Performance Audit
of the
Commonwealth of Pennsylvania
Department of Public Welfare
Altoona Center

July 1, 2002, to January 28, 2005

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January 4, 2006

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

This report contains the results of a performance audit of Altoona Center of the Department of Public Welfare from July 1, 2002, to January 28, 2005. The audit was conducted under authority provided in Section 402 of The Fiscal Code and in accordance with *Government Auditing Standards,* issued by Comptroller General of the United States.

This report details our audit scope, objectives, methodology, conclusions, and recommendations. The contents of the report were discussed with officials of the institution and all appropriate comments are reflected in the report.

The audit noted that the fire alarm codes in the new fire alarm system were not functioning properly. Also, the audit identified weaknesses in controls over the procurement and inventory processes.

We appreciate the cooperation extended to us by the management and staff of the Altoona Center, and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER
Auditor General

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BACKGROUND INFORMATION

Background Information

Department of Public Welfare - Office of Mental Retardation

The Office of Mental Retardation (OMR) was established within the Department of Public Welfare (DPW) by an Executive Board on December 8, 1972. The OMR is responsible for the operation and supervision of mental retardation programs administered by state, county, and private providers. Services provided in these programs are classified into four categories:

- Nonresidential community based service
- Residential community based service
- Intermediate care facilities
- Institutional care

To provide care in the institutional setting, the OMR is directly responsible for the operations of six mental retardation centers. The centers are physically separate institutions that provide residential care to individuals with severe and profound mental retardation.

Altoona Center

Altoona Center (center) is one of the six OMR-operated mental retardation facilities. The center, located in Altoona, Blair County, provides a structured environment for mentally retarded individuals to enhance their capacities and abilities for community and family living, striving for their eventual movement into alternative community settings. The center's service area is broadly defined as the retarded and physically handicapped from the central region of the Commonwealth of Pennsylvania (Commonwealth).

The center, licensed by the Department of Health, provides intermediate care for 148 beds and receives cost of care reimbursements from the federal government through the Medical Assistance Program and Medicare. Ebensburg Center, another OMR-operated center for the mentally retarded, provides accounting, purchasing, and personnel services to the center.

Day-to-day operations of the center are managed by a Unit Manager. Additionally, Ebensburg Center's nine-member board of trustees provides advisory services to the center.

The following schedule presents selected unaudited center operating data compiled for the years ended June 30, 2004, and 2003:

	2004	2003
Operating expenditures (rounded in thousands)[1]	$10,899	$10,879
Employee complement positions at year end	196	200
Bed capacity at year end	148	148
Available days of care	54,168	54,020
Daily average census[2]	91	95
Actual client days of care	33,435	34,704
Percent utilization (based on client days of care)	61.7%	64.2%
Average client cost per day[3]	$326	$313
Average client cost per year[4]	$119,307	$114,420

[1] Operating expenditures are recorded net of fixed asset costs, an amount that would normally be recovered as part of depreciation. In addition, regional and department level direct and indirect charges are not allocated to the totals reported here.
[2] Daily average census was calculated by dividing the actual client days of care for the year by the number of calendar days in the year.
[3] Average client cost per day was calculated by dividing the total operating expenses by the combined actual days of care. Note: This rate is not the same as a certified per diem rate since the total operating expenditures exclude depreciation and allocated direct and indirect costs from regional and department-level offices.
[4] Average client cost per year was calculated by multiplying the average client cost per day by the number of calendar days in the year.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives, Scope, And Methodology

The audit objectives are detailed in the body of the report. We selected the objectives from the following general areas: fire safety, procurement, and human resources. We also determined the status of the prior audit finding and recommendation.

To accomplish our objectives, we interviewed various center management staff, obtained and reviewed available records, and analyzed pertinent regulations, policies, and guidelines.

The scope of the audit covered the period from July 1, 2002, to January 28, 2005, unless indicated otherwise in the individual report chapters.

CHAPTER I - FIRE SAFETY

Objective and Methodology

Altoona Center is responsible for providing a structured environment for mentally retarded individuals to enhance their capacities and abilities for community and family living. Because of their special needs, every precaution must be taken to prevent and protect residents from a fire-related injury and/or death.

Approximately 90 patients reside at the center. In addition, the center employs more than 195 staff, and has buildings, equipment, furnishings and other assets that cost in excess of $5 million.

The objective of this portion of the audit was to evaluate the center's established fire safety precautions designed to safeguard its residents, staff, and assets and to minimize the destructive effects of fire. To accomplish this objective, we performed the following procedures:

- Reviewed applicable DPW Policy.[5]
- Interviewed appropriate management and staff.
- Reviewed monthly safety committee meeting minutes and other appropriate documents from July 2003 to October 2004.
- Reviewed the Department of Health's Life Safety Code Survey dated August 10, 2004.
- Reviewed the local fire company's fire evacuation drill report.
- Reviewed the weekly, monthly, quarterly and annual inspection reports, including the fire alarm and fire extinguishers, from July 2003 to November 2004.
- Randomly selected and tested 40 staff training records.
- Toured the institution and observed a fire drill conducted on December 7, 2004.

[5] Department of Public Welfare Safety Manual; Chapter 5 - Fire Safety

Audit Results

Center personnel regularly inspected fire extinguishers and other fire safety equipment. In addition, the center routinely conducted fire drills and staff was adequately trained. A review of safety committee meeting reports and the Department of Health Life Safety Code Survey did not disclose any major problems. Also, the local fire company's fire evacuation drill report was satisfactory. However, auditors noted a problem with the fire alarm codes.

<u>Finding I - 1 - Fire alarm codes were not functioning properly.</u>

The installation of the center's new fire alarm system was completed in April 2004. The alarm was set up to ring in a two or a three series of codes depending on the type of activation (pull station, smoke detector or duct detector). In an emergency situation, time and information is critical. Bell codes determine what action and evacuation route an employee and resident must take during an emergency. Any loss of time or misinformation caused by inaccurate bell codes increases the risk of harm to residents, staff, and visitors.

During a fire drill, auditors observed that the first two series of the code were cut off during the initial sounding of the alarm. The correct code was sounded during the second sounding of the alarm. Determining when the first series of bell codes ended and the next series started was extremely difficult. As a result, the auditors and center staff could not determine what area of the building and what type of detector was activated.

On April 19, 2004, the new alarm system was surveyed, inspected, and approved by the Pennsylvania Department of Health in accordance with the Life Safety Code Survey. However, the auditors found no evidence that the fire bell codes were tested during that inspection. In fact, due to a lack of documentation the auditors could not determine if the fire alarm codes were tested from the time of installation until observation of the fire drill on December 7, 2004.

The fire alarm system vendor inspected and tested the system on December 13, 2004. This inspection confirmed that the first part of the fire code was cut off, causing confusion to the listener.

Fire Safety

Recommendation

Center management should routinely test all fire safety equipment to ensure the safety of residents, staff, and visitors.

Management Comments

At the closing conference, center management stated that it was aware of the fire code problem and would address this issue. Management believed the problem was the result of a software glitch in the system and would work with the vendor to correct the situation.

CHAPTER II - PROCUREMENT

Objectives and Methodology

In 2001, the Commonwealth began a comprehensive project to redesign administrative functions, including procurement, by replacing outdated computer programs with new software. This project now called Integrated Enterprise System (IES) was formerly referred to as Imagine PA. The mission of the project is stated as follows:

> *The mission of the Bureau of Integrated Enterprise System is to maintain, improve, and grow the Commonwealth of Pennsylvania's Enterprise Resource Planning (ERP) system to accommodate the administrative and operational requirements of the Commonwealth and to promote standardization of Commonwealth business processes in an effective and efficient manner.*

The IES software is designed to allow state agencies to operate more efficiently by helping to eliminate paperwork, spending hours on the phone trying to get information from others, getting numerous approvals, and reconciling data from many sources.

Purchases are made through the DPW's centralized advancement account, the center's VISA purchasing cards, or the IES software known as Systems Applications Products (SAP). The center established the SAP system in January 2003. The dollar value and type of purchase determines which method is used to pay for goods and services.

The advancement account is used to pay for purchases less than $100 that are not made through state contract or are not requisitioned from the Department of General Services warehouse. In addition, it is used when the vendor will not accept a VISA purchasing card. The goals of the VISA purchasing card program are to expedite payment to vendors, reduce the amount of paperwork and staff time, and save money. The benefits of SAP are to speed transaction processing, provide more accurate data, and reduce or eliminate redundancy.

The objectives of this part of the audit were to determine if the center had adequate management controls over the procurement function, including inventory, and if purchases were made in accordance with the DPW's policies and procedures. To accomplish these objectives, we performed the following procedures:

- Reviewed the Commonwealth's Field Procurement Handbook, the DPW's VISA purchasing card manual, and SAP procurement manuals.

- Interviewed appropriate management and staff.

- Evaluated the SAP roles assigned to center personnel to determine adequate segregation of duties.

- Randomly selected and tested 12 of 125 advancement account purchases made between January 2003 and October 17, 2004.

- Randomly selected and tested the 20 monthly purchasing card statements from February 15, 2003, to September 15, 2004.

- Randomly selected and tested 15 of 494 SAP purchase orders processed from January 1, 2003, to September 30, 2004.

- Randomly selected and tested 10 of 451 inventory items from the December 3, 2004 inventory report to compare physical counts to the value recorded in the SAP inventory system.

Audit Results

The results of our testing indicated that purchasing card transactions and purchases through the SAP system were made in accordance with Commonwealth and DPW policies. However, the center did not adequately review its advancement account payments. In addition, the center did not adequately segregate the duties assigned to employees in the SAP procurement system.

<u>Finding II-1 - Management did not review advancement account checks.</u>

The advancement account was used to pay for purchases less than $100 that were not made through state contract or were not requisitioned from the Department of General Services warehouse. In addition, it was used when the vendor did not accept a VISA purchasing card.

Prudent business practice requires management review and approval of the check and a verification that the amount and payee agrees with supporting documentation. In addition, management should ascertain that the purchase transaction is a legitimate use of Commonwealth funds. Ideally, this review should occur prior to the issuance of the check.

Testing of 12 advancement account transactions disclosed that center management did not review or approve the advancement account checks prior to mailing. When an invoice was received for a purchase, the center's fiscal technician posted the information into the SAP system to record the payment. The SAP system generated an electronically signed check and the check was printed on a special printer and paper at the center. The check was then mailed to the vendor without additional review by center management.

As an added control over the propriety of the advancement account checks, the DPW's Comptroller in Harrisburg can review the support for any advancement account check prepared at the center. The audit team was informed that the DPW Comptroller's office rarely, if ever, requested copies of invoices or other support for the advancement account transactions.

Since neither the center's management nor the DPW Comptroller's office conducted any review or approval of the payment process, an accounting office employee, responsible for processing the advancement account checks, could pay unauthorized transactions, such as personal bills, without being detected.

<u>Recommendation</u>

Center management should require Business Office management to review and approve all advancement account checks and supporting documentation prior to mailing.

<u>Management Comments</u>

At the closing conference, management agreed with the finding and recommendation and stated that the checks and supporting documentation were now being reviewed.

Finding II-2 - Duties for SAP transactions were not adequately segregated.

The center did not adequately segregate the duties assigned to employees on the SAP procurement system to reduce the risk of errors or fraud. A Stock Clerk 3 was assigned the incompatible SAP role assignments of Purchaser, EB Pro Requisitioner, and EB Pro Receiver. Therefore, the Stock Clerk 3 could create a purchase requisition, a purchase order, and also receive and post the items. Prudent business practice and SAP role mapping guidelines require separate assignment of purchasing and receiving duties.

SAP role-mapping guidelines state:

> *Positions that receive the Purchaser (responsible for procuring materials and services) role cannot receive any of the following roles:*
>
> - *EB Pro Requisitioner* [responsible for creating and editing purchase requisitions in the EB Pro module of SAP].
> - *EB Pro Receiver* [responsible for entering material and service receipts in the EB Pro module].
> - *Invoice Entry Processor* [responsible for creating and blocking invoices within the R/3 module and validating vendor-entered invoices].[6]

The SAP system does not require management approval for purchases less that $3,000. Theoretically, an individual assigned the authority to create purchase orders and receive goods in the SAP system could order goods valued under $3,000 from a vendor for personal consumption, indicate that he/she is the shipping recipient, and document the receipt on the SAP system without management detection. DPW's Comptroller would then pay the invoice if the invoice, purchase order, and receiving information matched. The assignment of purchasing and receiving roles in the SAP system must be segregated to reduce the potential for undetected errors or fraud.

Recommendation

Center management should evaluate the roles assigned to each center employee in the SAP system and make necessary changes to eliminate incompatible duties.

[6] This information was obtained from the following Internet site: http://www.imaginepa.state.pa.us.

Management Comments

Center management agreed with the finding and recommendation and stated that the SAP roles would be changed in the procurement function. Management also stated that it would implement controls to prevent this situation in the future.

CHAPTER III - HUMAN RESOURCES

Objective and Methodology

As stated previously, the Commonwealth began a comprehensive project to redesign administrative functions, by replacing outdated computer programs with new software. As part of this initiative, the center implemented the SAP Human Resources and Payroll System in January 2004.

The objective of this part of the audit was to determine if the center had adequate management controls over the Human Resources function. To accomplish this objective, we performed the following procedures:

- Reviewed employee benefit factors and personnel costs.
- Randomly selected and tested 25 employees for correct reporting of work/leave hours and employee benefits for the pay period ending September 24, 2004.
- Interviewed appropriate management and staff.
- Evaluated the SAP roles assigned to human resources personnel to determine adequate segregation of duties.

Audit Results

Adequate control existed over the human resources function.

The audit of the SAP human resources function revealed that adequate control existed. Testing of the 25 employees revealed that hours worked, leaved used, and benefits were documented and calculated correctly. Timekeeping staff regularly reviewed payroll documentation for correctness. In addition, auditors evaluated SAP roles assigned to Human Resources personnel and found that no conflicting roles were assigned. Based on this testing, the auditors concluded that adequate control existed over the Human Resources function.

STATUS OF PRIOR AUDIT RESULTS AND RECOMMENDATIONS

Status Of Prior Audit Results And Recommendations

Objectives and Methodology

The following is a summary of the finding and recommendations presented in our audit report from July 1, 2000, to December 13, 2002, along with a description of the Altoona Center's disposition of the recommendation. One or more of the following procedures determined the status of the finding and recommendations:

- A review of the Department's written response, dated May 21, 2003, replying to the Auditor's General's audit report.
- Tests performed as part of, or in conjunction with the current audit.
- Discussions with appropriate center personnel regarding the prior audit finding and recommendation.

Prior Audit Results

Chapter I - Additional energy conservation steps could be realized

Energy Conservation

Our prior audit revealed that center management had not informed the center's staff of electric conservation practices. In addition, several years ago the center had discussed implementing a plan to renovate the building for energy conservation; however, that plan was not implemented. We recommended that the center consider implementing an electric conservation plan.

Status

Our current audit disclosed that the center's electricity costs decreased approximately 14 percent from $202,483 in fiscal year ending June 30, 2002, to $173,181 for the fiscal year ending June 30, 2003. In addition, the center's electricity costs only increased by approximately $400 for the fiscal year ending June 30, 2004. Also, since our prior audit, center management verbally informed staff to conserve electricity costs by turning off equipment and lights when not needed. The center has complied with our recommendation.

Guaranteed Energy Savings Performance Contract

Our prior audit found the potential for significant energy savings from an energy savings performance contract at the Center. Facility improvements to the building's infrastructure and interior environment would enhance energy management and reduce operating costs.

We recommended that Center management implement an electric conservation plan in an effort to reduce costs. Also, we recommended that management consider initiating a guaranteed energy savings contract for further savings.

Status

On January 6, 2005, the Governor's office announced that the center will close on December 31, 2005. Therefore, it would not be prudent for the center to enter into a guaranteed energy contract.

Audit Report Distribution List

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