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AUDITOR-CONTROLLER

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DEPARTMENT OF AUDITOR-CONTROLLER**

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March 4, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller 

SUBJECT: **OLIVE VIEW MEDICAL CENTER
PROCUREMENT FOLLOW UP REVIEW**

At your request, we have followed up on our February 5, 2002 report on Olive View Medical Center's (OVMC) Procurement operations. Our prior report identified significant violations of County purchasing rules by OVMC. Our current follow-up review was intended to assess OVMC's progress in implementing the 22 recommendations from our prior report and its current compliance with County purchasing rules.

Status of Recommendations

Overall, OVMC has fully implemented twelve (55%) of the 22 recommendations. However, seven (31%) are partially implemented and three (14%) are not implemented. Our follow-up review also indicates that, while OVMC has made progress in implementing the recommendations from our prior report, violations of County purchasing rules continue to occur without being detected. The following are examples of continuing violations of County purchasing rules at OVMC:

- OVMC staff continue to order goods/services without prior written approval.
- OVMC Procurement staff do not always ensure that they receive agreement terms. In one instance, OVMC overpaid an agreement vendor \$1,000. OVMC indicated that they subsequently received a credit for the overpayment from the vendor.
- OVMC Accounts Payable staff do not always ensure that all required documentation is properly completed prior to paying the vendor invoice. This could result in vendors being paid for unauthorized purchases and goods/services that were not received.

Our follow-up indicates that OVMC made some progress in improving its purchasing operations. However, some of the problems noted in our February 5, 2002 report continue to exist. DHS Administration needs to continue to monitor OVMC's implementation of recommendations to ensure the facility's procurement practices comply with County policies and procedures and hold the responsible managers accountable for timely implementation actions and monitoring compliance.

In addition to the status of the prior recommendations, we also followed up on some questionable transactions identified by the Internal Services Department (ISD). Our review of these transactions indicates that in 2000 and 2001, OVMC hired some staff using purchase orders, instead of using the required County personnel process. Using purchase orders to hire staff violates County hiring restrictions. We have recommended that DHS consider disciplinary action against employees involved in these transactions and ensure that OVMC does not use purchase orders to hire staff in the future.

The following are the status of the 22 recommendations from our prior report, along with ongoing procurement issues at OVMC.

Recommendation 1

DHS work with ISD to provide training on County purchasing rules to OVMC Administration and Materials Management staff.

Current Status: PARTIALLY IMPLEMENTED

Our review of OVMC's records indicates that their Materials Management and Procurement staff have attended training classes facilitated by ISD. However, OVMC Administration and Accounts Payable staff still have not attended any formal training. OVMC indicated that they will work with ISD to arrange additional training.

Recommendation 2

OVMC Administration increase its monitoring of the purchasing operation to ensure compliance with the County's purchasing rules.

Current Status: PARTIALLY IMPLEMENTED

OVMC developed an "HS2 Requisition Prior Approval Verification Form" to provide Hospital Administration with detailed information on each purchase, including the type of purchase order used, bid information and other information. OVMC managers sign the forms indicating they have reviewed the information before approving vendor payments. However, based on the violations of County purchasing rules discussed later in this report, it appears that OVMC must continue to improve its monitoring efforts.

Recommendation 3

ISD continue OVMC's reduced delegated purchasing authority until DHS Administration certifies that OVMC is in compliance with County purchasing rules.

Current Status: IMPLEMENTED

In our prior review, we recommended that ISD reduce OVMC's delegated purchasing authority. During our follow up review, we verified that ISD reduced OVMC's delegated authority from \$15,000 to \$2,500. DHS Administration approves OVMC purchases between \$2,500 and \$5,000, and purchases in excess of \$5,000 are processed through ISD.

Procurement and Payment Practices**Recommendation 4**

OVMC Administration ensure that agreement items are not purchased from non-agreement vendors.

Current Status: IMPLEMENTED

In our prior review, we noted that OVMC purchased agreement items from non-agreement vendors. During our follow-up review, we sampled 30 purchases from non-agreement vendors and noted that none of the items were covered by an existing agreement.

Recommendation 5

OVMC Administration ensure that price quotes are obtained in accordance with ISD's purchasing guidelines.

Recommendation 6

OVMC Administration ensure that purchases in excess of the facility's delegated authority are processed through ISD.

Current Status: Recommendation 5 PARTIALLY IMPLEMENTED
Recommendation 6 IMPLEMENTED

In our initial audit, we noted that OVMC did not always obtain price quotes nor process purchases through ISD as required by County purchasing guidelines. During our follow-up audit, we tested 20 purchases and noted that OVMC procurement did not obtain valid price quotes for three purchases between \$2,500 and \$5,000. As noted earlier,

ISD authorized DHS Administration to approve purchases for OVMC between \$2,500 and \$5,000. Our review indicates that DHS Administration approved all three purchases without OVMC obtaining the required price quotes. For example, we noted that OVMC made sole source purchases of diagnostic mammography supplies and an ice machine. OVMC did not have documentation justifying the sole source purchases. Our review indicates that purchases in excess of \$2,500 were processed through DHS Administration and purchases in excess of \$5,000 were processed through ISD.

Recommendation 7

OVMC Administration ensure that individual purchases are not split to stay under the Department's authorized purchasing limit by retraining all managers who authorize purchase requisitions and monitoring for compliance.

Current Status: IMPLEMENTED

In our initial review, we noted that OVMC split some orders to stay under their delegated authority. As noted earlier, ISD and OVMC Materials Management have provided training to OVMC staff, including the requirement to not split purchases. We performed a computerized review of all OVMC purchases from July 1, 2002 to February 12, 2003 by vendor and date and found no indication of purchases that appeared to have been split to stay under their purchasing limit.

Recommendation 8

OVMC Administration ensure that requesting units submit signed and approved requisitions, including the estimated purchase amount, for all purchases and that Procurement does not process purchases without proper authorization.

Current Status: PARTIALY IMPLEMENTED

County Fiscal Manual Section 5.1.1 requires that proposed purchases be approved before items are ordered. In our initial review, we noted that 33% of the purchases tested were processed without an approved requisition. During our follow-up review, we noted that Procurement staff processed three (7%) of 45 transactions tested without an approved requisition. While the purchases were approved before payment was made, OVMC needs to continue to increase its monitoring to ensure that managers sign and approve the requisitions before the services or supplies are ordered.

Recommendation 9

OVMC Administration ensure that the Accounts Payable unit does not process payments unless all required documents have been properly completed.

Recommendation 14

Accounts Payable staff compare the invoices to the receiving reports before making payments.

Current Status: NOT IMPLEMENTED

The County Fiscal Manual and OVMC's CAPS-Online Internal Control Plan require that payments not be authorized unless all documents, including the requisition, have been properly completed. In our initial review, we noted that OVMC Accounts Payable Section staff did not compare the vendor invoice to the receiving report prior to payment. During our follow-up review, we examined 45 payments processed by Accounts Payable staff and noted that eight (18%) payments were made without a signed receiving report.

Recommendation 10

OVMC Administration ensure that Board of Supervisors approval is obtained for purchases of services in excess of \$100,000 as required by County purchasing rules.

Current Status: IMPLEMENTED

In our initial review, we noted that OVMC did not obtain Board approval for purchases of services in excess of \$100,000 as required. As part of our follow-up review, we performed a computerized review of all OVMC payments and found that OVMC did not have any purchases of services in excess of \$100,000 without a Board-approved contract. We also interviewed personnel from OVMC Administration and verified that they were aware of the requirement to obtain Board approval for purchases of services in excess of \$100,000.

Recommendation 11

OVMC Procurement monitor regularly purchased items and notify ISD of items that may warrant having a vendor purchasing agreement.

Current Status: PARTIALLY IMPLEMENTED

In our initial review, we noted that OVMC did not monitor repetitive/frequent purchases, to identify vendors who may warrant having an agreement. Based on our recommendation, OVMC Materials Management instructed facility managers to notify Materials Management of items purchased more than six to eight times per year that total more than \$20,000. However, Materials Management indicated that they do not independently review OVMC purchasing data to identify regularly purchased items and/or frequently used vendors.

While our follow up review did not disclose any vendors that appear to warrant an agreement at this time, OVMC Materials Management should monitor regularly purchased items and/or frequently used vendors and notify ISD of items that may warrant having a vendor purchasing agreement.

Recommendation 12

OVMC Administration obtain CAO approval for all equipment leases.

Current Status: IMPLEMENTED

OVMC has not entered into any new equipment leases since our initial review. However, interviews with OVMC management determined that they are aware that all equipment leases must be approved by the CAO.

Recommendation 13

Procurement and Accounts Payable staff obtain copies of purchasing agreements and use the agreements to verify the accuracy of vendor invoices.

Current Status: NOT IMPLEMENTED

In our initial review, we noted that OVMC Procurement and Accounts Payable staff did not always review vendor agreements to determine whether the items purchased are covered by an agreement, or verify prices and payment terms before ordering or paying for supplies. During our follow-up audit, we reviewed 15 agreement vendor purchases and noted that Procurement staff did not have the purchasing agreement for one of its vendors. In addition, we noted one instance where OVMC overpaid an agreement vendor by approximately \$1,000 because they did not verify whether the vendor was charging the agreement price.

Revolving Fund

Recommendation 15

OVMC Expenditure Management reduce their revolving fund balance to \$5,000 and return the excess amount to the Auditor-Controller.

Current Status: IMPLEMENTED

In March 2003, OVMC reduced its revolving fund from \$15,000 to \$5,000 and returned the excess amount to Auditor-Controller.

Recommendation 16

The revolving fund is only used in emergencies, when prepayment is required, when immediate payment will result in cost savings or where a purchasing advantage can be achieved.

Current Status: PARTIALLY IMPLEMENTED

In our initial review, we noted that OVMC did not always comply with County revolving fund rules. During our follow-up review, we reviewed 10 petty cash transactions from the petty cash log and noted that one physician had made a purchase of small computer parts using petty cash, which should not have been made with petty cash. We discussed the situation with management, reviewed additional petty cash transactions for this physician, and noted five additional purchases of small computer parts that did not have justification for using petty cash to make the purchases. OVMC management should ensure that the fund is only used in accordance with County purchasing rules.

Recommendation 17

OVMC Expenditure Management ensure that the reasons for using the revolving fund are adequately documented.

Current Status: IMPLEMENTED

In our initial audit, we noted that OVMC did not document the reasons for using the revolving fund instead of the on-line vendor payment process when using the revolving fund. During our follow-up audit, we reviewed the petty cash logs and noted that OVMC is documenting the reasons for using the revolving fund to make purchases.

Recommendation 18

OVMC Expenditure Management ensure that petty cash receipts are marked paid.

Current Status: IMPLEMENTED

The County Fiscal Manual states that receipts for petty cash expenditures must be marked paid to prevent subsequent reuse (misuse). In our prior review, we noted that OVMC did not mark petty cash receipts as paid to prevent reuse. During our follow-up review, we noted that all 10 petty cash receipt reviewed were marked paid.

Recommendation 19

OVMC Administration periodically review employee CAPS access for appropriateness and cancel the users' access when it is no longer required to perform their responsibilities.

Current Status: PARTIALLY IMPLEMENTED

During our initial review, we noted that one employee still had access to CAPS after leaving the County for over a year. During our follow-up audit, we noted that OVMC terminated the employee's access and all other access levels appear appropriate. However, OVMC Materials Management does not receive or request a copy of the CAPS security access listing to periodically review employee CAPS access for appropriateness.

Disciplinary Action**Recommendation 20**

Consider pursuing disciplinary action against the employee out on disability.

Recommendation 21

Inform the Sheriff's Department of its former employee's past performance problems.

Recommendation 22

Once training on the County's purchasing requirements is provided to OVMC Administration and Materials Management staff, monitor OVMC staff for compliance and take disciplinary action against employees who violate the requirements.

Current Statuses: Recommendations 20, 21 and 22 – IMPLEMENTED

In an earlier review of OVMC's computer system purchases, we noted significant violations of County purchasing rules and recommended that OVMC take disciplinary action with the employees involved. In March 2003, DHS reported that they had advised the staff involved, including the employee out on disability, that further violations of County rules would result in disciplinary action. OVMC also advised the Sheriff of the former employee's past performance. OVMC has also provided training on County purchasing requirements.

It should be noted that most of the staff involved in the prior inappropriate transactions have left OVMC and/or County service, except for the head of OVMC Materials Management and the Associate Administrator, Finance.

Our follow-up indicates that OVMC made some progress to improve its purchasing operations. Based on the improvement noted in our review, it does not appear that additional disciplinary action is needed at this time.

Additional Finding

Hiring Personnel Using Purchase Orders

ISD performed a computerized analysis of OVMC purchases. Their analysis indicated that from March 2000 to May 2001, OVMC had hired 18 staff using purchase orders, instead of the required County Personnel process. The staff included physicians, podiatrists, and clerical staff. Some of these employees were later hired as OVMC employees. OVMC indicated that, in two instances, they used the purchase orders to circumvent a County hiring freeze. In three other instances, OVMC indicated that the County did not have a budgeted personnel item that could be used to hire the Podiatrists. For the 13 remaining instances, OVMC could not explain why they had used purchase orders to hire the staff.

Using purchase orders to hire staff allows departments to circumvent County hiring restrictions. DHS should consider disciplinary action against employees involved in using purchase orders to hire staff and monitor to ensure that OVMC does not use purchase orders to hire staff in the future.

Recommendation

DHS consider disciplinary action against employees involved in using purchase orders to hire staff and monitor to ensure that OVMC does not use purchase orders to hire staff in the future.

Review of Report

We met with OVMC/DHS management to discuss the results of our follow-up review. Their written response, attached, indicates concurrence with the results of our review. We thank OVMC/DHS management and staff for their cooperation and assistance during our review.

Your Board also requested that we review procurement practices at other DHS facilities for compliance with County requirements. We are currently completing our review at the other facilities and will provide you with our report in the near future.

If you have any questions, please contact me or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:JS

Attachment

c: David E. Janssen, Chief Administrative Officer
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer, Health Services
Melinda Anderson, Chief Executive Officer, Olive View Medical Center
Dave Lambertson, Interim Director, Internal Services Department
Michael J. Henry, Director, Department of Human Resources
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee



THOMAS L. GARTHWAITE, M.D.
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February 24, 2004

TO: J. Tyler McCauley
Auditor-Controller

FROM: Fred Leaf
Chief Operating Officer

SUBJECT: **OLIVE VIEW MEDICAL CENTER PROCUREMENT
FOLLOW-UP REVIEW**

As requested, attached are the responses to the Auditor-Controller's recommendations found to be partially implemented or not implemented. The Department concurs with your recommendations.

Recommendation 1

DHS work with ISD to provide training on County purchasing rules to OVMC Administration and Materials Management staff.

Current Status: **PARTIALLY IMPLEMENTED**

DHS Response

We concur with the recommendation. Training classes for OVMC Administration and Accounts Payable are pending additional sessions being scheduled by ISD.

Recommendation 2

OVMC Administration increase its monitoring of the purchasing operation to ensure compliance with the County's purchasing rules.

Current Status: **PARTIALLY IMPLEMENTED**

DHS Response

We concur with the recommendation. OVMC Administration will continue to monitor for compliance with established policies and procedures.

Recommendation 5

OVMC Administration ensures that price quotes are obtained in accordance with ISD's purchasing guidelines.

Current Status: **PARTIALLY IMPLEMENTED**

DHS Response

We concur with the recommendation. OVMC Administration will ensure that written quotes are obtained in accordance with ISD's purchasing guidelines and will maintain documentation of justification for all "sole source" vendor purchases.

Recommendation 8

OVMC Administration ensure that requesting units submit signed and approved requisitions, including the estimated purchase amount, for all purchases and that Procurement does not process purchases without proper authorization.

Current Status: **PARTIALY IMPLEMENTED**

DHS Response

We concur with the recommendation. OVMC Administration will continue to provide training and increase monitoring to ensure that managers sign and approve requisitions before services or supplies are ordered.

Recommendation 9

OVMC Administration ensure that the Accounts Payable unit does not process payments unless all required documents have been properly completed.

Recommendation 14

Accounts Payable staff compares the invoices to the receiving reports before making payments.

Current Status: **NOT IMPLEMENTED**

DHS Response

We concur with the recommendation. OVMC Materials Management has developed and implemented a Final Verification Check List Before Payment Process Form to be completed by Accounts Payable. In addition, two stamps are being utilized to ensure that each packing slip has a receiving signature and date from both Warehouse Receiving and the requesting Department. Training for all staff from the Warehouse Receiving, Delivery, Procurement, and Accounts Payable has been provided.

Recommendation 11

OVMC Procurement monitor regularly purchased items and notify ISD of items that may warrant having a vendor purchasing agreement.

Current Status: PARTIALLY IMPLEMENTED

DHS Response

We concur with the recommendation. OVMC Materials Management monitors all purchased items and/or frequently used vendors and notifies ISD of items that may warrant having a vendor purchase agreement. In addition, OVMC Procurement documents and tracks the status of agreement formulation from ISD.

Recommendation 13

Procurement and Accounts Payable staff obtain copies of purchasing agreements and use the agreements to verify the accuracy of vendor invoices.

Current Status: NOT IMPLEMENTED

DHS Response

We concur with the recommendation. OVMC Procurement will ensure that all Purchase Order costs are matched with the agreement price list. Accounts Payable will verify all invoice costs and match with the Purchase Order. In addition, \$1,066.90 was credited in April 2003 for the overpayment to a vendor noted by the Auditor-Controller

Recommendation 16

The revolving fund is only used in emergencies, when prepayment is required, when immediate payment will result in cost savings or where a purchasing advantage can be achieved.

Current Status: PARTIALLY IMPLEMENTED

DHS Response

We concur with the recommendation. OVMC will ensure that it's established petty cash policy is enforced. Expenditure Management has been returning HS2's to senders if they do not meet the petty cash criteria. In addition, the physician whose purchases were noted has been advised that computer equipment cannot be purchased through petty cash.

Recommendation 19

OVMC Administration periodically review employee CAPS access for appropriateness and cancel the users' access when it is no longer required to perform their responsibilities.

Current Status: PARTIALLY IMPLEMENTED

DHS Response

We concur with the recommendation. OVMC's Materials Management and Expenditure Management will obtain a copy of the CAPS security access list every January and June to verify the appropriateness, and update as necessary.

Additional Recommendation

DHS consider disciplinary action against employees involved in using purchases orders to hire staff and monitor to ensure that OVMC does not use purchase orders to hire staff in the future.

DHS Response

We concur with the recommendation. The majority of purchase orders used were to procure professional clinical services to ensure compliance with the 1115 Waiver mandates, accreditation and other regulatory requirements.

Once OVMC had the ability to hire and obtained budgeted items, individuals still providing these services were either hired as County employees or are no longer at OVMC.

DHS Human Resources will determine appropriate disciplinary action for any of the individuals involved in using purchase orders to circumvent the County hiring freeze.

FL: ks

c: Thomas L. Garthwaite, M.D.
Sachi Hamai