



Performance Audit

Southeastern Veterans Center

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

February 2012

February 14, 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Corbett:

This report contains the results of a performance audit of the Southeastern Veterans Center of the Department of Military and Veterans Affairs from July 1, 2007, to November 23, 2010, unless otherwise noted. 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 four audit objectives along with an audit scope and methodology for each objective. Where appropriate, the audit report contains findings, conclusions and recommendations. The report noted that Southeastern Veterans Center lacked sufficient controls over its storeroom and dietary operations as also reported in our prior audit of the Center.

We discussed the contents of the report with management of the Southeastern Veterans Center and all comments are reflected in the report.

Sincerely,

JACK WAGNER
Auditor General

**Southeastern Veterans Center
Department of Military and Veterans Affairs**

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**Background
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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.¹ 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.²

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.

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

¹ Military Affairs, 51 Pa. C.S.A. § 902 (10).

² http://www.dmva.state.pa.us/portal/server.pt/community/dmva_Center/5902 accessed August 25, 2010; verified August 2, 2011.

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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 February 2012, 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.

Southeastern Veterans Center

The site of the Southeastern Veterans Center in Spring City, Chester County, has housed a state facility since November 1908. The facility was originally a school and hospital, known as Pennhurst, and it was operated by the Department of Public Welfare for persons with mental retardation, with 40 buildings spread over 1,200 acres. As institutional care was replaced by community care, the need for the Pennhurst facility declined, and the Department of Military and Veterans Affairs took possession of 120 acres of the former facility. The Department renovated the modular cottage units, constructed at the former facility in 1975, as housing for veterans needing only minimal (domiciliary) care. The Southeastern Veterans Center, also referred to in this report as the Center, was dedicated on December 22, 1986.

In February 1990, work began on a \$6.4 million project to convert Horizon Hall into an intermediate and skilled nursing care facility for 192 veterans. Horizon Hall was dedicated on May 20, 1993, and renamed Coates Hall, in honor of retired Brigadier General John B. Coates, a Pennsylvania native and World War II veteran. With the renovations to Coates Hall, the Southeastern Veterans Center was able to accommodate 304 residents: 112 in domiciliary/personal care and 192 in nursing care.³ As of June 2010, the Center continued to be certified to house 304

³http://www.portal.state.pa.us/portal/server.pt/community/southeastern_veterans%27_center/11380/description/576932 viewed on August 25, 2010, verified on January 13, 2012.

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residents; however the number of residents has decreased over the years to around 232.

The following schedule presents unaudited Southeastern Veterans Center operating statistics compiled by the Department of Military and Veterans Affairs for the fiscal years ended June 30, 2008, 2009, and 2010.

	Using rounding		
	2008	2009	2010
Operating expenditures⁴			
State	\$21,282,645	\$20,335,122	\$19,753,617
Federal	<u>5,123,000</u>	<u>6,731,848</u>	<u>8,124,000</u>
Total operating expenditures	<u>\$26,405,645</u>	<u>\$27,066,970</u>	<u>\$27,877,617</u>
Employee complement positions at year end			
Actual days of care			
Nursing unit	58,631	60,343	59,247
Domiciliary and personal units	<u>31,730</u>	<u>28,727</u>	<u>25,599</u>
Totals	<u>90,361</u>	<u>89,070</u>	<u>84,846</u>
Average daily census			
Nursing unit	160	165	162
Domiciliary and personal units	<u>87</u>	<u>79</u>	<u>70</u>
Totals	<u>247</u>	<u>244</u>	<u>232</u>
Resident capacity at year-end			
Nursing unit	192	192	192
Domiciliary and personal units	<u>112</u>	<u>112</u>	<u>112</u>
Totals	<u>304</u>	<u>304</u>	<u>304</u>
Available bed days of care			
Nursing unit	70,272	70,080	70,080
Domiciliary and personal units	<u>40,992</u>	<u>40,880</u>	<u>40,880</u>
Total	<u>111,264</u>	<u>110,960</u>	<u>110,960</u>
	Using rounding		

⁴ 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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	2008	2009	2010
Occupancy percentage			
Nursing unit	83.4%	86.1%	84.5%
Domiciliary and personal units	77.4%	70.3%	62.6%
Average resident cost per day ⁵	\$292	\$304	\$329
Average resident cost per year ⁶	\$106,872	\$110,960	\$120,085

⁵ Average resident cost per day was calculated by dividing the total operating expenditures by the combined actual days of care.

⁶ Average resident cost per year was calculated by multiplying the average resident cost per day by the number of calendar days in the year.

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**Objectives,
Scope, and
Methodology**

**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 Southeastern Veterans Center contains four objectives. We selected the audit objectives from the following areas: inspections, expenditures, hiring practices and bonuses/pay incentives. The specific audit objectives were as follows:

- One To determine if Southeastern Veterans Center completed and implemented a plan of correction for all deficiencies identified during the Department of Health inspections. (Finding 1)
- Two To determine if Southeastern Veterans Center incurred any material increases or decreases in expenditures over the three year audit period, and if applicable, whether the Center provided adequate justification for the increases or decreases. (Finding 2)
- Three To determine whether Southeastern Veterans Center complied with the Commonwealth of Pennsylvania and the Department of Military and Veterans Affairs hiring policies. (Finding 3)
- Four To determine Southeastern Veterans Center's propriety of use of employee pay incentives. (Finding 4)

To accomplish our objectives, we obtained and reviewed records and analyzed pertinent policies, agreements, and guidelines of the Commonwealth and the Department of Military and Veterans Affairs. In the course of our audit work, we interviewed Southeastern Veterans Center management and staff and a human resource analyst from the Department of Military and Veterans Affairs. 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

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recommendations made during our prior audit related to abuse investigators, members fund, welfare fund, and inventory controls.

Unless otherwise indicated, the scope of the audit was from July 1, 2007, to November 23, 2010.

Under each objective in the following pages we have listed the relevant laws, policies, and other agreements, and the audit scope in terms of period, type of transaction, or other parameters that define the limits of our audit.

We have included the specific audit methodologies for gathering sufficient evidence to complete each audit objective. We have also included our findings and conclusions, and when necessary, our recommendations related to our audit findings. Finally, we have included Center management's response to our audit findings and recommendations where applicable.

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Audit Results

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**Audit
Results**

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

- Statement of the objective.
- Relevant laws, policies, or agreements.
- 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 our objective.
- Finding(s) and conclusion(s), if applicable.
- Recommendation(s), where applicable.
- Response by Southeastern Veterans Center's management, where applicable.

Audit Results:
Inspections

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Audit Results
for
Objective One

The objective

Objective one for our performance audit was to determine if Southeastern Veterans Center completed and implemented a plan of correction for all deficiencies identified during the Department of Health inspections.

Inspections

Relevant laws, policies, or agreements

The Department of Health, Division of Nursing Care Facilities, is responsible for the licensing and oversight of Pennsylvania’s nursing care facilities, which includes nursing homes such as the Southeastern Veterans Center. The Department of Health conducts nursing home inspections, which include licensure and certification surveys and complaint investigations, every twelve to fifteen months. If the nursing homes have a history of serious problems or complaints, the nursing homes may be inspected more frequently.

The Department of Health inspects nursing homes for compliance with state and federal regulations. The federal regulations apply when nursing homes choose to receive reimbursement for their residents’ care related costs from the Medicare and/or Medicaid Programs. When deficiencies are identified during a nursing home inspection, the nursing home must submit in writing its proposed solutions to the identified deficiencies. The Department of Health then conducts follow-up inspections to determine whether the deficiencies were corrected.⁷

Scope and methodologies to meet our objective

We interviewed the nurse manager, the nurse instructor, the director of nursing, the medical director, the social services supervisor, the administrative officer, the facility maintenance manager, and the custodial supervisor to obtain information regarding the corrective plans that were implemented in response to the deficiencies cited in the Department of Health’s inspection reports.

We reviewed all 23 inspection reports issued by the Department of Health during the audit period of September 7, 2007, through April 14, 2010.

⁷ <http://app2.health.state.pa.us/commonpoc/content/publicweb/important-info.asp> viewed on April 8, 2010, verified January 31, 2012.

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Inspections**

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We reviewed plans of correction for the 19 deficiencies identified in 7 of the inspections, as well as any policies and procedures amended to implement the plans of correction.

We obtained and reviewed Southeastern Veterans Center's certificate of licensure to operate a long term care nursing facility, issued by the Department of Health through October 31, 2010.

Finding 1

The Southeastern Veterans Center is currently licensed by the Department of Health and has corrected all deficiencies that were cited during inspections.

Our review of 23 Department of Health inspection reports revealed that the center was cited for a total of 19 deficiencies during 7 of the inspections conducted during our audit period. All identified deficiencies were classified by the Department of Health as low in severity and causing no actual harm to the residents. Southeastern Veterans Center management submitted a plan of correction for each deficiency and those plans were accepted by the Department of Health.

Since the Department of Health accepted the plans of correction submitted by Southeastern Veterans Center, and all subsequent Department of Health inspection reports completed after each plan of correction was implemented found no pattern of repeat deficiencies, we concluded that Southeastern Veterans Center responded appropriately to the deficiencies cited in the Department of Health inspection reports.

Audit Results:
Expenditures

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Audit Results
for
Objective
Two

The objective

Objective two for our performance audit was to determine if Southeastern Veterans Center incurred any material increases or decreases in expenditures over the three year audit period, and if applicable, determine whether the Center provided adequate justification for the increases or decreases.

Expenditures

Relevant laws, policies, or agreements

The Department of Military and Veterans Affairs provided the Southeastern Veterans Center with an annual operating budget. The budget contained personnel and operational related expenditures, which included ordinary transactions such as salaries, utilities, office supplies, and equipment as well as transactions that were non-ordinary such as litigation fees and construction consultants.

The budgeted amounts for the Center were broken down by commitment items, which provide a more detailed description of the expenditure type of goods or service.

The following chart summarizes Southeastern Veterans Center expenditures for the fiscal years ended June 30, 2007, 2008, and 2009:

Fiscal Year Ended	Total Expenditures
June 30, 2007	\$24,086,927
June 30, 2008	27,865,903
June 30, 2009	27,140,458

Scope and methodologies to meet our objective

Using commonwealth accounting records, we examined expenditures recorded under all 54 commitment items selected for testing. We examined 25 expenditures for the fiscal year ended June 30, 2008, and 29 expenditures for the fiscal year ended June 30, 2009, to determine the justification for why there was a significant increase or decrease in expenditures under these classifications from the preceding year.

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We interviewed the Southeastern Veterans Center official who is responsible for monitoring expenditures incurred under each classification to gain an understanding of the types of expenditures that were included in the annual budget. When applicable, we obtained documentation supporting the Southeastern Veterans Center official's explanation for why the increase or decrease in expenditures occurred.

Finding 2

Southeastern Veterans Center staff provided adequate justifications for fluctuations in expenditures.

Southeastern Veterans Center management provided adequate justification for the fluctuations in expenditures for all 54 of the expenditure classifications selected for testing. Justifications provided by Center staff included contractual bonuses, renovations on the modular living units, general increases in the cost of utilities, medicine and supplies, costs associated with capital projects, and the purchase of lawn mowers.

Audit Results:
Hiring Practices

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Audit Results
for
Objective
Three

The objective

Objective three for our performance audit was to determine whether Southeastern Veterans Center complied with the Commonwealth of Pennsylvania and the Department of Military and Veterans Affairs hiring policies.

Hiring Practices

Relevant laws, policies, or agreements

The Civil Service Act established the Civil Service Commission as the independent administrator of the state’s employment merit system. According to the Act, the Commission was created to enhance governmental efficiency by attracting qualified employees and by hiring, retaining, and promoting them based on their ability to do their job. To assist the Commission, the Commonwealth established policies governing its activities.⁸

As part of its responsibilities, the Commission also administers the veterans’ preference program.⁹ The purpose of veterans’ preference is to give veterans credit for their military training and service to their country.

Scope and methodologies to meet our objective

To establish an understanding of the hiring practices at Southeastern Veterans Center, we reviewed the Civil Service Commission’s policies for veterans’ preference.

We interviewed a Southeastern Veterans Center human resource assistant, and a Department of Military and Veterans Affairs human resource analyst.

We randomly selected 15 of 72 civil service employees hired during the period of July 1, 2007, to May 5, 2010, and reviewed documents in the employees’ files to determine if they were hired in compliance with applicable veterans’ preference policies.

⁸ “Commonwealth of Pennsylvania, State Civil Service Commission, Rules of the Civil Service Commission, Title 4, Part IV, Subparts A&B, amended effective March 13, 2004, as published in the Pennsylvania Code.”

⁹ http://www.portal.state.pa.us/portal/server.pt/community/veterans/14275/veterans'_preference/590770 viewed February 6, 2012.

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Hiring Practices**

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Finding 3

Southeastern Veterans Center complied with veterans' preference policies.

Our audit of 15 civil service employees hired by Southeastern Veterans Center found 14 of the 15 were hired by the Center in accordance with the applicable policies of the Civil Service Commission. Documents were on file to confirm that each employee hired was the first available candidate with the highest civil service score on the veterans' preference civil service listing.

However, one individual on the veterans' preference civil service listing was erroneously included in the top three on the job interview schedule due to a mix up of scores. This error occurred when two applicants had the same name and their scores were posted to the incorrect applicants' files. Upon further analysis, we found that both individuals affected by this mix up were offered positions at the Center due to the large number of open positions available.

We concluded, based on our testing, that the Southeastern Veterans Center complied with the applicable policies of the Civil Service Commission for new hires.

Audit Results:
Employee Pay
Incentives

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Audit Results
for
Objective
Four

The objective

Objective four for our performance audit was to determine Southeastern Veterans Center’s propriety of use of employee pay incentives.

Relevant laws, policies, or agreements

Employee Pay
Incentives

During our audit period, contractual agreements between the Commonwealth and several different unions provided each permanent full-time or part-time employee on active pay status on July 1, 2007, a one-time lump sum payment of \$1,250, or \$625, respectively. Permanent full-time or part-time employees on inactive pay status on July 1, 2007, who returned to active pay status prior to December 31, 2007, and remained on active pay status for 60 calendar days were also eligible for the lump sum payment.¹⁰ Also, an Office of Administration, Executive Board resolution provided management employees the same one-time lump sum payment.¹¹

Also, two consecutive contractual agreements between the Commonwealth and the Service Employees International Union,¹² provided for payments to Commonwealth nurses who attain one or more of the certifications specified in the contractual agreement. Each qualifying nurse receives a \$200 payment in each contract year that the employee meets the criteria.

¹⁰ 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;
 Memorandum of Understanding between Commonwealth of Pennsylvania and OPEIU Healthcare Pennsylvania, Local 112, effective July 1, 2007 to June 30, 2011;
 Agreement between Commonwealth of Pennsylvania and The Service Employees International Union, District 1199P, CTW, CLC, effective July 1, 2007 through June 30, 2011;
 Agreement between Commonwealth of Pennsylvania and International Union, United Government Security Officers of America Local 301, 302, and 303, effective September 1, 2007 to August 31, 2011;
 Agreement between Commonwealth of Pennsylvania and PSSU Local 668 SEIU Pennsylvania Social Services Union, effective July 1, 2007 to June 30, 2011

¹¹ Commonwealth of Pennsylvania, Governor’s Office, Executive Board Resolution Number CN-07-122, dated May 21, 2007.

¹² Agreements between the Commonwealth of Pennsylvania and District 1199P, Service Employees International Union, AFL-CIO, CLC, effective July 1, 2003, to June 30, 2007, and July 1, 2007, through June 30, 2011.

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**Audit Results:
Employee Pay
Incentives**

Scope and methodologies to meet our objective

To establish our understanding of the Commonwealth of Pennsylvania's policies for employee pay incentives, we reviewed the Commonwealth of Pennsylvania's management directives and executive board resolutions for awarding pay incentives. We also reviewed the collective bargaining agreements.

We interviewed the Southeastern Veterans Center human resource director to obtain an understanding of the payment process for employee pay incentives.

We reviewed Southeastern Veterans Center's accounting records for the fiscal years ended June 30, 2007, 2008, and 2009, to determine the amount of pay incentives paid to employees.

Finding 4**Southeastern Veterans Center complied with applicable criteria for employee pay incentives.**

During our analysis of Southeastern Veterans Center's accounting reports for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, we found that the Center awarded pay incentives to employees during that time period in accordance with contractual requirements. The agreements between the Commonwealth of Pennsylvania and the Service Employees International Union contained provisions for certification payments. We determined from our review of detailed payment records that two nurses met the eligibility requirements, and each nurse received a \$200 certification bonus/pay incentive for fiscal years ended June 30, 2007, 2008, and 2009, totaling \$400 in each of the three years.

We also identified contract signing bonus payments for the fiscal years ended June 30, 2008, and June 30, 2009. Southeastern Veterans Center made a \$1,250 one-time lump sum payment to full-time employees and a \$625 incentive payment to part-time employees who were on active pay status as of July 1, 2007. Southeastern Veterans Center's expenditure reports for the fiscal year ended June 30, 2008, included a total disbursement of \$360,000, and a \$1,250 disbursement in the fiscal year ended June 30, 2009 (this payment was made in 2009 due to a union

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Employee Pay
Incentives**

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grievance settlement). The contract signing bonus payments met all Commonwealth requirements as authorized in the Commonwealth of Pennsylvania, Governor's Office, Executive Board Resolution Number CN-07-122, dated May 21, 2007.

We concluded that the Southeastern Veterans Center complied with Commonwealth policies pertaining to employee bonuses/pay incentives, and when applicable, the Center also complied with the terms of the collective bargaining agreements.

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**Status of
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The prior audit report of Southeastern Veterans Center covered the period of July 1, 2005, to December 28, 2007, and contained eight findings. Five of the findings (Findings 1, 2, 4, 7, and 8) were positive and thus had no recommendations. The status of the remaining findings (Findings 3, 5, and 6) is presented below. The prior audit report also contained one unresolved finding (Finding III-1) from the audit report of the Center that covered the period of July 1, 2002, to May 27, 2005. The status of this unresolved finding and its accompanying recommendation is also presented below.

Scope and methodology

To determine the status of the implementation of the recommendations made during the prior audit, we reviewed the Department of Military and Veterans Affairs' written response dated November 17, 2008, replying to the Auditor General's report from July 1, 2005, to December 28, 2007, and performed interviews and tests as part of, or in conjunction with, the current audit.

Prior Finding 3 The Department of Military and Veterans Affairs did not require abuse investigators at Southeastern Veterans Center to be certified. (Resolved)

Our prior audit reported that although Southeastern Veterans Center had investigators to conduct abuse investigations, they were neither certified investigators nor had they received training in specific investigative techniques. We recommended that the Department of Military and Veterans Affairs evaluate the costs and benefits of establishing a certified training program for its incident investigators. If certification is deemed necessary for their institutions, at a minimum formal incident investigation training should be developed and implemented.

Status as of this audit. The Department of Military and Veterans Affairs developed standardized training for abuse investigators at its veterans' facilities. This training included techniques on interviewing and gathering and evaluating documentation. The training also outlined who the investigator is required to notify such as the commandant; the Director of the Bureau of Veterans Homes; the director of nursing; the medical

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director; security; and the family representative. Agencies outside of the Department that must be contacted include the Area Agency on Aging, Department of Health, Department of Public Welfare, and the federal Veterans Administration. The Southeastern Veterans Center's staff received the training on May 21, 2010. As a result, the Center has implemented our recommendations, and the issue is resolved.

Prior Finding 5 Southeastern Veterans Center did not distribute the funds of deceased residents. (Resolved)

Our prior two audits reported that the Southeastern Veterans Center retained funds in the Members Fund account for deceased veterans and a review had not been made by the Center to determine ownership of the funds. The center must determine if there is an estate for the deceased veteran to distribute any monies remaining in the Members Fund. We found that there was an estate for one of the deceased veterans with a balance in the Members Fund. The estate bill prepared for that individual indicated that the resident owed the Southeastern Veterans Center an amount greater than the amount remaining in the Members Fund.

At the end of our audit work on site, Southeastern Veterans Center was in the process of filing the appropriate paperwork with the estate of the deceased veteran to claim the amount remaining in the Members Fund to satisfy a portion of the amount owed.

We recommended that management ensure that all deceased resident moneys remaining in the Members Fund be disposed of in accordance with the Department of Military and Veterans Affairs and Commonwealth of Pennsylvania requirements.

Status as of this audit. Our current audit found that the Southeastern Veterans Center forwarded the funds from the Members Fund to the estate of the one deceased resident noted in the prior audit that had an open estate. Southeastern Veterans Center was unable to file a claim against this estate because the center was not timely in making its request and the estate had been settled. As a result, the Department of Military and Veterans Affairs established new procedures and timelines for processing the accounts of deceased veterans to prevent late filing of claims. We examined the records for 8 of the 38 deceased veterans with funds

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remaining in the Members Fund as of April 22, 2010, to determine the status of each account. We determined that Southeastern Veterans Center and the Department of Military and Veterans Affairs were in the process of closing-out each account in accordance with the new procedures. Based upon these actions, the Southeastern Veterans Center has implemented our recommendation and the issue is resolved.

**Prior Finding 6 Welfare Fund canteen operating deficiencies continued.
(Resolved)**

The prior audit reported that the Southeastern Veterans Center failed to address canteen operating deficiencies identified in the previous audits. Those deficiencies included failing to establish a written canteen sales policy, not maintaining a perpetual inventory system for the canteen, and not preparing accurate income statements.

We recommended that Southeastern Veterans Center's management develop a policy manual for the Welfare Fund's canteen. The manual should include monitoring procedures over goods and sales, conducting and documenting quarterly stock count comparisons, and preparing accurate income statements. In addition, management should review daily canteen sales summary reports and investigate errors to ensure sales are recorded accurately. Finally, profit margins should be reviewed quarterly and any variances investigated.

Status as of this audit. Our current audit found that the Southeastern Veterans Center implemented a canteen policy effective December 29, 2009. Although the policy did not require the Southeastern Veterans Center to maintain a perpetual inventory system for the canteen, staff from the accounting office maintained a monthly summary sheet that documented, by item, all deliveries for the month. Accounting office staff also selected a sample of items to conduct a physical count at the end of the month to compare the inventory records with the receipts for the month for reasonableness. We also noted that the volunteer coordinator regularly reviewed the cost of items purchased to stock the canteen and adjusted the sales price when necessary.

In addition, each day the canteen daily summary report was prepared by the canteen volunteers, reviewed by the accounting assistant for any

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errors, and the results entered into a computer spreadsheet by the accountant to determine daily sales tax and canteen sales totals. We performed reviews to ensure the accuracy of the data reported on the canteen quarterly reports. Based upon the actions taken by Southeastern Veterans Center, the issue is resolved.

**Prior
Finding III-1**

Southeastern Veterans Center did not establish inventory controls over the storeroom or dietary operations. (Unresolved)

From the audit report for July 1, 2002, to May 27, 2005.

We previously reported that Southeastern Veterans Center did not have an inventory system for either the main storeroom or the dietary storeroom. Therefore, management could not adequately monitor these areas and the potential for loss, theft, or misuse of the storeroom and dietary items was greatly increased.

Our review of the Department of Military and Veterans Affairs' handbook of procedures for accounting revealed that the Department did not require the Southeastern Veterans Center to maintain inventories over the storeroom or dietary operations. We recommended that Southeastern Veterans Center management determine the scheduled inventory control system implementation date. If the implementation is not scheduled for the immediate future, the Center should establish an interim inventory system. In addition, we recommended that the Department of Military and Veterans Affairs revise its accounting manual to address the need for inventory controls.

Status as of this audit. Southeastern Veterans Center implemented its inventory control system after they completed a physical inventory on August 25, 2010. In order to test the accuracy of the inventory records in the newly implemented inventory system, we conducted a physical count on 40 inventory items on November 19, 2010. Differences were noted with 27 of the 40 items counted. Discussions with management on the cause of the differences revealed the following explanations:

- In two instances, the unit of measure lists "each" however, the actual count posted into the system is by "case."

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- In one instance, management believes there was an input error when the original amount for mops was posted into the system. The actual count of mops was 39; however, the system listed 396. Management stated that they have never had that many mops on hand.
- Finally, the remaining 24 differences were attributed by Center staff to records not being posted timely. The Center did not clearly define who was responsible for posting transactions into the system so it fell behind on posting transactions.

Our discussions with management held after our physical count revealed that management was meeting with the staff involved to correct this issue by clearly defining job responsibilities, and ensuring that postings were kept up-to-date. In addition, management planned to conduct independent monthly spot checks of inventory to confirm the accuracy of the inventory records.

**Recommendation
for Prior
Finding III-1**

1. Management should follow through with their plan to correct the issue by clearly defining job responsibilities regarding the posting of transactions to inventory records and ensure that postings are kept up-to-date in order to maintain the accuracy of inventory records.

Response of Southeastern Veterans Center management:

Management is in agreement with the inventory controls finding and recommendations.

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