



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

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January 14, 2011

TO: Supervisor Michael D. Antonovich, Mayor
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Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

Wendy L. Watanabe
FOR

SUBJECT: **MARTIN LUTHER KING, JR. MULTI-SERVICE AMBULATORY CARE
CENTER PROCUREMENT REVIEW**

In 2007, your Board instructed the Auditor-Controller (A-C) to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Department of Health Services' (DHS) Martin Luther King, Jr. Multi-Service Ambulatory Care Center's (MLK) 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. We also evaluated controls over DHS' Health Materials Management System (HMMS) procurement system.

Summary of Findings

We noted that MLK's purchases were appropriate and necessary for their operations. However, MLK management needs to ensure compliance with County purchasing requirements. The following are examples of areas for improvement:

- MLK needs to ensure that they obtain approved requisitions before ordering goods and services. They also need to ensure that goods and services are received before paying vendors, and that vendors are paid within 30 days of receiving the invoice. We reviewed 102 purchases and noted that MLK placed orders before the requisitions were approved for 11 (11%) purchases, totaling \$103,800. They also could not provide approved requisitions for 35 (34%)

purchases, totaling \$323,000. In addition, MLK did not have packing slips or documentation indicating that they received goods and services for 14 (14%) purchases, totaling \$159,800. In a separate sample of 30 vendor payments, we noted that 29 (97%) were paid an average of 148 days late.

DHS' attached response indicates they have taken corrective action by retraining staff on their on-line requisition system and instructing staff to document the receipt of goods/services and enter the information into HMMS. DHS has also revised how procurement documents are maintained and will ensure vendors are paid within 30 days of receiving the invoice.

- MLK needs to obtain price quotes for non-agreement purchases over \$1,500 and should not use vendor agreements to buy non-agreement items. We noted that MLK did not get price quotes for nine (29%) of the 31 non-agreement purchases over \$1,500, totaling \$46,800. They also purchased non-agreement items totaling \$82,800 on ten (25%) of the 40 agreement purchases we reviewed.

DHS' attached response indicates they have taken corrective action by sending procurement staff to an Internal Services Department training course on County purchasing policies.

- MLK needs to physically inventory their capital equipment biennially and ensure that their capital equipment list is accurate and complete. We could not locate seven (16%) of the 43 assets we reviewed, including a computerized tomography (CT) scanner valued at \$1.5 million. MLK indicated that the CT scanner was upgraded and assigned a different serial/tag number. However, MLK could not provide documentation of the upgrade (e.g., service request, purchase requisition, invoice, etc.). They also did not dispose of 13 (30%) assets that were obsolete or no longer used. In addition, MLK needs to develop a list of non-capital equipment to track and control the equipment.

DHS' attached response indicates they are in the process of implementing our recommendations. DHS has taken corrective action by identifying a property coordinator for MLK and developing a policy for receiving and tracking capital equipment.

- MLK needs to maintain accurate supply inventory records by recording supply increases and decreases as they occur. We noted that 571 (26%) of the 2,224 supplies we tested, totaling \$12,000, were not in the warehouse. Some of the missing supplies included catheters, surgical instruments and blood glucose test strips, which are susceptible to theft or personal use. We also noted that 1,000 (45%) supplies that were stored in the warehouse, totaling \$18,100, had expired.

DHS' attached response indicates they have taken corrective action by completing a physical inventory of MLK's supplies and adjusting supply inventory records for discrepancies they identified.

- MLK needs to adequately separate procurement and payment processing duties. For the five-month period reviewed, MLK employees processed 838 (44%) of the 1,913 payments, totaling \$1 million, without appropriate approvals. The same MLK employees also inappropriately completed both the ordering and receiving functions in HMMS for 25 purchases, totaling \$197,200. The functions of approving payments, ordering and receiving goods are incompatible procurement functions that should be immediately separated. In addition, MLK needs to immediately remove eCAPS access when employees leave MLK.

DHS' attached response indicates they have taken corrective action by appropriately separating the ordering, receiving and invoice processing duties. The response also indicates that they have removed eCAPS access for the individuals who no longer work at MLK and implemented procedures to ensure access is removed in the future.

Although this report is a review of MLK's procurement operations, we recommend that other County departments review the findings in this report and ensure that necessary controls are in place.

It should be noted that DHS plans to replace HMMS with eCAPS Procurement at all DHS facilities within the next few years. While some of the internal control weaknesses noted in our review should be corrected with the implementation of eCAPS Procurement, MLK should proceed with their corrective action plan and implement all the recommendations in our report.

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

Review of Report

We discussed the results of our review with MLK management. They generally agreed with our findings and recommendations and indicated they will work to improve controls over their procurement practices. DHS' response (Attachment II) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report.

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

WLW:MMO:JLS:mwm

Attachments

c: William T Fujioka, Chief Executive Officer
Sheila Shima, Deputy Chief Executive Officer
Mitchell H. Katz, M.D., Director, DHS
John F. Schunhoff, Ph.D., Chief Deputy Director, DHS
Cynthia Moore-Oliver, Interim Chief Executive Officer, MLK
Tom Tindall, Director, Internal Services Department
All Department Heads
Audit Committee
Public Information Office

**DEPARTMENT OF HEALTH SERVICES
MARTIN LUTHER KING, JR. MULTI-SERVICE AMBULATORY CARE CENTER
PROCUREMENT REVIEW**

Background

Martin Luther King, Jr. Multi-Service Ambulatory Care Center's (MLK) Materials Management Section is responsible for ordering goods and services, receiving deliveries, tracking supply inventories, controlling equipment and disposing of unneeded items. MLK's Fiscal Year (FY) 2008-09 services and supplies budget was approximately \$134 million.

Scope of Review

We reviewed MLK's procurement practices for compliance with County policies and procedures. Our review included interviewing MLK personnel, evaluating purchasing and payment controls, inventorying a sample of equipment, and observing supply warehouse and stockroom operations. We also evaluated controls over the Department of Health Services' (DHS) Health Materials Management System (HMMS) procurement system.

General Purchasing and Payment Controls

The County Fiscal Manual (CFM) requires departments to obtain approved requisitions before ordering goods and services, verify that goods/services were received before paying vendors, and ensure that vendors are paid in a timely manner. We reviewed 102 purchases made between July 2007 and March 2008, totaling approximately \$1.2 million, and noted the following:

- **Purchase Requisitions** – MLK placed orders before the requisitions were approved for 11 (11%) purchases, totaling \$103,800. MLK also could not provide approved requisitions for 35 (34%) purchases, totaling \$323,000. MLK should ensure that staff prepare and managers approve requisitions before purchases are made, and that Materials Management keeps copies of approved requisitions.

We also noted that for two purchases, totaling \$14,400, MLK paid \$2,100 more than the requisition price for some of the items. For these purchases, staff did not record actual order costs and quantities on the requisition. Since requisitions also function as MLK's ordering document, they should ensure that staff annotate actual order costs and quantities on requisitions once they place an order.

- **Verifying goods/services were received** – Materials Management staff are supposed to verify that all items on the vendor packing slip were actually received before payment is made. For services, managers must sign the invoice indicating that the services were actually received. MLK did not have packing

slips or documentation that services were received for 14 (14%) purchases, totaling \$159,800.

- **Inappropriate Prepayments** – Internal Services Department (ISD) Policy states that prepayments should only be made before goods and services are received when it cannot be avoided (i.e., when a vendor requires prepayment) and should be approved by ISD if not normal and customary (e.g., memberships, subscriptions, etc.). Although the purchases were appropriate, we noted that MLK inappropriately prepaid for waste disposal and accreditation testing services, totaling \$12,000, before receiving the services, without ISD approval.
- **Invoice Processing** – Departments are required to do a three-way match of requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices “paid” to prevent duplicate payments. As previously noted, MLK paid vendors without requisitions and packing slips, which indicates that the three-way match is not always being performed. We also noted that MLK did not mark any of the invoices “paid” to prevent duplicate payments. However, none of the invoices were paid twice. In addition, MLK paid \$2,700 more than invoiced for one purchase, totaling \$37,100. MLK should ensure that staff match requisitions/purchase orders, packing slips and invoices before paying vendors, pay vendors based on invoiced amounts, and mark invoices “paid”.
- **Timeliness of Payments** – CFM Section 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice. We noted that 29 (97%) of the 30 payments we reviewed were paid an average of 148 days late. In addition, for three (10%) of the 29 late payments, MLK lost vendor discounts, totaling \$900. The late payments were generally due to delays in collecting requisitions/purchase orders and packing slips, and matching them with the invoices. MLK should ensure that vendors are paid within 30 days of receiving the invoice.

Recommendations

MLK management ensure:

1. **Staff prepare and managers approve requisitions before purchases are made, staff annotate actual order costs and quantities on requisitions once they place an order, and Materials Management keeps copies of approved requisitions.**
2. **Staff document that they have received goods or services for each purchase before paying vendors, and obtain ISD approval for prepayments that are not normal or customary.**

3. **Staff match requisitions/purchase orders, packing slips and invoices before paying vendors, pay vendors based on invoiced amounts, and mark invoices "paid".**
4. **Vendors are paid within 30 days of receiving the invoice.**

Non-Agreement and Agreement Purchases

ISD establishes agreements with vendors for commonly purchased items. Departments can purchase items covered by ISD agreements without a transaction limit and do not need to obtain price quotes. These agreements should not be used to purchase non-agreement items. ISD also delegates authority to departments to purchase non-agreement items, up to set limits. Departments may be required to obtain price quotes for non-agreement items based on the amount of the purchase.

ISD has given MLK delegated authority to purchase non-agreement items under \$15,000. MLK can make purchases under \$1,500 without price quotes, and is required to obtain three price quotes for non-agreement purchases over \$1,500 and post proposed purchases over \$10,000 on the County's bid website. MLK did not obtain the required price quotes for nine (29%) of the 31 non-agreement purchases we reviewed, totaling \$46,800. They also did not post the five purchases that were over \$10,000 on the County's bid website. MLK could have potentially purchased the items at a lower cost had they obtained other price quotes and posted proposed purchases over \$10,000 on the County's bid website.

We also noted that MLK purchased non-agreement items on ten (25%) of the 40 agreement purchases we reviewed, totaling \$82,800. For these purchases, the vendor did not actually have an agreement, or the agreement did not include the items purchased. For example, MLK inappropriately purchased janitorial paper products under an agreement that specifically excluded these items. As a result, price quotes should have been obtained for these purchases.

Recommendations

MLK management ensure staff:

5. **Obtain price quotes as required by County purchasing policies and post proposed purchases over \$10,000 on the County's bid website.**
6. **Only buy appropriate agreement items when making agreement purchases.**

Health Materials Management System (HMMS)

MLK and other DHS facilities use HMMS to process purchases and payments and track inventory. HMMS users enter requisitions/purchase orders, packing slips and invoices

into the system. Once the invoice information is entered into HMMS, the system automatically matches the three documents, and then interfaces with the County's enterprise-based accounting and purchasing system (eCAPS) to generate a payment request and an automated first payment approval. The payment request is then sent to an eCAPS user for required additional approvals. CFM Sections 4.1.3 and 4.5.5 require that the ordering, receiving and invoice processing functions be segregated, and at least two separate employees approve payments.

We reviewed employee access in HMMS and eCAPS and noted that MLK does not adequately separate procurement and payment processing duties. Specifically, two MLK employees can enter invoice information into HMMS and also apply the final eCAPS payment approval. Since these employees have both capabilities, they can potentially issue payments by themselves. We also noted that 14 MLK employees have ordering and receiving duties in HMMS, which are incompatible procurement capabilities. Between July 2007 and November 2007, the same employee processed the invoices in HMMS and applied the final eCAPS payment approval for 838 payments, totaling \$1 million. In addition, the same employee inappropriately completed both the ordering and receiving functions in HMMS for 25 purchases, totaling \$197,200. We also noted that two former MLK employees still had eCAPS payment approval capabilities. MLK should have immediately removed eCAPS access when these employees left the Facility.

While we did not find any inappropriate payments by these employees, MLK needs to separate the ordering, receiving and invoice processing duties, ensure that at least two employees approve all payments and immediately remove HMMS and eCAPS access when employees leave the Facility. We also noted that MLK does not have a HMMS Internal Control Plan, and does not produce and review exception reports to ensure that data interfaced between HMMS and eCAPS is accurate, authorized and complete.

Recommendations

MLK management:

- 7. Separate the ordering, receiving and invoice processing duties, ensure at least two employees approve all payments and immediately remove HMMS and eCAPS access when employees leave the Facility.**
- 8. Work with DHS management to develop a HMMS Internal Control Plan and ensure HMMS/eCAPS interface exception reports are produced and reviewed.**

Capital and Non-Capital Equipment

The CFM requires departments to do a physical inventory of their capital equipment (assets costing more than \$5,000 with a useful life of more than one year) every two years, and their non-capital equipment (items that can be easily carried or moved) every

year. Departments are also supposed to place tags on their capital and non-capital equipment, and assign responsibility for equipment to specific individuals.

As of January 2008, MLK's capital equipment had a total acquisition cost of approximately \$49 million. MLK did not inventory its capital equipment as required in FYs 2004-05 and 2006-07, and does not tag all of its equipment. In addition, MLK does not always assign responsibility for capital equipment to specific individuals, and some of the assigned individuals do not keep accurate lists of the equipment assigned to them.

We also noted that MLK's capital equipment list was not accurate. We inventoried 43 capital assets from MLK's capital equipment list, totaling \$7 million, and noted the following:

- **Missing capital equipment** – We could not locate seven (16%) assets, totaling \$1.7 million. MLK indicated that one of the assets, a \$1.5 million computerized tomography scanner, was upgraded and assigned a different serial/tag number. However, MLK could not provide documentation of the upgrade (e.g., service request, purchase requisition, invoice, etc.). They could not determine the reason the other assets, including defibrillators, air shower systems and panoramasopes, were missing.
- **Obsolete and unused capital equipment** – Thirteen (30%) assets, totaling \$798,300, were obsolete or have not been used since MLK transitioned to an ambulatory care center. MLK should have disposed of these assets by either selling them, transferring them to other DHS facilities or retiring the assets according to established County policy.
- **Capital equipment list not updated for disposition of equipment** – MLK returned a hematology system and pharmacy distribution system, totaling \$519,300, to the vendors, but did not remove the assets from the list. In addition, MLK did not remove four defibrillators, totaling \$51,500, when the assets were transferred to another DHS facility.

Finally, MLK does not have a list of non-capital equipment. As a result, they cannot determine the different types and quantities of non-capital equipment at MLK, and whether any equipment is missing or obsolete. MLK management should immediately develop an accurate list of non-capital equipment, assign responsibility for equipment to specific individuals, ensure equipment is appropriately tagged and inventory equipment annually.

Recommendations**MLK management:**

- 9. Immediately complete a physical inventory of all capital equipment to identify missing or obsolete items, and inventory capital equipment biennially.**
- 10. Attach tags to capital equipment when received.**
- 11. Assign responsibility for all capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.**
- 12. Dispose of obsolete or unused capital equipment by either selling the assets, transferring the assets to other DHS facilities, or retiring the assets according to established policy, and update the capital equipment list when assets are disposed.**
- 13. Immediately develop an accurate list of non-capital equipment, assign responsibility for equipment to specific individuals, ensure equipment is appropriately tagged and inventory equipment annually.**

Warehousing/Inventory

MLK has two supply warehouses with inventory totaling approximately \$1.1 million, as of January 2008. County departments should ensure that access to supplies is restricted to authorized employees and inventory records are accurate by recording additions and deletions as they occur. MLK's perpetual inventory records were not accurate. We did a physical inventory of eight types of supplies that had a high unit cost and were more susceptible to theft, such as surgical instruments, catheters, splints, wound care dressings and blood glucose test strips. MLK's perpetual inventory records indicated that they had 2,224 units of these supplies in stock, totaling \$115,600. However, we could not locate 571 (26%) units of the supplies, totaling \$12,000. In addition, approximately 1,000 (45%) boxes of blood glucose test strips that were stored in the warehouse, totaling \$18,100, had expired.

Departments should also monitor supply inventory for slow moving, obsolete and overstocked items, and ensure that supplies are only ordered when needed. MLK had 127 different supplies that had not been used between one and five years. We reviewed 20 of these supplies and noted that 1,004 (76%) of the 1,316 units, totaling \$2,800, were no longer in use.

Recommendations

MLK management ensure:

- 14. Staff immediately complete a physical inventory of supplies, investigate any material discrepancies, and adjust perpetual inventory records to match physical inventory counts.**
- 15. Staff keep accurate inventory records by recording additions and deletions as they occur.**
- 16. Staff monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.**

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 controls in key fiscal areas 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 MLK's procurement operations should have been identified when MLK completed the ICCP for FY 2006-07. However, their certification did not identify any procurement control weaknesses. MLK 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

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



August 25, 2010

**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: John F. Schunhoff, Ph.D. 
Interim Director

**SUBJECT: MARTIN LUTHER KING, JR. MULTI-SERVICE
AMBULATORY CARE CENTER (MLK-MACC)
PROCUREMENT REVIEW**

John F. Schunhoff, Ph.D.
Interim Director

Gail V. Anderson, Jr., M.D.
Interim Chief Medical Director

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its Procurement review at MLK-MACC. We concur with the recommendations contained in the report and have initiated or taken corrective actions to address the recommendations.

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

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Attachment

*To improve health
through leadership,
service and education*

c: Miguel Ortiz-Marroquin
Gregory Polk
Sharon Ryzak



www.dhs.lacounty.gov

COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER PROCUREMENT REVIEW MARTIN LUTHER
KING, JR. MULTI-SERVICE AMBULATORY CARE CENTER (MLK-MACC)

AUDITOR-CONTROLLER RECOMMENDATION #1

MLK management ensure staff prepare and managers approve requisitions before purchases are made, staff annotate actual order costs and quantities on requisitions once they place an order and Materials Management keeps copies of approved requisitions.

DHS response:

We agree. In August 2009, Materials Management staff were re-trained on the Hospital Materials Management On-Line Requisition system that was implemented in July 2007, which requires manager approval before purchases are made. Staff annotate actual order cost and quantities on requisitions once they place an order and maintain an electronic copy of all requisitions in the On-Line Requisition system.

AUDITOR-CONTROLLER RECOMMENDATION #2

MLK management ensure staff document that they have received goods or services for each purchase before paying vendors, and obtain Internal Services Department (ISD) approval for prepayments that are not normal or customary.

DHS response:

We agree. Materials Management Receiving staff document goods or services received and enter the information in the Health Materials Management System (HMMS). Invoice Processing staff verify receipt of goods or services through HMMS before paying the vendor. Beginning in July 2010, requisitions/purchase orders and packing slips are sent to Invoice Processing staff to be used to resolve issues with invoices that were not matched in HMMS. A procedure will be developed and staff will be trained regarding how to use these documents for reconciliation of invoices. For prepayments that are not normal, customary, or with no invoice submitted, Materials Management will coordinate with ISD to obtain approval prior to issuing a Purchase Order and a receipt in the system.

AUDITOR-CONTROLLER RECOMMENDATION #3

MLK management ensure staff match requisitions/purchase orders, packing slips, and invoices before paying vendors, pay vendors based on invoiced amounts, and mark invoices "paid."

DHS response:

We agree. Invoice Processing staff use the HMMS automated three way matching process to match requisitions/purchase orders, packing slips, and invoices before paying vendors based on invoiced amounts. Beginning in July 2010, requisitions/purchase orders and packing slips are sent to Invoice Processing staff to be used to resolve issues with invoices that were not matched in HMMS. A procedure will be developed and staff will be trained regarding how to use these documents for reconciliation of invoices. Staff were re-trained on April 15, 2010, to ensure that all paid invoices are marked "paid."

AUDITOR-CONTROLLER RECOMMENDATION #4

MLK management ensure vendors are paid within 30 days of receiving the invoice.

DHS response:

We agree. Although the late payments were generally due to delays in collecting requisitions/purchase order and packing slips, Finance will work closely with Materials Management to ensure requisitions, purchase orders, and packing slips are complete so that invoices can be matched timely and vendors paid within 30 days of receiving the invoice.

AUDITOR-CONTROLLER RECOMMENDATION #5

MLK management ensure staff obtain price quotes as required by County purchasing policies and post proposed purchases over \$10,000 on the County's bid website.

DHS response:

We agree. In August 2009, Procurement staff attended the ISD Procurement 101 class. The training reinforced obtaining price quotes as required by County purchasing policies and posting proposed purchases over \$10,000 on the Los Angeles County Awarded Bids and Contracts website.

AUDITOR-CONTROLLER RECOMMENDATION #6

MLK management ensure staff only buy appropriate agreement items when making agreement purchases.

DHS response:

We agree. In August 2009, Procurement staff attended the ISD Procurement 101 class, which covered buying only appropriate agreement items when making agreement purchases.

AUDITOR-CONTROLLER RECOMMENDATION #7

MLK management separate the ordering, receiving and invoice processing duties, ensure at least two employees approve all payments, and immediately remove HMMS and Countywide online Accounting and Purchasing System (eCAPS) access when employees leave the Facility.

DHS response:

We agree. In July 2009, MetroCare Health System (MetroCare) Materials Management staff reviewed the HMMS security matrix and made the necessary changes to implement appropriate internal controls and separate the ordering, receiving, and invoice processing duties so at least two employees approve all payments.

The eCAPS access has been removed for both employees cited in the Auditor-Controller's report. Finance processes a request to the Auditor-Controller to remove eCAPS access as soon as Finance staff leaves. Finance reviews the eCAPS security report every six months and compares with the Human Resources terminated/outgoing employee notices in order to process requests to remove eCAPS access for non-Finance employees.

Currently, Information Systems receives a report of employees who have no activity on HMMS for 30 days and submits a request to ISD to remove HMMS access for employees that have become inactive. Materials Management will work with Information Systems to develop a written procedure for removing the employee's HMMS access once an employee leaves the facility.

AUDITOR-CONTROLLER RECOMMENDATION #8

MLK management work with DHS management to develop a HMMS Internal Control Plan and ensure HMMS/eCAPS interface exception reports are produced and reviewed.

DHS response:

We agree. MetroCare Materials Management is working with the DHS Materials Manager to develop a HMMS Internal Control Plan that is consistent with DHS policy and to coordinate the programming of exception reports with ISD that will be produced and reviewed to monitor the HMMS data interface with eCAPS. As of July 2010, Finance has access and is producing and reviewing the HMMS and eCAPS interface reports.

AUDITOR-CONTROLLER RECOMMENDATION #9

MLK management immediately complete a physical inventory of all capital equipment to identify missing or obsolete items, and inventory capital equipment biennially.

DHS response:

We agree. MetroCare developed Materials Management Policy No. PROC050, Receiving and Tracking of Capital Assets, which addresses internal controls and accountability for County assets, including instructions for relocation, transfer/loan, and salvage of old equipment. A MetroCare Property Coordinator has been identified in accordance with County Code and is currently conducting an inventory of all surplus equipment. A physical inventory of capital equipment will be completed annually after MLK has completed department relocations anticipated in October 2010.

It appears that as a result of a major software and hardware upgrade in 1994, the serial number of Fixed Asset #503274 was changed to Fixed Asset # 593683, serial number 4414. Documentation of the upgrade, purchase order, requisition, or service reports from 1994 confirming the change of Fixed Asset number was not available. This CT scanner is decommissioned and currently located in B029.

AUDITOR-CONTROLLER RECOMMENDATION #10

MLK management attach tags to capital equipment when received.

DHS response:

We agree. Capital Assets Policies and Procedures were developed and placed on the Materials Management website in March 2010. MetroCare Materials Management Policy and Procedure No. PROC050 indicates Materials Management staff attach tags to capital and non-capital equipment when received to ensure that the equipment lists accurately reflect the tag numbers attached to the equipment. In April 2010, staff were trained in the new Policies and Procedures.

AUDITOR-CONTROLLER RECOMMENDATION #11

MLK management assign responsibility for all capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.

DHS response:

We agree. Materials Management staff have been designated to maintain accurate lists of the equipment assigned to them. As of March 29, 2010, a MetroCare Property Coordinator has been assigned to ensure compliance with guidelines for tracking capital assets and re-distribution and/or disposal of surplus property. Staffing requirements for the new MetroCare Asset Management Section have been submitted for approval.

AUDITOR-CONTROLLER RECOMMENDATION #12

MLK management dispose of obsolete or unused capital equipment by either selling the assets, transferring the assets to other County hospitals, or retiring the assets according to established policy, and update the capital equipment list when assets are disposed.

DHS response:

We agree. The MetroCare Property Coordinator is disposing of obsolete or unused capital equipment by selling the assets, transferring the assets to other County Hospitals, retiring the assets, updating the capital equipment list when assets are disposed, and maintaining the documentation for the departments in accordance with County guidelines.

AUDITOR-CONTROLLER RECOMMENDATION #13

MLK management immediately develop an accurate list of non-capital equipment, assign responsibility for equipment to specific individuals, ensure equipment is appropriately tagged and inventory equipment annually.

DHS response:

We agree. Materials Management staff have been designated to maintain accurate lists of the equipment assigned to them and the MetroCare Property Coordinator maintains the equipment records. We will work to develop an accurate list of non-capital equipment, assign responsibility for equipment to specific individuals, ensure equipment is appropriately tagged and inventory equipment annually when staff requirements are met.

AUDITOR-CONTROLLER RECOMMENDATION #14

MLK management ensure staff immediately complete a physical inventory of supplies, investigate any material discrepancies, and adjust perpetual inventory records to match physical inventory counts.

DHS response:

We agree. Warehouse staff completed a physical inventory in June 2009 and investigated and adjusted discrepancies when they were identified.

AUDITOR-CONTROLLER RECOMMENDATION #15

MLK management ensure staff keep accurate inventory records by recording additions and deletions as they occur.

DHS response:

We agree. Staff keep accurate records of additions and deletions as they occur, which are reviewed by the supervisor and approved by the director before changes are made in HMMS. Staff were re-trained on this process in August 2009. Updates to inventory are now restricted to supervisors to record additions and deletions as they occur.

AUDITOR-CONTROLLER RECOMMENDATION #16

MLK management ensure staff monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.

DHS response:

We agree. A quarterly obsolescence report is prepared in order for staff to monitor supply inventories for slow moving, obsolete and overstocked items. Staff were trained in August 2009 on Inventory/Warehouse/Receiving policies regarding obsolescence and to only order supplies when needed.

AUDITOR-CONTROLLER RECOMMENDATION #17

MLK management ensure the Internal Control Certification Plan (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. Management will ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness. Materials Management completed the latest ICCP questionnaires in March 2010, taking action to correct weaknesses noted by the Auditor-Controller, which were reviewed by Finance before submission.