



**Performance Audit**

***Pennsylvania Soldiers' and Sailors' Home***

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

**July 2012**

July 10, 2012

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

Dear Governor Corbett:

The report contains the results of a performance audit of the Pennsylvania Soldiers' and Sailors' Home of the Department of Military and Veterans Affairs for the period from July 1, 2008, to April 15, 2011, unless indicated otherwise. We conducted our audit under authority provided in Section 402 of The Fiscal Code and in accordance with generally accepted government auditing standards.

The report contains two 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 internal controls needed to be strengthened over Members Fund withdrawals. The Home also did not have a written contract for vending machine commissions and management did not verify the accuracy of vending commissions deposited into the Welfare Fund.

We discussed the contents of the report with the management of the Pennsylvania Soldiers' and Sailors' Home, and all comments are reflected in the report.

Sincerely,

**JACK WAGNER**  
Auditor General

**Pennsylvania Soldiers’ and Sailors’ Home  
Department of Military and Veterans Affairs**

**Table of  
Contents**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

---

**Table of  
Contents**

**Background Information** .....1

**Audit Objectives, Scope, and Methodology** .....6

**Audit Results** .....7

**Finding 1** – Pennsylvania Soldiers’ and Sailors’ Home had weak internal controls over Members Fund withdrawals. ....10

**Finding 2** – Pennsylvania Soldiers’ and Sailors’ Home established adequate control over Welfare Fund records and account withdrawals. ....13

**Finding 3** – Pennsylvania Soldiers’ and Sailors' Home did not have a written contract for vending machine commissions and management did not verify the accuracy of vending commissions. ....14

**Finding 4** – Pennsylvania Soldiers’ and Sailors’ Home maintained adequate control over pharmacy operations. ....17

**Status of Prior Audits**.....18

**Audit Report Distribution List** .....22



**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs****Background  
Information**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Background  
Information**

*History, mission,  
and operating  
statistics*

**Department of Military and Veterans Affairs**

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

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

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

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

**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

---

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

<sup>2</sup> [http://www.dmva.state.pa.us/portal/server.pt/community/dmva\\_home/5902](http://www.dmva.state.pa.us/portal/server.pt/community/dmva_home/5902), accessed April 7, 2011; verified May 15, 2012.

**Background  
Information**

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

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 24, 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

**Pennsylvania Soldiers' and Sailors' Home**

The Pennsylvania Soldiers' and Sailors' Home, hereinafter referred to as the Home, is located in Erie County. The Home was created through Act 40, enacted on June 3, 1885. The Home opened its doors to veterans on February 22, 1886. It is located on 26 acres overlooking Lake Erie.

The Home, accredited by the federal Veterans Administration, provides nursing care, dementia/Alzheimer's care, and personal/domiciliary care. It is fully licensed by the Commonwealth's Department of Health for nursing and dementia/Alzheimer's care, and by the Department of Public Welfare for personal/domiciliary care. According to Home staff, as of June 30, 2010, the Home operated 207 beds, including 75 for nursing care, 32 for dementia/Alzheimer's care, and 100 for personal/domiciliary care.

A commandant manages the day-to-day operations of the Home. In addition, a separately appointed 11-member advisory council assists with the Home's operations.<sup>3</sup> A combination of sources provides funding for the Home's operations including state appropriations, federal reimbursements from the US Department of Veterans Affairs, and the collection of maintenance fee assessments from residents.

---

<sup>3</sup> 51 PA C.S.A. §704.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Background  
Information**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

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

	Using Rounding	
	2009	2010
<b>Operating expenditures<sup>4</sup></b>		
State	\$13,084,951	\$12,461,075
Federal	<u>4,329,008</u>	<u>5,619,000</u>
<b>Total operating expenditures</b>	<u>\$17,413,959</u>	<u>\$18,080,075</u>
Employee complement positions at year-end	238	251
Bed capacity at year-end		
Nursing unit	75	75
Dementia/Alzheimer's unit	32	32
Personal/Domiciliary unit	<u>100</u>	<u>100</u>
Total	<u>207</u>	<u>207</u>
Resident population at year-end		
Nursing unit	75	75
Dementia/Alzheimer's unit	32	31
Personal/Domiciliary unit	<u>83</u>	<u>72</u>
Total	<u>190</u>	<u>178</u>
Available resident days of care for the year <sup>5</sup>		
Nursing unit	27,375	27,375
Dementia/Alzheimer's unit	11,680	11,680
Personal/Domiciliary unit	<u>36,500</u>	<u>36,500</u>
Total	<u>75,555</u>	<u>75,555</u>

<sup>4</sup> Operating expenditures were recorded net of fixed assets, an amount that would normally be recovered as part of depreciation. In addition, regional level and indirect charges were not allocated to the totals reported here.

<sup>5</sup> The available resident days of care for the year figure was calculated by multiplying the bed capacity at year-end by the number of days in the year.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Background  
Information**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

	Using Rounding	
	2009	2010
Actual resident days of care for the year		
Nursing unit	27,375	27,375
Dementia/Alzheimer's unit	11,495	11,475
Personal/Domiciliary unit	<u>31,177</u>	<u>26,578</u>
Total	<u>70,047</u>	<u>65,428</u>
Percentage of days utilized <sup>6</sup>		
Nursing unit	100%	100%
Dementia/Alzheimer's unit	98.4%	98.2%
Personal/Domiciliary unit	85.4%	72.8%
Average cost per resident per day <sup>7</sup>	\$249	\$276
Average resident cost per resident per year <sup>8</sup>	\$90,885	\$100,740

**Department of Health Licensure**

All long-term care facilities must have a license to operate in Pennsylvania. The Pennsylvania Department of Health is responsible for monitoring and inspecting long-term care facilities. The inspections are called surveys. The Pennsylvania Department of Health surveys these facilities to ensure that they are complying with state licensure and federal regulations.<sup>9</sup> The federal regulations are applicable for facilities that receive federal Medicare and/or Medicaid reimbursement.<sup>10</sup>

<sup>6</sup> Percentage of days utilized was calculated by dividing the actual resident days of care by the available resident days of care.

<sup>7</sup> Average cost per resident per day was calculated by dividing the total operating expenditures by the combined actual beds days of care.

<sup>8</sup> Average resident cost per resident per year was calculated by multiplying the daily average cost per resident by the number of calendar days in the year.

<sup>9</sup> 28 Pa. Code § 201, "Applicability, Definitions, Ownership and General Operation of Long-Term Care Nursing Facilities;"

28 Pa. Code § 211, "Program Standards for Long-Term Care Nursing Facilities."

<sup>10</sup> United States Department of Health and Human Services (DHHS) Centers for Medicare and Medicaid Services (CMS), CMS Manual System, Publication 100-07 – "State Operations Provider Certification."



**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs****Background  
Information**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

During a facility survey, non-compliance with regulations or deficiencies are identified and reported to the facility for correction. The facility is required to complete a plan of correction for each deficiency reported. The plan must include how the facility will correct the deficiencies and what system will be implemented to prevent reoccurrence.<sup>11</sup>

Surveyors from the Pennsylvania Department of Health's Division of Nursing Care Facilities visit all of the nursing homes in Pennsylvania to determine their compliance with state licensure regulations and federal Medicare and Medicaid regulations. Visits are conducted for a variety of reasons, such as yearly surveys, follow-up visits, and complaint and incident or abuse investigations. If the Pennsylvania Department of Health determines that there are violations of the state or federal regulations, a "Statement of Deficiencies" is sent to the nursing home. A "Statement of Deficiencies" includes information about both the violated regulations and the facts found by the surveyors, which demonstrate the violation of the regulations. The nursing home is required to prepare a plan to correct the violations, unless the violations are very minor, and the plan, called a "Plan of Correction," is submitted to the Department of Health's Division of Nursing Care Facilities.<sup>12</sup>

Our review of Pennsylvania Department of Health Surveys conducted on the Home revealed three repeat deficiencies related to one National Fire Protection Association regulation<sup>13</sup>. The deficiencies noted included the improper use of surge protectors, improper latching of fire doors and an occupancy permit for the pharmacy was not obtained. These same deficiencies were first noted in the November 2008 survey and then again in the November 2009 survey. A follow-up survey conducted by the Department of Health in February 2010 found that these deficiencies were resolved and no additional deficiencies were found.

---

<sup>11</sup>Obtained from the following website:

<http://app2.health.state.pa.us/commonpoc/content/publicweb/Definitions.htm>; viewed January 26, 2012, verified May 15, 2012.

<sup>12</sup> Obtained from the following website: <http://app2.health.state.pa.us/commonpoc/content/publicweb/NCFTText.htm>; viewed November 23, 2010, verified May 15, 2012.

<sup>13</sup> National Fire Protection Association, 101 Life Safety Code.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Objectives,  
Scope, and  
Methodology**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Objectives,  
Scope, and  
Methodology**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our performance audit of the Pennsylvania Soldiers' and Sailors' Home had two objectives. We selected our audit objectives from the following areas: the Members and Welfare Funds, and the pharmacy contract. The specific audit objectives were as follows:

- One To evaluate internal controls and compliance with applicable guidelines concerning the Members and Welfare Funds. (Findings 1, 2, and 3)
- Two To assess internal controls that the Home had in place to oversee and monitor the pharmacy contract. (Finding 4)

Unless indicated otherwise, the scope of the audit was from July 1, 2008, to April 15, 2011.

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 various facility management and staff. The audit results section of this report contains the specific inquiries, observations, tests, and analyses conducted for each audit objective.

We also performed inquiries and tests as part of, or in conjunction with, our current audit to determine the status of the implementation of the recommendations made during our prior audit related to renovations of the commandant's house, and estate billings.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Audit Results**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Audit Results**

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

- Statement of the objective.
- Relevant policies and procedures.
- Audit scope in terms of period covered, types of transactions reviewed, and other parameters that define the limits of our audit, and the methodologies used to gather sufficient evidence to meet the objective.
- Finding(s) and conclusion(s), if applicable.
- Recommendation(s), where applicable.
- Response by Pennsylvania Soldiers' and Sailors' Home management, if applicable.
- Our evaluation of Pennsylvania Soldiers' and Sailors' Home management's response, if applicable.

**Pennsylvania Soldiers’ and Sailors’ Home  
Department of Military and Veterans Affairs**

**Audit Results:  
Members and  
Welfare Funds**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

**Audit Results  
for  
Objective  
One**

**The objective**

Objective one for our performance audit was to evaluate controls and compliance with applicable guidelines concerning the Members and Welfare Funds.

**Relevant policies and procedures**

*Members and  
Welfare Funds*

The Pennsylvania Soldiers’ and Sailors’ Home operates a Members Fund to serve as a convenience account for residents. The Members Fund is a substitute for an individual resident’s checking account. The Members Fund is one account but the Home’s revenue office maintains “Sub” accounts for each resident detailing receipts and disbursements within the Fund. The resident’s account balance is verified by the Home’s revenue office before any checks are written or disbursements are made from an account. The Members Fund functions as a voluntary depository to safeguard residents’ funds while providing reasonable access to these funds.

The Home also operates a Welfare Fund for the health, recreation, and welfare of its residents. The fund consists of non-appropriated funds generated from cash and property donations, interest earnings, vending machine commissions, and fund-raising activities.

The Department of Military and Veterans Affairs and the Home have established policies and procedures for administering the Members Fund and the Welfare Fund.<sup>14</sup>

The Department of Military and Veterans Affairs’ “Handbook of Procedures for Accounting” sets forth the purpose, responsibility, and the accounting of deposits and withdrawals for both the Members and Welfare

<sup>14</sup> Department of Military and Veterans Affairs, Handbook of Procedures, Accounting, Part IV – Members Fund Section and Part V – Welfare Fund Section, revised January 1, 2001;

Pennsylvania Department of Military and Veterans Affairs, Standard Operating Procedures Members’ Fund Accounts at State Veterans’ Homes, (undated);

Pennsylvania Soldiers’ and Sailors’ Home Policies and Procedures, Revenue and Members Fund, Subject: Withdrawals from Resident’s Accounts for NCU [Nursing Care Unit] Residents, revised March 2006;

Pennsylvania Soldiers’ and Sailors’ Home Policies and Procedures, Revenue and Members Fund, Subject: Withdrawals from Resident’s Accounts for PCU [Personal Care Unit] Residents, revised March 2006.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Audit Results:  
Members and  
Welfare Funds**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

Funds. The Home has developed additional policies regarding withdrawal limits from Members Fund accounts.

**Scope and methodologies to meet our objective**

To establish our understanding of the Members Fund and the Welfare Fund, we reviewed applicable Department of Military and Veterans Affairs and Home policies and procedures.

We interviewed the appropriate Home personnel responsible for the oversight of the Members Fund and Welfare Fund.

We reviewed relevant management controls established by the Home, including the Members Fund and Welfare Fund bank statements and reconciliations from July 2008 through December 2010. We also performed an unannounced petty cash count for both the Members and Welfare Funds.

For the Members Fund, we tested 30 of 2,690 withdrawals and 45 of 871 deposits that occurred from July 1, 2008, through December 31, 2010. We also reviewed supporting documentation for the selected withdrawal and deposit transactions.

We tested 11 of 184 Members Fund withdrawals that occurred from July 2010 through December 2010 for the 11 residents that the Home identified as financially incapable.

For the Welfare Fund, we tested 30 of 958 withdrawals and 30 of 349 deposits that occurred from July 1, 2008, through December 31, 2010. We also reviewed the supporting documentation for the selected withdrawal and deposit transactions.

Finally, we reviewed vending machine commission payments from July 2010 through December 2010 that were received and deposited into the Welfare Fund by the Home.

**Audit Results:  
Members and  
Welfare Funds**

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Finding 1**

**Pennsylvania Soldiers' and Sailors' Home had weak internal controls over Members Fund withdrawals.**

The Home's reimbursement officer and staff of its revenue office were responsible for maintaining controls over the receipt and disbursement of resident funds from its Members Fund. Our interviews with revenue office staff and our examination of fund transactions found that control deficiencies existed over the withdrawals made by both financially incapable and physically incapable residents.

**Withdrawals by financially incapable residents.** Pennsylvania Soldiers' and Sailors' Home management provided account documentation of 11 residents determined to be financially incapable. Financially incapable is the inability to understand and manage fiscal matters as determined by qualified staff. Department of Military and Veterans Affairs policy states:

*If a resident is evaluated to be financially incapable, the Commandant/Designee shall notify Members' Fund in writing of this determination. All withdrawals must be signed by the Commandant or his designee after this notification.<sup>15</sup>*

Our review of 11 withdrawal transactions totaling \$244.56 from July 1, 2010 to December 31, 2010, for 11 financially incapable residents found that none of the 11 requests were signed/approved by the Commandant /Designee. The withdrawal forms were completed and signed by the financially incapable resident. However, the Home's revenue office failed to obtain the commandant/designee's approval for the transactions prior to disbursing the funds.

Without proper approval, the potential exists for residents' funds to be withdrawn from their accounts inappropriately and used for unauthorized purposes.

---

<sup>15</sup> Department of Veterans and Military Affairs, Handbook of Procedures, Accounting Part IV- Members Fund Section, number 403.3-Determination of Financial Capability, 3, revised January 1, 2001.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

**Audit Results:  
Members and  
Welfare Funds**

---

**Withdrawals by physically incapable residents.** Physically incapable is the inability for a resident to physically move one or more extremities. Our audit of Members Fund withdrawals found that several residents were physically incapable of going to the Home's revenue office to make a withdrawal as required by the Pennsylvania Soldiers' and Sailors' Home policy. However, we found that these residents had the ability to sign documents. The Home's policy states:

*Member must come in person to the Revenue Office to withdraw cash or make a request for a check from his/her account. The only exception will be Powers of Attorney and/or Guardians of a resident. The Withdrawal Request must be signed by the Member themselves or by Powers of Attorney and/or Guardians.<sup>16</sup>*

Home management stated that for physically incapable resident withdrawals, the resident's social worker goes to the reimbursement office to accept and sign for the cash received. The social worker then delivers the cash directly to the resident. Through interviews with Home personnel, we found that the physically incapable residents were not required to sign the withdrawal slip, which documents actual receipt of funds. We found that the Home did not comply with the above policy. The withdrawal transactions were completed by the Home's revenue office even though the social workers were not designated as the resident's Power of Attorney or Guardians.

The Home did not have a policy addressing withdrawals for a physically incapable resident to ensure that the individual actually received the funds. Although our audit of the 30 Members Fund withdrawals did not reveal any discrepancies, a formal policy is needed to address this practice to ensure the residents' assets are protected.

**Accounting records.** We evaluated the accuracy of accounting records by performing a petty cash count and by examining Home management's reconciliation of accounting records with the bank account balances. Our unannounced petty cash count of the Members Fund resulted in no errors

---

<sup>16</sup> Pennsylvania Soldiers' and Sailors' Home Policies and Procedures, Revenue and Members Fund, Subject: Withdrawals from Resident's Accounts for NCU [Nursing Care Unit] Residents.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Audit Results:  
Members and  
Welfare Funds**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

being detected. Bank reconciliations were prepared timely, accurately, and in compliance with established policies and procedures for the Members Fund.

**Deposits.** Our audit of the selected Members Fund deposits found that the deposits were made in compliance with established policies and procedures. Receipts were issued for all funds received on behalf of its members and bank deposits were made in a timely manner. Home management's deposit practices complied with established policies and procedures for the Members Fund.

**Recommendations  
for Finding 1**

1. The Pennsylvania Soldiers' and Sailors' Home should strengthen its policy on the cash disbursements to residents. The policy should address the situation where a resident is physically unable to go to the reimbursement office and needs their funds to be delivered to them. A signature should be required at the time the cash is received by a Home employee from the reimbursement office and also at the time of delivery to the resident.
2. The Pennsylvania Soldiers' and Sailors' Home management should also comply with the Department's policy regarding financially incapable residents.

**Comments from Pennsylvania Soldiers' and Sailors' Home  
management:**

*We have updated our policy for residents unable to come to the reimbursement office as follows: Social Services will obtain a cash disbursement slip from accounting and have the resident complete and sign the slip. Social Services then brings the signed slip to accounting. They receive the cash requested on the slip, then give the cash to the resident along with a copy of the disbursement slip as a receipt. Additionally, management will re-educate the appropriate staff members on our policy for handling financially incapable residents.*



**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

**Audit Results:  
Members and  
Welfare Funds**

---

**Our evaluation of management's response:**

*The corrective action outlined in the management response appears to be adequate. We will conduct additional audit work in our next audit of the Home to ensure that the planned corrective action was actually implemented.*

---

**Finding 2****Pennsylvania Soldiers' and Sailors' Home established adequate control over Welfare Fund records and account withdrawals.**

Our objective also included the evaluation of management's controls over the Welfare Fund. Our review of controls over the Welfare Fund involved an evaluation of the following: The Home's controls in place to ensure the accuracy of account records for the Welfare Fund, and the controls over the withdrawal and deposit of funds. We also evaluated management's efforts to comply with established policies and procedures for administering the Welfare Fund.

**Accounting records.** We evaluated the accuracy of accounting records by performing a petty cash count and by examining Home management's reconciliation of accounting records with the bank account balances. Our unannounced petty cash count of the Welfare Fund resulted in no errors being detected. Bank reconciliations were prepared timely, accurately, and in compliance with established policies and procedures for the Welfare Fund.

**Withdrawals.** Our audit of the selected Welfare Fund withdrawals found that the withdrawals were made in compliance with established policies and procedures. All withdrawal requests were documented and recorded timely in compliance with established policies and procedures for the Welfare Fund.

**Deposits.** Our audit of selected Welfare Fund deposits found that deposits for cash and property donations, fund-raising activities and interest earnings were made in compliance with established policies and procedures. However, we identified deficiencies with vending machine commission deposits as explained in Finding 3.

**Audit Results:  
Members and  
Welfare Funds**

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

---

**Finding 3**

**Pennsylvania Soldiers' and Sailors' Home did not have a written contract for vending machine commissions and management did not verify the accuracy of vending commissions.**

Our audit of selected Welfare Fund deposits found that the Home received commission payments from a vendor who was responsible for stocking merchandise and collecting cash from sales in eight vending machines that were on institution grounds. We requested a copy of the vending machine agreement and found that the Home did not have a formal agreement with the vending company.

Pennsylvania Soldiers' and Sailors' Home management stated that sometime in 2009, a former Commandant entered into an informal agreement with a vending company. The only document supporting this agreement is not dated or signed by either party. When we examined the informal agreement we found that the document included the type of product sold and prices, the type of equipment used and location on grounds, and the commission rate of 8 percent for candy items and a rate of 10 percent for all other products.

According to Home management, the vending company only sent a check each month but did not include a statement of total sales and the calculation of the commission. Therefore, the Home could not verify the accuracy of commissions received. The Home also did not request the total sales and commissions calculations from the vendor. In addition, Home management did not accompany vending employees during the re-stocking of the machines in order to obtain sales totals for commission verification.

We examined the six vendor commission payments totaling \$2,158 that were received by the Home from July 2010 through December 2010, and verified that each of the six payments was properly deposited into the Welfare Fund by the Home.

However, we concluded that the Home may be losing money that is for the benefit of the residents, since management failed to perform procedures verifying that the correct amount of vending commissions was received.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Audit Results:  
Members and  
Welfare Funds**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Recommendations  
for Finding 3**

3. The Pennsylvania Soldiers' and Sailors' Home should develop a formal agreement with the vending company that details all necessary information, including the manner in which commission payments are calculated.
4. In addition, the Pennsylvania Soldiers' and Sailors' Home management should monitor vending sales and verify the accuracy of commissions received.

**Comments from Pennsylvania Soldiers' and Sailors' Home  
management:**

*Management has switched to a new vendor (AVI). We have an agreed upon commission rate. Management monitors this rate as AVI includes a statement summary of our sales and commissions with each monthly commission check they send to us.*

**Our evaluation of management's response:**

*The above response appears to address only a portion of the deficiencies we identified. Specifically, the response did not indicate if the Home signed a formal agreement with the new vendor. Furthermore, while a detailed statement of sales and commissions will allow the Home to monitor vending sales month to month and recalculate the commission, it will not allow the Home to verify the accuracy of the sales numbers reported on the statement. We reiterate our recommendation of a Home employee accompanying the vendor when machines are re-stocked.*

**Pennsylvania Soldiers’ and Sailors’ Home  
Department of Military and Veterans Affairs**

**Audit Results:**

**Pharmacy**

**Contract**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

**Audit Results**

**The objective**

**for  
Objective  
Two**

Objective two for our performance audit was to assess key controls governing pharmacy operations including contract monitoring.

**Relevant policies and procedures**

*Pharmacy  
Contract*

The Pennsylvania Soldiers’ and Sailors’ Home contracts with the federal Department of Veterans Affairs (VA) to purchase pharmaceuticals through the federal “Veterans’ Health Administration Sharing Agreement.” This contract, which utilizes bulk pharmaceutical purchasing through an outside vendor, allowed the Home to obtain prescription medications at a savings over the same medications available on a statewide pharmacy contract procured by the Commonwealth’s Department of General Services. During our audit period, the Department of Military and Veterans Affairs’ Bureau of Veterans’ Affairs obtained a temporary waiver from the Department of General Services. The waiver allowed the Home to contract for pharmaceutical services through the Veterans’ Health Administration instead of using a state contractor during the audit period.

The Home has an Operational Policy and Procedure Manual that established policies and procedures for pharmaceutical services.<sup>17</sup>

**Scope and methodologies to meet our objective**

To establish an understanding of the pharmacy contract, we reviewed the pharmaceutical agreement between the Home and the VA, as well as all related documents.<sup>18</sup> We also reviewed Pennsylvania Soldiers’ and Sailors’ Home policies for pharmaceutical services.

<sup>17</sup> Commonwealth of Pennsylvania, Department of Military and Veterans Affairs, Pennsylvania Soldiers’ and Sailors’ Home, Operational Policy and Procedure Manual, Chapter 21- Pharmaceutical Services, undated.

<sup>18</sup> Agreement for use of Department of Veterans Affairs Health Care Resources, Agreement Number VA-244-M-0933, effective July 1, 2009, through June 30, 2014;

Under Secretary for Health’s Information Letter, “Guidelines for Veterans Health Administration (VHA) Facilities providing prescribed medications to eligible veterans in state homes,” dated February 2, 1999.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Audit Results:  
Pharmacy  
Contract**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

We interviewed the appropriate Home personnel responsible for the monitoring the pharmacy contract.

We tested 74 of 868 pharmacy items from the March 2, 2011, inventory list to determine the following: the accuracy of inventory records, whether adequate controls existed over the dispensing and disposal of medications, and whether items were priced in accordance with the federal supply schedule.

We also randomly selected and tested 47 of 49,020 invoices from July 1, 2008, to December 31, 2010, to determine if billings for pharmacy items were properly reviewed and approved prior to payment.

---

**Finding 4**

**Pennsylvania Soldiers' and Sailors' Home maintained adequate control over pharmacy operations.**

Our review of the pharmacy operations found that the Pennsylvania Soldiers' and Sailors' Home complied with its policies and procedures pertaining to the ordering, dispensing, returning, and disposing of medications. The Home also complied with policies pertaining to controls and security over its pharmaceutical inventory.

We also reviewed the federal "Veterans' Affairs (VA) Sharing Agreement" and found that the Home's controls were sufficient to ensure that services billed were actually provided; invoices were accurate, and were approved prior to payment by a pharmacy technician. In addition, testing of 74 inventoried pharmacy items revealed that the Home received correct pricing for each item in accordance with the federal supply schedule for pharmacy items.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Status of  
Prior Audits**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Status of  
Prior Audits**

Our prior audit report of the Pennsylvania Soldiers' and Sailors' Home covered the period of July 1, 2006, to August 22, 2008, and contained seven findings. Six of the findings (Findings 1, 2, 3, 4, 5, and 7) were positive and thus had no recommendations. The status of the remaining finding (Finding 6) and its accompanying recommendations is presented below.

The prior audit report also contained one still unresolved finding (Finding 1) from the audit report of the Pennsylvania Soldiers' and Sailors' Home that covered the period of July 1, 2003, to February 24, 2006. The status of the unresolved finding and its accompanying recommendations is also presented below.

**Scope and Methodology for our work**

To determine the status of the implementation of the recommendations made during the prior audits, we held discussions with appropriate institution personnel and performed tests as part of, or in conjunction with, the current audit.

---

**Prior Finding 1**

**A renovation project was completed without following proper approval and purchasing guidelines, purchase justifications were altered, and purchased tools were missing. (Resolved)**

**(from the audit reports dated July 1, 2006, to August 22, 2008, and July 1, 2003, to February 24, 2006)**

The initial audit report for the period of July 1, 2003, to February 24, 2006, revealed the improper approval of \$30,947 of expenditures. These expenditures included bathroom and kitchen plumbing renovations, hardware fixtures and appliances, general carpentry supplies, tools, furnaces, and air conditioning units. The Home did not use the appropriate bidding procedures to complete this project. In addition, Home officials did not obtain the proper building permits, nor did they obtain an occupancy permit. Finally, auditors noted several expensive tools, purchased for the renovation, that were not in the Home's possession and no one could account for the whereabouts of the tools.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Status of  
Prior Audits**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

The prior audit for the period from July 1, 2006, to August 22, 2008, found that the Home had the plumbing and electrical systems in the Commandant's house inspected and these systems were in compliance with applicable codes. However, the Home had not obtained an occupancy permit for the commandant's house. Also, the Home purchased a tool chest to secure specialty tools and only the maintenance manager and foreman had keys.

In addition, the Home incurred \$10,974 of additional expenditures for the Commandant's house without a final, approved usage plan. Finally, the Commandant's house remained unoccupied.

We recommended that all future projects be properly planned, budgeted, and approved prior to commencing the project in order to eliminate wasteful spending of Commonwealth funds. We recommended in both audits that Home management ensure that all future projects are completed in accordance with applicable policies and procedures. We also recommended in both audits that the Home have the Commandant's house approved for occupancy. Finally, we again recommended that the Home conduct an internal investigation to discover the whereabouts of the missing tools, and if still not located, hold appropriate personnel accountable.

The Department responded by stating that future projects will be completed in accordance applicable policies and procedures. All projects at the Home must be on the facility's five year plan. The plan will be monitored by the Department to ensure adherence to all purchasing guidelines.

**Status as of this audit.** Pennsylvania Soldiers' and Sailors' Home management provided auditors with a list of future projects scheduled to be completed in the next five years. We randomly selected and tested 12 of 109 future projects and found all 12 were properly planned, budgeted and approved.

Home management stated that for the Commandant's house, significant expenditures would be necessary for a new usage plan to meet building code and Department of Labor and Industry occupancy requirements. The current budgetary constraints prevented any further investment in the

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Status of  
Prior Audits**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

building. Therefore, the Commandant's house would continue to be used for storage.

The Department of Veterans and Military Affairs completed an investigation into the missing tools. The investigation reported its findings in a report dated August 14, 2006. The investigation reported the misconduct of two employees who were terminated on March 23, 2005. The missing tools were never recovered. The investigator determined that there was no need for further investigation or disciplinary action.

We concluded that the Pennsylvania Soldiers' and Sailors' Home implemented our prior audit recommendations.

---

**Prior Finding 6    The Home did not comply with current Department of Military and Veterans Affairs policy for discharged residents with outstanding billing claims. (Resolved)**

**(from the audit report dated July 1, 2006, to August 22, 2008)**

Our prior audit disclosed that the Pennsylvania Soldiers' and Sailors' Home did not submit estate recovery files of discharged residents with unpaid balances to the Department's Office of Chief Counsel. In addition, the Home did not utilize a "Social Security Death Index" website to determine if previously discharged residents are still alive.

We recommended that Home management ensure compliance with Department policies and procedures for estate recovery of discharged residents. We also recommended that the Home periodically review the "Social Security Death Index" website to determine the status of discharged residents for timely estate collection efforts.

The Department responded by stating that the Home's Revenue Office prepares an estate bill for each discharged resident. The bill is then forwarded to the Department for processing. Additionally, the Revenue Office accesses the Social Security Death Index website bi-annually to determine the status of discharged residents. If a discharged resident is identified, the Department will be notified to begin estate recovery.



**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Status of  
Prior Audits**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Status as of this audit.** We reviewed 52 residents' files discharged from the Pennsylvania Soldiers' and Sailors' Home between July 1, 2008, and December 31, 2010, and found that the estate recovery files were prepared and submitted to the Department's Office of Chief Counsel for individuals that are now deceased. In addition, Home management utilized the "Social Security Death Index" website on a semi-annual basis to monitor pending estate recovery files. As a result of these actions, the prior finding has been resolved.

We concluded that the Pennsylvania Soldiers' and Sailors' Home implemented our prior audit recommendations.

**Pennsylvania Soldiers' and Sailors' Home  
Department of Military and Veterans Affairs**

**Audit Report  
Distribution  
List**

*Pennsylvania Department of the Auditor General  
Jack Wagner, Auditor General  
July 2012*

---

**Audit Report  
Distribution  
List**

The Honorable Tom Corbett  
Governor

The Honorable Robert M. McCord  
State Treasurer  
Pennsylvania Treasury Department

Major General Wesley E. Craig  
The Adjutant General  
Pennsylvania Department of Military and Veterans Affairs

John Kaschak  
Director of Audits  
Office of Comptroller Operations  
Office of the Budget

**Pennsylvania Soldiers' and Sailors' Home**  
Barbara Raymond  
Commandant

*This report is a matter of public record and is accessible at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us) or by contacting the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. Telephone: 717-787-1381.*