

**Commonwealth of Pennsylvania**  
**Department of Military and Veterans Affairs**  
**Hollidaysburg Veterans Home**  
**July 1, 2003, to October 7, 2005**  
**Performance Audit**





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October 5, 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 the Hollidaysburg Veterans Home of the Department of Military and Veterans Affairs from July 1, 2003, to October 7, 2005. The audit was conducted under authority provided in Section 402 of The Fiscal Code and in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States.

The report details the audit objectives, scope, methodology, findings, and recommendations. The report notes that Hollidaysburg did not bill Medicare Part B for occupational therapy services from July 2003 through September 2005 or for physical therapy services from August 2004 through September 2005. The status section of the report indicates that the facility again incurred significant overtime costs in its executive office, and only recently implemented changes to reduce the overtime. Additionally, the status section notes weaknesses in the segregation of duties in procurement through the SAP R/3 Materials Management module. The contents of the report were discussed with officials of the home, and all appropriate comments are reflected in the report.

We appreciate the cooperation extended to us by the management and staff of the Hollidaysburg Veterans Home and by others who provided assistance during the audit.

Sincerely,

JACK WAGNER  
Auditor General



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## **Background Information**

### **Department of Military and Veterans Affairs**

The Department of Military and Veterans Affairs (Department) administers a wide variety of services and benefit programs for veterans, their dependents, and their spouses throughout the Commonwealth of Pennsylvania (Commonwealth). 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> The Bureau of Veterans Affairs (Bureau) has been designated by the Adjutant General as the unit responsible for coordinating all matters relating to veterans affairs with other state and federal agencies. The Bureau headquarters are at Fort Indiantown Gap, Annville, Pennsylvania, and operates field offices in Philadelphia, Pittsburgh, and Wilkes-Barre.

As of June 30, 2005, the Bureau administered six state-operated 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

These facilities provided domiciliary, nursing, and personal care to veterans who served in the Armed Forces of the United States or in Pennsylvania Military Forces and who were released from service under honorable conditions.

### **Hollidaysburg Veterans Home**

Hollidaysburg Veterans Home (Hollidaysburg) is located in Hollidaysburg, Blair County, approximately five miles south of Altoona. Hollidaysburg was created through Act 211 of 1976. Previously, it was operated as a Department of Public Welfare state mental hospital and was officially turned over to the Department on September 1, 1977.

Hollidaysburg provides domiciliary, nursing, and personal care, and is accredited by the federal Veterans Administration. It is fully licensed by the Commonwealth's Departments of Health (nursing care) and Public Welfare (personal care). As of June 30, 2005,

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

## **Background Information**

Hollidaysburg operated 514 beds comprised of 66 domiciliary care beds, 101 personal care beds, and 347 nursing care beds.

In addition to conducting general operations, Hollidaysburg is responsible for the maintenance and accountability of residents' personal income and welfare. Hollidaysburg administers a members fund, a depository for personal funds, which is a service to residents. A welfare fund is also established to provide entertainment and craft activities from proceeds generated from canteen operations, vending commissions, donations, and interest earnings.

A Commandant manages the day-to-day operations. In addition, a separately appointed 15 member advisory council assists in Hollidaysburg's operations. Funding for operations is provided from a combination of sources: state appropriations, federal reimbursements from the federal Veterans Administration, and the collection of maintenance fee assessments from residents. The following schedule presents select unaudited Hollidaysburg operating data compiled for the fiscal years ended June 30, 2003, 2004, and 2005:

	2003	2004	2005
Operating expenditures (rounded in thousands) <sup>2</sup>			
State	\$29,765	\$30,242	\$30,709
Federal	<u>6,274</u>	<u>8,904</u>	<u>7,600</u>
Total	<u>\$36,039</u>	<u>\$39,146</u>	<u>\$38,309</u>
Employee complement positions at year-end	603	603	603
Hollidaysburg Capacity			
Nursing unit	347	347	347
Domiciliary unit	66	66	66
Personal unit	<u>101</u>	<u>101</u>	<u>101</u>
Totals	<u>514</u>	<u>514</u>	<u>514</u>
Available bed days of care			
Nursing unit	126,655	127,002	126,655
Domiciliary unit	24,090	24,156	24,090
Personal unit	<u>36,865</u>	<u>36,966</u>	<u>36,865</u>
Totals	<u>187,610</u>	<u>188,124</u>	<u>187,610</u>

<sup>2</sup> Operating expenditures were recorded net of fixed asset costs, an amount that would normally be recovered as part of depreciation.

## **Background Information**

	2003	2004	2005
Daily Average Census <sup>3</sup>			
Nursing unit	328	330	321
Domiciliary unit	63	62	62
Personal unit	<u>77</u>	<u>79</u>	<u>85</u>
Totals	<u>468</u>	<u>471</u>	<u>468</u>
Actual bed days of care			
Nursing unit	119,725	120,709	117,055
Domiciliary unit	23,028	22,845	22,615
Personal unit	<u>27,999</u>	<u>28,799</u>	<u>30,977</u>
Totals	<u>170,752</u>	<u>172,353</u>	<u>170,647</u>
Percentage of bed days utilized			
Nursing unit	94.5%	95.0%	92.4%
Domiciliary unit	95.6%	94.6%	93.9%
Personal unit	76.0%	77.9%	84.0%
Daily average cost per resident <sup>4</sup>	\$211	\$227	\$225
Yearly average cost per resident <sup>5</sup>	\$77,037	\$83,129	\$81,941

<sup>3</sup> Daily average census was calculated by dividing the actual bed days of care for the year by the number of calendar days in the year.

<sup>4</sup> Daily average cost per resident was calculated by dividing the total operating expenditures by the combined actual days of care for nursing, personal, and domiciliary care.

<sup>5</sup> Yearly average cost per resident was calculated by multiplying the daily average cost per resident by the number of calendar days in the year.

## *Objectives, Scope, and Methodology*

The audit objectives are detailed in the body of the report. We selected the objectives from the following general areas:

- Revenue management, including the facility's billing of Medicare Part B for in-house occupational and physical therapy services.
- Client management, including Hollidaysburg's fire safety policies related to smoking.
- Personnel management, including Hollidaysburg's implementation of the SAP software package in the employee leave component of its payroll system, as well as the facility's hiring practices.

In addition, we determined the status of the recommendations from the prior report regarding Medicare Part B reimbursements, equipment usage, the overtime and compensatory time earned by Hollidaysburg staff, procurement through the advancement account and the SAP R/3 Materials Management module, and the collection of rental revenue from the Department of Public Welfare.

To accomplish these objectives, we interviewed Hollidaysburg management and staff, reviewed available records, and analyzed pertinent regulations, policies, and guidelines.

The scope of the audit was from July 1, 2003, to October 7, 2005, unless indicated otherwise in the individual report chapters.

## **Chapter I – Medicare Part B**

### **Objective and Methodology**

Hollidaysburg residents who receive Social Security, Railroad Retirement, or similar retirement payments may be eligible to participate in the Medicare Part B insurance program. For each eligible resident, Hollidaysburg can seek reimbursement medical, therapeutic, or psychiatric procedures performed by the facility's professional medical staff. After delivering services to an eligible resident, facility medical personnel document each procedure in the resident's medical file, and then the facility's Medicare coordinator can electronically prepare an encounter form. The encounter form, which documents the procedural data, must include the resident's name, service date, diagnosis, procedure code, and time spent completing the procedure. The forms are then forwarded to a healthcare information technology firm that bills the insurance carrier.

During the prior audit, (fiscal years ended June 30, 2002, and June 30, 2003) only in-house staff provided Hollidaysburg residents with occupational therapy services. At the same time, both an outside contractor and in-house staff provided physical therapy services. The prior audit disclosed that Hollidaysburg did not maximize its Medicare Part B revenue. The facility did not bill Medicare Part B for any occupational therapy services. Additionally, the facility could not bill Medicare Part B for physical therapy services provided by in-house staff, since the outside contractor billed for its services. The report recommended that Hollidaysburg bill for all allowable occupational therapy services provided by its in-house staff. The report also recommended that the facility cancel its out-sourced physical therapy contract, provide only in-house physical therapy services, and bill for the corresponding Medicare Part B reimbursement.

The objective of the current audit was to evaluate Hollidaysburg's corrective actions associated with the recommendations of the prior report. To accomplish this objective, we performed the following procedures:

- Interviewed Hollidaysburg management and staff, including the Chief Physical Therapist, the Facility Reimbursement Officer, and the Business Manager.
- Reviewed the Centers for Medicare and Medicaid Services (CMS) policies and procedures for Medicare,<sup>6</sup> the Medicare Part B Reference Manual,<sup>7</sup> and the Medicare fee schedule for the 2005 calendar year.<sup>8</sup>

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<sup>6</sup> <http://www.cms.hhs.gov/manuals>, view date: July 27, 2005.

<sup>7</sup> <http://www.hgsa.com>, view date: August 22, 2005.

<sup>8</sup> <http://www.hgsa.com/professionals/feecd/2005PhysicianFeeSchedule/fee9905.pdf>, view date: August 30, 2005.

## **Chapter I – Medicare Part B**

- Examined the facility’s August 2005 list of residents who were eligible for Medicare Part B insurance.
- Analyzed the facility’s summary of physical and occupational therapy evaluations and treatments for November 2004 through January 2005.
- Estimated Medicare Part B reimbursements for occupational and physical therapy services.

### **Audit Results**

#### **Finding I-1 – Hollidaysburg still did not bill Medicare Part B for occupational therapy services.**

According to the Medicare Benefit Policy Manual, Hollidaysburg can seek reimbursement for covered services, including occupational and physical therapy. Section 50.3.1 of the manual states, as follows:

*Many State governments operate veterans homes and hospitals. These institutions are generally open only to veterans and certain dependents of veterans... These institutions are financed primarily from State funds; in addition, most receive nominal per diem payments from the Veterans Administration... When such a participating institution charges its residents and patients to the extent of their ability to pay, or seeks payment from available sources other than Medicare, benefits are payable for covered items and services furnished to Medicare beneficiaries.<sup>9</sup>*

Hollidaysburg did not bill Medicare Part B for occupational therapy services from July 2003 through September 2005. Although the occupational therapy department provided reimbursable services, it did not submit any medical assessment or treatment information to the Medicare Part B coordinator for the electronic preparation of encounter forms for billing. As a result, Hollidaysburg did not receive an estimated \$137,624 in Medicare Part B reimbursement.

Hollidaysburg management estimated that the facility’s occupational therapy personnel performed an average of 51 evaluations and 185 treatments monthly. Approximately 71 percent of Hollidaysburg’s residents possessed Medicare Part B insurance in 2005. According to Medicare Part B fee schedules for the 2005 calendar year, the billable fee for an occupational therapy evaluation was \$77.86, and the billable fee for an occupational

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<sup>9</sup> Centers for Medicare and Medicaid Services Medicare Benefit Policy Manual, Section 50.3.1, “Application of Exclusion to State and Local Government Providers,” Revised October 1, 2003.

## Chapter I – Medicare Part B

therapy treatment was \$27.04.<sup>10</sup> The following table summarizes the estimated value of the unbilled occupational therapy services from July 2003 through September 2005.

	Evaluations	Treatments	Total
Number of services to all residents (27 months)	1,377	4,995	
Number of services to residents with Medicare Part B (27 months)	978	3,546	
Billable fee <sup>11</sup>	\$77.86	\$27.04	
Value of treatments	\$76,147	\$95,883	\$172,030
Less 20% co-pay	<u>15,229</u>	<u>19,177</u>	<u>34,406</u>
Net unbilled services	<u>\$60,918</u>	<u>\$76,706</u>	<u>\$137,624</u>

### Recommendation:

Hollidaysburg should require the staff of the occupational therapy department to submit all necessary medical assessment and treatment information to the Medicare Part B coordinator for billing.

### Management Comments:

At the exit conference on September 26, 2006, Hollidaysburg management stated that the facility was in the process of implementing the audit recommendation.

### **Finding I-2 – Hollidaysburg did not bill Medicare Part B for in-house physical therapy services.**

According to the Section 5.1 of the Medicare Part B Reference Manual, Medicare Part B benefits cover physical therapy services.<sup>12</sup> Although Hollidaysburg cancelled its out-sourced physical therapy contract on July 31, 2004, and provided all physical therapy services in house since August 1, 2004, it did not bill Medicare Part B for physical therapy services from August 2004 through September 2005. As a result, Hollidaysburg did not receive an estimated \$65,733 in Medicare Part B reimbursement.

According to the Chief Physical Therapist, the physical therapy staff only had the time/opportunity to perform treatments and not to measure and document the time spent conducting the treatments. The facility must submit the time expenditure information in order to receive Medicare Part B reimbursement.

<sup>10</sup> <http://www.hgsa.com/professionals/feecd/2005PhysicianFeeSchedule/fee9905.pdf>, view date: August 30, 2005.

<sup>11</sup> Audit calculations used the lower of two applicable fees for treatment. In 2005, the billable fee for therapeutic exercise was \$27.04, while that for therapeutic activities equaled \$28.39.

<sup>12</sup> <http://www.hgsa.com>, view date: August 22, 2005.

## Chapter I – Medicare Part B

Hollidaysburg management estimated that the facility’s physical therapy personnel performed an average of 284 physical therapy services monthly. Approximately 71 percent of Hollidaysburg’s residents possessed Medicare Part B insurance in 2005. The following table summarizes the estimated value of the unbilled physical therapy services for the 14 months from August 2004 through September 2005.

Service Description	Number of Services for All Residents (14 months)	Number of Services for Residents w. Medicare Part B (14 months)	Billable Fee <sup>13</sup>	Value of Services	Less 20% Copay	Net Unbilled Services
Evaluation	238	169	\$73.04	\$12,344	\$ 2,469	\$ 9,875
Gait Training	952	676	\$23.80	16,089	3,218	12,871
Therapeutic Activity	1,232	875	\$28.39	24,841	4,968	19,873
Therapeutic Exercise	1,344	954	\$27.04	25,796	5,159	20,637
Neuromuscular Re-education	112	80	\$28.43	2,274	455	1,819
Ultrasound	98	70	\$11.74	822	164	658
Totals	<u>3,976</u>	<u>2,824</u>		<u>\$82,166</u>	<u>\$16,433</u>	<u>\$65,733</u>

### Recommendation:

Hollidaysburg management should require the Chief Physical Therapist to document the time spent for reimbursable physical therapy services so that the necessary information can be submitted to Medicare Part B for reimbursement.

### Management Comments:

Hollidaysburg management stated that the facility was aggressively pursuing implementation of the audit recommendation.

<sup>13</sup> <http://www.hgsa.com/professionals/feecd/2005PhysicianFeeSchedule/fee9905.pdf>, view date: August 30, 2005.



## **Chapter II – Fire Safety**

### **Objectives and Methodology**

In 2005, Hollidaysburg provided residency and different levels of care to about 670 veterans and/or their spouses. In its personal and domiciliary care units, Hollidaysburg provided food and shelter, medical and nursing care, therapeutic services, and recreational activities to residents who did not require constant nursing care. In its nursing unit, the facility provided 24-hour care, seven days per week.

Hollidaysburg's fire safety program must address the needs of its diverse residential population, including the special requirements of residents who use oxygen canisters or tanks. According to Hollidaysburg's written policies and procedures, the facility designed its smoking policies to accommodate the rights of smokers and non-smokers while protecting people and property from the hazards associated with the careless use and disposal of smoking materials.

The objectives of this part of the audit were to determine whether Hollidaysburg complied with its smoking policies and procedures, as well as to assess the sufficiency of those guidelines. To accomplish these objectives, we performed the following procedures:

- Reviewed Hollidaysburg's smoking policies and procedures.
- Interviewed the facility's safety manager.
- Toured the facility's grounds and three residential halls.
- Reviewed the minutes of the meetings of the facility's smoking committee from January 2005 to June 2005.
- Examined the August 2005 schedules for volunteer smoking monitors in the smoking rooms of the nursing care units.
- Analyzed the two smoking-related incident reports from January 2005 through September 2005.

## **Chapter II – Fire Safety**

### **Audit Results**

#### **Finding II-1 – Hollidaysburg enforced its properly designed smoking guidelines.**

Hollidaysburg limited the areas where smoking was permitted both inside and outside its buildings. All resident sleeping quarters were smoke free. The examination of smoking room schedules and tours of the residential halls disclosed that Hollidaysburg allowed residents to smoke in only one room at specified intervals in each of its two nursing care units. Additionally, staff volunteers directly supervised resident smoking in the nursing care units. Hollidaysburg prohibited employees, visitors, and volunteers from smoking inside any facility building.

Hollidaysburg furnished all smoking areas with noncombustible ashtrays, self-closing metal containers, and fire extinguishers. In addition, the facility equipped the smoking areas inside and outside the nursing care units with fire suppression blankets.

The smoking committee met at least monthly from January to June 2005. Finally, facility management and social workers appropriately resolved the two smoking violations documented between January and September 2005.

## **Chapter III – Employee Leave**

### **Objective and Methodology**

Hollidaysburg began using the SAP R/3 Payroll module for its human resource and payroll processes in September 2004. The new system permits employees for whom access has been authorized to request time off from work or to modify or delete an existing leave request electronically. Supervisors also electronically approve these leave requests. Alternatively, employees without access to the SAP R/3 module manually request and receive supervisory approval for leave on a standardized form. Timekeepers in Hollidaysburg's payroll department then electronically enter the information from the leave request form into the SAP R/3 system.

As of October 2005, Hollidaysburg authorized the employees from 11 of its 28 departments to submit their personal requests for leave electronically. During the fiscal year ended June 30, 2005, the facility also maintained a second manual record of all employee leave requests on its internally devised record of absence cards.

The objective of this part of the audit was to determine whether Hollidaysburg properly processed its employee leave records through the SAP R/3 Payroll module. To accomplish this objective, we performed the following procedures:

- Interviewed personnel from Hollidaysburg's payroll and human resource departments.
- Reviewed the Commonwealth's Leave and Holiday Programs Manual<sup>14</sup> and its procedures for leave request maintenance through the SAP R/3 Payroll module.<sup>15</sup>
- Compared the record of absence cards and standardized leave request forms for 32 of Hollidaysburg's 600 employees to the leave recorded for the same employees in the SAP R/3 system from September 2004 through June 2005.
- Verified supervisory approval for the September 2004 through June 2005 leave requested by the 25 employees from the above sample without direct access to the SAP R/3 Payroll module.

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<sup>14</sup> Commonwealth of Pennsylvania Governor's Office, Policy Number M530.7 Amended, "Leave and Holiday Programs," July 7, 1998.

<sup>15</sup> [http://www.ies.state.pa.us/hr/lib/hr/BT1000\\_ESS\\_-\\_Leave\\_Request\\_Maintenance.doc](http://www.ies.state.pa.us/hr/lib/hr/BT1000_ESS_-_Leave_Request_Maintenance.doc), view date: September 20, 2005.

## **Chapter III – Employee Leave**

### **Audit Results**

#### **Finding III-1 – Hollidaysburg properly processed employee leave through the SAP R/3 Payroll module.**

Hollidaysburg processed employee leave in compliance with Commonwealth guidelines. The leave recorded in the SAP R/3 Payroll module for the 32 sampled employees agreed with the leave recorded on the facility's record of absence cards and the standardized leave request forms from September 2004 through June 2005. Additionally, supervisors documented approval on all manual leave request forms from the 25 employees in the sample without direct access to the SAP R/3 Payroll module.

## **Chapter IV – Hiring Practices**

### **Objective and Methodology**

Hollidaysburg employs both civil service and non-civil service personnel. Hollidaysburg must hire qualified personnel to ensure that residents receive competent care and that the facility operates efficiently and effectively. Accordingly, employment vacancies should be filled by the best available candidates based on objective, work-related job criteria.

The Civil Service Act provides for “the establishment of conditions of service which will attract to the service of the Commonwealth qualified persons of character and ability and requires their appointment and promotion on the basis of merit and fitness.”<sup>16</sup> The Pennsylvania State Civil Service Commission has prescribed policies and procedures for the recruitment, eligibility assessment, interview, and selection of candidates for positions classified as civil service. The Governor’s Office of the Commonwealth of Pennsylvania has issued management directives for hiring into both civil service and non-civil service positions.

The objective of this part of the audit was to determine whether Hollidaysburg hired non-civil service employees in compliance with the above-mentioned management directives. To accomplish this objective, the following procedures were performed:

- Interviewed the human resource officer at Hollidaysburg, as well as the Director of the Veterans Homes Division for the Department of Military and Veterans Affairs.
- Reviewed hiring policies and procedures specified in Management Directive Number 515.10 from the Commonwealth of Pennsylvania Governor’s Office.<sup>17</sup>
- Analyzed the job postings, applicant lists, job applications, interview documentation, and formal approvals associated with 6 of 73 non-civil service job postings from July 1, 2004, to June 30, 2005.
- Examined the Complement Authorization Request, employee resume’, job description, documented approvals, and transfer notification letter associated with the filling of the one non-civil service job vacancy that was not posted.

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<sup>16</sup> Act of August 5, 1941, P. L. 752, as amended.

<sup>17</sup> Commonwealth of Pennsylvania Governor’s Office, Management Directive Number 515.10 Amended, “Selection and Appointment to Non-Civil Service Positions,” October 30, 2002.

## **Chapter IV – Hiring Practices**

### **Audit Results**

#### **Finding IV-1 – Hollidaysburg complied with hiring guidelines for non-civil service employees.**

The review of Hollidaysburg documentation for the hire of seven sampled non-civil service employees disclosed that the facility hired/transferred all seven employees in compliance with Commonwealth guidelines.

Hollidaysburg assessed the eligibility, interviewed, and selected the candidates for the six posted vacancies, as well as obtained the required pre-appointment approvals from both the Department of Veterans Affairs and the Bureau of State Employment in the Commonwealth's Office of Administration.

Hollidaysburg filled the non-civil service job vacancy that was not posted by transferring a Department of Veterans and Military Affairs employee from another veterans home. The candidate's resume' documented all of the qualifications listed in the position description. Hollidaysburg followed the required procedures for the job transfer and obtained the required pre-appointment approvals.

## **Status of Prior Audit Findings and Recommendations**

### **Objectives and Methodology**

The following is a summary of the audit results and recommendations presented in our audit report for July 1, 2001, to June 27, 2003, along with a description of the disposition of each recommendation by the Hollidaysburg Veterans Home. One or more of the following procedures determined the status of the recommendations:

- A review of the Department's written response, dated July 27, 2004, replying to the Auditor General's audit report.
- Tests performed as part of, or in conjunction with, the current audit.
- Discussions with appropriate facility personnel regarding the prior audit results and recommendations.

### **Prior Audit Results**

#### **Finding I-1 – Occupational therapy services were not billed to Medicare Part B.**

The prior audit reported that Hollidaysburg did not bill Medicare Part B for occupational therapy services due to management's misinterpretation of billing requirements. As a result, Hollidaysburg did not receive between \$50,544 and \$75,030 in Medicare Part B revenue.

We recommended that Hollidaysburg review unbilled occupational therapy treatment records and submit requests for reimbursement to Medicare Part B for all allowable occupational therapy services.

#### Status:

The current audit disclosed that Hollidaysburg did not comply with the recommendation of the prior audit. Hollidaysburg did not bill Medicare Part B for any occupational therapy services from July 2003 through September 2005, as more fully explained in Chapter I of the current report.

## **Status of Prior Audit Findings and Recommendations**

### **Finding I-2 – Providing in-house physical therapy services would be more cost effective.**

The prior audit reported that both an outside contractor and in-house staff provided physical therapy services to Hollidaysburg residents. Hollidaysburg could not bill Medicare Part B for physical therapy services provided by in-house staff, since the outside contractor billed for its services. The report disclosed that it would be more cost effective for Hollidaysburg to cancel the outside contract for physical therapy services and provide these same services using in-house staff.

We recommended that Hollidaysburg cancel its out-sourced physical therapy contract, provide only in-house physical therapy services, and bill for the corresponding Medicare Part B reimbursement.

#### **Status:**

The current audit disclosed that Hollidaysburg partially complied with the recommendations of the prior report. Hollidaysburg changed the composition of its physical therapy staff in September 2003, when it upgraded a vacant activities aide position to a physical therapy assistant position. This upgrade allowed a greater number of treatments to be performed by the facility's in-house staff, since physical therapy assistants provided treatment services and activities aides did not. Hollidaysburg cancelled its out-sourced physical therapy contract on July 31, 2004, and provided all physical therapy services in-house since August 1, 2004. However, Hollidaysburg did not bill Medicare Part B for physical therapy services from August 2004 through September 2005, as discussed more fully in Chapter I of the current report.

### **Finding II-1 – Equipment was purchased but then not used or not immediately put into service.**

The prior audit reported that Hollidaysburg expended over \$122,000 for unnecessary equipment during the fiscal years ended June 30, 2000, and 2001. The unused equipment included the following items:

- As of the close of audit fieldwork in June 2003, Hollidaysburg had not used a mail sorter purchased in January 2001 for about \$18,700. Hollidaysburg also expended approximately \$2,600 for the associated maintenance agreements.
- As of June 2003, Hollidaysburg had not used two mail carts purchased in May 2001 for \$800.
- In June 2000, Hollidaysburg purchased 61 computers and related software upgrades for approximately \$100,000. The facility installed only four of these



## **Status of Prior Audit Findings and Recommendations**

computers upon receipt and placed the remaining 57 computers in storage for 16 to 24 months prior to usage.

Additionally, Hollidaysburg purchased a \$14,000 color copier to replace a leased copier eight months before expiration of the lease agreement. Although the facility did not use the leased copier again, it paid \$2,600 for the last eight months of the agreement.

We recommended Hollidaysburg management thoroughly review the need for new equipment prior to granting purchase approval.

### **Status:**

The current audit disclosed that Hollidaysburg complied with the recommendation of the prior report. Hollidaysburg returned the mail sorter as surplus equipment to the Department of General Services. The facility transferred the two mail carts to its maintenance department, which then used the carts to organize staff supplies. Hollidaysburg programmed and placed the 57 computers into service during the 2002 calendar year. Lastly, the facility cancelled the lease on the unused color copier in April 2003.

Hollidaysburg policies and procedures require the department head, business manager, or Commandant, and the purchasing agent to pre-approve all equipment purchases. The review of 16 of 153 equipment purchases that exceeded \$1,000 and occurred between July 1, 2003, and June 30, 2005, disclosed that the required approvals accompanied all 16 purchases. Additionally, the facility had placed all 16 equipment items into service as of August 2005.

### **Finding III-1 – Excessive overtime and/or compensatory time was authorized by management.**

The prior audit reported that two individuals may have incurred excessive overtime and/or compensatory time. From January 2001 to April 2003, the Director of Nursing earned 479 hours of compensatory time and used 439 hours of compensatory leave. Costs associated with the earned compensatory time totaled about \$18,700.

From July 2001 to May 2003, the Commandant's administrative assistant earned 160 hours of overtime pay and 258 hours of compensatory time and used 240 hours of compensatory leave. Costs associated with the earned compensatory time and overtime totaled approximately \$12,200. In addition, on 14 occasions, the administrative assistant earned compensatory time on the same day that annual or compensatory leave was used with management approval.

We recommended that Hollidaysburg management monitor and reduce the amount of overtime and/or compensatory time earned by the Director of Nursing and the Commandant's administrative assistant. We also recommended that management evaluate

## **Status of Prior Audit Findings and Recommendations**

the job duties of these two positions to determine that all work can be completed within normal working hours.

### Status:

The current audit disclosed that Hollidaysburg made several changes in response to the recommendations in the prior audit report. The facility reduced its total overtime expenditures approximately 21 percent from about \$790,700 for the fiscal year ended June 30, 2003, to about \$627,900 for the fiscal year ended June 30, 2005. Also, the facility's Director of Nursing did not earn either overtime or compensatory time since April 11, 2003.

During the fiscal year ended June 30, 2004, the Commandant's administrative assistant retired, and Hollidaysburg replaced the vacant position with a clerk stenographer III. During the fiscal year ended June 30, 2005, the Commandant's clerk stenographer III earned 773 hours of overtime, valued at approximately \$14,800, an amount that was still excessive. The review of the supporting documentation for the 773 hours disclosed that the overtime involved the preparation of schedules, the transcription of minutes for advisory council meetings, and the preparation of advisory council reports.

Commonwealth guidelines require overtime expenditures to be carefully controlled and monitored, as follows:

*The use of overtime work shall be kept to a minimum. Agency Heads shall strictly control the amount of paid overtime authorized for all employees.*<sup>18</sup>

In July 2005, Hollidaysburg adopted a new overtime monitoring process to minimize facility overtime costs. The facility allotted each department a specified number of overtime hours to be used during the fiscal year ended June 30, 2006. The process required department heads to work within the specified allotments or to justify any overages to upper management. The allotted overtime for the Commandant's clerk stenographer III totaled 113 hours and represented a significant reduction from the actual overtime hours incurred during the previous fiscal year.

The recent actions for limiting overtime use occurred too late for the audit team to assess the effectiveness in controlling excessive overtime. As a result, auditors will continue to monitor overtime usage in the next audit.

### **Finding IV-1 – Management did not review advancement account checks.**

The prior audit reported that management did not review the advancement account checks prior to release to vendors. In addition, the Department's comptroller in Harrisburg rarely requested copies of invoices or other supporting documentation for the advancement account

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<sup>18</sup> Commonwealth of Pennsylvania Governor's Office, Management Directive Number 525.15 Amended, "Overtime," February 10, 1997.

## **Status of Prior Audit Findings and Recommendations**

transactions. Therefore, we concluded that it was possible for an accounting office employee who processed the advancement account checks to misuse advancement account funds (i.e., to pay personal bills) without being detected.

We recommended that business office management review all advancement account checks and supporting documentation prior to releasing the checks for payment.

### Status:

The current audit disclosed that Hollidaysburg complied with the prior audit recommendation. The analysis of 15 of 608 advancement account disbursements between July 1, 2003, and June 22, 2005, revealed that accounting management reviewed the supporting documentation prior to check release as of April 2004. In July 2005, Hollidaysburg management amended the facility's advancement account policies and procedures to explicitly require independent management review of the supporting documentation before check release. In August 2005, management amended the facility's policies and procedures also to require independent management review of the advancement account check register at the end of every month.

### **Finding IV-2 – Purchasing Office employees could perform incompatible duties.**

The prior audit reported that preliminary inquiries identified weaknesses in the controls over procurement through the Materials Management module of SAP R/3. According to interviews, Hollidaysburg's purchasing agent could access and change the purchase requisitions and receiving reports of other Commonwealth agencies.

We recommended that Hollidaysburg's business office review each purchase to ensure that only legitimate purchases are made. We also recommended that computer controls be revised so that staff members of each facility on the SAP system have access to only that facility's transactions in order to eliminate the possibility of unauthorized changes to purchases.

### Status:

The current audit disclosed that the preliminary inquiries of the prior audit yielded incorrect information. The purchasing agent at Hollidaysburg did not have the ability to change the purchase requisitions and receiving reports of other Commonwealth facilities. Personnel only had the ability to view these documents from other agencies. Although the current audit revealed that procurement system controls prevented Hollidaysburg employees from changing the purchase transactions of external agencies, this audit also disclosed potential control weaknesses in the segregation of purchasing duties for five facility employees.

## **Status of Prior Audit Findings and Recommendations**

Hollidaysburg assigned two purchasing agents, its warehouse manager, and two of three stock clerks the ability to create a purchase order and receive goods in the SAP R/3 Materials Management module. By assigning these duties to a single employee, that employee had the ability to order and receive any purchase valued up to \$3,000.

The Commonwealth's role mapping guidelines for establishing a proper segregation of duties in the SAP R/3 Materials Management module require that different persons be assigned the roles of purchasing and receiving merchandise.<sup>19</sup>

Since Hollidaysburg assigned five employees incompatible purchasing duties, the issue of the prior report is unresolved. Therefore, we recommend that Hollidaysburg management evaluate the duties assigned to facility employees in the SAP R/3 Materials Management module and make all necessary changes to optimize the segregation of duties and, thus, internal controls over purchasing.

### **Management Comments:**

At the exit conference on September 28, 2006, management stated that they will, to the best of their ability, remove the incompatible roles from purchase agents and other employees. If the nature of the system controls prevents role removal, management will establish compensating controls.

### **Finding V-1 – Hollidaysburg had not billed for the use of office space.**

The prior audit reported that Hollidaysburg had not billed the Department of Public Welfare for the use of Hollidaysburg office space since June 30, 1997. As a result, Hollidaysburg lost approximately \$58,700 in rental revenue from July 1, 1997, through December 31, 2002.

We recommended that Hollidaysburg management, with the assistance of Department management, renegotiate a rental agreement with the Department of Public Welfare and bill for the past due rent.

### **Status:**

The current audit disclosed that Hollidaysburg complied with the prior audit recommendation. In June 2004, Hollidaysburg billed the Department of Public Welfare about \$71,600 for the rental of office space from July 1, 1997, to June 30, 2004. In April 2005, Hollidaysburg billed the Department of Public Welfare about \$10,200 for office rental during the fiscal year ended June 30, 2005. During March, April, and May 2005, Hollidaysburg received approximately \$81,800 in rental revenue from the Department of Public Welfare.

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<sup>19</sup> <http://www.ies.state.pa.us/imaginapa/lib/imaginapa/Allroles.html>, view date: July 15, 2005.

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