

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

833



FROM: County Auditor Controller

SUBMITTAL DATE:
November 29, 2012

SUBJECT: Internal Audit Report: 2011-312: Riverside County Regional Medical Center Operating Room, Follow-up.

RECOMMENDED MOTION: Receive and file Internal Audit Report: 2011-312: Riverside County Regional Medical Center Operating Room, Follow-up Audit.

BACKGROUND: We have completed a Follow-up Audit of (RCRMC) Riverside County Regional Medical Center Operating Room. Our audit was limited to reviewing actions taken as of May 9, 2012, to correct the findings noted in our original audit report (2008-013) dated May 24, 2010. The original audit report contained six findings, all of which required corrective action and; therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2008-013 at www.auditorcontroller.org.

The follow-up audit found that of the six findings which required corrective action, two were fully corrected and four were partially corrected. We will follow-up on the four partially corrected findings in our desk review of RCRMC Operating Room within six months.

Paul Angulo

Paul Angulo, CPA, MA-Mgmt.
County Auditor-Controller

FINANCIAL DATA

Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A

Positions To Be Deleted Per A-30	<input type="checkbox"/>
Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

APPROVE

BY: *Karen L. Johnson*
Karen L. Johnson

County Executive Office Signature

- Dept's Recomm.: Policy
- Per Exec. Ofc.: Policy
- Consent
- Consent

Prev. Agn. Ref.: 10/19/10 2.7 District: ALL Agenda Number:

ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD

2.4

Departmental Concurrence



County of Riverside

INTERNAL AUDIT REPORT

2011-312

Riverside County Regional Medical Center Operating Room Follow-up Audit

November 29, 2012

Office of
Paul Angulo, CPA, MA-Mgmt
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



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AUDITOR-CONTROLLER

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ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA-Mgmt
AUDITOR-CONTROLLER

November 29, 2012

Douglas D. Bagley
Chief Executive Officer
Riverside County Regional Medical Center
26520 Cactus Ave.
Riverside, CA 92555

**Subject: Internal Audit Report 2011-312: Riverside County Regional Medical Center
Operating Room Follow-up**

Dear Mr. Bagley:

We have completed a Follow-up Audit of (RCRMC) Riverside County Regional Medical Center Operating Room. Our audit was limited to reviewing actions taken as of May 9, 2012, to correct the findings noted in our original audit report (2008-013) dated May 24, 2010.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain reasonable assurance our objective, as described in the preceding paragraph, is achieved. Additionally, the standards require we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our opinion.

The original audit report contained six findings, all of which required corrective action and; therefore, were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2008-013 at www.auditorcontroller.org.

This follow-up audit found that of the six findings:

- Two findings were corrected.
- Four findings were partially corrected.

Detailed statuses of the findings identified in the original audit are provided in the body of this report. We will follow-up on the four partially corrected findings in our desk review of RCRMC Operating Room within six months.

We appreciate the cooperation and assistance extended to us by staff of the RCRMC Operating Room during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

Paul Angulo, CPA, MA-Mgmt
Auditor-Controller

A handwritten signature in black ink that reads "Rachelle Román". The signature is written in a cursive style with a large initial "R".

By: Rachelle Román, MPA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

Purchasing

Finding 1: The Operating Room does not maintain an automated perpetual inventory of materials, but rather relies on a manual process of daily spot counts, visual inspections, and spreadsheets for tracking inventories and making restocking decisions. As a result, inventory shortages and overages are not determined and investigated nor can the effectiveness of the Operating Room's materials management process be measured.

In the absence of an automated perpetual inventory system, we selected the 15 highest-valued inventory items for testing. For these 15 items totaling \$272,977, we computed the available inventory during fiscal year 07/08 by adding the purchases made during 07/08 to the June 30, 2007, physical inventory count balance. We compared the computed available inventory to the June 30, 2008, physical count balance for reasonableness. Based upon this comparison, we observed the following:

1. The June 30, 2008, physical inventory count for nine of 15 inventory items indicated more items were on-hand compared to the computed available inventory balance. The inventory discrepancies, with total cost estimated at \$132,801, are indicative of either unrecorded inventory receipts or errors in the physical inventory count.
2. Six of 15 items were reordered in fiscal year 07/08 when enough stock was on hand for those items. This condition indicates that items were miscounted during daily spot checks or that par levels were overstated.
3. Four of 15 items had an inventory turn rate of less than one, which indicates that an average of one year stock is kept on hand for these four items.

During our test of par levels, we noted discrepancies between the par level posted on the spreadsheets and on the stock shelves. Of 244 items tested, 158 items (65 percent) either had no par level indicated on the spreadsheet or the par level indicated on the spreadsheet did not match with what was on the shelf. Of the 100 items that did have par level for both the shelf and the spreadsheet, (26 percent) of the items had balances per the June 30, 2008, physical count that are lower than the par level. We also noted that a maximum quantity limit was not set for restocking inventories to prevent overstocking.

Recommendation 1.1 Improve current procedures to mitigate the internal control weaknesses noted. These procedures should ensure inventories are properly accounted and can be depended upon for making accurate restocking decisions. These procedures will include updating the inventory spreadsheets to reflect accurate inventory balances and performing quarterly cycle counts of inventories in all areas. A process for resolving inventory discrepancies should be part of these procedures. Document and make the procedures available to all employees concerned.

Recommendation 1.2 Develop plans for fully automating the Operating Room inventory management process.

Current Status Finding 1: Partially Corrected.

The Operating Room failed to perform quarterly cycle counts of inventory.

The Purchasing Unit submitted a (RFP) Request for Proposal to migrate data from the existing Operating Room Information System, ORSOS, to a new Operating Room Information System and an Anesthesia Information System. The contract was awarded to McKesson Technologies, Inc. These systems will include materials management capabilities to enable effective automated inventory control over materials.

We will verify the full implementation of the recommendations during a desk review within six months.

Finding 2: The use of purchase orders to record receipts eliminates a crucial internal control and does not establish individual accountability. For materials delivered directly to the Operating Room, the established practice has been for Purchasing to create the purchase requisition and purchase order after receipt of the vendor invoice and delivery document from the Operating Room manager. This results in the inability to establish accountability and delays in processing vendor payments.

Our review of 82 vendor invoices totaling \$309,053 disclosed the following:

- Twenty-one invoices were forwarded to Materials Management between six and 30 days after surgery.
- Seven invoices were forwarded to Materials Management between 31 and 45 days after surgery.
- Seven invoices were forwarded to Materials Management 46 or more days after surgery.
- Forty-nine invoices did not have the receiver signature acknowledging the receipt of the item or service.
- Four invoices did not have the Operating Room manager authorization signature.

Furthermore, our review indicated the current procedures did not require a timeline when vendor invoices were to be reviewed and forwarded by Operating Room to Purchasing. Auditor-Controller Standard Practice Manual Policy 1200 requires procedures be in place to ensure transactions are authorized appropriately and recorded accurately and timely.

Recommendation 2 Develop procedures to ensure that shipments are authorized, verified against delivery documents, have the appropriate Operating Room staff signatures and address a timeline for forwarding the relevant documents for further processing.

Current Status Finding 2: Partially Corrected.

The Materials Management Department of RCRMC developed and implemented Policy Number 32 (Surgical Implants, Three-way Match Receiving Guidelines). This policy established a three-way matching requirement that reconciles the requisition, purchase order, and supplier's invoice. Subsequent to the completion of our field work, the Materials Management Department revised the policy to establish a timeline for reviewing and forwarding vendor invoices and supporting documentation to the Materials Management Department and Fiscal Unit by the Operating Room.

The Materials Management Department prepared purchase orders after receipt of the vendor invoice and delivery documents. Based upon our testing, 9 of 71 (13 percent) purchase orders were processed after the invoice date. In addition, 17 of the remaining 62 (27 percent) purchase orders were processed on the day of the invoice date. Auditor-Controller Standard Practice Manual Policy 1200 requires accurate and timely transaction recording.

We will verify the full implementation of the recommendation during a desk review within six months.

Finding 3: With regard to consigned materials in the Operating Room, we noted:

- The Operating Room did not retain a copy of delivery documents or inventory count sheets to support the receipt of consigned items; and
- Written consignment agreements could not be provided for review.

The consignment process is not sufficiently documented to clearly establish responsibility between the vendor and RCRMC for lost, damaged, or obsolete consigned goods. Furthermore, procedures are not documented to ensure that consignment transactions, including usage, are properly authorized and recorded.

Recommendation 3.1 Develop procedures for tracking consignment inventories and maintaining supporting documentation.

Recommendation 3.2 Document the consignment agreement with the vendor, including payment terms, restocking process, and parties' responsibilities over losses, insurance, and expired items.

Current Status Finding 3: Partially Corrected.

The Operating Room developed Policy and Procedure Number 3.9 (Consignment Policy and Procedures – Operating Room) to establish procedures for managing consignment agreements and assets. Subsequent to the completion of our field work, the Operating Room revised the policy and procedure to include tracking of consignment inventories and maintaining supporting documentation.

We reviewed 11 consignment agreements with vendors to determine if responsibilities between the vendor and Operating Room are clearly stated. Our review disclosed the following discrepancies:

- Five consignment agreements excluded payment terms.
- Nine consignment agreements excluded insurance requirements.
- Two consignment agreements excluded terms concerning the handling of losses.
- Four consignment agreements excluded terms concerning restocking consignments.
- Four consignment agreements excluded a method of reorder.

Although implicit terms exist with the contractor representatives concerning the above terms, explicit terms will ensure no misunderstandings between the two parties.

The Operating Room did not maintain copies of delivery documents and inventory count sheets for consigned assets because ownership of consigned assets belongs to the contractors. Contractor representatives manage inventories, par levels, and restocking requirements of consigned assets located in the Operating Room. Consigned assets are not billed to the Operating Room until the assets are used. Therefore, the Operating Room holds no financial responsibility for the inventory of consigned assets. However, with the consignment agreements missing vital terms, the Operating Room should maintain supporting documents for on-hand consignment assets to ensure the Operating Room does not get charged for assets not used.

We will verify the full implementation of the recommendations during a desk review within six months.

Finding 4: A unique PeopleSoft item ID was not set up for specific contracted diagnostic services with different hourly rates preventing PeopleSoft from performing a systematic validation of charges against vendor invoices. Various contracted diagnostic services were consolidated in one PeopleSoft item ID. Furthermore, service hours were totaled and rounded-off or not entered at all.

Recommendation 4: Establish a separate PeopleSoft item ID for each specific professional contract service to facilitate service contract hours to be billed for each specific service. The item should be set up so that the hours are not rounded off.

Current Status Finding 4: Corrected.

The Purchasing Unit established a separate PeopleSoft Item ID for each specific professional contract service to enable service contract hours to be billed. We reviewed all four professional service contracts with a combined total of 36 contracted services and identified three contracted services entered incorrectly. These exceptions were discussed with management and were immediately corrected in PeopleSoft.

Patient Charges

Finding 5: Based on our review of the billings related to a sample of 75 cases selected from 17,618 surgical cases performed between March 1, 2006, and February 29, 2008, we noted the following:

- Twenty-six items totaling \$31,625 were not billed to the patient. Twelve of these were implants totaling \$14,054 which needed to be setup in ORSOS and Siemens. However, the required setup forms were not submitted to Information Systems resulting in the patient not being billed for the items. Fourteen items, totaling \$17,571 were not charged to the patient accounts because they were missed during the data entry process.
- Patient accounts were overcharged \$2,783 because incorrect prices were used for billing. The pricing errors were due to incorrect units of measure. Based on a review performed by the Operating Room, prices were later revised in the Charge Master to reflect the actual units of measure recorded in ORSOS.

In addition, our review indicated several vendor services were not recorded in ORSOS; thus, services performed on a patient are not completely tracked by ORSOS as intended. These services are shown as a lump sum on the patient's account. Since the breakdown of the services is not in any system, resolving inquiries regarding these patient charges require more time and effort.

Recommendation 5.1 Implement procedures to ensure that implant items are recorded in ORSOS.

Recommendation 5.2 Perform quarterly reviews of patient charges and communicate any discrepancies noted to Patient Accounts and Information Systems for corrective action.

Recommendation 5.3 Input billing by professional vendor service type in ORSOS to ensure that a complete record is maintained and patient charges properly itemized.

Current Status Finding 5: Partially Corrected.

The Purchasing Unit submitted a RFP to migrate data from the existing Operating Room Information System (ORSOS) to a new Operating Room Information System and Anesthesia Information System and awarded the contract to McKesson Technologies, Inc. These systems are to include implant and tissue tracking systems and Operating Room charges interface, which will ensure implants are recorded and charged correctly.

The Patient Accounts Unit failed to perform quarterly reviews of patient charges.

We will verify the full implementation of the recommendations during a desk review within six months.

Vendor Visitation

Finding 6: A revised visitation policy which provides guidelines to address Health Insurance Portability and Accountability Act (HIPAA) privacy, health and safety regulations and county purchasing requirements has yet to be approved and formally communicated to the staff. This policy has been in draft form since June 2007. Without a formal policy, there are no clear guidelines to vendor visitations.

Recommendation 6 Finalize and enforce the vendor visitation policies and procedures to ensure compliance with HIPAA, health and safety regulations and county purchasing policies.

Current Status Finding 6: Corrected.

The Materials Management Department Policy Number 25 (Security and Access Controls) addresses the revised vendor visitation policy. The policy covers both vendors who visit the hospital and contractors who are registered with the County who routinely visit. Content of the revised policy has been communicated to staff through staff and training meetings.