



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 4, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

*Wendy L. Watanabe
by
Schneiderman*

SUBJECT: **DEPARTMENT OF HEALTH SERVICES OLIVE VIEW MEDICAL
CENTER PROCUREMENT REVIEW**

In 2007, your Board instructed us to develop a risk-based plan to audit procurement at all County departments. In accordance with the approved plan, we have completed a review of the Department of Health Services (DHS) Olive View Medical Center's (OVMC or Facility) compliance with County procurement policies and procedures. Our review covered areas such as purchasing and payment controls, capital and non-capital equipment, and supply warehouses and stockrooms.

Summary of Findings

OVMC generally does a good job obtaining the goods and services necessary to operate the Facility. However, OVMC needs to ensure that they comply with County requirements. The following are examples of areas for improvement:

- The Facility needs to improve controls over its supply inventory by ensuring they record inventory additions and deletions as they occur. We noted significant discrepancies between the perpetual inventory records and the actual quantities on hand. In addition, when OVMC staff did physical inventory counts, they adjusted the perpetual inventory records without determining the reasons for the variances.

DHS' attached response indicates that they have implemented the Health Materials Management System (HMMS) to track actual inventory on hand. OVMC staff now record supplies purchased on HMMS when they are received, and all stock

issuances are recorded at the time they are made to ensure accurate inventory records. Discrepancies are also now investigated and resolved.

- OVMC needs to improve controls over vendor payments and purchases. Twelve (31%) of 39 payments reviewed were paid an average of 92 days late, resulting in lost discounts totaling \$496. In addition, the Facility needs to obtain price quotes for non-agreement purchases as required by the County Fiscal Manual (CFM) and Internal Services Department (ISD) guidelines.

DHS' attached response indicates that they have taken corrective action by requiring OVMC's Invoice Processing unit to ensure payments are made within 30 days, and that all available discounts are taken. In addition, OVMC Procurement staff attended two trainings where the requirement to obtain price quotes for non-agreement purchases was reinforced.

- OVMC needs to improve controls over its capital and non-capital equipment. Capital equipment was not always tagged before being placed into service, and we could not locate two pieces of capital equipment that were listed on the Facility's inventory. In addition, OVMC did not track or monitor non-capital equipment.

DHS' attached response indicates that they have taken corrective action by providing training to staff on tagging all capital and non-capital equipment when received, and accurately documenting the tag numbers. In addition, staff received training on accounting for equipment that is removed from service to ensure the equipment is deleted from the inventory listing.

The detailed results of our review and recommendations for corrective action are included in Attachment I.

Review of Report

We discussed the results of our review with OVMC management. The Facility's response (Attachment II) indicates general agreement with our findings and recommendations.

We thank OVMC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachments

c: William T Fujioka, Chief Executive Officer
Mitchell H. Katz, M.D., Director, Department of Health Services
Carolyn Rhee, Chief Executive Officer, OVMC
Tom Tindall, Director, Internal Services Department
Audit Committee
Public Information Office

**DEPARTMENT OF HEALTH SERVICES
OLIVE VIEW MEDICAL CENTER
PROCUREMENT REVIEW**

Background

The Department of Health Services (DHS) Olive View Medical Center's (OVMC or Facility) Materials Management section includes the Procurement, Accounts Payable and Receiving/Warehousing Divisions. These divisions order goods and services for the Facility, receive deliveries, track supply inventories, control capital and non-capital assets, and dispose of surplus/obsolete items. OVMC's Fiscal Year (FY) 2010-11 services and supplies budget was approximately \$208 million.

Scope of Review

We reviewed OVMC's procurement practices for compliance with County policies and procedures. Our review included interviewing OVMC personnel, evaluating purchasing and payment controls, inventorying a sample of assets, and observing supply warehouse and stockroom operations.

Inventory/Warehousing

The County Fiscal Manual (CFM) requires departments to keep perpetual inventory records for large inventories. Increases or decreases in inventory should be recorded as they occur, and inventory records should be reviewed periodically to identify slow moving, obsolete, and overstocked items. The CFM also requires that physical inventory counts be compared to the perpetual inventory records.

During our review period, OVMC used the Integrated Materials Management System (IMMS) for purchasing, receiving, and invoice processing. Inventory records were maintained manually. After our review, OVMC upgraded its inventory system to the Health Materials Management System (HMMS), which includes a perpetual inventory count for stock items.

We noted that the Facility's manual inventory records were not always updated to reflect purchases and issuances. We reviewed 16 items from the Facility's warehouse, and noted material discrepancies between the physical counts and the inventory records for 15 (94%) of the items. For example, the Facility's records indicated that they had 1,000 catheters in stock, valued at \$1,640. However, our physical count showed they actually had 2,475 catheters in stock, valued at \$4,059.

The CFM also requires departments to conduct a physical inventory, and compare the results to their inventory records. We noted that, while OVMC compared the physical inventory counts to the inventory records, they did not research the discrepancies to identify the cause of the variances. Instead, the Facility just adjusted the inventory

records to match the physical counts. OVMC should research the reason(s) for inventory count discrepancies, and implement corrective action.

Recommendations

OVMC management:

- 1. Ensure inventory purchases and distributions are recorded as they occur.**
- 2. Determine the reason(s) for inventory count discrepancies, and implement corrective action.**

Non-Agreement and Agreement Purchases

The Internal Services Department (ISD) establishes agreements with vendors for commonly purchased items. These agreements should not be used to purchase non-agreement items. ISD's Purchasing Policy and Procedure Manual requires departments to obtain at least three price quotes for non-agreement purchases between \$1,500 and \$5,000. For purchases over \$5,000, ISD obtains the price quotes, selects a vendor, establishes a direct purchase order, and orders the items from the selected vendor. CFM Section 4.5.13 requires departments to pay vendors within 30 calendar days of receiving the vendors' invoices.

Non-Agreement Purchases

We reviewed 20 non-agreement purchases between \$1,500 and \$5,000, and 19 direct purchase orders to determine whether OVMC complied with ISD's purchasing guidelines, and noted the following:

- OVMC did not obtain the required three price quotes for two (10%) of the 20 non-agreement purchases. For example, OVMC purchased equipment, totaling \$2,842, without the required three price quotes. OVMC should obtain the required three price quotes for all non-agreement purchases.
- The requisition price did not agree with the invoice price for one (5%) transaction. Specifically, the price on the requisition and purchase order was \$205 more than the amount on the invoice. OVMC should ensure that staff match invoice prices to the requisitions before processing payments.
- Two (10%) invoices were not marked "paid" or otherwise cancelled. While we did not identify any duplicate payments, OVMC should mark invoices "paid" to prevent duplicate payments.

- OVMC used a non-agreement purchase order to obtain hazardous waste disposal services that was covered by an existing agreement. We verified that the service was provided by the agreement vendor at the agreement rate. However, OVMC should ensure that agreement purchases are made using an agreement purchase order.
- The Facility incurred \$5,055 in late fees for failing to pay State license renewal fees on time. The original license renewal payment was submitted before the deadline, but was rejected in eCAPS. OVMC staff did not review the eCAPS Rejected Payments report, and resolve the rejection timely. Management should ensure that staff review the eCAPS Rejected Payments report on a regular basis, and resolve outstanding items.
- OVMC did not always pay vendors within 30 days as required. Eleven (55%) of the 20 non-agreement invoices reviewed were paid an average of 94 days late. In addition, OVMC paid one (5%) of the 19 direct purchase orders 34 days late. The late payments resulted in lost discounts totaling \$496.

Agreement Purchases

We also reviewed 20 agreement purchases, and noted OVMC did not have copies of the agreements for four (20%) transactions. As a result, we could not determine if the Facility received the agreement price for these purchases. OVMC needs to ensure supporting documentation for all agreement purchases, including vendor agreements, are retained for at least five years after the agreement end date, as required.

Recommendations

OVMC management ensure:

3. **All payments are processed within 30 days of receipt of the invoice, and all available discounts are taken.**
4. **Purchasing staff consistently obtain three price quotes for non-agreement purchases, and retain documentation for all agreement purchases in accordance with ISD's Purchasing Policy and Procedure Manual.**
5. **Staff match invoices and requisitions prior to payment processing, and consistently mark invoices "paid".**
6. **Agreement purchases are made using an agreement purchase order.**
7. **Rejected payments in eCAPS are monitored to ensure payments are made timely to avoid paying late fees.**

Capital and Non-Capital Equipment

Capital (fixed) assets include moveable items that cost more than \$5,000. As of August 5, 2008, OVMC had capital assets with a total acquisition cost of approximately \$28 million.

The CFM states that departments should attach a County property tag to each capital asset when it is received, and remove assets from the fixed asset listing when they are disposed of. Departments must also complete a Fixed Assets Transfer (FT) form when capital assets are transferred between units. In addition, departments must maintain an accurate list of all capital assets, and assign control of the equipment to a supervisor at each location.

We reviewed 34 capital assets, including 20 assets with a purchase price over \$250,000, and noted the following:

- We could not locate two cardiography pagewriter machines, each valued at approximately \$5,100. OVMC did not complete an FT form when the equipment was transferred as required. In addition, OVMC staff told us that capital equipment is often transferred without completing an FT form to update the location. Missing capital equipment should be reported by submitting a Report of Equipment Loss form to the Auditor-Controller.
- Twelve items (35%) did not have County property tags.
- Five items (15%) were obsolete and had already been disposed of, but were still on the inventory list.
- One unit did not have a current list of capital assets assigned to them.

OVMC needs to ensure that an FT document is completed whenever capital equipment is transferred between units, and that they affix County property tags to all capital equipment immediately upon receipt. The Facility should also ensure that obsolete equipment is removed from the inventory list, and that the manager of each unit maintains a list of equipment assigned to the unit.

CFM Section 6.10.2 requires that the manager authorizing the disposal of surplus and obsolete equipment should not have other capital asset responsibility. However, OVMC's Warehouse Manager, who is responsible for inventorying the Facility's capital assets, is also the Surplus Property Coordinator. OVMC should segregate these duties, and ensure that asset disposal is approved by someone with no other capital asset responsibilities.

OVMC also needs to maintain documentation for the disposal of capital assets, including a Fixed Asset Disposition (FD) form, sales award, Application for Authority to Dispose of Surplus Property, and Sales and Disposition Document (CAS 04). We

reviewed eight disposal transactions, and noted that none of the required documents had been retained.

The CFM also requires that non-capital assets (portable equipment costing less than \$5,000) must be controlled and accounted for, including affixing a non-capital asset tag. The CFM also requires departments to conduct a physical inventory of all non-capital equipment at least once a year. OVMC does not tag, track, or inventory non-capital equipment under \$5,000. As a result, the Facility cannot track the assets, or determine if any equipment has been lost or stolen.

Recommendations

OVMC management ensure:

8. **An FT document is completed whenever a capital asset is transferred to another unit, and report missing equipment as lost/stolen by submitting a Report of Equipment Loss form to the Auditor-Controller.**
9. **Capital equipment is labeled with a County property tag, and non-capital equipment is labeled with a department-issued non-capital asset tag when received.**
10. **Staff update the inventory list when obsolete equipment is removed from service.**
11. **Each unit within the Facility maintains an updated list of equipment in its custody.**
12. **The manager authorizing the disposal of surplus and obsolete items does not have other capital asset responsibility, and that proper supporting documentation is maintained for all disposed equipment.**
13. **Staff conduct a physical inventory of non-capital asset equipment at least annually.**

Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate their controls in key areas annually, and certify that proper controls are in place, or note that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in OVMC's procurement operations should have been identified when OVMC completed the ICCP for FY 2007-08. OVMC management should ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

- 14. OVMC management ensure the ICCP questionnaires are accurately completed, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.**



June 20, 2011

Los Angeles County Board of Supervisors

Gloria Molina
First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S
PROCUREMENT REVIEW AT OLIVE VIEW-UCLA
MEDICAL CENTER**

Mitchell H. Katz, M.D.
Director

John F. Schunhoff, Ph.D.
Chief Deputy Director

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's May 23, 2011 draft report of its Procurement review at Olive View-UCLA Medical Center. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

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If you have any questions or require additional information, please let me know or you may contact Jennifer Papp at (213) 240-7901.

MHK:eg

Attachment

- c: John F. Schunhoff, Ph.D.
- Gregory Polk
- Carolyn Rhee
- Jennifer Papp

To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners.



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COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES

RESPONSE TO AUDITOR-CONTROLLER PROCUREMENT REVIEW
OLIVE VIEW-UCLA MEDICAL CENTER (OV-UCLA MC)

AUDITOR-CONTROLLER RECOMMENDATION # 1

OV-UCLA MC Management ensure inventory purchases and distributions are recorded as they occur.

DHS response:

We agree. In November 2009, the Materials Management department implemented the Health Materials Management System (HMMS) which records actual inventory on hand. Materials Management Receiving staff records inventory supplies purchased when received and Warehouse Distribution staff records all stock transfer requests as they occur into HMMS to ensure proper accountability for all inventory supplies.

AUDITOR-CONTROLLER RECOMMENDATION # 2

OV-UCLA MC Management determine the reason(s) for inventory count discrepancies and implement corrective action.

DHS response:

We agree. In November 2009, HMMS was implemented in the Materials Management department. Prior to the implementation of HMMS, a Perpetual Inventory was maintained to record all inventory of supplies on hand. Since the implementation of HMMS, Warehouse Distribution staff ensure all stock transfer requests are recorded into HMMS as they occur to ensure proper accountability of inventory of supplies and any inventory discrepancies are investigated timely and resolved.

AUDITOR-CONTROLLER RECOMMENDATION # 3

OV-UCLA MC Management ensures all payments are processed within 30 days of receipt of invoice and all available discounts are taken.

DHS response:

We agree. Although late payments are generally due to delays in obtaining purchase orders, packing slips or discrepancies, in April 2009, Invoice Processing began monitoring the open invoice file and open purchase order file to ensure all documents are obtained and payment is made to the vendor within 30 days and that all available discounts are taken.

AUDITOR-CONTROLLER RECOMMENDATION # 4

OV-UCLA MC Management ensures Purchasing staff consistently obtain three price quotes for non-agreement purchases and retain documentation for all agreement purchases in accordance with Internal Service Department's (ISD) Purchasing Policy and Procedure Manual.

DHS response:

We agree. In April 2009, Procurement staff were provided in-service training to reinforce the need to obtain three price quotes for non-agreement purchases between \$1,500 and \$5,000 as required by ISD Purchasing Policy and Procedures and to ensure all agreement documentation is retained with the original purchase order file. In January 2010, Procurement staff attended the ISD Procurement training class which addressed the necessary requirements for procuring goods or services within the Department's delegated authority.

AUDITOR-CONTROLLER RECOMMENDATION # 5

OV-UCLA MC Management ensure staff match invoices and requisitions prior to payment processing and consistently mark invoices "Paid."

DHS response:

We agree. In April 2009, Invoice Processing staff were provided in-service training on payment processing to ensure all staff match invoices and requisitions prior to payment processing and stamp all invoices "paid" upon recording the payment request into HMMS.

AUDITOR-CONTROLLER RECOMMENDATION # 6

OV-UCLA MC Management ensure agreement purchases are made using an agreement purchase order.

DHS response:

We agree. In April 2009, Procurement staff were provided in-service training on the procurement process for issuing agreement and non-agreement purchase orders to ensure compliance with ISD Purchasing Policy and Procedures on Purchase Order Blankets.

AUDITOR-CONTROLLER RECOMMENDATION # 7

OV-UCLA MC Management ensure rejected payments in eCAPS are monitored to ensure payments are made timely to avoid paying late fees.

DHS response:

We agree. In November 2008, Invoice Processing staff were provided in-service training on the eCAPS System rejection file. Since December 2008, the Invoice Processing supervisor is monitoring a weekly report to ensure all payment documents have been approved and processed for payment and any rejected documents are researched immediately to ensure invoices are approved for payment timely.

AUDITOR-CONTROLLER RECOMMENDATION # 8

OV-UCLA MC Management ensure a Fixed Assets Transfer (FT) document is completed whenever capital asset equipment is transferred to another unit and report missing equipment as lost/stolen by submitting a Report of Equipment form to the Auditor-Controller.

DHS response:

We agree. In April 2009, the Warehouse Manager and staff received in-service training on the Surplus Property Disposal policy, which included entering FT or Fixed Asset Disposition (FD) documents into the eCAPS Capital Asset System whenever equipment is transferred, missing or disposed.

AUDITOR-CONTROLLER RECOMMENDATION # 9

OV-UCLA MC Management ensure Capital equipment is labeled with a County property tag and non-capital equipment is labeled with a department-issued non-capital asset tag when received.

DHS response:

We agree. In April 2009, OV-UCLA MC Materials Management Warehouse Receiving staff received in-service training to ensure staff properly attach County property tags to all capital equipment and attach department-issued non-capital asset tags to all non-capital equipment when received and accurately document the tag number attached to each piece of equipment received. The Capital equipment identified will be tagged with a County property tag by August 31, 2011.

AUDITOR-CONTROLLER RECOMMENDATION # 10

OV-UCLA MC Management ensure staff update the inventory listing when obsolete equipment is removed from service.

DHS response:

We agree. In April 2009, the Warehouse Manager and staff received in-service training on County Fiscal Manual section 6.10.3, Equipment Sold, Traded-in, Transferred, Stolen or Disposed, which included training on entering FT or FD documents into the eCAPS

Capital Asset System whenever equipment is transferred, missing or disposed to ensure the equipment is removed from the inventory listing.

AUDITOR-CONTROLLER RECOMMENDATION # 11

OV-UCLA MC Management ensure each unit within the Facility maintains an updated listing of equipment in its custody.

DHS response:

We agree. Each fiscal year as part of the inventory process, the Warehouse Manager provides an updated equipment list to each OV-UCLA MC department and verifies the accuracy and completeness of each department inventory list. In December 2009, all OV-UCLA MC departments were provided a copy of their capital equipment inventory listing and were instructed to verify and monitor all capital equipment assigned to their department, which was completed at that time. Facilities BioMedical staff performs an annual inventory of all non-capital medical equipment and the most recent inventory was conducted on September 16, 2010.

AUDITOR-CONTROLLER RECOMMENDATION # 12

OV-UCLA MC Management ensure the manager authorizing the disposal of surplus and obsolete items does not also have capital asset responsibility and that proper supporting documentation is maintained for all disposed equipment.

DHS response:

We agree. Currently, the Warehouse Manager has capital asset responsibility including performing the inventory and disposing of surplus and obsolete items in eCAPS. By July 1, 2011, eCAPS access will be requested for a Warehouse Worker who currently prepares the necessary FD document and the duty of authorizing the disposal of surplus and obsolete items will be reassigned to this staff at that time to ensure separation of duties. In April 2009, the Warehouse Manager received in-service training regarding maintaining proper supporting documentation for all disposed equipment and also attends monthly ISD meetings regarding surplus property.

AUDITOR-CONTROLLER RECOMMENDATION # 13

OV-UCLA MC Management ensure staff conduct a physical inventory of non-capital asset equipment at least annually.

DHS response:

We agree. Effective August 12, 2009, OV-UCLA MC BioMedical Policies: No. 576, Patient Care Portable Equipment, and No. 742, BioMedical Equipment Maintenance and Control, indicate inventory will be performed annually and maintenance records will be

maintained for all medical equipment throughout the hospital. The most recent annual BioMedical equipment inventory was conducted on September 16, 2010.

Currently, there is no policy to clarify the price threshold for non-medical non-capital asset (portable) equipment. Beginning June 1, 2011, all DHS Hospital Materials Management will report to Health Services Administration (HSA) Supply Chain Operations. The price threshold will be determined for non-medical non-capital asset (portable) equipment and a policy and procedure will be developed by December 31, 2011.

AUDITOR-CONTROLLER RECOMMENDATION # 14

OV-UCLA MC Management ensure the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

DHS response:

We agree. In March 2011, OV-UCLA MC Materials Management completed the ICCP questionnaires, and Warehouse, Procurement and Invoice Processing met to review the ICCP questionnaires to ensure they were accurately completed, identified all internal controls and weaknesses, and developed improvement plans to address each weakness. The responses were reviewed and approved by Finance for accuracy prior to submission.