

**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**ITEM: 2.16**  
(ID # 13307)

**MEETING DATE:**  
Tuesday, August 25, 2020

**FROM :** AUDITOR CONTROLLER:

**SUBJECT:** AUDITOR-CONTROLLER: Internal Audit Report 2020-002: Riverside University Health Systems, Medical Center, District: All. [\$0]

**RECOMMENDED MOTION:** That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-002: Riverside University Health Systems, Medical Center.

**ACTION:Consent**

  
Paul A. Angulo, County Auditor-Controller 8/14/2020

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**MINUTES OF THE BOARD OF SUPERVISORS**

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,  
STATE OF CALIFORNIA**

**BACKGROUND:**

**Summary**

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside University Health Systems, Medical Center. Our objective is to provide an independent assessment of internal controls over capital assets, inventory management, and revenue for services.

<b>FINANCIAL DATA</b>	<b>Current Fiscal Year:</b>	<b>Next Fiscal Year:</b>	<b>Total Cost:</b>	<b>Ongoing Cost</b>
<b>COST</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>NET COUNTY COST</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>SOURCE OF FUNDS:</b> N/A			<b>Budget Adjustment:</b> No	
			<b>For Fiscal Year:</b> N/A	

**C.E.O. RECOMMENDATION:** Approve

**Impact on Residents and Businesses**

Provide an assessment of internal controls over the audited areas.

**SUPPLEMENTAL:**

**Additional Fiscal Information**

Not applicable

**ATTACHMENT A.**

Riverside County Auditor-Controller - Internal Audit Report 2020-002: Riverside University Health Systems, Medical Center

  
Stephanie Perez, Principal Management Analyst 8/17/2020

**Internal Audit Report 2020-002**

**Riverside University Health System  
Medical Center**

**Report Date: August 25, 2020**



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**Paul Angulo, CPA, MA  
Riverside County Auditor-Controller**

**Tanya S. Harris, DPA, CPA  
Assistant Auditor-Controller**

August 25, 2020

Jennifer Cruikshank  
Chief Executive Officer  
Riverside University Health System, Medical Center  
26520 Cactus Avenue  
Moreno Valley, CA 92555

**Subject: Internal Audit Report 2020-002: Riverside University Health System, Medical Center Audit**

Dear Ms. Cruikshank:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside University Health System, Medical Center to provide an independent assessment of internal controls over capital assets, inventory management, and revenue.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Internal Audit Report 2020-002: Riverside University Health System, Medical Center Audit

Based upon the results of our audit, we determined:

- 1) Internal controls over capital assets and inventory management are not operating effectively. Specifically, the internal controls over the tracking and disposal of capital assets and accuracy of inventory.
- 2) We reviewed revenue adjustments and identified opportunities for improvement of internal controls relating to revenue.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendations contained in our report. We will follow-up to ascertain that management actions of these audit concerns.

Paul Angulo, CPA, MA  
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA  
Chief Internal Auditor

cc: Board of Supervisors  
George Johnson, County Executive Officer  
Grand Jury

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## **Executive Summary**

### **Overview**

Riverside University Health System, Medical Center (Medical Center) provides services to improve health and well-being of patient and communities through professional care, education, and research. The Medical Center is one of six divisions within the Riverside University Health System, which also includes Behavioral Health, Public Health, Correctional Health Services, Medically Indigent Services Program, and Federally Qualified Health Center. Medical Center has 3,542 current authorized positions and an adopted budget for fiscal year 2019-20 of \$818 million.

### **Audit Objective**

To provide an independent assessment of internal controls over capital assets, inventory management, and revenue.

### **Audit Scope**

We conducted the audit from July 31, 2019, through December 2, 2019, for operations from July 1, 2017, through October 31, 2019. Following a risk based approach, our scope included capital assets, inventory management, and revenue for services.

### **Audit Highlights**

#### **Existing Conditions**

The current processes have not mitigated the following areas:

- A review of 115 capital assets identified 53 (46%) of the assets could not be located and were not properly tracked in the Riverside County financial system.
- Out of a sample of 15 assets, 11 (73%) were submitted for removal from the Riverside County's financial system late, with an average of 365 days after the date of disposition.
- We identified inaccurate inventory listings, unapproved adjustments to inventory, and an unsecured warehouse storeroom.
- We reviewed 40 revenue adjustments and identified three instances where the incorrect adjustment code was used. This results in inaccurate tracking and reporting of financial information and possible loss of revenue.

### **Improvement Opportunities**

The improvement opportunities are in the following areas:

- Develop and follow policies and procedures that address proper management of capital assets such as accurate tracking and timely notification to remove from the Riverside County's financial system to the Auditor-Controller's Office.
- Consider investing in a system that will accurately track and monitor capital assets.
- Update the procedures to adequately monitor and adjust inventory levels for surgical implants and surgical supplies.
- Implement adequate segregation of duties for surgical implants inventory management.
- Ensure surplus warehouse storerooms are secured from unauthorized access.
- Ensure the correct adjustment codes are used and properly documented when making revenue adjustments. This will ensure accurate tracking and reporting of financial information and reduce the risk of loss of revenue.

### **Audit Conclusion**

Based upon the results of our audit, we determined:

- 1) Internal controls over capital assets and inventory management are not operating effectively. Specifically, the internal controls over the tracking and disposal of capital assets and accuracy of inventory.
- 2) We identified opportunities for improvement of internal controls relating to revenue adjustments.



## Capital Assets

### Background

The Auditor-Controller's Standard Practice Manual 501 (SPM 501), *Capitalization Thresholds*, defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure, buildings and improvements, equipment, livestock, and intangible assets. Capital assets include real property such as buildings, land, and land improvements, regardless of value, as well as vehicles, machineries, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 501 requires all real property with a value of \$1 and all capital assets with a value of \$5,000 or more to be recorded in the Riverside County Financial System Asset Management Module (Asset Management Module). Standard Practice Manual 516, *Capital Asset Tags*, requires that capital assets be tagged or marked as county property.

As of the date of this report, the department maintained 2,152 capital assets in the Asset Management Module with the combined value of \$601 million.

### Audit Methodology

To accomplish our audit objective (see page four), we:

- Obtained an understanding of board policies and applicable standards.
- Interviewed department management and staff.
- Reviewed a sample of expenditures from appropriation two and four accounts.
- Queried the Asset Management Module for a listing of capital assets.
- Selected a sample of capital assets to perform detailed testing.
- Reviewed a list of capital assets retired during our audit period.

**Finding 1: Missing Capital Assets**

In our review of 115 capital assets, 53 (46%) could not be located and were not properly tracked in the Asset Management Module. The reasons identified are as follows:

- Assets were traded or exchanged with vendors and the listing was not updated by the department. Further, Medical Center did not have documentation for the traded asset.
- Assets were surplus, but required documentation was not filed with the Medical Center's fiscal staff nor the Auditor-Controller's Office.
- Mobile assets could not be tracked by staff.

Standard Practice Manual 513, *Capital Asset Tags*, states, "Each department is responsible for the tagging and tracking of all movable assets." In addition, we noted the department does not have their own policies and procedures that address capital assets. Not tagging capital assets, maintaining asset information, and removing surplus assets increases the risk of asset misappropriation and inaccurate reporting. In addition, there can be a negative impact on the effectiveness and efficiency of hospital operations when equipment used for patient care and monitoring cannot be located.

**Recommendation 1.1**

Develop departmental policies and procedures that address the adequate management of capital assets.

**Management's Response**

**"Do Not Concur.** RUHS does not concur with the finding that the Medical Center is not properly tracking capital assets nor that 53 capital assets could not be located.

With additional time, coordination, and diligence RUHS was able to locate all of the capital assets or disposition documentation except for six items. This results in a compliance rate of 95%. The six items that have not yet been located are each more than 12 years old and fully depreciated.

Locating patient care items in at a multiple site, multiple story, five hundred thousand plus square foot 24/7 critical care operation takes time and careful coordination. Accessing sterile rooms, intensive care units, acute patient care areas, and areas where patients are experiencing psychiatric emergencies takes more time and sensitivity than a



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standard inventory asset process. RUHS follows County standards for asset tracking and heightened industry standards for assets utilized in patient care within a medical center that require annual location, maintenance, certification, and verification by state licensing agencies for tracking of assets.

Nonetheless, RUHS acknowledges there is opportunity for improvement and has adopted improved policies and procedures to enhance the handling of capital assets as recommended by the auditor."

**Actual/estimated Date of Corrective Action:** March 18, 2020

**Auditor's Comment:**

Fieldwork to validate the existence of the capital assets was coordinated with Medical Center personnel prior to our site visits. At the conclusion of the coordinated fieldwork, 53 capital assets could not be located. Asset tracking and locating of assets when needed is a serious problem as was communicated by personnel from the Medical Center. Our testing results validated their concerns as well as our assessment of the risk associated with asset management.

Lost or misappropriated assets is a serious problem in the healthcare industry and a strong system of internal controls to ensure the safeguarding and accurate tracking of capital assets is a management responsibility. Further, looking for the assets when needed for the care of patients can slow response times and delay procedures, compromising patient safety. A survey conducted by the Nursing Times in 2009, suggest that nurses can spend up to one hour per shift searching for equipment. This makes it both a fiscal and an operational problem.

There are many best practice tools available for the healthcare industry and are known to help prevent loss or misappropriation of assets, inform management for maintenance and purchasing decisions, and help address concerns about patient safety and staff productivity. We recommend for Medical Center to consider making the investments needed to help address the finding identified in our audit.

**Recommendation 1.2**

Consider investing in a system that will accurately track and monitor capital assets.

### Management's Response

**"Partially Concur.** RUHS utilizes the County asset module system for tracking and monitoring of capital assets in addition to certification and maintenance tracking software that licensing agency reviewers require RUHS be able to locate and verify maintenance and certification of assets and equipment used in providing patient care. In working with the Auditor, RUHS has identified opportunity for improvement and has implemented a corrective action to enhance capital asset monitoring and reporting."

**Actual/estimated Date of Corrective Action:** March 18, 2020

### Finding 2: Capital Asset Retirements

Capital asset retirements were not reported to the Auditor-Controller's Office in a timely manner. Out of a sample of 15 assets, 11 (73%) were submitted to the Auditor-Controller's Office for removal an average of 365 days after the date of disposition. Medical Center does not have policies and procedures that address the retirement process, and the required timeframes to submit the retirements to the Auditor-Controller's office. Standard Practice Manual 514, *Disposal of Capital Assets*, states, "Completed AM-7 Form must be submitted to the Auditor-Controller's Office with all supporting documentation as soon as possible." Reporting the retirements of capital assets in an untimely manner results in loss of control over assets and/or misstating the value of capital assets.

### Recommendation 2

Develop and follow a written capital asset policy to include reporting to the Auditor-Controller's office within 30 days of change in status for asset retirements.

### Management's Response

**"Partially Concur.** RUHS partially concurs with the finding since as highlighted by the auditor, the Standard Practice Manual 514 does not establish a deadline for submission of the asset retirement forms to the Auditor-Controller's Office. RUHS does concur that the reporting should be done more timely and therefore has adopted in its own internal policy based on the auditor's recommendation to complete the reporting to the Auditor-Controller's office within 30 days of change in status for asset retirements."

**Actual/estimated Date of Corrective Action:** March 18, 2020



## **Inventory Management**

### **Background**

The Medical Center manages inventory for the warehouse, operating room, and the pharmacy. Medical Center stores general hospital supplies and equipment in the warehouse main storeroom. Supplies are separated by category of supplies such as infants, clothing, and equipment. A separate storeroom is utilized to store surplus items. Items are stored in large chain link cages with secured locked doors accessible by authorized warehouse workers.

The operating room purchases and maintains their own inventory for items used in surgery which includes items such as scalpels, gauze, and surgical implants<sup>1</sup>. Each item stored in the inventory room is assigned a par value which is the number of supplies that should be on hand. Staff maintaining the inventory perform routine checks of the supplies inventory comparing what is on hand to the par value. If an item is running low, the item will be reordered to replenish. Inventory is maintained within an excel file that contains all items and the par values for those items. An excel inventory sheet is used to track the items that were identified to be running low on supply.

The final inventory area is the pharmacy. Medication is stored in the secured pharmaceutical area. Non-controlled substances are separated from patient and outpatient medication. Only authorized personnel have access to the pharmaceutical area. Access is restricted through the use of key cards. Controlled substances are secured within a separate locked room within the pharmaceutical area.

### **Audit Methodology**

To accomplish our audit objective (see page four), we:

- Obtained an understanding of board policies, department policies and procedures, and applicable standards.
- Interviewed department management and staff.
- Selected a sample of inventory items to perform detailed testing.

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<sup>1</sup> Surgical implants are small high dollar value medical devices used to replace or support biological structures within the human body.

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- Reviewed destruction logs and supporting documentation for expired controlled substances.

### Finding 3: Inventory Controls

While testing inventory, we identified the following:

- We selected 14 surgical implants from the operating room and found that eight were either higher or lower than the amount listed on the inventory listing. We later tested an additional 39 implants and found that three did not agree to the listing. In addition, we found three items that were obsolete.
- Adjustments to surgical implants inventory were not approved by a manager. The person responsible over implants has ordering responsibilities and can adjust inventory, lacking adequate segregation of duties for these tasks.
- We selected 13 different types of surgical supplies from the operating inventory room for inventory testing and found the department does not maintain a listing with actual inventory on hand for each of items. The listing they have has the par level for each item (recommended amount to have on hand). During our testing of the items selected, we found items over, under, and at the par level. On an annual basis, staff performs a full inventory and updates inventory in the Riverside County financial system with the actual items on hand, but does not account for missing inventory.
- Inventory items in the surplus warehouse storeroom are not secure. We found the rear entrance to the storeroom which leads to an outpatient waiting room was not locked. In addition, we viewed camera coverage for the room and identified that the camera did not provide coverage for most items stored within the area, including coverage for the rear entrance door that was left unlocked.

Per Standard Practice Manual 1001 (SPM 1001), *Internal Control* (Formerly referred to as SPM 104), states, "Equipment, inventories, cash and other property should be secured physically, counted periodically, and compared with control records." Additionally, SPM 1001 states, "Duties should be divided or segregated so that no one person has complete control over a key function of activity." Not appropriately controlling inventory items, can lead to misappropriation and theft of items, and inaccurate inventory listings and quantities.



### **Recommendation 3.1**

Update departmental procedures to include adequate monitoring and adjustments of inventory levels for surgical implants and surgical supplies. Ensure procedures are being followed by Medical Center personnel.

#### **Management's Response**

**"Partially Concur.** RUHS currently follows industry standards for internal controls over operating room supplies. The operating rooms are closed and secure areas with limited badge-controlled access. Utilization of supplies is tracked in the electronic health record and periodic inventory is taken. Cost effective enhancements to internal controls are always welcome. RUHS has added increased security measures and implemented additional inventory controls to further monitor and audit inventory periodically."

**Actual/estimated Date of Corrective Action:** March 14, 2020

### **Recommendation 3.2**

Ensure there are adequate segregation of duties for the handling and tracking of surgical implants.

#### **Management's Response**

**"Concur.** RUHS concurs with the auditor's recommendation to further separate duties. The auditor's recommendation was implemented, and staff were appropriately trained on the new procedures."

**Actual/estimated Date of Corrective Action:** February 20, 2020

### **Recommendation 3.3**

Ensure all restricted areas are secured. Specifically, ensure the door leading from the surplus warehouse storeroom is repaired or replaced immediately.

#### **Management's Response**

**"Concur.** RUHS concurs with the auditor's recommendation, the lock on the surplus warehouse storeroom was repaired."

**Actual/estimated Date of Corrective Action:** February 20, 2020

## **Revenue**

### **Background**

Epic is the medical records software system used for tracking services provided to patients at the hospital. Specifically, it tracks patient activity from the moment they enter the hospital until discharge. The software system maintains a profile of the patient from doctor's visits, referrals made by primary care physicians, health insurance information, booking of appointments, billing, and collections.

The revenue cycle at the Medical Center can be broadly categorized in these four major units: patient intake, billing, collections, and revenue integrity. Patient intake unit is responsible for admitting patients, collecting personal information, verifying insurance coverage, managing referrals, and obtaining authorization for procedures from insurance companies. The billing unit is responsible for capturing the charges for each patient and submitting them to providers who will then pay the Medical Center. Physicians complete a narrative throughout the patients stay that details diagnosis and procedures performed. Revenue coders then review this information and enter codes that will flow into billing which is when providers will be charged. The collections unit is responsible to collect money once it has been billed. Revenue integrity unit is responsible for quality assurance, increasing billing accuracy, and ensuring compliance.

The Medical Center has an accounts receivable write-off process allowing adjustments to amounts deemed uncollectible using adjustment codes. There are approximately 100 adjustment codes for this purpose.

### **Audit Methodology**

To accomplish our audit objective (see page four), we:

- Obtained an understanding of board policies, department policies and procedures, and applicable standards.
- Interviewed department management and staff.
- Obtained a list of revenue transactions and selected a sample of adjustments and collections to perform detailed testing.

#### **Finding 4: Adjustment Codes**

While reviewing revenue adjustments, we found 3 of 40 (8%) with an incorrect adjustment code. All three adjustments had been reviewed and approved by management. Medical Center's policy and procedures, Patient Account Receivable Adjustments under Section 3.1 it states, "Patient Accounts staff will enter adjustments into EPIC using the approved service code description to properly categorize the revenue reduction and to remain within the approved dollar threshold." Further under the Section 3.1.a. it states, "For accurate tracking and reporting, it is imperative that the correct adjustment code be used." Not using the correct adjustment code will result in inaccurate tracking and reporting which can lead to making decisions based on incorrect information and possible loss of revenue.

#### **Recommendation 4**

Ensure the correct adjustment code is used and properly documented when making revenue adjustments.

#### **Management's Response**

"**Concur.** RUHS concurs with the recommendation, RUHS provided additional training to staff and reminded them of the appropriate policies and procedures."

**Actual/estimated Date of Corrective Action:** March 5, 2020