



**Performance Audit**

***Gino J. Merli Veterans Center***

**Commonwealth of Pennsylvania  
Department of Military and Veterans Affairs**

**September 2012**

September 7, 2012

Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Dear Governor Corbett:

This report contains the results of a performance audit of the Gino J. Merli Veterans Center of the Department of Military and Veterans Affairs from July 1, 2007, to December 17, 2010, unless indicated otherwise. We conducted our audit under authority provided in Section 402 of The Fiscal Code and in accordance with generally accepted government auditing standards.

The report contains six audit objectives along with an audit scope and methodology for each objective. Where appropriate, the audit report contains findings, conclusions, and recommendations. The report addresses a repeat finding that Gino J. Merli Veterans Center management did not properly bill for all Medicare Part B revenue. We also report that the Center did not establish adequate policies and procedures needed to track and account for all maintenance work orders and the Center did not monitor maintenance operations effectively.

The contents of the report were discussed with the officials of the Gino J. Merli Veterans Center and all comments are reflected in the report.

Sincerely,

**JACK WAGNER**  
Auditor General

**Gino J. Merli Veterans Center  
Department of Military and Veterans Affairs**

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**Background  
Information**

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**Background  
Information**

*History, mission,  
and operating  
statistics*

**Department of Military and Veterans Affairs**

The Department of Military and Veterans Affairs, also referred to in this report as the Department, administers a wide variety of services and benefit programs for veterans, their dependents, and their spouses throughout the Commonwealth of Pennsylvania. The Pennsylvania Military Code delegates management responsibility of veterans' facilities to the Adjutant General of the Department of Military and Veterans Affairs.<sup>1</sup> Created by the Pennsylvania General Assembly on April 11, 1973, the Department is one of Pennsylvania's largest employers, with more than 21,000 military and civilian personnel in more than 80 communities statewide.

The Department of Military and Veterans Affairs is headquartered at Fort Indiantown Gap in Annville, Lebanon County. Fort Indiantown Gap features more than 17,000 acres and 140 training areas and facilities for year-round training for military forces, law enforcement agents, and civilians from across the nation and is one of the busiest National Guard Training Centers in the country.

The Department of Military and Veterans Affairs has a dual mission:

*To provide quality service to the Commonwealth's veterans and their families, and to oversee and support the members of the Pennsylvania National Guard.<sup>2</sup>*

With respect to Pennsylvania's veterans, the Department fulfills its mission by providing resources and assistance to Pennsylvania's one million veterans and their families and by providing quality care for aging and disabled veterans.

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<sup>1</sup> Military Affairs, 51 Pa. C.S.A. § 902 (10).

<sup>2</sup> [http://www.dmva.state.pa.us/portal/server.pt/community/dmva\\_home/5902](http://www.dmva.state.pa.us/portal/server.pt/community/dmva_home/5902), accessed July 11, 2011, verified May 15, 2012.

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**State Veterans Home System**

Pennsylvania offers its veterans six extended care facilities throughout the Commonwealth. The level of care provided includes personal care, skilled nursing care, domiciliary care, and dementia care to veterans who served in the Armed Forces of the United States or in the Pennsylvania Military Forces and who were released from service under honorable conditions. As of June 30, 2011, the Department operated six state veterans' facilities:

Delaware Valley Veterans Home in Philadelphia  
Hollidaysburg Veterans Home in Hollidaysburg  
Gino J. Merli Veterans Center in Scranton  
Pennsylvania Soldiers' and Sailors' Home in Erie  
Southeastern Veterans Center in Spring City  
Southwestern Veterans Center in Pittsburgh

**Gino J. Merli Veterans Center**

The Gino J. Merli Veterans Center, also referred to in this report as the Center, is located in the city of Scranton and officially opened in January 1994, at the site of the former Scranton State General Hospital. The Gino J. Merli Veterans Center was originally called the Northeastern Veterans Center. In July of 2002, the facility was renamed the Gino J. Merli Veterans Center. The facility provides nursing, dementia, and personal care services to approximately 200 residents.<sup>3</sup>

The mission of the Gino J. Merli Veterans Center is as follows:

*The Gino J. Merli Veterans Center will serve the veterans and spouses of veterans of the Commonwealth of Pennsylvania providing exemplary care using the most effective, competent and professional methods available and will maintain a "quality of life" approach in all*

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<sup>3</sup>[http://www.portal.state.pa.us/portal/server.pt/community/gino\\_j\\_merli\\_veterans%27\\_center/11381/gmvc\\_description/576514](http://www.portal.state.pa.us/portal/server.pt/community/gino_j_merli_veterans%27_center/11381/gmvc_description/576514), accessed July 11, 2011, verified May 15, 2012.

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*operations that meet or exceed all regulatory agency requirements and reflect the standards of excellence established by the Department of Military and Veterans Affairs.<sup>4</sup>*

In addition to conducting its general operations, the Gino J. Merli Veterans Center is responsible for the maintenance and accountability of residents' personal income and welfare. The Gino J. Merli Veterans Center administers a Members Fund<sup>5</sup> as a service to members who voluntarily use the facility as a depository for their personal funds. In addition, a Welfare Fund<sup>6</sup> provides entertainment and craft activities from donations and interest earnings.

The following schedule presents selected unaudited Gino J. Merli Veterans Center operating data for the years ended June 30, 2008, 2009, 2010, and 2011.

	<b>Using Rounding</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Operating expenditures<sup>7</sup></b>				
State	\$16,259,084	\$14,239,598	\$13,615,401	\$14,233,120
Federal	<u>3,884,000</u>	<u>5,762,936</u>	<u>7,046,000</u>	<u>7,686,184</u>
<b>Total operating expenditures</b>	<u>\$20,143,084</u>	<u>\$20,002,534</u>	<u>\$20,661,401</u>	<u>\$21,919,304</u>
Employee complement positions at year-end	297	296	286	296
Resident capacity at year-end				
Dementia/Skilled nursing care unit	184	184	184	184
Personal care unit	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>
Total	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

<sup>4</sup> Gino J. Merli Veterans Center Mission Statement, provided by facility management in July 2010.

<sup>5</sup> Department of Military and Veterans Affairs, "Handbook of Procedures for Accounting" Chapter IV – Members Fund dated January 1, 2001.

<sup>6</sup> Department of Military and Veterans Affairs, "Handbook of Procedures for Accounting" Chapter V – Welfare Fund dated January 1, 2001.

<sup>7</sup> Operating expenditures were recorded net of fixed assets, an amount that would normally be recovered as part of depreciation. In addition, regional level and indirect charges were not allocated to the totals reported here.

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	Using Rounding			
	2008	2009	2010	2011
Available resident days of care for the year <sup>8</sup>				
Dementia/Skilled nursing care unit	67,344	67,160	67,160	67,160
Personal care unit	<u>5,856</u>	<u>5,840</u>	<u>5,840</u>	<u>5,840</u>
Total	<u>73,200</u>	<u>73,000</u>	<u>73,000</u>	<u>73,000</u>
Actual days of care				
Dementia/Skilled nursing care unit	65,870	65,644	62,953	61,836
Personal care unit	<u>5,618</u>	<u>5,546</u>	<u>5,487</u>	<u>5,521</u>
Total	<u>71,488</u>	<u>71,190</u>	<u>68,440</u>	<u>67,357</u>
Average Daily Census				
Dementia/Skilled nursing care unit	180	180	172	169
Personal care unit	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
Total	<u>195</u>	<u>195</u>	<u>187</u>	<u>184</u>
Percentage of days utilized <sup>9</sup>				
Dementia/Skilled nursing care unit	97.8%	97.7%	93.7%	92.1%
Personal care unit	95.9%	95.0%	94.0%	94.5%
Average resident cost, per resident, per day <sup>10</sup>	\$282	\$281	\$302	\$325
Average resident cost, per resident, per year <sup>11</sup>	\$103,212	\$102,565	\$110,230	\$118,625

<sup>8</sup> The available resident days of care for the year figure was calculated by multiplying the resident capacity at year-end by the number of days in the year.

<sup>9</sup> Percentage of days utilized was calculated by dividing the actual resident days of care by the available resident days of care.

<sup>10</sup> Average resident cost per resident per day was calculated by dividing the total operating expenditures by the combined actual beds days of care.

<sup>11</sup> Average resident cost per resident per year was calculated by multiplying the daily average cost per resident by the number of calendar days in the year.



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**Pennsylvania Department of Health Licensure**

The Pennsylvania Department of Health, Division of Nursing Care Facilities is responsible for the licensing and oversight of Pennsylvania's nursing care facilities, which includes the Gino J. Merli Veterans Center. The Department of Health conducts inspections, which include licensure and certification surveys and complaint investigations.<sup>12</sup> The Department of Health also inspects nursing homes every twelve to fifteen months. If the facility has a history of serious problems or complaints are received, it may be inspected more frequently.<sup>13</sup>

The Department of Health surveys nursing homes to make sure they are following state licensure regulations and federal regulations. The federal regulations apply when nursing homes choose to receive reimbursement for their residents' stay from the Medicare and/or Medicaid Programs. When deficiencies are identified during a nursing home survey, the nursing home must submit, in writing, their proposed solutions to the identified problems. The Department conducts follow-up inspections to determine whether the deficiencies were corrected.<sup>14</sup>

We reviewed the results of the Department of Health's inspection reports of the Gino J. Merli Veterans Center that were issued from July 13, 2007, through April 23, 2010. We obtained and reviewed information regarding the plans of correction that were prepared by the Center in response to the deficiencies that were cited in the Department of Health's inspection reports.

Based on our interviews with Center staff, on-site observations, and our review of reports and related documentation, we found that Center management implemented the recommendations listed in the Department of Health's inspection reports and also developed a plan of correction to correspond to each deficiency that was cited in the inspection reports.

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<sup>12</sup> [http://www.portal.health.state.pa.us/portal/server.pt/community/nursing\\_home\\_care/14152](http://www.portal.health.state.pa.us/portal/server.pt/community/nursing_home_care/14152), viewed on April 8, 2010, verified on May 15, 2012.

<sup>13</sup> <http://app2.health.state.pa.us/commonpoc/content/publicweb/important-info.asp>, viewed on March 25, 2010, verified on May 15, 2012.

<sup>14</sup> Ibid.

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**Objectives,  
Scope, and  
Methodology**

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**Objectives,  
Scope, and  
Methodology**

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.

Our performance audit of the Gino J. Merli Veterans Center had six objectives. We selected our audit objectives from the following areas: Medicare Part B revenue, the Welfare Fund, the Members Fund, maintenance work orders, contracts, and employee pay incentives. The specific audit objectives were as follows:

- One To determine if Gino J. Merli Veterans Center management was maximizing Medicare Part B revenue. (Finding 1)
- Two To evaluate management controls over receipts and disbursements in the Gino J. Merli Veterans Center's Welfare Fund. (Finding 2)
- Three To evaluate management controls over receipts and disbursements in the Gino J. Merli Veterans Center's Member's Fund. (Finding 3)
- Four To determine if Gino Merli Veterans Center officials managed their maintenance work order system effectively. (Finding 4)
- Five To determine if Gino Merli Veteran's Center management complied with applicable Commonwealth policies and procedures regarding procurement and also determine if the Center adequately monitored contracts. (Finding 5)
- Six To determine the propriety of the use of pay incentives for employees. (Finding 6)

Unless indicated otherwise, the scope of the audit was from July 1, 2007, to December 17, 2010.

To accomplish our objectives, we obtained and reviewed records and analyzed pertinent policies, agreements, and guidelines of the

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Scope, and  
Methodology**

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Commonwealth and the Department of Military and Veterans Affairs. In the course of our audit work, we interviewed various facility management and staff. The audit results section of this report contains the specific inquiries, observations, tests, and analyses conducted for each audit objective.

We also performed inquiries and tests as part of, or in conjunction with, our current audit to determine the status of the implementation of the recommendations made during our prior audit related to Medicare Part B revenue, overtime pay calculations, and the certification of resident abuse investigators.

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**Audit Results**

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**Audit Results**

In the pages that follow, we have organized our audit results into six sections, one for each objective. Each of the six sections is organized as follows:

- Statement of the objective
- Relevant policies and procedures
- Audit scope in terms of period covered, types of transactions reviewed, and other parameters that define the limits of our audit, and the methodologies used to gather sufficient evidence to meet the objective.
- Finding(s) and conclusion(s), if applicable
- Recommendation(s), where applicable
- Response by Gino J. Merli Veterans Center management, if applicable

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**Audit Results:  
Medicare Part B**

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**Audit Results  
for  
Objective  
One**

**The objective**

Objective one for our performance audit was to determine if Gino J. Merli Veterans Center management was maximizing Medicare Part B revenue.

**Relevant policies and procedures**

*Medicare Part B*

Gino J. Merli Veterans Center residents who receive Social Security, Railroad Retirement or similar retirement benefits, and/or disability payments may be eligible to participate in the Medicare Part B insurance program administered by the Centers for Medicare and Medicaid Services (Medicare).<sup>15</sup>

Gino J. Merli Veterans Center management can seek reimbursement for each eligible Medicare Part B resident who receives services performed by its professional medical staff.<sup>16</sup> The services must qualify for reimbursement under the Medicare Part B insurance program. After delivering services to an eligible resident, the Center's medical staff records the visit on the resident's medical chart and documents each billable procedure on a physician service record form (encounter form). The Center's medical staff then collects and forwards the encounter forms to the Center's revenue office. Finally, the revenue office electronically submits reimbursement claims for the eligible procedures to the Centers for Medicare and Medicaid Services.<sup>17</sup>

**Scope and methodologies to meet our objective**

To accomplish this objective, we reviewed the Medicare Part B policies and procedures of the Gino J. Merli Veterans Center and of the Centers for Medicare and Medicaid Services.

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<sup>15</sup> Medicare A/B Reference Manual: Chapter 5 – Patient Eligibility. Accessed: <https://www.novitas-solutions.com/refman/chapter-5.html>. Viewed: April 30, 2010, verified May 17, 2012.

<sup>16</sup> LCD L27496 – Evaluation and Management Services Provided in a Nursing Facility. Accessed: <https://www.novitas-solutions.com/policy/mac-ab/127496-r5.html>. viewed: April 30, 2010, verified May 17, 2012.

<sup>17</sup> Gino J. Merli Veterans Center Medical Records Policies and Procedures, "Medicare Part B," Issued March 2001 (Revised April 2010).

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**Audit Results:  
Medicare Part B**

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We interviewed appropriate Gino J. Merli Veterans Center personnel involved in the Medicare Part B billing process.

We obtained a listing of Medicare Part B eligible residents for the months of June 2008 and June 2009 and randomly selected 34 of 170 residents to perform detailed testing. Our detailed testing consisted of the following:

- Obtaining all encounter forms for each selected resident.
- Verifying that Medicare Part B billable procedures recorded on each selected resident's medical chart were documented on encounter forms and were submitted to the Centers for Medicare and Medicaid Services for reimbursement.
- Ensuring that each eligible Medicare Part B reimbursement for the selected residents was received by reviewing the Centers for Medicare and Medicaid Services' remittance notices, which provide a detailed list of residents' names, encounter dates, and amount of reimbursement received by the Gino J. Merli Veterans Center for each resident.

Finally, we obtained listings of residents and Medicare submitted claims for the month of March 2010 to ensure that the revenue office billed Medicare for each of the eligible residents' encounters during that month.

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**Finding 1**

**The Gino J. Merli Veterans Center lacked management controls over Medicare Part B revenue resulting in \$961 in uncollected revenue.**

Our audit work found that the Center did not have adequate management controls over Medicare Part B revenues which impacted the Center's ability to maximize Medicare Part B revenues. Specifically, we reviewed 68 medical charts, one medical chart for each of the 34 selected residents from the months of June 2008 and June 2009, and noted the following issues:

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**Audit Results:  
Medicare Part B**

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**Three encounter forms were not processed.** The medical staff failed to forward three encounter forms to the Center's revenue office. As a result, the revenue office did not include the services recorded on these forms on a billing report which was then submitted to the Centers for Medicare and Medicaid Services for reimbursement. This omission resulted in lost revenue of \$175.

**Incidental encounters were not documented on encounter forms.** Six eligible incidental encounters were not documented on encounter forms and therefore not submitted for reimbursement resulting in \$229 of missed billings. The reimbursable charges for the six procedures omitted from billings ranged from \$36.69 to \$38.92.

When we questioned the Center's facility reimbursement program administrator about why the incidental encounters were not documented, we were told that the Center was not aware that incidental visits were eligible for reimbursement. The Center's facility management believed that only the required monthly doctor visits could be submitted to Medicare for reimbursement each month. However, when we interviewed the Department of Military and Veterans Affairs' facility reimbursement program administrator, we learned that incidental encounters are eligible for billing according to Section 1- Medicare and Medicaid Requirements for Long Term Care Facilities.<sup>18</sup>

**Outstanding Collections.** The Center's management never received reimbursement for five billable procedures that were documented on encounter forms and submitted to Medicare for reimbursement. We found that the Center had no system in place to reconcile Medicare Part B submissions to actual reimbursements. As a result, management was not aware that they had an outstanding balance of \$291 from Medicare Part B.

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<sup>18</sup> §483.40 Physician services

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**Audit Results:**  
**Medicare Part B**

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**March 2010 Medicare Part B billings were not complete.** We compared services provided to a listing of residents eligible for Medicare Part B reimbursements to the residents listed on the billing report for the month of March 2012 and found that the report did not list four residents who received services that were eligible for reimbursement.

Our discussion with Center management revealed that Medicare eligible procedures were provided to the four residents and properly documented on encounter forms. However, the encounter forms were never delivered to the revenue office by medical records staff. As a result, the Center failed to include eligible services for these four residents on the billing report, and therefore was not reimbursed \$266. According to the official U.S. Government site for Medicare,<sup>19</sup> facilities have 12 months or one full calendar year after the date when the services were provided to bill for eligible procedures. Therefore, after we brought this omission to management's attention, the Center was able to bill for the \$266 of previously missed billings.

Our audit work for the months we tested revealed that the Center did not collect almost \$1,000 in Medicare Part B revenues. The Center's management was not aware of any of the above noted deficiencies, until we brought those deficiencies to their attention. It's important to note that our work only covered a few months during the audit period and the total uncollected revenue could be much higher if the billings for the entire audit period were reviewed. Therefore, to ensure that the Center maximizes Medicare Part B revenues, we make the following recommendation:

**Recommendations  
for Finding 1**

1. Gino J. Merli Veterans Center management should implement a system for tracking all billings and collections. The system should include ensuring all eligible procedures are documented on an encounter form and that all encounter forms are forwarded to the Center's revenue office for submission to the Centers for Medicare and Medicaid Services. The Center should also follow up on all outstanding reimbursement claims filed with the Centers for Medicare and Medicaid Services.

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<sup>19</sup> [www.Medicare.gov](http://www.Medicare.gov)



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**Audit Results:  
Medicare Part B**

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***Comments from Gino J. Merli Veterans Center management:***

*The Gino J. Merli Veterans' Center (GMVC) physician will document all eligible medical procedures on the physician encounter form. The physician will forward the encounter forms daily to the Medical Record Office where the Medical Records Director will code the medical diagnosis on each of the encounter forms which is required for billing.*

*Medical Records staff will match all encounter forms received to a list containing facility residents. Medical records staff will follow up with the facility physician regarding all residents for which an encounter form was not received.*

*Medical Records staff will report to the Commandant monthly, a list of residents who were not seen by the facility's physician and the reason. This report will be shared at the monthly QA meeting.*

*All Physician Encounter Forms will be forwarded to the Revenue Department on a daily basis. GMVC Revenue staff will reconcile Medicare billing and remittances using the electronic medical record software, ULTRACare's billing log. The billing log details the resident name, date of service, description of procedure reimbursable charge as well as payments received.*

*Rejected claims will be analyzed and re-billed in a timely manner if appropriate. Adjustments will be made to the resident account as appropriate. This report will also include annotations concerning billing errors, as well as any other appropriate comments regarding the payment status of any billable service.*

*This report will be reviewed on a monthly basis by the Business Manager with the Facility Reimbursement Officer.*

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**Audit Results:  
Welfare Fund**

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**Audit Results  
for  
Objective  
Two**

*Welfare Fund*

**The objective**

Objective two for our performance audit was to evaluate management controls over receipts and disbursements in the Welfare Fund.

**Relevant policies**

Gino J. Merli Veterans Center established a Welfare Fund for the health, recreation, and benefit of its residents. The Welfare Fund consists of non-appropriated funds generated from vending machines, donations, and interest earnings.

The Department has established operating procedures<sup>20</sup> to ensure that the Welfare Fund is sufficiently controlled and used exclusively for the benefit of Gino J. Merli Veterans Center residents.

**Scope and methodologies to meet our objective**

To accomplish this objective, we completed the following procedures:

- We reviewed Department of Military and Veterans Affairs' policies and procedures for the Welfare Fund.
- We interviewed the Center's director of accounting.
- We reviewed Welfare Fund financial statements for June 30, 2008, June 30, 2009, and June 30, 2010. We also verified the balance sheet account balances at June 30, 2010, by examining supporting documentation.
- We reviewed 28 of 739 Welfare Fund disbursements made between July 1, 2009, through June 30, 2010, to ensure the disbursements were properly authorized, and to ensure the Center maintained documentation supporting the disbursement.

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<sup>20</sup> Department of Military and Veterans Affairs, "Handbook of Procedures for Accounting" Chapter V – Welfare Fund dated January 1, 2001.

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Welfare Fund**

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- We reviewed 27 of 345 Welfare Fund receipt transactions from July 1, 2009, through June 30, 2010, to ensure that the transactions were properly receipted, recorded, and deposited.
  - We reviewed documentation supporting all donations to the Welfare Fund that were \$500 or more for the period from July 1, 2007, through June 30, 2009.
  - We reviewed meeting minutes of the Welfare Fund Advisory Council from July 2009 through June 2010.
  - Finally, we performed an unannounced count of the Welfare Fund petty cash to ensure that the total receipts and cash on hand equaled the specified amount of the petty cash fund.

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**Finding 2**

**The Gino J. Merli Veterans Center maintained effective internal controls and complied with Department of Military and Veterans Affairs' policies and procedures in administering the Welfare Fund.**

The Gino J. Merli Veterans Center maintained an interest bearing checking account and utilized an automated computer software application to manage the activities of the welfare fund in accordance with Department of Military and Veterans Affairs' policies and procedures. Any excess funds were invested in a municipal account earning a higher rate of return than the checking account.

Our review found bank reconciliations and financial statements, such as the balance sheet, income statement, and the fixed assets ledger were accurately and timely completed by the accounting director and reviewed by the business manager.

We found that the disbursement transactions that we tested were substantiated by supporting documentation, such as online banking internet transfer reports and request for expenditure forms. In addition, these disbursements were properly authorized and were made for the benefit of the residents.

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Welfare Fund**

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We also found that the Center properly accounted for the 27 receipt transactions that we tested. From July 1, 2007, through June 30, 2009, over \$63,500 was deposited into the Welfare Fund. We found that donation forms were properly completed by the Center for all donations and acknowledgment letters accompanied by receipts were sent to all donors.

Our review of Welfare Fund advisory council meeting minutes from July 2009 through June 2010 found that the council met every month to assist in governing the activities of the welfare fund.

Finally, through our unannounced petty cash count we verified that cash maintained in this account was being properly accounted for by the Center.

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**Audit Results:  
Members Fund**

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**Audit Results  
for  
Objective  
Three**

**The objective**

Objective three for our performance audit was to evaluate management controls over receipts and disbursements in the Gino J. Merli Veterans Center's Member's Fund.

*Members Fund*

**Relevant policies and procedures**

Gino J. Merli Veterans Center maintains and administers the Members Fund as a service to its residents. The Members Fund provides residents with a convenient method of providing prompt access to their cash, if necessary. Participation in the Members Fund is voluntary.

The Department of Military and Veterans Affairs has established operating guidelines<sup>21</sup> for maintaining and administering the Members Fund. These guidelines require the Gino J. Merli Veterans Center to maintain an account balance for each member, allocate monthly interest earnings to each eligible member, and complete other fiduciary duties.

**Scope and methodologies to meet our objective**

To accomplish this objective, we performed the following procedures:

- We reviewed Department of Military and Veterans Affairs' policies and procedures for the Members Fund.
- We interviewed the Center's director of accounting.
- We reviewed the financial statements for the Members Fund, which included the balance sheet and statement of income and expenditures at June 30, 2010.
- We verified the Members Fund summary reports, which included total balances for all residents' accounts, for the months of January 2010 and June 2010.

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<sup>21</sup> Department of Military and Veterans Affairs, "Handbook of Procedures for Accounting" Chapter IV – Members Fund dated January 1, 2001.

**Gino J. Merli Veterans Center  
Department of Military and Veterans Affairs**

**Audit Results:  
Members Fund**

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- We obtained an understanding of the Center's bank statement reconciliation procedures and then reviewed the bank statements and Center's reconciliations for June 30 and July 31, 2010.
- We also reviewed cash receipt and cash disbursement activities. We selected a sample of 20 of 191 member's accounts from the June 2010 Members Fund summary reports and conducted the following tests:
  - Reviewed the mathematical accuracy of account balances of individual member's accounts within the Members Fund for the period January 1, 2010, through June 30, 2010.
  - Reviewed two disbursement transactions for each member during the period January 1, 2010, through June 30, 2010, to ensure that supporting documentation existed to validate the disbursements.
  - Reviewed a receipt transaction for each member to ensure that the monies were properly recorded and deposited into the checking account during the period January 1, 2010, to June 30, 2010.
  - Examined Members Fund deposit receipts in June 2010 to ensure that all monies collected were deposited into the Fund. We then verified that the deposits were properly posted to all of the applicable member's accounts.
- We also verified that all monies included in the Members Fund were maintained in an interest bearing account and excess funds were transferred to a higher interest depository account.
- Finally, we performed an unannounced Members Fund count of the petty cash to ensure that the total receipts and cash on hand equaled the specified amount of the petty cash fund.

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**Finding 3**

**The Gino J. Merli Veterans Center maintained effective internal controls and complied with Department of Military and Veterans Affairs' policies and procedures in administering the Members Fund.**

The Gino J. Merli Veterans Center processed Members Fund transactions in accordance with Department of Military and Veterans Affairs policy. The facility maintained separate interest bearing checking accounts for both the personal care unit and nursing residents' member's funds. Excess balances were transferred to depositories that earn higher interest rates for the benefit of the residents.

Financial statements for the fiscal year ended June 30, 2010, were substantiated by supporting documents. Bank reconciliations for both the personal care unit and nursing residents' checking accounts were performed accurately and timely by the accounting director and reviewed and approved by the business manager.

We confirmed that the balances of the Members Fund summary reports for January 2010 and June 2010, as well as the balances of the member's accounts within the Members Fund for the period January 2010 through June 2010, were correct.

Disbursement transactions that we reviewed were supported by the approved withdrawal forms. Also, receipts posted to the members accounts for cash and checks were properly recorded on a Members Fund deposit receipt form and deposited into the bank. Electronic deposits were supported by online banking internet transfer reports, interest distribution reports, and game winnings spreadsheets. Also, we verified the propriety of a deposit reported on the bank statement by examining the bank deposit ticket and receipt. We also verified that the funds from the deposit were properly posted to the members' accounts by reviewing Members Fund ledgers.

The Center's accounting department maintained two petty cash funds for the Members Fund. One petty cash fund, valued at \$1,000, is designated for the nursing residents and the second petty cash fund, valued at \$600, is designated for the personal care unit residents. Through our unannounced petty cash counts we verified that cash maintained in these accounts was being properly accounted for by the Center.

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Maintenance  
Work Orders**

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**Audit Results  
for  
Objective  
Four**

*Maintenance Work  
Orders*

**The objective**

Objective four for our performance audit was to determine if Gino Merli Veterans Center management managed their maintenance work order system effectively.

**Relevant policies**

Gino J. Merli Veterans Center's maintenance department is responsible for overseeing all repairs and preventive maintenance of all facility's assets, buildings and grounds. Although the Center did not have written policies and procedures addressing the specifics of processing and completing work orders, we relied on auditor's professional judgment to determine if the Center efficiently and effectively managed the maintenance work order system.

**Scope and methodologies to meet our objective**

To accomplish this objective, we interviewed the Center's facility maintenance manager.

We reviewed over 4,000 work orders issued during the period of January 1, 2009, through December 31, 2009, to determine if labor, materials, and supervisor approvals were recorded on the orders.

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**Finding 4**

**Gino J. Merli Veterans Center management did not effectively monitor maintenance operations.**

During the 2009 calendar year, the Center's employees entered work order requests on their individual computers through a multipurpose software application and then sent the maintenance work orders to a printer located in the maintenance department. The work orders were then printed and assigned to employees of the maintenance department by management.

The Center did not keep a master listing of individual work orders that would include: a description of the work, the employee for which the work was assigned, the priority level of the work, the start and completion date



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Maintenance  
Work Orders**

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of the work, and the materials, labor hours, and costs associated with the work order. Instead, the maintenance department management filed work orders haphazardly in a storage box. As a result, management was unable to account for all work orders filed during our audit period.

Our review of all 4,090 maintenance work orders for documentation of labor, materials and supervisor approvals found the following issues:

- Supervisors did not document approval for 1,399 of the 4,090 examined work orders.
- None of the 4,090 work orders examined included labor hours and costs.
- A total of 3,884 of the 4,090 work orders did not identify if any materials were needed to complete the work orders.

These deficiencies occurred because the Center's failed to require its maintenance employees to properly document the time and materials needed to complete each specific work order. The standard work order form contained text boxes for time, materials, and supervisory approval, yet none of the information was consistently recorded on the forms by the employees. The maintenance department also failed to properly file and store completed work orders. Further, the work orders were not sequentially numbered. This deficiency left us unable to determine whether the 4,090 work orders provided by the Center were the total population for the audit period.

Finally, the Center did not have policies and procedures for managing maintenance work orders. Detailed procedures that required maintenance employees to list the use and cost of parts and supplies would have aided management in evaluating the propriety of materials and labor used on completed work orders.

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Work Orders**

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To improve the Center's ability to adequately manage the work order system and to assist management in evaluating the propriety of the materials and labor used to complete a work order, we make the following recommendations:

**Recommendations  
for Finding 4**

2. Gino J. Merli Veterans Center management should establish and implement policies and procedures for a maintenance work order system.
3. The policies and procedures should require, at a minimum, that each work order:
  - Be assigned a sequential number
  - Include a description of the work
  - Record the employee the work was assigned to
  - Assign a priority level for the work
  - Include the start date, and completion dates of the work
  - Include the materials and costs, and labor hours
  - Require supervisor approvals indicating satisfaction with the quality and timeliness of the work

***Comments from Gino J. Merli Veterans Center management:***

*The agency is in the process of implementing a Work Order System at GMVC scheduled for September 2012. The work order system will contain the following:*

- *Work Orders will be assigned a sequential number*
- *Work Orders will include a description of work that is required*
- *The Work Order System will provide the functionality for maintenance employees to have work center numbers established and their time is applied to the work orders*
- *All work orders are assigned a priority*
- *The work order will have a start date and they are closed when work is completed so there are reports to show the completion*

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- *Business Warehouse reports will show labor costs and materials costs*
  - *The Facility Maintenance Manager will review system reports on a monthly basis to ensure work orders are being addressed in a timely manner.*

**Gino J. Merli Veterans Center  
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Contracts**

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**Audit Results  
for  
Objective  
Five**

*Contracts*

**The objective**

Objective five for our performance audit was to determine if Gino Merli Veteran’s Center management complied with applicable Commonwealth policies and procedures for procurement and also determine if the Center adequately monitored contracts.

**Relevant policies**

Commonwealth facilities frequently contract with vendors to provide essential services required for the fulfillment of their mission. Full-time positions may not be warranted or Center staff may not have the expertise to provide the services in-house. As a result, contracts provide the Center with a more economical and efficient means of providing the service.

The Commonwealth provides a standard approach and establishes policy and procedures for the procurement of supplies, services, and construction, under the authority of Act 57 of 1998.<sup>22</sup> In addition, the Commonwealth procurement policy requires that a contract monitor be assigned to each contract to ensure that the contractor provides goods and/or services in accordance with the provisions of the contract.<sup>23</sup>

**Scope and methodologies to meet our objective**

In order to accomplish this objective, we performed the following procedures:

We reviewed the Commonwealth’s policies and procedures for procurement of services and monitoring of those services.

<sup>22</sup> Commonwealth of Pennsylvania’s online Field Procurement Handbook, M215.3, Part I, “Policies and Guidelines” Chapter 7, “Thresholds and Delegations.” [www.oa.state.pa.us/portal/.../716](http://www.oa.state.pa.us/portal/.../716), viewed May 3, 2010. Website changed to new address, [http://www.portal.state.pa.us/portal/server.pt/community/procurement\\_handbook/14304](http://www.portal.state.pa.us/portal/server.pt/community/procurement_handbook/14304) viewed February 7, 2012, verified May 25, 2012.

<sup>23</sup> Commonwealth of Pennsylvania’s online Field Procurement Handbook, M215.3, Part I, “Policies and Guidelines” Chapter 54, “Contact Person Responsibilities,” [www.oa.state.pa.us/portal/.../716](http://www.oa.state.pa.us/portal/.../716), viewed May 3, 2010. Website changed to [http://www.portal.state.pa.us/portal/server.pt/community/procurement\\_handbook/14304](http://www.portal.state.pa.us/portal/server.pt/community/procurement_handbook/14304) viewed February 7, 2012, verified May 25, 2012.

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**Audit Results:  
Contracts**

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We interviewed the Center's administrative officer and the director of accounting.

We selected 10 of 46 contracts that the Center entered into during the period July 1, 2007, to June 30, 2009, and reviewed procurement related documentation to determine if the contracts were procured in accordance with policies.

We also reviewed 31 invoices related to the 10 contracts, and verified that the charges recorded on the invoices were mathematically accurate and agreed with contract specifications, and that the invoices were approved for payment by contract monitors.

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**Finding 5**

**Gino J. Merli Veterans Center management complied with applicable Commonwealth policies and procedures for contract selection and monitoring.**

Our review of contracts and related procurement documentation provided by the Center supported the proper procurement of all 10 contracts. The Center's management complied with the applicable Commonwealth procurement requirements we tested. The 10 contracts that we reviewed consisted of six contracts that were awarded through a competitive bid process. Two contracts for cable TV and chaplaincy services were awarded through sole source contracting methods. The final two contracts that we reviewed were for annual maintenance calls, one for electrical repairs and another for the service of an emergency generator, both of which were for dollar amounts below the cost threshold stated in the Commonwealth's procurement policies requiring a competitive selection process.

In addition, all 31 vendor invoices that we reviewed were properly approved for payment by the contract monitor. We found that contract monitors first confirmed that goods and/or services were actually received. Monitors also ensured prices charged on the invoices agreed with the rates specified in the contract, and that the charges recorded on the invoices were mathematically accurate before approving the invoice for payment.

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**Audit Results:**  
**Employee Pay**  
**Incentives**

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**Audit Results**  
**for**  
**Objective Six**

**The objective**

Objective seven for our performance audit was to determine the propriety of the use of pay incentives for employees.

*Employee Pay*  
*Incentives*

**Relevant policies and agreements**

The Commonwealth has established a number of incentive programs to help recruit and retain certain positions that are deemed critical. In addition, certain employees are entitled to a bonus based upon contractual agreements. Examples of some of the incentive programs are:

- Quality Assurance Program – provides monetary incentives designed to attract, retain, and reward the medical professional.<sup>24</sup>
- Specialty Board Certification – additional compensation for physicians who are certified by one or more specialty boards.<sup>25</sup>
- Nursing Certification Payment – entitle nursing staff to pay incentives based on the attainment of one or more certifications in an appropriate specialization in each contract year.<sup>26</sup>
- Signing Bonus – a contractual agreement to pay a permanent full-time employee in active pay status on July 1, 2007, a one-time lump sum cash payment of \$1,250, or \$625 for permanent part-time employees.<sup>27</sup>

<sup>24</sup> Management Directive 525.16 “Physicians and Related Occupations Quality Assurance Program” dated February 14, 2006.

<sup>25</sup> Management Directive 535.2 “Physicians and Related Occupations Specialty Board Certification Payments” dated February 21, 2006.

<sup>26</sup> Memorandum of Understanding between Commonwealth of Pennsylvania and OPEIU Healthcare Pennsylvania, Local 112 July 1, 2007, to June 30, 2011.

<sup>27</sup> Master Agreement between the Commonwealth of Pennsylvania and Council 13, American Federation of State, County and Municipal Employees, AFL-CIO, effective July 1, 2007, to June 30, 2011;

Agreement between Commonwealth of Pennsylvania and the Pennsylvania State System of Higher Education and Pennsylvania Doctors Alliance for July 1, 2005, through June 30, 2009;

Agreement between Commonwealth of Pennsylvania and the Service Employees International Union, District 1199P, CTW, CLC for July 1, 2007, to June 30, 2011;

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**Scope and methodologies to meet our objective**

To accomplish this objective, we reviewed the applicable Commonwealth policies and labor agreements.

We interviewed the Center’s business manager and director of human resources.

Using payroll reports provided by the Center, we confirmed incentive payments made to eligible employees for fiscal years ending June 30, 2007, 2008, and 2009. We also reviewed seven award letters confirming the payment amounts made to doctors during the same time period.

**Finding 6      The Gino J. Merli Veterans Center processed employee pay incentive payments in accordance with the applicable management directives or union agreements.**

For the fiscal years ended June 30, 2007, 2008, and 2009, the Center expended \$16,000, \$340,800, and \$19,466, respectively for awards and bonuses to employees. The following chart illustrates the breakdown of payments by general ledger account.

	Fiscal year ended		
	June 30, 2007	June 30, 2008	June 30, 2009
Physicians/Nurse recognition award <sup>28</sup>	\$16,000	\$10,800	\$19,466
Signing Bonus	<u>0</u>	<u>330,000</u>	<u>0</u>
Total awards and bonuses paid	<u>\$16,000</u>	<u>\$340,800</u>	<u>\$19,466</u>

All awards were made in accordance with the respective management directives and supported by an approved award letter. The signing bonuses that we reviewed were made in accordance with applicable bargaining agreements.

<sup>28</sup> These dollar amounts include quality assurance and specialty board payments made to physicians, and also nurse certification payments.

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**Status of**  
**Prior Audit**

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**Status of**  
**Prior Audit**

The prior audit report of the Gino J. Merli Veterans Center covered the period of July 1, 2005, to November 30, 2007, and contained nine findings. Six of the findings (Findings 3, 4, 6, 7, 8, and 9) were positive and thus had no recommendations. The status of the remaining findings (Finding 1, 2, and 5) and the accompanying recommendations is presented below.

**Scope and Methodologies of our audit work**

To determine the status of the implementation of the recommendations made during the prior audit, we reviewed the Department's written response, dated August 28, 2008, replying to our audit report. We also held discussions with appropriate institution personnel and performed tests as part of, or in conjunction with, the current audit.

**Prior Finding 1    The Gino J. Merli Veterans Center did not maximize Medicare Part B revenues. (Unresolved)**

Our prior audit found that the Gino J. Merli Veterans Center did not have an adequate system for processing and tracking Medicare billings and reimbursements. We found that a doctor did not have a valid individual national provider identifier number necessary to process and bill Medicare Part B claims. As a result, the Gino J. Merli Veterans Center did not collect \$20,825 in Medicare Part B reimbursements.

We recommended that the Gino J. Merli Veterans Center management ensure that upon hire, all doctors on staff are qualified to submit claims for Medicare Part B services and are enrolled in the Medicare program immediately. In addition, we recommended that management implement a system for processing Medicare billings and reimbursements.

The Department of Military and Veterans Affairs responded that effective July 1, 2008; the Gino J. Merli Veterans Center developed a procedure that would provide a basis to reconcile encounter forms to the database of eligible Medicare Part B residents. In addition, notice of rejected bills would be analyzed and re-billed, if appropriate. Physicians, upon hire, would provide the Center with a valid national provider identifier and



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revenue office staff, in cooperation with the physician, would complete the necessary enrollment form. Revenue office staff would reconcile Medicare Part B receivables by utilizing a report that reflects both Medicare Part B bills submitted to Medicare and payments made by Medicare.

**Status as of this audit.** Our current audit confirmed that the Gino J. Merli Veterans Center doctors were enrolled in the Medicare program and possesses the individual national provider identifiers necessary to bill Medicare. Interviews with Center management disclosed that management had developed a procedure to track billings and reimbursements. However, this procedure was not implemented by the Center. As a result, our current audit testing again found instances where the Center did not collect all the revenue due to them from Medicare. Therefore, we concluded that this issue is still unresolved. Our current concerns are detailed in Finding 1 of this audit report.

*Comments from Gino J. Merli Veterans Center management:*

*Please see Finding 1 Agency Response*

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**Prior Finding 2    The Gino J. Merli Veterans Center did not review overtime calculations for accuracy. (Resolved)**

The Gino J. Merli Veterans Center department supervisors did not accurately review overtime, and as a result, errors occurred and went undetected by management.

We recommended that the Gino J. Merli Veterans Center management ensure that department supervisors properly review payroll reports for accuracy.

In response, the Department of Veterans and Military Affairs management noted that biweekly payroll reports prepared by the Center's accounting department before payroll is issued were provided to department directors for review. After any discrepancies are reconciled or if there are no discrepancies, each department director signed and dated a memo stating that the reports were satisfactory and the memo is returned to the Center's

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accounting department. In addition, Department management stated that the Department's Human Resources function at headquarters would audit a sample of overtime expenses on a monthly basis.

**Status as of this audit.** Our current audit of the Gino J. Merli Veterans Center revealed that payroll reports were prepared and distributed to department directors for their review and approval before payroll was processed. Our test work found that overtime payments were properly authorized and recorded, agreed to the approved work schedules, and complied with applicable labor agreements. In addition, we confirmed that the Department's Human Resource Office audited a sample of the Center's monthly overtime expenses. Based upon our review and testing of management's efforts to resolve this finding, the issue has been resolved.

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**Prior Finding 5 Abuse investigators were not certified. (Resolved)**

The Department of Military and Veterans Affairs and various oversight agencies require that all incidents of resident abuse be investigated. At the Gino J. Merli Veterans Center, specifically designated employees who had received general abuse training, as developed by the Department, conducted initial investigations during the prior audit. Even though the investigators received the general abuse training, this training did not extend to specific investigative techniques and therefore was inadequate to ensure that allegations of abuse were properly investigated.

We recommended that the Department evaluate the costs and benefits of establishing a certified training program for its incident investigators. If certification was deemed unnecessary for its institutions, at a minimum, formal incident investigation-specific training should be developed and implemented.

In response, Department management began a workgroup to develop a resident abuse policy, investigation procedures, and training.

**Status as of this audit.** Our current audit found that the Department complied with our recommendation by issuing and/or updating policies and procedures regarding the prevention of resident abuse, the resident

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abuse investigation process, serious incident reporting, and the suspension of an employee pending investigation. Also, Department personnel conducted a resident abuse investigation training session in April 2010 at the Center for employees from various departments in order to ensure abuse investigations are conducted according to policy. As a result of the actions taken by the Department and the Center, we concluded that this issue has been resolved.

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