify other concerns, such as the 3% fee, through interviewing staff and performing observations of Real Alternatives' processes and controls. Additionally, the Commonwealth's Single Audit reports have repeatedly cited DHS for a lack of monitoring Temporary Assistance to Needy Families (TANF) program sub-recipients, which includes Real Alternatives, every year for the last four state fiscal years ending June 30, 2013, through June 30, 2016.²⁸

Without performing sufficient monitoring procedures of the grant with Real Alternatives, DHS cannot ensure that Real Alternatives used the grant funds in accordance with the grant agreement and fulfilled the purpose of the grant to provide direct alternatives to abortion services statewide.

²⁷ <http://www.dhs.pa.gov/learnaboutdhs/dhsorganization/OfficeofSocialPrograms/index.htm> (accessed July 17, 2017).

²⁸ The Department of the Auditor General along with an outside CPA firm annually jointly conducts the Commonwealth Single Audit. The Single Audit opines on the Commonwealth's compliance with various requirements that could have a direct and material effect on each of the Commonwealth's major federal programs to include TANF.

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Recommendations for Finding 1

We recommend that DHS:

1. Promptly seek to recover from Real Alternatives, for the benefit of Pennsylvania residents, the 3% of funds that have not been spent in accordance with the grant agreement.
2. Ensure that the Office of Social Programs (OSP) adequately monitors current and future grant agreements with Real Alternatives, or other vendors responsible for providing counseling, referral, and other specified services for alternatives to abortion for Pennsylvania residents to include periodically performing on-site monitoring.
3. Include explicit language in any future grant agreements with Real Alternatives or other vendors which are responsible for the proper provision of counseling, referral, and other specified services for alternatives to abortion to Pennsylvania residents that addresses the 3% audit concern, including the identification of all agreements with its service providers.
4. Conduct follow-up procedures to ensure that Real Alternatives has appropriately addressed DHS' audit recommendations for the benefit of Pennsylvania residents.

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Finding 2 – DHS performed adequate audit procedures and reached appropriate conclusions during its performance audit of Real Alternatives, but audit documentation should be improved.

On April 25, 2016, DHS' Division of Audit and Review (DAR) released its performance audit report of Real Alternatives covering the period July 1, 2012 to June 30, 2015 (refer to the background section of this report for more information). DHS' report noted that the audit was conducted in accordance with generally accepted government auditing standards (GAGAS), which provide a framework for conducting high quality audits. Fieldwork requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation.²⁹

Adequacy of Audit Procedures

To determine whether DAR performed audit procedures that were adequate and the conclusions reached were appropriate, we reviewed the following:

- Released audit report
- Audit documentation, including the following:
 - Audit programs³⁰ and other planning documents
 - Grant agreement with Real Alternatives
 - Information obtained during the execution of the audit, including invoices, correspondence, and agreements between Real Alternatives and service providers
 - GAGAS Performance Audit Checklist completed by DAR's auditors
- DAR's most recent peer review results³¹

We also reviewed the calculations made by DAR auditors that support the dollar amounts included in the audit findings and we assessed the extent of testing that DAR performed to support the report's conclusions.

Based on our audit procedures,³² we determined that DAR's audit procedures appear to be adequate to support that the conclusions reached by DAR auditors were appropriate. However,

²⁹ Government Auditing Standards, December 2011, GAO-12-331G, paragraph 1.04 through 1.05.

³⁰ Outlines the audit procedures to be performed.

³¹ For the period July 1, 2012 through June 30, 2013, DAR received a peer review rating of pass with deficiencies. The deficiencies included the lack of evidence of who reviewed work papers as well as failure to include views of responsible officials of the audited entity in the audit report.

³² As part of our audit procedures, we did not conduct an external peer review, and as such, we do not conclude on DAR's system of quality control in this report.

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as discussed in the next section, we identified areas where audit documentation should be improved.

Improvements to Audit Documentation

With regard to audit documentation, we identified three areas that should be improved:

1. DAR auditors did not document its assessment of audit risk.³³ Auditors must plan the audit to reduce audit risk to an appropriate level and document the planning of work necessary to address the audit objectives.³⁴ When we questioned DAR management regarding the lack of an audit risk assessment document, management responded that although the risk assessment was not documented separately, audit risk was considered when designing the audit program during the planning stages of the audit. Although audit procedures were performed to address the audit objectives, without documenting an audit risk assessment, DAR auditors could not demonstrate that audit risk was assessed as part of planning.
2. Certain audit documentation did not contain evidence as to who prepared and/or reviewed the documents. Based on our review of 70 documents, we found that
 - 12 documents (17 percent) did not contain evidence as to who prepared or reviewed the documents.
 - 26 documents (37 percent) did not contain evidence as to who reviewed the documents.
 - 32 documents (46 percent) contained evidence as to who prepared and reviewed the documents.

The DAR's GAGAS Performance Audit Checklist requires working papers³⁵ to contain the initials and date of the auditor.³⁶ Without the preparer's initials and date on the working papers, there was no evidence as to who prepared the documents or when the documents were prepared. Additionally, without evidence of supervisory review on the document, an independent auditor reviewing the documentation cannot be assured that

³³ Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. Government Auditing Standards, December 2011, GAO-12-331G, paragraph 6.05 through 6.07.

³⁴ Ibid.

³⁵ Working papers is a term that is synonymous with audit documentation. Professional auditing standards currently refer to documentation of auditors' work as audit documentation, but audit organizations often continue to use the term working papers, which was the term previously used in auditing standards.

³⁶ GAGAS Performance Audit Checklist, dated July 1, 2010, states, "Are all working papers completed? Working papers should include the . . . auditor initials [and] date . . ."

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the supervisor reviewed or agreed with the information/conclusion contained on the documents.

3. DAR auditors utilized an outdated GAGAS Performance Audit Checklist to verify that it was in compliance with GAGAS. Specifically, the checklist used referenced the July 2007 GAGAS revision, when the auditors should have used the checklist stemming from the 2011 GAGAS revision. Failure to use the correct GAGAS revision could result in the audit not being conducted in compliance with the most current GAGAS requirements and auditors not performing additional standards added to the 2011 GAGAS revision.

When we discussed these audit documentation issues with DAR management, the Director stated that DAR began using audit software in August 2016 (after the release of the Real Alternatives audit report) which will eliminate these issues in future audits. We did not, however, test or validate this statement during this audit.

Recommendations for Finding 2

We recommend that DHS' Division of Audit and Review:

1. Ensure compliance with all GAGAS audit standards when performing any audit under GAGAS.
2. Adequately document the assessment of audit risk.
3. Ensure that all audit documentation contains evidence of when and who prepared and reviewed (e.g., with their initials and date) each document prior to the issuance of an audit report.
4. Ensure that the performance audit checklist used during audits is current and reflects any revisions to GAGAS.

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Agency's Response and Auditors' Conclusions

We provided copies of our draft audit findings and related recommendations to the Department of Human Services (DHS) for its review. On the pages that follow, we included DHS' response in its entirety. Following the agency's response is our auditors' conclusions.

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Audit Response from the Department of Human Services



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF HUMAN SERVICES

AUG 31 2017

The Honorable Eugene A. DePasquale
Auditor General
Department of the Auditor General
229 Finance Building
Harrisburg, Pennsylvania 17120

Dear Auditor General DePasquale:

The Department of Human Services (DHS) is writing in response to the Auditor General's draft performance audit on the Pennsylvania Department of Human Services with Regard to Grant Number 4100060934 awarded to Real Alternatives (RA) for the period July 1, 2012 through June 30, 2017, dated August 14, 2017. We appreciate the Auditor General's (AG) prompt response to our request to audit RA and for the opportunity to respond to the findings in the draft audit report.

DHS agrees with the AG's recommendations for Finding 1 and, for the benefit of Pennsylvania residents, will seek to recover the funds collected by RA resulting from the 3% fee arrangement with its service providers. DHS agrees with the Department of the Auditor General and believes these funds were used for purposes not permitted by the grant agreement.

DHS agrees that the monitoring of the grant should be improved moving forward. Prior monitoring of RA's single audit report and other available documentation did not make apparent the 3% fee that was being withheld from RA's service providers' grant reimbursements. DHS has already developed a risk-based monitoring process for on-site monitoring of the Office of Social Programs (OSP) grantees. DHS will also include explicit language in future grant agreements with RA, or other vendors responsible for providing counseling, referral, and other specific services for alternatives to abortion, addressing the 3% fee arrangement, including identification of all agreements with its service providers and ensuring that all grant funds are used for the benefit of Pennsylvania residents.

DHS agrees that the Division of Audit and Review (DAR) performed adequate audit procedures and reached appropriate conclusions during its performance audit of RA, but disagrees with the AG's inference that audit documentation was not adequate as described in Finding 2.

DHS was in compliance with Generally Accepted Government Auditing Standards (GAGAS) regarding the documentation of audit risk and workpaper sign-offs.

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The Honorable Eugene A. DePasquale 2

DAR considered audit risk during audit planning and documented the audit planning. DAR performed a supervisory review and generally signed-off on the significant workpapers before the audit report was issued.

Regarding the GAGAS checklist, while it is unfortunate that the auditor used the old checklist, use of that checklist is not a GAGAS requirement; but rather a means for DAR auditors to ensure that the audits are performed in accordance with GAGAS.

Overall, the documentation issues identified are not GAGAS violations and did not impact the audit results. However, DHS has implemented new audit software which will result in more consistent documentation for future audits.

Thank you for the opportunity to respond to this draft report. Please contact Mr. David R. Bryan, Manager, Audit Resolution Section, Bureau of Financial Operations, at 717-783-7217, or via email at davbryan@pa.gov, if you have any questions regarding this matter.

Sincerely,



Teresa D. Miller
Acting Secretary

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Pennsylvania Department of Human Services

c: Mr. John M. Lori
Ms. Janet B. Ciccocioppo
Ms. Victoria S. Madden
Ms. Leigh Ann Weaver
Ms. Kimberly Georgetti
Mr. David Bryan

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Auditors' Conclusions to the Department of Human Services' Response

With regard to Finding 1, DHS concurs with our finding and recommendations. It indicated that it will seek to recover the funds collected by Real Alternatives resulting from the 3% fee arrangement with its service providers. DHS further stated that it has already developed a risk-based monitoring process for on-site monitoring of the Office of Social Programs grantees and will include explicit language in future grant agreements with Real Alternatives as recommended in the finding. We commend DHS for proactively addressing the finding and recommendations.

DHS, however, indicates that it does not concur with Finding 2 and its recommendations regarding inadequate documentation and stated that it was in compliance with GAGAS regarding the documentation of audit risk and work paper sign-offs.

Specifically, the response stated that the Division of Audit and Review (DAR) considered audit risk during audit planning and documented the audit planning. Although we found that the auditors did document audit planning, it did not document that it considered audit risk during that planning. Therefore, there is no evidence to support that audit risk was considered.

DHS responded that DAR performed a supervisory review and generally signed off on the significant work papers before the audit report was issued. The GAGAS Performance Audit Checklist utilized by DAR auditors states, "Are all working papers completed? Working papers should include the . . . auditor initials [and] date . . ." The checklist does not refer to only significant work papers. Therefore, we disagree that including sign-offs on only significant working papers is sufficient.

Finally, although DHS agreed that the DAR auditors utilized an outdated GAGAS Performance Audit Checklist, it indicated that the use of the checklist is not a GAGAS requirement, but rather a means for DAR auditors to ensure that the audits are performed in accordance with GAGAS. We agree that the use of the checklist is not a GAGAS requirement but, as DHS indicated in its response, it is a means to ensure that audits are performed in accordance with GAGAS. Failure to utilize an up-to-date checklist could result in the auditors not performing audit steps required to be in compliance with revised standards.

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Appendix A

Objectives, Scope, and Methodology

The Department of the Auditor General conducted this performance audit at the request of the Department of Human Services (DHS) with regard to Grant Number 4100060934, awarded to Real Alternatives, the organization that operates the statewide Alternative to Abortion Services Program. The DHS audit request followed Real Alternatives' refusal to allow DHS' auditors access to review the expenditure documentation related to a three percent (3%) "Program Development and Advancement Fee" that Real Alternatives withholds from its service providers.

We conducted this audit in accordance with applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.³⁷ 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.

Objectives

Our performance audit objectives were as follows:

1. Determine whether the audit procedures performed by DHS' Division of Audit and Review (DAR) for the audit of Grant Number 4100060934 released on April 25, 2016, were adequate and the conclusions reached appropriate. [See Finding 2]
2. Review the expenditures and expenditure documentation for the 3% fee that the grantee assesses its service providers and determine whether this fee is an appropriate use of funds in accordance with the grant agreement. [See Finding 1]

Scope

This audit report presents information for the period of July 1, 2012 through June 30, 2015, with updates through the report date.

DHS management is responsible for establishing and maintaining effective internal controls to provide reasonable assurances that DHS is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures.

³⁷ *Government Auditing Standards*, December 2011 revision, issued by the Comptroller General of the United States, United States Government Accountability Office, Washington D.C.

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In conducting our audit, we obtained an understanding of DHS' internal controls, including any system controls, if applicable, that we considered significant within the context of our audit objectives.

For those internal controls that we determined to be significant within the context of our objectives, we also assessed the effectiveness of the design and implementation of those controls as discussed in the *Methodology* section that follows. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

Methodology

To address our audit objectives, we performed the following:

- Obtained and reviewed DAR's audit report of Real Alternatives released on April 25, 2016, to obtain an understanding as to what audit procedures DAR auditors performed during their audit and what conclusions were reached.
- Obtained and reviewed Real Alternatives' initial response to DAR's audit report to review comments made by Real Alternatives' management concerning the 3% "Program Development and Advancement Fee."
- Obtained and reviewed the grant agreement (Grant Number 4100060934) between DHS and Real Alternatives for the period July 1, 2012, through June 30, 2017, to gain an understanding of the Real Alternatives responsibilities and deliverables.
- Obtained and reviewed DAR's most recent external peer review results.³⁸
- Interviewed staff involved in the audit of Real Alternatives, including DAR's Director and Acting Audit Manager to gain an understanding of the audit procedures DAR followed during their audit of Real Alternatives and why the audit was conducted.

³⁸ For the period July 1, 2012, through June 30, 2013, DAR received a peer review rating of pass with deficiencies. The deficiencies included lack of evidence of supervision (initials and dates documenting supervisory review) as well as failure to include views of responsible officials of the audited entity in the audit report.

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- Reviewed the following audit documentation included in DAR’s working papers:
 - Audit programs³⁹ and other planning documents, such as a memorandum documenting a brainstorming meeting held at the start of the audit.
 - Working papers prepared by DAR auditors that documented the audit work performed.
 - Information obtained during the execution of the audit through interviews with service providers’ staff and documentation including invoices, consumer sign-in forms, correspondence, and agreements between Real Alternatives and service providers.
 - GAGAS Performance Audit Checklist completed by DAR’s auditors.
- Interviewed the Director of DHS’ Office of Social Programs (OSP) and the Manager of DHS’ Audit Resolution Section to determine OSP’s role in monitoring the grant agreement with Real Alternatives.
- Obtained and reviewed examples of the monthly invoices and quarterly administrative reports that Real Alternatives submits to OSP.
- Reviewed the findings related to DHS’ lack of monitoring of Temporary Assistance to Needy Families program sub-recipients, which includes Real Alternatives, contained in the Commonwealth’s Single Audit reports for state fiscal years ending June 30, 2013, through June 30, 2016.
- Reviewed the opinion of the Pennsylvania Commonwealth Court concerning the legal proceedings Real Alternatives initiated against our Department to block us from pursuing the documentation related to the 3% “Program Development and Advancement Fee.”

Data Reliability

For data that we obtain from agencies, and which materially affect the findings, conclusions, or recommendations that we present, *Government Auditing Standards* requires us to assess the completeness and accuracy of computer-processed data.⁴⁰

No computer-processed data from DHS was used in presenting the results of this audit. As such, we did not perform data reliability assessments.

³⁹ Outlines the audit procedures to the performed.

⁴⁰ See United States Government Accountability Office, *Assessing the Reliability of Computer Processed Data*, July 2009.

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Appendix B

Distribution List

This report was distributed to the following Commonwealth officials:

The Honorable Tom Wolf
Governor

The Honorable Teresa Miller
Acting Secretary
Department of Human Services

Mr. Brendan Harris
Executive Deputy Secretary
Department of Human Services

The Honorable Randy Albright
Secretary of the Budget
Office of the Budget

The Honorable Joseph M. Torsella
State Treasurer
Pennsylvania Treasury Department

The Honorable Josh Shapiro
Attorney General
Office of the Attorney General

The Honorable Sharon P. Minnich
Secretary of Administration
Office of Administration

The Honorable Gene DiGirolamo
Majority Chair
House Human Services Committee

The Honorable Angel Cruz
Democratic Chair
House Human Services Committee

The Honorable Lisa Baker
Majority Chair
Senate Health and Human Services
Committee

The Honorable Judy Schwank
Democratic Chair
Senate Health and Human Services
Committee

Mr. Brian Lyman, CPA
Director
Bureau of Audits
Office of Comptroller Operations

Ms. Mary Spila
Collections/Cataloging
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