



# County of Riverside

## INTERNAL AUDIT REPORT

### Riverside County Regional Medical Center Materials and Supplies Procurement and Inventory Processes

October 1, 2008

Office of  
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October 1, 2008

Mr. Douglas Bagley, Hospital Administrator  
Riverside County Regional Medical Center  
26520 Cactus Street  
Moreno Valley, CA 92555

**Subject: Internal Audit Report 2006-008: Riverside County Regional Medical Center,  
Materials and Supplies Procurement and Inventory Processes**

Dear Mr. Bagley:

We have completed an audit of the Riverside County Regional Medical Center (RCRMC), materials and supplies procurement and inventory processes. We conducted the audit during the period July 17, 2007 through October 31, 2007, for operations of May 1, 2005 through September 30, 2007.

Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the materials and supplies procurement and inventory processes.

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 provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusions.

We are performing separate audits of the procurement operations pertaining to Professional Services, Pharmacy, and Operating Room, as we concluded that the large volume of the activities by these business units warrant individual independent audits. This report does not cover the audit of these business units.

Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

In our opinion, the existing internal controls over the materials and supplies procurement and inventory processes are not adequate. Our audit identified areas for improvement that in coordination with County Purchasing and Online Administrative Services Information System (OASIS) Division, could lead to improved controls over the materials and supplies procurement and inventory processes at the medical center.

In 2004, the medical center transitioned its procurement of materials and supplies into a healthcare industry Group Purchasing Organizations (GPO) to achieve cost savings in supplies. Purchases made through the GPO resulted in net cost reduction of \$478,000 annually since its inception. We estimate that additional cost reductions in the amount of \$1.0 million to \$1.6 million could be achieved through GPO procurements.

As requested, in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. The OASIS management also reviewed the report and provided comments. The RCRMC responses and OASIS comments are included in the report, both of which will be verified and cleared during our follow-up audit. The follow-up audit will be performed within the following twelve months to confirm whether reported conditions had been corrected.

We thank the Riverside County Regional Medical Center's management and staff for their cooperation and assistance which made this audit successful.

Robert E. Byrd, CGFM  
County Auditor-Controller

A handwritten signature in black ink, appearing to read 'M. Alexander', with a long horizontal line extending to the right.

By: Michael G. Alexander, MBA, CIA  
Deputy County Auditor-Controller

cc: Board of Supervisors  
Grand Jury

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## **Executive Summary**

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### **Overview**

The Riverside County Regional Medical Center (RCRMC), located in the City of Moreno Valley, Riverside County, is a 520,000 square foot state-of-the-art tertiary care and level II adult and pediatric facility, licensed for a total of 439 beds - 362 at the main acute-care hospital, and 77 in a separate in-patient facility, 12 Operating Rooms, and adult, pediatric and neonatal intensive care units.

RCRMC has the capacity to manage 200,000 patient visits in specialty outpatient clinics; the Emergency Room/Trauma Unit has the capacity to manage 100,000 patient visits annually. Employees and staff are at approximately 2,100.

A teaching hospital accredited by the Joint Commission for Accreditation of Healthcare Organizations (JCAHO), RCRMC offers training programs for nursing students, medical residents, and allied health professionals attending Riverside Community College, Loma Linda University, Western College of Health Services, and other facilities.

Riverside County utilizes the PeopleSoft Enterprise Solutions to automate major areas of business operations performed by County Departments. The system is managed by the County Executive Office – Online Administrative Services Information System (OASIS) Division in a central facility located in the City of Riverside.

### **Audit Objective**

Our primary audit objective was to determine the adequacy of the existing internal controls over the materials and supplies procurement and inventory processes.

### **Overall Conclusion**

In our opinion, the existing internal controls over the materials and supplies procurement and inventory processes are not adequate. Our audit identified areas for improvement that in coordination with County Purchasing and Online Administrative Services Information System (OASIS) Division, could lead to improved controls over the materials and supplies procurement and inventory processes at the medical center.

In 2004, the medical center transitioned its procurement of materials and supplies into a healthcare industry Group Purchasing Organizations (GPO) to achieve cost savings in supplies. Purchases made through the GPO resulted in net cost reduction of \$478,000 annually since its inception. We estimate that additional cost reductions in the amount of \$1.0 million to \$1.6 million could be achieved through GPO procurements.

**Detailed Objectives**

Our detailed objectives were to determine whether:

- internal controls and procedures employed over supplies requisition, bidding, receiving and issuance processes were adequate to safeguard county assets and avoid excess and wasteful spending;
- county policies and government regulations were complied with;
- inventories were properly recorded and safeguarded;
- vendor payments were timely and accurate; and
- the organization and employee roles are structured to promote a desirable level of internal control and efficiency.

**Methodology**

To accomplish our objectives, we:

- reviewed the County Purchasing Policy Manual, Auditor-Controller Office (ACO) Internal Control Guidelines, applicable codes, regulations, ordinances, Board of Supervisor resolutions, and healthcare and purchasing organization publications related to industry best practices for the purpose of determining compliance by the department;
- identified and assessed the business risks inherent to procurement and inventory control;
- interviewed department personnel, County Purchasing and OASIS to gain an understanding of the existing procurement and inventory policies and practices;
- surveyed department personnel to measure the timeliness, accuracy and effectiveness of the existing process and as guidance in weighing audit risks and in developing audit priorities; and
- evaluated the effectiveness of the existing internal controls and procedures to mitigate the identified business risks and to assure compliance with policies and legal requirements through tests, data analysis, personnel interviews, and observation.

## **Results**

### **Contract Procurement Process**

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RCRMC controls expenses by establishing spending limits and tracking actual expenses through the PeopleSoft Contract Procurement Business Process. Periodic expense budgets for materials and supplies are requested by hospital departments, reviewed by the fiscal office and purchasing department, and approved by executive management. Each of the approved expense budgets has a unique contract record built in PeopleSoft. The contract record contains the item descriptions, prices, contract duration and other terms as agreed upon with a vendor. PeopleSoft tracks the amount spent on the contract and warns management when threshold limits are reached.

Most current vendors have established years of business relationships with RCRMC. These vendors were awarded contracts either through a bid process or sole source recommendations from the medical staff. Multi-year contracts are entered into and usually renewed upon expiration. Annually, a list of these vendors is submitted and approved by the Board of Supervisors. Awarded vendors receive purchase orders throughout the term of the contract. If an item is not on contract, the buyer requests a new bid and adds the new item to the contract of the awarded vendor.

RCRMC's supply-chain strategy is based on, whenever feasible, (a) utilizing supply contracts negotiated by Novation, a Group Purchasing Organization (GPO) and (b) procuring the supplies from a prime distributor. As the leading contracting services company in health care, Novation serves the purchasing needs of nearly 2,500 health care organizations and maintains agreements with approximately 600 suppliers and distributors. These agreements encompass nearly 85 percent of the products health care organizations purchase. The collective purchasing power of the GPO is leveraged to provide its member organizations the lowest possible prices.

On August 1, 2004, the County entered into a three-year service agreement with Healthcare Purchasing Partners International (HPPI), a GPO alliance providing Novation-negotiated contracts to its members. On July 31, 2007, the Board of Supervisors approved the reassignment of this agreement to University Health System Consortium (UHC) and authorized the County Director of Purchasing to extend said agreement annually for up to two additional years. UHC, a GPO alliance of national healthcare organizations and a co-owner of Novation, allows the County access to even wider product lines and better prices.

RCRMCM purchased \$15.7 million of hospital supplies during fiscal year 2007. Of this, \$9.7 million or 62 percent was purchased from Professional Hospital Supply, Inc. (PHS), a local distributor. From August 1, 2004 to November 27, 2007, the entire period of the HPPI contract and the first four months of the UHC contract, 2,591 SKUs (standard keeping units) valued at \$35.1 million were purchased from PHS. Of these, we reviewed 500 SKUs having the largest activity valued at \$29.7 million or 85 percent of total purchases.

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**Finding 1**

A net decrease of \$1.592 million in the prices of the 500 SKUs was generated during the entire term of the HPPI service agreement from August 1, 2004 to July 31, 2007, and through the first four months of the UHC service agreement (from August 1, 2007 to November 27, 2007). The net decrease represents \$477,600 annual savings or 4.9 percent off the purchasing cost.

**Effect of GPO Service Agreements to Largest 500SKUs<sup>1</sup>**

	August 1, 2004 to November 27, 2007	
	Number of SKUs	Increase (Decrease) <sup>2</sup>
Decreased in price	261	\$2,102,172
Increased in price	178	( 509,912)
No activity	61	0
<b>Total</b>	<b>500</b>	<b>\$1,592,260</b>

<sup>1</sup> This analysis is based on 500 SKUs representing 84 percent of purchases from PHS. Approximately 62 percent of materials and supplies are purchased from PHS and the balance from various vendors where additional GPO savings are also generated from.

<sup>2</sup> Difference between price during the term of the service agreements and the price prior to the service agreement. Inflationary effects were not considered in these calculations.

Knowledge Source, in its publication titled "Group Purchasing Organizations Market Overview – 2007" dated June 14, 2007 writes "GPOs save hospitals and nursing homes between 10 to 15 percent off their purchasing costs". According to Jody Hatcher, senior vice president of Novation, the March 2000 Muse & Associates study "Role of Group Purchasing Organizations in the U.S. Health Care System" found that GPOs save hospitals between 10 to 15 percent on purchases of goods and services. Comparing RCRMCM's 4.9 percent savings realized from 2004-2007, to the cited reports indicate that the full savings potential from the Novation contracts have yet to be captured. We estimated additional savings of \$1.0 million to \$1.6 million per year may be achieved and enhanced by improving the current contract procurement process and procedures, and expanding the product lines purchased through GPO-negotiated contracts.



While performing a price trend analysis, we noted an increase in the service fees paid to PHS for placing sticker labels on merchandise from a monthly average of \$6,965 (prior three years) to \$13,665 (August 2007 to November 2007). The increase was significant as service fees changed from 0.94 to 1.45 percent of total PHS purchases.

We noted the existence of the following internal control weaknesses in the contract procurement process:

- There is no full time in-house staff responsible for carrying out contract opportunities available through Novation such as identifying products purchased outside of the Novation contracts, validating invoice level pricing against Novation contract pricing, identifying inconsistencies in product prices and units of measure, identifying summaries and trends, monitoring purchasing performance, keeping abreast of price changes, maximizing volume price tiers, etc.
- Inventory master records (business unit and contract item masters) do not reflect current GPO prices resulting in items being acquired at higher prices.
- Purchases were not closely monitored to ensure that items were acquired at the correct prices. During the course of our audit, we noted purchases that were overpriced by a total of \$182,000. A list of these items was provided to management for resolution. The weaknesses in the existing internal controls elevate the likelihood that errors, such as the noted pricing errors, may not be prevented nor detected in a timely manner.
- Buyers can override the item master containing information which management had previously approved. The practice negates the very purpose of the item master as a core system control.
- Standard units of measure are inconsistently applied which adds to the confusion of determining the correct price or quantity, leading to inventory imbalances and erroneous stock fulfillments.
- Continued use of generic SKU codes and its use to lump dissimilar items using one SKU code. This provides opportunities for concealing irregularities and adds complexity to managing inventories.
- Items with SKU codes are randomly booked under a generic code; thus, the expense per SKU is not reported accurately.

- Purchases are not consistently linked to the appropriate contracts causing PeopleSoft to report inaccurate financial information. When a purchase order is not linked to its contract, the system will continue to report that contract funds are still available, and will fail to warn management that spending limits have been reached. Additionally, the system does not prevent further processing of purchase orders when the maximum contract amount has been exceeded. The following table shows that during the audit period, of the 21 vendors tested, eight vendors had contracts which were exceeded by more than eight percent.

Vendors with Contracts Exceeded By More than Eight Percent:

Vendor	Contract Amount	Purchase Orders Issued	Contract Exceeded By	
			Amount	%
1	\$38,100	\$51,200	\$13,100	34.4%
2	120,000	149,931	29,931	24.9%
3	185,000	229,484	44,484	24.0%
4	25,000	30,912	5,912	23.6%
5	215,000	258,655	43,655	20.3%
6	423,000	501,570	78,570	18.6%
7	140,000	164,920	24,920	17.8%
8	1,436,960	1,556,935	119,974	8.3%
Total	\$2,583,060	\$2,943,607	\$360,546	14.0%

**Recommendation 1** Establish a contract procurement process team to achieve group contract maximization, volume aggregation, product utilization and standardization.

**Management Reply** Concur. The hospital has established a Value Analysis Program to achieve group contract maximization through volume aggregation and product standardization. The program has reorganized the clinical review structure that allows for the assessment of clinical equivalent products for standardization projects. Additionally, the Value Analysis Program has reviewed and accessed over 136 GPO agreements and has been able to decrease pricing by \$2.1 Million dollars as of December, 2007. Through the programs' other cost savings initiatives, there is an additional documented \$344,000 savings year to date. The Value Analysis Program will continue to assist the hospital by accessing best pricing through the GPO contracts and additional cost savings and cost avoidance programs.

Date of Corrective Action: Done

**Recommendation 1.1** Formulate a supply-chain strategy to manage the full spectrum of group contracting, system procedures and maintenance, including monitoring of purchasing performance.

**Management Reply** Concur. Management will seek to enhance the existing Value Analysis Program through restructuring support through the Fiscal Services and Materials Management Divisions. Processes will be implemented to review and update pricing, perform sample purchase audits, monitor GPO and local contract expirations to prevent wide price variations, monitor savings from GPO contracts, and coordinate with key departments to optimize supply chain pricing, performance and product standardization as clinically appropriate.

Estimated Date of Corrective Action: 10/2008

**Recommendation 1.2** Implement the full functionalities of the PeopleSoft Contract Procurement Process so that a disciplined group contract purchasing workflow process and inventory control system is enabled.

**Management Reply** Concur. The PeopleSoft components for the procurement process that include auto-replenishment, EDI and bar coding are not functional. Materials Management and Fiscal Services will work with OASIS to determine if these functionalities can be made operational. If the determination is made that the functions can be activated to improve the functionality, an action plan will be developed in conjunction with OASIS to enable the above functions.

RCRMC is open to a full review of the PeopleSoft contract procurement processes to determine additional features within PeopleSoft that are available and that would serve to improve current internal controls and operational efficiency.

Estimated Date of Corrective Action: To Be Determined (TBD)

**OASIS Management Comment:**

"PeopleSoft auto-replenishment is functioning and is being used by Fire and DPSS (*Fire and Public Social Services departments*). RCRMC has data problems that OASIS is assisting with that cause inaccurate order quantities from the replenishment process. EDI is available through OASIS, and bar-coding is functioning and is being used by DPSS".

**Recommendation 1.3** Analyze all current purchases against the Novation contract portfolio, as well as other vendor contracts where appropriate, to identify products and related savings for conversion to the Novation structure.

**Management Reply** Concur. This is a Value Analysis function. Contract analysis has been going on since November, 2006. The major focus of the analysis has

been on identifying cost savings through the GPO as it relates to purchases through the medical/surgical supply distributor. As of December, 2007, savings of \$2.1 million dollars has been realized through accessing GPO contracts. Value Analysis is also in the process of reviewing vendors with a "spend" of greater than fifty thousand dollars to determine if savings opportunities exist using GPO contract pricing. The hospital is also working with UHC/Novation to perform a spend analysis for all hospital medical-surgical supply purchases. A request was submitted to OASIS in December, 2007 to complete the development of a "spend" query that is required to implement and perform a "spend" analysis for the hospital.

Estimated Date of Corrective Action: 10/2008

**OASIS Management Comment:**

The "spend" query was completed and made available to RCRMC in June, 2008.

**Recommendation 1.4** Review the benefits from labeling fees paid to PHS in relation to identifying opportunities for automating inventory tracking, patient billing, and patient case documentation process. Deployment of an effective inventory identification system is vital in a hospital setup especially for tracking expensive inventories and medical devices.

**Management Reply** Concur. The Fiscal Services Division is working towards the establishment of a patient "chargeables" policy and procedure. Work is underway to analyze the cost/benefit of "stickering" such items. Once the analysis is completed, a cost per item threshold will be established. This threshold will determine what item is "stickered". Materials management will work with OASIS to determine if the bar coding function in PeopleSoft will be able to track the utilization of the more expensive inventories and medical devices.

Estimated Date of Corrective Action: 10/2008

**OASIS Management Comment:**

"OASIS is waiting for more details from RCRMC to initiate work. To this date (May 19, 2009), OASIS has not received any work requests from RCRMC."

**Recommendation 1.5** Ensure that all item masters reflect accurate pricing and information. Resolve pricing errors including those which we previously provided on a separate list, and request vendor refunds when appropriate.

**Management Reply** Concur. Given the nature of the medical supply industry, medical supply pricing is rarely constant for the following reasons:

- a. Contract pricing expires, reverting to either a higher list price or dealer price, depending on the item.
- b. Manufacturers are not required to disclose price increases in a timely manner. Some manufacturers release their new price increases with as little as 72 hours notice. If the items are distributed, the distributor passes on the cost in the absence of a new price agreement. This appears as a pricing "spike". Once a new GPO or local agreement is executed, pricing is changed to reflect the new values.
- c. Contract pricing may be changed by the manufacturer due to reassessment of appropriate pricing tier level.
- d. Cost of living increases or other annual pricing adjustments (i.e. fuel surcharges) change periodically. RCRMC has implemented pricing controls with the primary distributor to assist in the detection and prevention of pricing discrepancies.

Management has recovered/reconciled \$137,350 of the discrepancy through analysis of the auditors' query and is continuing to work with the hospital distributor to reconcile the remaining overpayment of \$44,650 identified from this query and stop future overpricing occurrences. Management has also identified and instituted additional purchasing department procedures that will prevent future overpayment. RCRMC will also utilize the auditors' query to review for future product pricing variances on a quarterly basis.

The hospital concludes that the constant maintenance of the Business Unit Item Master and the Contract Item Master File would improve internal controls and minimize pricing errors on an ongoing basis.

Estimated Date of Corrective Action: 10/2008

**Recommendation 1.6** Appoint a full-time database administrator for the maintenance of the business unit and contract item masters records. Implement procedures so that newly awarded items and changes to the records are approved by management and entered into PeopleSoft through the database administrator.

**Management Reply** Concur. RCRMC agrees with this recommendation in concept, however, due to the significant fiscal restraints, management will review and/or reorganize the existing support structures to facilitate the maintenance of the business unit item master. Currently, the responsibility to update and maintain the business unit item master file has been delegated to five staff members' hospital wide. Systems have been established to review and approve new items and product changes. As resources become available, the hospital will work towards the hire of a full-time position whose primary responsibility will be to maintain the business unit item master. County Purchasing has denied the hospital access to maintain the contract item master.

Estimated Date of Corrective Action: 10/2008

**Recommendation 1.7** Enforce the exclusive use of the business unit or the contract item master, whichever is appropriate, as basis for writing purchase requisitions and purchase orders. If override of this procedure is necessary, the system hold should be released by a manager or supervisor of the department the transaction originated from.

**Management Reply** Concur. The hospital only has the ability to update and maintain the business unit item master file. The ability for the hospital to manage the contract item master file has not been authorized by County Purchasing. Therefore, the ability to override the contract item master file is necessary to enter correct contract pricing when it is found to be incorrect. Currently, the Buyer II authorizes contract pricing overrides. The procedure for updating the business unit item master for purchases through the prime medical/surgical distributor is done consistently on a monthly basis. The hospital has no control over supply contracts that have been established by County Purchasing. Since County Purchasing has limited access to the contract items master file, the onus to maintain contract pricing is on County Purchasing. The hospital will review current oversight processes and establish additional policies and procedures as necessary. The hospital recommends the on-going update of all item master pricing tables as designed to maximize system efficiencies and internal controls.

Estimated Date of Corrective Action: TBD

**Recommendation 1.8** Minimize the use of generic SKU codes and ensure that the booking of dissimilar items under one code is discontinued.

**Management Reply** Concur. Generic SKU codes are not used for inventory items, unless there is a request for an emergency/urgent item needed for patient care. Otherwise, every inventory item must have a "put-away" or bin location, and generic SKU's do not allow for this. Every inventory item has a specific hospital identification number. Generic SKU's are only used for items that are purchased less than 3-4 times annually and are ordered directly for a department. This procedure was established by management to accommodate the high number of items used in the hospital. Upon analyzing the generic SKU's submitted by the Auditor, the hospital procedure is to be adhered to by RCRMC Purchasing. The hospital will establish a written policy and procedure to address this issue.

Estimated Date of Corrective Action: 10/2008

**Recommendation 1.9** Develop procedures to ensure items ordered are linked to its appropriate contracts and run data queries to review if procedures are adhered to.

**Management Reply** Concur. The hospital will develop a process to facilitate the review and monitoring of purchases that are not linked to contracts. RCRMC will require resources from OASIS for building and maintaining a set of data queries to monitor non-linkage to contracts. The hospital will also work with OASIS and County Purchasing to expand the function that will notify specified staff when a contract is nearing its maximum spend limit.

Estimated Date of Corrective Action: See below

TBD: Dependent on allocation of resources to the hospital by OASIS

10/08: Policy and Procedure

**OASIS Management Comment:**

“OASIS is waiting for more details from RCRMC to initiate work. To this date (*May 19, 2009*), OASIS has not received any work requests from RCRMC.”

**Recommendation 1.10** In conjunction with OASIS, develop system control parameters and process for reporting of exceptions such as system overrides and contract items not linked to contracts.

**Management Reply** Concur. Materials Management will develop and institute a manual monitoring procedure for monitoring PeopleSoft contract limits and overrides. OASIS will be contacted to determine if an electronic workflow process can be built within PeopleSoft to provide for electronic management and monitoring of overrides.

Estimated Date of Corrective Action: See below

10/08: Manual Procedures

TBD: Dependent on OASIS response.

**OASIS Management Comment:**

“OASIS is waiting for more details from RCRMC to initiate work. To this date (*May 19, 2009*), OASIS has not received any work requests from RCRMC.”

**Results**

**Purchasing Process**

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The PeopleSoft Requisition Business Process is the method used by management for screening and approving purchase transactions. Purchase requisitions are initiated by department employees through PeopleSoft, creating a system workflow allowing six levels of approvals to be obtained online. Approved purchase requisitions then set off the buyers to initiate and dispatch purchase orders utilizing PeopleSoft's Purchase Order Business Process.

Purchases over \$1,000 require bidding. Bids for purchases not exceeding \$25,000 are processed by RCRMC buyers. The department requires a minimum of two bids to be obtained by email, letter, fax or phone. Bids obtained are noted in PeopleSoft. The County Purchasing processes all bids over \$25,000. Items sourced from a specific vendor without bidding are approved by County Purchasing, and by the Board of Supervisors if over \$100,000.

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**Finding 2**

PeopleSoft's Purchase Order Business Process is not implemented to allow authorized personnel/management to review and approve purchase orders. Buyers have total control over the issuance of purchase orders. RCRMC's control over purchases is built within PeopleSoft's Requisition Business Process and since PeopleSoft is not currently set up to validate purchase orders against approved requisitions, there is no assurance that purchase orders are issued based on approved requisitions.

**Recommendation 2**

Collaborate with OASIS to enable PeopleSoft functionalities to ensure that purchase orders are properly reviewed, approved and validated against approved requisitions.

**Management Reply**

Concur. The implementation of the purchase order workflow and PeopleSoft 8.8 provides for the capability to electronically review, approve and validate purchase orders based on a requisition/purchase order dollar value. Review and approval of purchase orders has been established and required through a hierarchy of various levels of authorized personnel/management which is based on purchase order dollar amount and authorization.

Actual Date of Corrective Action: Active

This is dependent on allocation of resources to the hospital by OASIS.



**OASIS Management Comment:**

The functionality allowing the review, approval and validation of purchase orders has been available under PeopleSoft 8.8 since July, 2007.

**Finding 3**

Eighteen purchase orders totaling \$151,292 were misclassified as Goods instead of Services. Eighty-four purchase orders totaling \$62,249 were misclassified as Service instead of Goods. The County policy requires that service fees exceeding \$100,000 in one year must be approved by the Board of Supervisors. Although the errors did not result in violating this policy, inaccurately classifying service type purchases as goods may potentially conceal non-compliance with the Board policy.

**Recommendation 3**

Strengthen review procedures to ensure the accuracy of classifying purchase orders.

**Management Reply**

Concur. Retraining and reinforcing the standards of purchase order classification is required. The Purchasing Department will establish a training and reinforcement program for its buyers and LVPO processors. A procedure and desktop reference will be created.

Estimated Date of Corrective Action: 10/2008

## **Results**

### **Receiving Process**

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The receiving process is a crucial step in ensuring that shipments received are matched to the purchase orders, recorded accurately, and delivered to the right destinations. This function is performed by the receiving staff. The receiver verifies the shipment against the packing slip and signs the packing slip to indicate that the shipment is accurate. The receiving supervisor verifies the packing slip against the purchase order. When there is a discrepancy, a material discrepancy report is prepared and the shipment is held at the dock until the discrepancy is resolved.

The receiving supervisor inputs the receipt into PeopleSoft and generates a receiver report. The receiver report together with the purchase order and vendor invoice are three documents that PeopleSoft matches before initiating the payment process to vendors.

Receivers deliver the goods to the requesting departments or to the stockroom for inventory. The transfer of the goods from the receiver to the requisitioning department is documented by obtaining the recipient's signature on a receiving and delivery log. If the product is an inventory item, a materials putaway plan is generated converting and recording the inventory quantities in PeopleSoft based on a standard unit of measure.

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## **Finding 4**

Based on the results of testing eighty-six incoming shipments, we noted that the existing practices are not in conformance with prescribed procedures and that there is no assurance that shipments are accounted for accurately. Procedures are not in place to detect and address non-conformance. Such conditions create repercussions on the propriety of payments to vendors and partially account for the discrepancies in the perpetual inventory records.

The results of our review are as follows:

- twenty-one shipments had missing packing slips;
- seven receiving reports were generated from packing slips that did not have the receiver's signature to signify that quantities received were counted and agreed to the packing slip;
- three material discrepancy reports were not generated despite discrepancies between shipment and packing slip;

- twenty-six shipments had missing or incomplete receiving and delivery log information. The log is used to document the transfer of the shipment from the receiver to the requisitioning department;
- eleven shipments were transferred to the requesting departments between three to twenty-three days after receipt; and
- five shipments had incorrect quantities recorded in PeopleSoft inventory due to an erroneous materials putaway plan.

**Recommendation 4** Management should reinforce procedures so that receivers completely verify incoming shipments against packing slips, and indicate signature and date of receipt on the packing slips to denote that the shipment was accurate. The receiver report should be generated only based on a packing slip that is signed and dated by the receiver. The packing slip and the receiver report should be filed together.

**Management Reply** Concur. All packing slips are checked by an Office Assistant II against the purchase order for signatures and quantities. This documentation is recorded and retained in department files. Periodic spot checks will be completed periodically by the Materials Manager or his/her designee. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Actual/estimated Date of Corrective Action: See below  
Done: Procedure in place operationally  
10/08: Policy and Procedure

**Recommendation 4.1** A material discrepancy report should be generated every time there is a discrepancy between the shipment, packing slip and purchase order.

**Management Reply** Concur. The discrepancy report is generated from the receiving department when there is any variance on packing slip. If there is an issue on the packing slip, the vendor is contacted to resolve the issue. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Actual/estimated Date of Corrective Action: See below  
Done: Procedure in place operationally  
10/08: Policy and Procedure

**Recommendation 4.2** The transfer of goods from the receiver to the recipients should be documented with the proper use of the receiving and delivery log with

the recipient's name and date of receipt clearly written. All orders should be entered into the system and delivered to the departments without undue delay.

**Management Reply**

Concur. All received items are delivered and signed for before 5:00pm the same day. If the item is refrigerated they deliver the item within one hour. If the department is closed, the item is delivered the next morning. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Actual/estimated Date of Corrective Action: See below  
Done: Procedure in place operationally  
10/08: Policy and Procedure

**Recommendation 4.3**

Procedures for reviewing the accuracy of the materials putaway plan, especially concerning units of measure and quantity conversions, should be developed.

**Management Reply**

Concur. RCRMC has instituted a procedure that ensures that an Office Assistant II checks every purchase order received to make sure that units of measure and conversions are correct. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Actual/estimated Date of Corrective Action: See below  
Done: Procedure in place operationally  
10/08: Policy and Procedure

## Results

### Materials Issuance Process

The PeopleSoft's Stock Fulfillment Business Process is used in managing supplies requests. Employees input the request into PeopleSoft which generates a Materials Stock Request (MSR) and picking plan which is used by the storeroom staff in fulfilling the requests. The storeroom staff delivers the supplies to the requisitioning departments and obtains the acknowledgement signature of the recipients on the MSR. Supply carts used by nurse stations are replenished by the storeroom staff following the same process.

For urgent supplies requests, a MSR is manually completed, approved by the requisitioner's supervisor, and hand delivered to the stockroom. Such requests are usually filled while the employee waits. The storeroom staff inputs into the PeopleSoft system the stock withdrawn from inventory.

Supplies issued from the stockroom were approximately \$650,000 every month.

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## Finding 5

Based on our test of seventy-nine stock withdrawals, we noted that the existing practices are not in compliance with prescribed procedures. Failure to follow established procedures reduces the effectiveness of internal controls and encourages an environment where individuals cannot be held accountable. The delays in recording stock withdrawals partly caused the wide inventory variances and conceivably, due to overstated inventory balances, caused delays in reordering supplies and in fulfilling supplies requests.

Our test indicated that:

- most of the individuals who received the supplies could not be identified. Recipient names are not printed on the MSR and most signatures were not legible; and
- of the twenty-one express stock requests requiring supervisor's approval and manual entry into PeopleSoft:
  - two were not approved by supervisors;
  - thirteen signatures could not be identified; and
  - eleven were entered into PeopleSoft between three to twenty-one days after stock withdrawals due to a staffing shortage.

**Recommendation 5**      Revise the MSR form to include a line for printing the names of individuals signing the forms. The requisitioner, approver and recipient should be identifiable on the form to promote accountability.

**Management Reply**      Concur. The hospital will develop a process to require department supervisory approval for MSRs. Currently, MSRs can be completed using the PeopleSoft system. The requisitioner can print out the request and have his/her supervisor sign the request. Materials Management staff will require that "express" MSRs have an authorized signature before product is released. OASIS will be contacted by the materials manager to determine if an electronic approval via the workflow process can be initiated to the department supervisor level. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Actual/estimated Date of Corrective Action: See below

Done: Procedure in place operationally

10/08: Policy and Procedure

TBD: Dependent on resources allocated to hospital from OASIS.

**OASIS Management Comment:**

"OASIS is waiting for more details from RCRMC to initiate work. To this date (May 19, 2009), OASIS has not received any work requests from RCRMC."

**Recommendation 5.1**      Obtain specimen signature from authorized approvers from all departments to be used by storekeepers for validating approval signature on MSR forms.

**Management Reply**      Concur. The signature collection form has been developed. The materials management will work with hospital operations to collect a list authorized names and signatures.

Estimated Date of Corrective Action: 10/2008

**Recommendation 5.2**      Ensure stock withdrawals are recorded into PeopleSoft the same day the stocks were withdrawn by designating and training a backup staff member so that the task can be completed daily in the event that the primary processor is not available.

**Management Reply**      Concur. All staff are being cross-trained who have PeopleSoft access.

Actual Date of Corrective Action: Ongoing

**Recommendation 5.3** Work with OASIS to enhance the stock fulfillment process such as incorporating an online approval workflow for material stock requests.

**Management Reply** Concur. This is dependent on allocation of resources to the hospital by OASIS to address this issue

Actual/estimated Date of Corrective Action: TBD  
Dependent on resource allocation from OASIS.

**OASIS Management Comment:**

“OASIS is waiting for more details from RCRMC to initiate work. To this date (May 19, 2009), OASIS has not received any work requests from RCRMC.”

**Results**

**Perpetual Inventory System**

RCRMC uses PeopleSoft's inventory system to record receipts, create material stock requests, track physical inventory balances, and create replenishment requests based on inventory level. Periodic physical inventory counts are conducted to determine and reconcile current stock inventory and system balances.

**Finding 6**

PeopleSoft perpetual inventory records are not properly maintained resulting in the quantities reported by the system to be inaccurate. This necessitates frequent physical counts in order for storeroom clerks to keep track of stock balances. Due to the wide variation between the system balance and physical count, the storeroom staff stopped using the system reports. Instead, the staff uses manual spreadsheets in tracking inventory balances and supply reorder points. As of June 30, 2007, supplies inventory was \$1,626,394.

During fiscal year 2007, there were a total of 4,060 inventory line adjustments totaling \$3,074,435 entered in PeopleSoft (adjustments resulted in a net decrease to inventory by \$1,565,083) to synchronize the system balance to the physical count.

Inventory Adjustments – Fiscal Year 2007

Quarter	Increase	Decrease	Net Increase (Decrease)
1	\$60,881	-	\$60,881
2	22,257	-	22,257
3	27,873	-	27,873
4	643,665	(\$2,319,759)	(1,676,094)
<b>Total</b>	<b>\$754,676</b>	<b>(\$2,319,759)</b>	<b>(\$1,565,083)</b>

Adjustments to inventory balances were not reviewed nor approved by management. Stock custodians were allowed to book inventory adjustments into PeopleSoft; this is inconsistent with best practices. Beginning in fiscal year 2007-08, new procedures were implemented disallowing stock custodians to book inventory adjustments and delegating the task solely to a staff analyst. As of November 15, 2007, six employees including two stock custodians continue to have the ability to book inventory adjustments since their security roles have yet to be inactivated to reflect the new procedures.

**Recommendation 6**

Ensure discrepancies between physical count and system balances are investigated and the results are reported to and approved by



management prior to adjustments being made. All documents supporting the inventory adjustments should be retained on file.

**Management Reply**

Concur. RCRMC has instituted weekly cycle counts by section. Efforts to improve this process have been hampered due to PeopleSoft functionality issues with the way that costing and unit of measure are entered and translated into the system. A log of discrepancies is maintained by materials management. This log is updated by an Administrative Services Analyst II. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Actual/estimated Date of Corrective Action: See below

TBD: Corrective action is dependent on the allocation of resources to the hospital by OASIS to address this issue.  
10/2008: Policy & Procedure

**Recommendation 6.1**

Segregate the custodianship and recordkeeping functions and inactivate stock custodians' system privileges to make inventory adjustments.

**Management Reply**

Concur. RCRMC will segregate the custodianship and recordkeeping functions and give access to two materials management staff. An administrative services analyst II has been given primary authority and a Senior Accounting Assistant has been given back-up authority.

Estimated Date of Corrective Action: 10/2008

**Results**

**Segregation of Duties**

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Transactions are created and approved by individuals who have been authorized by management to perform specific roles. The PeopleSoft system provides the ability to divide business processes into various functional units allowing management to assign and segregate employee duties for purposes of internal control in accordance with the Auditor-Controller Standard Practice Manual.

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**Finding 7**

PeopleSoft system security roles are not assigned by management to promote better internal controls. Our review of role assignments disclosed the following:

- seven individuals hold both voucher processor and voucher approver roles;
- five individuals hold both journal processor and journal approver roles;
- five individuals hold both buyer and voucher processor roles;
- eight individuals hold both buyer and stockroom withdrawal requester roles;
- one buyer is able to process purchase orders, receive stock, and make inventory adjustments;
- one buyer can perform stockroom duties;
- one individual can process incoming shipments, perform stockroom duties, and make inventory adjustments; and
- six individuals performing stockroom duties are able to make inventory adjustments.

The combination of preparer and approver roles in one individual circumvents the principle of checks and balances. Individuals responsible for ordering goods should be separated from receiving, stock custodianship, and payment duties to minimize the risk of asset misappropriation.

**Recommendation 7**

Review the PeopleSoft system security roles to ensure an adequate system of internal controls exists in accordance with the Auditor-Controller Standard Practice Manual, Section 12, Policy 1200.

**Management Reply**

Concur. Management has identified staff with conflicting system access. Key staff roles are being redefined and modified in order to provide for appropriate checks and balances.

Actual/estimated Date of Corrective Action: 10/2008

## Results

### Storeroom Security

Inventories are kept in two storerooms located in the hospital basement, one maintained for main stock and one for bulk stock. The main storeroom has one main and two side doors. The main door is open during storeroom hours of 6am to 1:30am, while the side doors remain locked at all times. The main storeroom is equipped with three stationary security cameras. Seven keys are distributed to various hospital departments providing access to the main storeroom when doors are closed. The bulk stockroom is kept locked.

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#### Finding 8

We noted the following weaknesses in storeroom security:

- We observed a lot of foot traffic in and out of the storeroom. Since there is a no physical barrier such as a counter blocking access to the storeroom, unauthorized individuals could easily gain access to the supply racks especially when storeroom clerks are out on deliveries.
- The storeroom uses standard key locks and there is no practical way to determine how many of the original keys had been duplicated and in circulation. There is a concern regarding overnight access to the storeroom by night shift employees when storeroom custodians are off-duty.
- The introduction of the security camera is fairly recent and guidelines regarding its usage have not been formalized.

#### Recommendation 8

A barrier, such as a counter, should be installed to control traffic and deter unauthorized individuals from approaching the racks.

#### Management Reply

Concur. A physical barrier such as a desk or counter would obstruct the flow of the supply carts. However, a storekeeper has been relocated to monitor foot traffic in and out of the storeroom. Non storeroom based hospital staff cannot enter the storeroom area without an escort. The keycard system is on order and will be installed by Plant Operations. The estimated date of completion is September 15, 2008.

Estimated Date of Corrective Action: 9/2008

#### Recommendation 8.1

Management should consider changing the storeroom locks to a keycard or similar system to limit access to the storeroom to authorized individuals only.

**Management Reply** Concur. The keycard system is on order and will be installed by Plant Operations once received.  
Actual/estimated Date of Corrective Action: 10/2008

**Recommendation 8.2** Management should provide written guidelines and training, over the proper use of security cameras, video recordings, incident reporting, and video record retention.

**Management Reply** Concur. Plant Operations is working towards the installation of the additional infrastructure to expand the ability to monitor the storeroom via video remotely. Materials management will establish a policy and procedure for reviewing video recordings and is working to train key personnel to operate and review the video recordings. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

Estimated Date of Corrective Action: 10/2008

**Results**

**Purchasing Authority**

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Seventeen employees have been appointed by County Purchasing as department buyers. County Purchasing Policy Section 3 requires that each person that the Director of Purchasing delegates authority to will receive a certificate of appointment indicating the person's authority level. The policy also states that "individual letters of authorization will be issued to every LVPO buyer with a description of their spending limitations ..."

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**Finding 9**

Thirteen of the 21 department buyers' certificates of appointment from the Director of Purchasing were not presented to us for inspection as they were not on file.

RCRM buyers were granted increased limits in buying authority but the authorization was insufficiently documented. The only document evidencing the increased authorizations was an email of January 17, 2003 referencing the increased limits granted to four individuals, three of whom had since left RCRM. There is no document to support the increased limits granted to buyers hired after January 17, 2003.

Increases in Spending Authorization<sup>a</sup>

Buyer	Standard Policy	RCRM Buyer
LVPO (stock)	\$2,500	\$100,000 <sup>b</sup>
LVPO (non-stock)	\$2,500	\$25,000 <sup>b</sup>
Buyer I	\$10,000	\$100,000 <sup>b</sup>
Buyer II	\$25,000	Unlimited <sup>b</sup>

<sup>a</sup>Applicable for items on contract. <sup>b</sup>Or maximum amount of contract

Considering the weaknesses of the existing internal controls, the increased spending limits elevated the risk of undetected errors and irregularities to a greater extent.

**Recommendation 9**

Request the County Director of Purchasing to issue a certificate of appointment specifically describing spending limitations for each buyer.

**Management Reply**

Concur. The department documentation is being collected for placement in the appropriate employee records.  
Estimated Date of Corrective Action: 10/2008

**Recommendation 9.1** Retain documentations on file to support buyer's appointment, spending authorizations, training, etc.

**Management Reply** Concur. Each buyer is issued a certificate of program completion for their appropriate level of training. Re-issuance of missing certificates will be requested and will be kept in the respective personnel file.

Estimated Date of Corrective Action: 10/2008

**Recommendation 9.2** Determine the adequacy of the training and continuing education program for buyers in the light of the findings as noted in this report.

**Management Reply** Concur. Training of purchasing staff is a constant need. It is rare to recruit buyers from within the organization or from the community. The training of purchasing staff requires not only support from the County Purchasing Department, but also requires daily experiential training and guidance. Training takes place daily within the department as well as attendance at the County Purchasing monthly buyer meetings and other County sponsored seminars.

Actual Date of Corrective Action: Ongoing

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**Finding 10** During the period under review (May 1, 2005 through September 30, 2007), the PeopleSoft system had problems consistently recognizing authorized LVPO buyer spending limits. As a result, buyers were able to process purchase orders which exceeded their authorized spending limit. This condition has been corrected by the new Peoplesoft version. However, the system still does not provide the flexibility for designating buyer spending limits for items on contract other than having to have the limits hard-coded into the system. OASIS does not have a record to keep track of the buyers and their limits that were hard-coded.

**Recommendation 10** OASIS should log program changes such as the hard-coded buyer spending limits. The log should be kept to facilitate verification and adjustments that may be required in the future. Efforts should be taken to incorporate the contract item limits into the workflow process rather than making program changes every time a staffing or limit change is made.

**Management Reply** Concur. Resolution of this issue is dependent on allocation of resources from OASIS and County Purchasing to establish such limits in PeopleSoft.

Actual/estimated Date of Corrective Action: TBD

**OASIS Management Comment:**

“The PeopleSoft 8.8 Purchase Order workflow upgrade corrected the spending limit concern and has accomplished it using security roles and user preferences that are entered into the system through on-line pages based on Department Security Liaison requests.”

## OFFICE OF THE DIRECTOR




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*Memorandum*

**Date:** May 22, 2008

**To:** Auditor-Controller  
Audits and Specialized Accounting Division

**From:** Douglas Bagley, Chief Executive Officer

**Subject:** Reply to Draft Audit Report

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**Recommendation Number: 1**

"Establish a contract procurement process team to achieve group contract maximization volume aggregation, product utilization and standardization."

a. **Management position concerning the recommendation:**

  X   Concur                                 Disagree

b. **Comments:**

The hospital has established a Value Analysis Program to achieve group contract maximization through volume aggregation and product standardization. The program has reorganized the clinical review structure that allows for the assessment of clinical equivalent products for standardization projects. Additionally, Value Analysis program has reviewed and accessed over 136 GPO agreements and has been able to decrease pricing by \$2.1 Million dollars as of December, 2007. Through the programs' other cost savings initiatives, there is an additional documented \$344,000 savings year to date. The Value Analysis Program will continue to assist the hospital by accessing best pricing through the GPO contracts and additional cost savings and cost avoidance programs.

c. **Actual/estimated Date of Corrective Action:**   Done  **Estimated cost to implement recommendation (If material)**

\$   TBD



**Recommendation Number: 1.1**

“Formulate a supply-chain strategy to manage the full spectrum of group contracting, system procedures and maintenance, including monitoring of purchasing performance.”

a. **Management position concerning the recommendation:**

    X     Concur                                 Disagree

b. **Comments:**

Management will seek to enhance the existing Value Analysis Program through restructuring support through the Fiscal Services and Materials Management Divisions. Processes will be implemented to review and update pricing, perform sample purchase audits, monitor GPO and local contract expirations to prevent wide price variations, monitor savings from GPO contracts, and coordinate with key departments to optimize supply chain pricing, performance and product standardization as clinically appropriate.

c. **Actual/estimated Date of Corrective Action:**     10/08    d. **Estimated cost to implement recommendation (If material)**

\$     TBD    

**Recommendation Number: 1.2**

“Implement the full functionalities of the PeopleSoft Contract Procurement Process so that a disciplined group contract purchasing workflow process and inventory control system is enabled.”

a. **Management position concerning the recommendation:**

    X     Concur                                 Disagree

b. **Comments:**

The PeopleSoft components for the procurement process that include auto-replenishment, EDI and bar coding are not functional. Materials Management and Fiscal Services will work with OASIS to determine if these functionalities can be made operational. If the determination is made that the functions can be activated to improve the functionality, an action plan will be developed in conjunction with OASIS to enable the above functions.

RCRMC is open to a full review of the PeopleSoft contract procurement processes to determine additional features within PeopleSoft are available that would serve to improve current internal controls and operational efficiency. The ability to review these features and associated processes would require OASIS involvement and support.

- c. **Actual/estimated Date of Corrective Action:**     TBD
- d. **Estimated cost to implement recommendation (If material)**  
\$     TBD

**Recommendation Number: 1.3**

“Analyze all current purchases against the Novation contract portfolio, as well as other vendor contracts where appropriate, to identify products and related savings for conversion to the Novation structure.”

- a. **Management position concerning the recommendation:**  
    X     Concur                                   Disagree

- b. **Comments:**  
This is a Value Analysis function. Contract analysis has been going on since November, 2006. The major focus of the analysis has been on identifying cost savings through the GPO as it relates to purchases through the medical/surgical supply distributor. As of December, 2007, savings of \$2.1 million dollars has been realized through accessing GPO contracts. Value Analysis is also in the process of reviewing vendors with payments greater than fifty-thousand dollars to determine if savings opportunities exist using GPO contract pricing. The hospital is also working with UHC/Novation to perform a spend analysis for all hospital medical-surgical supply purchases. A request was submitted to OASIS in December, 2007 to complete the development of a “spend” query that is required to implement and perform a “spend” analysis for the hospital.

- c. **Actual/estimated Date of Corrective Action:**     10/08
- d. **Estimated cost to implement recommendation (If material)**  
\$ No cost at this time

**Recommendation Number 1.4:**

“Review the benefits from labeling fees paid to PHS in relation to identifying opportunities for automating inventory tracking, patient billing, and patient case

documentation process. Deployment of an effective inventory identification system is vital in a hospital setup especially for tracking expensive inventories and medical devices.”

a. **Management position concerning the recommendation:**

      X       Concur                                                                 Disagree

b. **Comments:**

The Fiscal Services Division is working towards the establishment of a patient “chargeables” policy and procedure. Work is underway to analyze the cost/benefit of “sticker” such items. Once the analysis is completed, a cost per item threshold will be established. This threshold will determine what item is “stickered”. Materials management will work with OASIS to determine if the bar coding function in PeopleSoft will be able to track the utilization of the more expensive inventories and medical devices.

c. **Actual/estimated Date of Corrective Action:**       10/08      

d. **Estimated cost to implement recommendation (If material)**

\$       No cost at this time      

**Recommendation Number 1.5:**

“Ensure that all item masters reflect accurate pricing and information. Resolve pricing errors including those which we previously provided on a separate list, and request vendor refunds when appropriate.”

a. **Management position concerning the recommendation:**

      X       Concur                                                                 Disagree

b. **Comments:**

Given the nature of the medical supply industry, medical supply pricing is rarely constant for the following reasons:

1. Contract pricing expires, reverting to either a higher list price or dealer price, depending on the item.
2. Manufacturers are not required to disclose price increases in a timely manner. Some manufacturers release their new price increases with as little as 72 hours notice. If the items are distributed, the distributor passes on the cost in the absence of a new price agreement. This

appears as a pricing “spike”. Once a new GPO or local agreement is executed, pricing is changed to reflect the new values.

3. Contract pricing may be changed by the manufacturer due to reassessment of appropriate pricing tier level.
4. Cost of living increases or other annual pricing adjustments (i.e. fuel surcharges) change periodically. RCRMC has implemented pricing controls with the primary distributor to assist in the detection and prevention of pricing discrepancies.

Management has recovered/reconciled \$137,350 of the discrepancy through analysis of the auditors’ query and is continuing to work with the hospital distributor to reconcile the remaining overpayment of \$44,650 identified from this query and stop future overpricing occurrences. Management has also identified and instituted additional purchasing department procedures that will prevent future overpayment. RCRMC will also utilize the auditors’ query to review for future product pricing variances on a quarterly basis.

The hospital concludes that the constant maintenance of the Business Unit Item Master and the Contract Item Master File would improve internal controls and minimize pricing errors on an ongoing basis.

- c. **Actual/estimated Date of Corrective Action:** 10/08
- d. **Estimated cost to implement recommendation (If material)**  
\$ N/A

### **Recommendation Number 1.6:**

“Appoint a full-time database administrator for the maintenance of the business unit and contract item masters records. Implement procedures so that newly awarded items and changes to the records are approved by management and entered into PeopleSoft through the database administrator.”

- a. **Management position concerning the recommendation:**  
 X  Concur   Disagree
- b. **Comments:**  
RCRMC agrees with this recommendation in concept, however, due to the significant fiscal restraints, management will review and/or reorganize the existing support structures to facilitate the maintenance of the business

unit item master. Currently, the responsibility to update and maintain the business unit item master file has been delegated to five staff members' hospital wide. Systems have been established to review and approve new items and product changes. As resources become available, the hospital will work towards the hire of a full-time position whose primary responsibility will be to maintain the business unit item master. County Purchasing has denied the hospital access to maintain the contract item master.

c. **Actual/estimated Date of Corrective Action:** 10/08

d. **Estimated cost to implement recommendation (If material)**

\$ TBD

**Recommendation Number 1.7:**

“Enforce the exclusive use of the business unit or the contract item master, whichever is appropriate, as basis for writing purchase requisitions and purchase orders. If override of this procedure is necessary, the system hold should be released by a manager or supervisor of the department the transaction originated from.”

a. **Management position concerning the recommendation:**

X  Concur   Disagree

b. **Comments:**

The hospital only has the ability to update and maintain the business unit item master file. The ability for the hospital to manage the contract item master file has not been authorized by County Purchasing. Therefore, the ability to override the contract item master file is necessary to enter correct contract pricing when it is found to be incorrect. Currently, the Buyer II authorizes contract pricing overrides. The procedure for updating the business unit item master for purchases through the prime medical/surgical distributor is done consistently on a monthly basis. The hospital has no control over supply contracts that have been established by County Purchasing. Since county purchasing has limited access to the contract items master file, the onus to maintain contract pricing is on County Purchasing. The hospital will review current oversight processes and establish additional policies and procedures as necessary. The hospital recommends the on-going update of all item master pricing tables as designed to maximize system efficiencies and internal controls.

c. **Actual/estimated Date of Corrective Action:** TBD

Corrective action for this recommendation is dependent on the involved departments' concurrence.

d. **Estimated cost to implement recommendation (If material)**

\$ TBD

**Recommendation Number 1.8:**

"Minimize the use of generic SKU codes and ensure that the booking of dissimilar items under one code is discontinued."

a. **Management position concerning the recommendation:**

X  Concur   Disagree

b. **Comments:**

Generic SKU codes are not used for inventory items, unless there is a request for an emergency/urgent item needed for patient care. Otherwise, every inventory item must have a "put-away" or bin location, and generic SKU's do not allow for this. Every inventory item has a specific hospital identification number. Generic SKU's are only used for items that are purchased less than 3-4 times annually and are ordered directly for a department. This procedure was established by management to accommodate the high number of items used in the hospital. Upon analyzing the generic SKU's submitted by the Auditor, the hospital procedure is to be adhered to by RCRMC Purchasing. The hospital will establish a written policy and procedure to address this issue.

c. **Actual/estimated Date of Corrective Action:**  10/08

d. **Estimated cost to implement recommendation (If material)**

\$  N/A

**Recommendation Number 1.9:**

"Develop procedures to ensure items ordered are linked to its appropriate contracts and run data queries to review if procedures are adhered to."

a. **Management position concerning the recommendation:**

X  Concur   Disagree

b. **Comments:**

The hospital will develop a process to facilitate the review of purchases that are not linked to contracts and to monitor. RCRMC will require resources from OASIS building and maintaining a set of data queries to monitor non-linkage to contracts. The hospital will also work with OASIS and County Purchasing to expand the function that will notify specified staff when a contract is nearing its maximum spend limit.

c. **Actual/estimated Date of Corrective Action:** See below

TBD: This is dependent on allocation of resources to the hospital by OASIS.

10/08: Policy and Procedure

d. **Estimated cost to implement recommendation (If material)**

\$ TBD

**Recommendation Number 1.10:**

"In conjunction with OASIS, develop system control parameters and process for reporting of exceptions such as system overrides and contract items not linked to contracts. "

a. **Management position concerning the recommendation:**

X  Concur   Disagree

b. **Comments:**

Materials Management will develop and institute a manual monitoring procedure for monitoring PeopleSoft contract limits and overrides. OASIS will be contacted to determine if an electronic workflow process can be built within PeopleSoft to provide for electronic management and monitoring of overrides.

c. **Actual/estimated Date of Corrective Action:** See below

10/008: Manual Procedures

TBD: Dependant on OASIS response.

d. **Estimated cost to implement recommendation (If material)**

\$ No cost at this time

**Recommendation Number 2:**

“Collaborate with OASIS to enable PeopleSoft functionalities to ensure that purchase orders are properly reviewed, approved and validated against approved requisitions.”

a. **Management position concerning the recommendation:**

    X     Concur                                 Disagree

b. **Comments:**

The implementation of the purchase order workflow and PeopleSoft 8.8 provides for the capability to electronically review, approve and validate purchase orders based on a requisition/purchase order dollar value. Review and approval of purchase orders has been established and required through a hierarchy of various levels of authorized personnel/management which is based on purchase order dollar amount and authorization.

c. **Actual/estimated Date of Corrective Action:**     active    

This is dependent on allocation of resources to the hospital by OASIS.

d. **Estimated cost to implement recommendation (If material)**

\$     TBD    

**Recommendation Number 3:**

“Strengthen review procedures to ensure the accuracy of classifying purchase orders.”

a. **Management position concerning the recommendation:**

    X     Concur                                 Disagree

b. **Comments:**

Retraining and reinforcing the standards of purchase order classification is required. The Purchasing Department will establish a training and reinforcement program for its buyers and LVPO processors. A procedure and desktop reference will be created.

c. **Actual/estimated Date of Corrective Action:**     10/08    

d. **Estimated cost to implement recommendation (If material)**

\$     No cost at this time



**Recommendation Number 4:**

“Management should reinforce procedures so that receivers completely verify incoming shipments against packing slips, and indicate signature and date of receipt on the packing slips to denote that the shipment was accurate. The receiver report should be generated only based on a packing slip that is signed and dated by the receiver. The packing slip and the receiver report should be filed together.”

- a. **Management position concerning the recommendation:**  
 Concur  Disagree
  
- b. **Comments:**  
 All packing slips are checked by an office assistant II against the purchase order for signatures and quantities. This documentation is recorded and retained in department files. Periodic spot checks will be completed periodically by the Materials Manager or his/her designee. Departmental procedures will be reviewed and updated to reflect current operational guidelines.
  
- c. **Actual/estimated Date of Corrective Action:** See below  
 Done: Procedure in place operationally  
 10/08: Policy and Procedure
  
- d. **Estimated cost to implement recommendation (If material)**  
 \$ No cost at this time

**Recommendation 4.1**

“A material discrepancy report should be generated every time there is a discrepancy between the shipment, packing slip and purchase order.”

- a. **Management position concerning the recommendation:**  
 Concur  Disagree
  
- b. **Comments:**  
 The discrepancy report is generated from the receiving department when there is any variance on packing slip. If there is an issue on the packing slip, the vendor is contacted to resolve the issue. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

- c. **Actual/estimated Date of Corrective Action:** See below  
 Done: Procedure in place operationally  
 10/08: Policy and Procedure
- d. **Estimated cost to implement recommendation (If material)**  
 \$ No cost at this time

**Recommendation 4.2**

“The transfer of goods from the receiver to the recipients should be documented with the proper use of the receiving and delivery log with the recipient’s name and date of receipt clearly written. All orders should be entered into the system and delivered to the departments without undue delay.”

- a. **Management position concerning the recommendation:**  
 \_\_\_\_\_ X \_\_\_\_\_ Concur \_\_\_\_\_ Disagree

- b. **Comments:**  
 All received items are delivered and signed for before 5:00pm the same day. If the item is refrigerated they deliver the item within one hour. If the department is closed, the item is delivered the next morning. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

- c. **Actual/estimated Date of Corrective Action:** See below  
 Done: Procedure in place operationally  
 10/08: Policy and Procedure
- d. **Estimated cost to implement recommendation (If material)**  
 \$ No cost at this time

**Recommendation 4.3**

“Procedures for reviewing the accuracy of the materials put away plan, especially concerning unit of measures and quantity conversions, should be developed.”

- a. **Management position concerning the recommendation:**  
 \_\_\_\_\_ X \_\_\_\_\_ Concur \_\_\_\_\_ Disagree



**Recommendation: 5.1**

“Obtain specimen signature from authorized approvers from all departments to be used by storekeepers for validating approval signature on MSR forms.”

a. **Management position concerning the recommendation:**

  X   Concur                                  Disagree

b. **Comments:**

The signature collection form has been developed. The materials management will work with hospital operations to collect a list authorized names and signatures.

c. **Actual/estimated Date of Corrective Action:**   10/08  

d. **Estimated cost to implement recommendation (If material)**

\$ No cost at this time

**Recommendation 5.2**

“Ensure stock withdrawals are recorded into PeopleSoft the same day the stocks were withdrawn by designating and training a backup staff member so that the task can be completed daily in the event that the primary processor is not available.”

a. **Management position concerning the recommendation:**

  X   Concur                                  Disagree

b. **Comments:**

All staff are being cross-trained who have PeopleSoft access.

c. **Actual/estimated Date of Corrective Action:**   Ongoing  

d. **Estimated cost to implement recommendation (If material)**

\$ No cost at this time

**Recommendation 5.3**

“Work with OASIS to enhance the stock fulfillment process such as incorporating an online approval workflow for material stock requests.”

- a. **Management position concerning the recommendation:**  
 Concur  Disagree
- b. **Comments:**  
 This is dependent on allocation of resources to the hospital by OASIS to address this issue
- c. **Actual/estimated Date of Corrective Action:** TBD  
 Dependant on resource allocation from OASIS.
- d. **Estimated cost to implement recommendation (If material)**  
 \$ TBD

### Recommendation Number 6:

“Ensure discrepancies between physical count and system balances are investigated and the results are reported to and approved by management prior to adjustments being made. All documentation supporting the inventory adjustments should be retained on file.”

- a. **Management position concerning the recommendation:**  
 Concur  Disagree
- b. **Comments:**  
 RCRMC has instituted weekly cycle counts by section. Efforts to improve this process have been hampered due to PeopleSoft functionality issues with the way that costing and unit of measure are entered and translated into the system. A log of discrepancies is maintained by materials management. This log is updated by an administrative services analyst II. Departmental procedures will be reviewed and updated to reflect current operational guidelines.
- c. **Actual/estimated Date of Corrective Action:** See below  
 TBD: Corrective action is dependent on the allocation of resources to the hospital by OASIS to address this issue.  
 10/08: Policy & Procedure
- d. **Estimated cost to implement recommendation (If material)**  
 \$ No cost at this time

**Recommendation Number 6.1:**

“Segregate the custodianship and recordkeeping functions and inactivate stock custodians’ system privileges to make inventory adjustments.”

a. **Management position concerning the recommendation:**

    X     Concur                      Disagree

b. **Comments:**

RRCMC will segregate the custodianship and recordkeeping functions and given access to two materials management staff. An administrative services analyst II has been given primary authority and a Senior Accounting Assistant has been given back-up authority.

c. **Actual/estimated Date of Corrective Action:**     10/08    d. **Estimated cost to implement recommendation (If material)**

\$ No cost at this time

**Recommendation Number 7:**

“Review the PeopleSoft system roles to ensure an adequate system of internal controls exists in accordance with the Auditor-Controller Standard Practice Manual, Section 12, Policy 1200.”

a. **Management position concerning the recommendation:**

    X     Concur                      Disagree

b. **Comments:**

Management has identified staff with conflicting system access. Key staff roles are being redefined and modified in order to provide for appropriate checks and balances.

c. **Actual/estimated Date of Corrective Action:**     10/08    d. **Estimated cost to implement recommendation (If material)**

\$ No cost at this time

**Recommendation Number 8:**

“A barrier, such as a counter, should be installed to control traffic and deter unauthorized individuals from approaching the racks.”

a. **Management position concerning the recommendation:**

    X     Concur                                           Disagree

b. **Comments:**

A physical barrier such as a desk or counter would obstruct the flow of the supply carts. However, a storekeeper has been relocated to monitor foot traffic in and out of the storeroom. Non storeroom based hospital staff cannot enter the storeroom area without an escort. The keycard system is on order and will be installed by Plant Operations. The estimated date of completion is September 15, 2008.

c. **Actual/estimated Date of Corrective Action:**     9/08    d. **Estimated cost to implement recommendation (If material)**

\$600 plus staff time

**Recommendation Number 8.1:**

“Management should consider changing the storeroom locks to a keycard or similar system to limit access to the storeroom to authorized individuals only.”

a. **Management position concerning the recommendation:**

    X     Concur                                           Disagree

b. **Comments:**

The keycard system is on order and will be installed by Plant Operations once received.

c. **Actual/estimated Date of Corrective Action:**     10/08    d. **Estimated cost to implement recommendation (If material)**

See response to recommendation 8.0

**Recommendation Number 8.2:**

“Management should provide written guidelines and training, over the proper use of security cameras, video recordings, incident reporting, and video record retention.”

a. **Management position concerning the recommendation:**

    X     Concur                                           Disagree

b. **Comments:**

Plant Operations is working towards the installation of the additional infrastructure to expand the ability to monitor the storeroom via video remotely. Materials management will establishing a policy and procedure for reviewing video recordings and is working to train key personnel to operate and review the video recordings. Departmental procedures will be reviewed and updated to reflect current operational guidelines.

c. **Actual/estimated Date of Corrective Action:**     10/08    

d. **Estimated cost to implement recommendation (If material)**

\$     TBD    

**Recommendation Number 9:**

“Request the County Director of Purchasing issue a certificate of appointment specifically describing spending limitations for each.”

a. **Management position concerning the recommendation:**

    X     Concur                                           Disagree

b. **Comments:**

The department documentation is being collected for placement in the appropriate employee records.

c. **Actual/estimated Date of Corrective Action:**     10/08    

d. **Estimated cost to implement recommendation (If material)**

\$     TBD



**Recommendation Number 9.1:**

“Retain documentations on file to support buyer’s appointment, spending authorizations, training, etc.”

a. **Management position concerning the recommendation:**

  X   Concur                    Disagree

b. **Comments:**

Each buyer is issued a certificate of program certificate of completion for their appropriate level of training. Re-issuance of missing certificates will be requested and will be kept the respective personnel file.

c. **Actual/estimated Date of Corrective Action:**   10/08  

d. **Estimated cost to implement recommendation (If material)**

\$   TBD  

**Recommendation Number 9.2:**

“Determine the adequacy of the training and continuing education program for buyers in the light of the findings as noted in this report.”

a. **Management position concerning the recommendation:**

  X   Concur                    Disagree

b. **Comments:**

Training of purchasing staff is a constant need. It is rare to recruit buyers from within the organization or from the community. The training of purchasing staff requires not only support from the County Purchasing Department, but also requires daily experiential training and guidance. Training takes place daily within the department as well as attendance at the County Purchasing monthly buyer meetings and other County sponsored seminars.

c. **Actual/estimated Date of Corrective Action:**   ongoing  

d. **Estimated cost to implement recommendation (If material)**

\$   TBD

**Recommendation Number 10:**

"OASIS should log program changes such as the hard-coded buyer spending limits. The log should be kept to facilitate verification and adjustments that may be required in the future. Efforts should be taken to incorporate the contract item limits into the workflow process rather than making program changes every time a staffing or limit change is made."

- a. **Management position concerning the recommendation:**  
 \_\_\_\_\_  Concur                                  \_\_\_\_\_ Disagree
  
- b. **Comments:**  
 Resolution of this issue is dependant on allocation of resources from OASIS and County Purchasing to establish such limits in PeopleSoft.
  
- c. **Actual/estimated Date of Corrective Action:** \_\_\_\_\_ TBD \_\_\_\_\_
  
- d. **Estimated cost to implement recommendation (If material)**  
 \$ \_\_\_\_\_ TBD \_\_\_\_\_



County of Riverside  
OASIS

Michael A. Dearman  
DIRECTOR

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Date: May 19, 2009

To: Auditor-Controller, Audits and Specialized Accounting Division

From: Michael Dearman, OASIS Director

Re: Reply to RMC Audit Report dated October 1, 2008

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Recommendation 1.2      Implement the full functionalities of the PeopleSoft Contract Procurement Process so that a disciplined group contract purchasing workflow process and inventory control system is enabled.

Management Reply      PeopleSoft auto-replenishment is functioning and is being used by Fire and DPSS. RMC has data problems that OASIS is assisting with that cause inaccurate order quantities from the replenishment process. EDI is available through OASIS, and bar-coding is functioning and is being used by DPSS.

Recommendation 1.4, 1.9, 1.10, 5, 5.3, 6

Management Reply      OASIS is waiting for more details from RMC to initiate work. To this date, OASIS has not received any work requests from RMC.