A Report to the Audit Committee

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Nashville General Hospital Procurement-to-Pay Process

August 28, 2018

Metropolitan Nashville Office of Internal Audit

Audit of the Nashville General Hospital Procurement-to-Pay Process

EXECUTIVE SUMMARY

August 28, 2018

Why We Did This Audit

The audit was initiated based on the amount of monetary transfers the Nashville General Hospital receives from the Metropolitan Nashville Government.

What We Recommend

- Develop procedures for the competitive sealed bid process.

- Assign one employee outside of the procurement-to-pay process to maintain the vendor master listing.

- Develop policies and procedures for the usage of credit cards.

- Develop retention schedules and maintain documentation for the specified time frame.

BACKGROUND

The Nashville General Hospital procurement-to-pay process includes identifying goods and services needed by the hospital, procuring the best price for those goods and services, and paying the vendors within the established terms. Payments to vendors totaled $120,674,783 between January 1, 2016, and December 31, 2017.

The Material Management department oversees the procurement and receiving of medical equipment and supplies for the hospital while Accounts Payable within the Accounting department processes invoices and prepares weekly payments to vendors.

Credit cards are used within the hospital for smaller purchases under $1,000. Credit card purchases totaled $401,419 between January 1, 2016, and December 31, 2017.

Top purchase categories by the Nashville General Hospital include contract services, professional services of physicians, pharmaceuticals, and maintenance.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Controls are in place to manage the procurement-to-pay process.

- Payments are supportive of Nashville General Hospital's mission.

- Payments are made by established terms and pricing.

- Goods and services are received for payments made by the Nashville General Hospital.

The scope of this audit included the procurement and payment for goods and services between January 1, 2016, and December 31, 2017.

WHAT WE FOUND

Controls are generally in place to manage the procurement-to-pay process. However, controls should be strengthened around bidding for goods and services, the vendor master listing, information systems access controls, usage of credit cards, and the retention of records.

Sampled purchases found the vendors were paid on average within 60 days with the exception of invoices from Meharry Medical College. A payment of $4.4 million was made from the Metropolitan Nashville Government to Meharry Medical College in February 2018 for invoices dating back to fiscal year 2014.

GOVERNANCE

The Hospital Authority Board of Trustees consists of eleven members and is the governing body of the Nashville General Hospital. The Board of Trustees appoints the Chief Executive Officer of the Nashville General Hospital. The Chief Executive Officer has the authority and control to operate the Nashville General Hospital, subject only to policies adopted or orders issued by the Board of Trustees.

The Chief Financial Officer is responsible for policies and procedures for the procurement-to-pay process and reports directly to the Chief Executive Officer. In the absence of a Purchasing Agent, the Chief Executive Officer performs the functions thereof and is authorized by the Board of Trustees to set out for bid, negotiate, and execute contracts on behalf of the Hospital Authority.

The Director of Materials Management oversees the procurement function for all supplies and equipment for the hospital and reports to the Chief Executive Officer.

PROCUREMENT-TO-PAY PROCESS

The procurement process begins when a need is identified by a hospital department. If budgetary funds are available, purchases are to be made by the following procurement methods.

- Under $1,000: Purchases can be made on the open market.

- $1,000 to $3,999.99: Purchases may be made on the open market, but be based on at least three verbal quotations.

- $4,000 to $9,999.99: Purchases may be made on the open market, but be based on three written quotations.

- $10,000 and over: All purchases shall be obtained by competitive sealed bids or proposals.

Exceptions to bidding may be made for professional services contracts, which are awarded based on recognized competence and integrity and for sole source procurements when the purchasing agent determines in writing that there is only one source for the required item. In addition, bidding is not necessary when the Nashville General Hospital utilizes their contracted Group Purchasing Organization (GPO) for general medical supplies, small equipment, and pharmaceuticals. The hospital is currently a member of the Vizient Group Purchasing Organization (formally Med-Assets). The Nashville General Hospital also uses a healthcare-focused benchmarking web tool for real-time best price comparisons for healthcare supplies and equipment.

Potential vendors are vetted by the Materials Management Department before being added to the Vendor Master listing by the Finance Office.

McKesson's Paragon administration and hospital financial application is used to manage the procurement-to-pay process. Requisitions are submitted by hospital departments and approved by the department director and Director of Materials Management. Requisitions are converted to purchase orders upon approval. A hospital buyer will review and approve the purchase order before submitting it to the vendor.

Items are received and counted by the Materials Management Department. A three-way match between the item count, purchase order, and invoice is performed within the Paragon system. Once the three-way match is completed, a payment voucher is automatically created.

Purchase orders are only used for the procurement of tangible supplies and equipment. Services are ordered without the use of purchase orders. Invoices for services are processed through SoftCo, an automated invoice processing application. Invoices are approved in SoftCo by both the department director and Chief Operating Officer. This approval acts as confirmation that the service was received. Once approved, the invoice is transferred to Paragon, and a payment voucher is created.

Payments are made each week based on the current cash position at the hospital. Payments are approved by the Nashville General Hospital Controller before the checks are printed.

Exhibit A – Overview of Procurement-to-Pay Process for Products
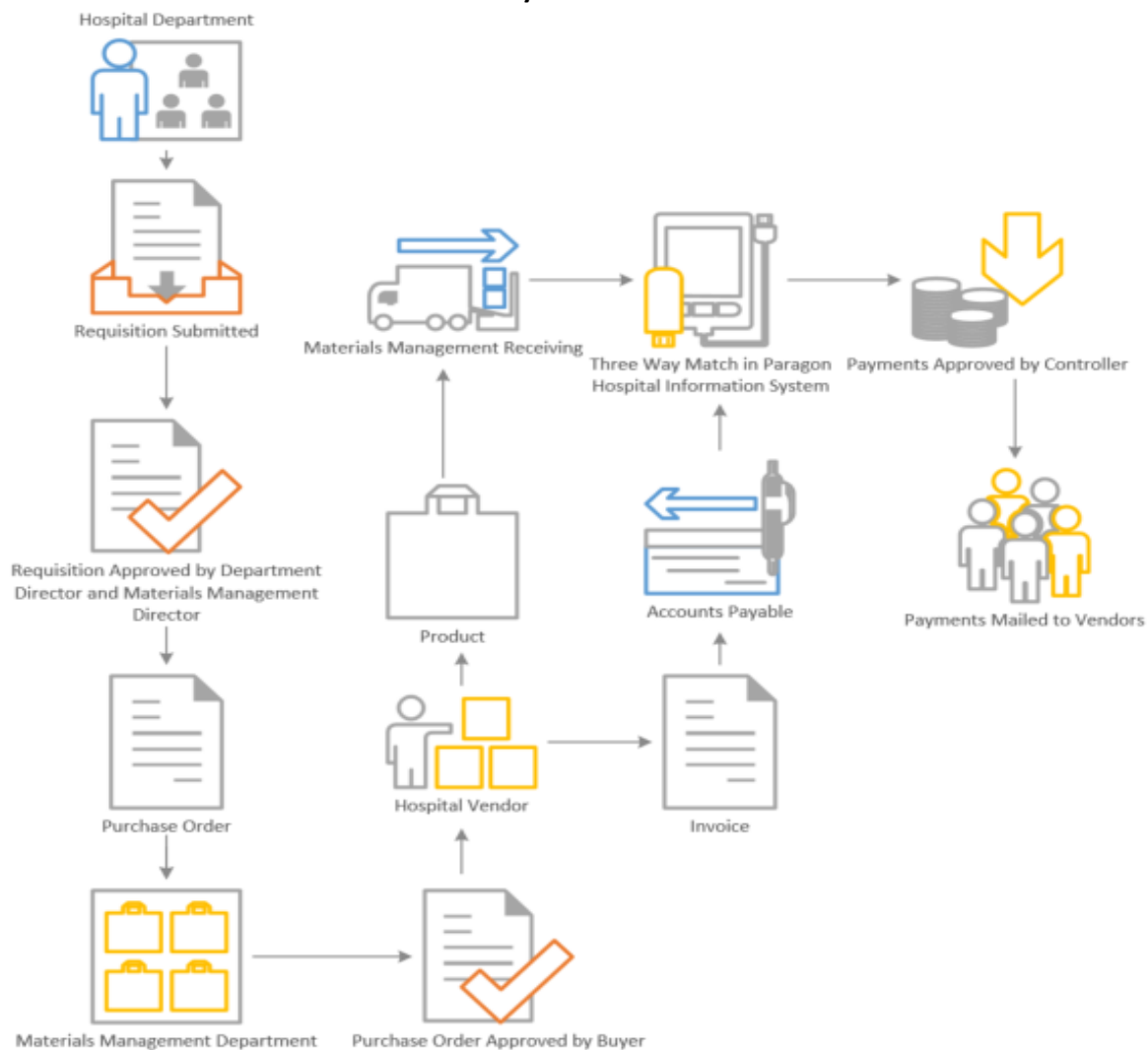
FISCAL INFORMATION

The top expense categories and vendors for purchases made by Nashville General Hospital can be seen in Exhibits B and C.

Exhibit B – Top Ten Purchase Categories by Fiscal Year

Expense Category	2015	2016	2017
Contract Services	$ 6,973,956	$ 7,371,965	$ 8,389,007
Administration Medical Director Fees	5,572,320	5,950,985	4,987,827
Metro Nashville Overhead	3,609,900	3,609,900	5,391,321
Medical Supplies	3,665,884	4,541,406	4,332,372
Pharmacy - Inpatient	3,445,978	4,047,042	3,962,296
Repairs and Maintenance	2,663,666	2,517,370	3,157,214
Physician Service Emergency Room	2,094,902	1,733,797	4,155,119
Pharmacy - Outpatient	1,860,372	1,781,084	2,510,181
Interest Expense	2,135,942	1,955,098	1,805,876
Building	1,600,000	1,600,000	1,600,000

Source: Nashville General Hospital's Paragon Information System

Exhibit C – Top Vendors from January 1, 2016, through December 31, 2017

Vendors	Amount	Product / Service
Metropolitan Nashville Government	$ 16,337,343	Benefits
McKesson Drug	11,913,281	Pharmaceuticals
Meharry Medical College	5,960,085	Professional Services and Utilities
Physynergy, LLC	5,629,783	Anesthesia Contract Services
Owens and Minor	5,517,152	Medical Supplies
Southeastern Emergency Physician	5,311,598	Emergency Room Hospitalist
McKesson Information Solutions	3,437,156	Paragon Information System
Universal Hospital Solutions, Inc.	2,794,084	Medical Equipment Rental
Presidio Networked Solutions	2,525,437	Network Services
Parallon Business Solutions	2,345,642	Accounts Receivable System

Source: Nashville General Hospital's Paragon Information System

Credit cards are assigned to the Chief Executive Officer, the Executive Assistant to the Chief Executive Officer, and the Director of Marketing. Credit cards are used for travel and purchases in the open market of under $1,000. Credit card purchases totaled $401,419 from January 1, 2016, through December 31, 2017. Exhibit D provides a summary of the top credit card vendors for this period.

Exhibit D – Top Credit Card Vendors from January 1, 2016, through December 31, 2017

Vendor	Amount	Business Purpose
Jason's Deli	$21,712	Catering
Regal Cinemas	20,017	Gift Certificates for Employee Birthdays
National Committee for Quality Assurance	12,609	Patient-Centered Medical Home Designation / Survey Tool
Southwest Airlines	12,293	Air Travel
American Airlines	11,002	Air Travel
Vista Print	10,553	Printing Services
Delta Airlines	8,593	Air Travel
Liberty Party Rental	7,970	Product Rental for Events
Indeed	7,626	Recruiting
Tennessean	7,280	Newspaper Advertisements

Source: J.P. Morgan Chase Credit Card Website

OBJECTIVES AND CONCLUSIONS

1. *Are controls in place to manage the procurement-to-pay process?*

   Generally, yes. Opportunities exist to strengthen controls within the procurement-to-pay process including bidding for goods and services that are not available through the Group Purchasing Organization, maintenance of the vendor master listing, access to information systems, usage of credit cards, and management approvals. (See Observation A, B, C, D, and E.)

2. *Are payments supportive of Nashville General Hospital's mission?*

   Generally, yes excluding credit card purchases. All sampled payments accompanied with supporting documentation were aligned with the mission of the Nashville General Hospital. Supporting documentation for 1 out of 60 (2 percent) of sampled invoices and 40 out of 47 (85 percent) of sampled credit card transactions could not be produced due to staff turnover. (See Observation D.)

3. *Are payments made by established terms and pricing?*

   Generally, no. Out of 60 sampled invoices, 50 invoices (83 percent) were not paid within payment terms. However, the average days to pay for the sampled population was 60 days. Invoices for the Professional Services Agreement with Meharry Medical College were not included in the sample. A payment of $4.4 million was made from the Metropolitan Nashville Government to Meharry Medical College in February 2018. This payment included Professional Service Agreement invoices dating back to October 2016 and other miscellaneous amounts dating to fiscal year 2014. Nashville General Hospital has a history of late payments due to cash shortages, but management is committed to keeping the aging of invoices under 60 days.

4. *Are goods and services received for payments made by the Nashville General Hospital?*

   Generally, yes. Controls are in place to ensure goods and services are received before payment is made. A three-way match between the items received, purchase order, and the invoices must be conducted for purchases originating from a purchase order. For purchased services not originated from a purchase order, the invoice must be approved by the hospital department director and Chief Operating Officer before payment is made. Approvals acknowledging receipt were not obtained for 10 out of 37 (27 percent) invoices. (See Observation E.)

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A – Bidding Requirements

Bidding requirements outlined in the Metropolitan Hospital Authority Purchasing Policy were not consistently practiced within departments. The procurement functions of identifying vendors, obtaining bids, and maintaining bid documentation are responsibilities of hospital departments with little oversight from a centralized procurement function. There are no detailed procedures to guide departments on how to perform these procurement functions. Out of 60 sampled purchases, 27 purchases (45 percent) did not follow the bidding requirements outlined in the Metropolitan Hospital Authority Purchasing Policy. Thirteen of the 27 occurrences were instances where proposals and competitive sealed bids should have been required. The purpose of competitive bidding is to stimulate competition, prevent favoritism, and secure the best goods and services at the lowest practicable price.

An updated purchasing policy was recently drafted that has the Director of Materials Management more involved in the bidding process to ensure bidding is taking place, when warranted. However, the updated procedures do not provide any requirements on bidding other than stating that products and services exceeding $100,000 in a fiscal year should be obtained through competitive sealed bidding. Additionally, specific procedures to guide employees through the competitive sealed bidding process and to ensure bids are secured did not exist.

Criteria:
- *COSO*, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

- Metropolitan Hospital Authority Purchasing Policy

Recommendations for management of the Nashville General Hospital to:
1. Add cost thresholds for bidding to the updated Metropolitan Hospital Authority Purchasing Policy. Ensure that bidding requirements are communicated to and followed by hospital departments.

2. Establish a retention schedule and maintain bidding documentation for the specified period.

3. Develop procedures for the competitive sealed bidding process at the Nashville General Hospital.

Observation B – Vendor Master Controls

Controls around the maintenance of the vendor master listing should be strengthened. The following control weaknesses were noted:

- Twenty-seven duplicate vendors were identified. Duplicate vendors were inactivated by the Nashville General Hospital upon being identified during the audit. Vendors with multiple entries on the vendor master can increase the likelihood of duplicate payments.

- An excessive number of employees (12 employees) made changes to the vendor master listing during the audit period. To decrease the likelihood of an unauthorized vendor being added to the vendor master listing, additions and updates to the listing should be authorized beforehand and only made by one to two employees independent of the procurement-to-pay process.

- Tax identification numbers were not recorded in the vendor master listing for 702 active vendors (44 percent of vendors). There are instances where a missing tax identification number would be appropriate, for example, hospital employees can be set up as vendors for expense reimbursements. However, not including the tax identification number could lead to errors with 1099 reporting and increase the likelihood of an unauthorized vendor being added to the listing.

Criteria:
COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Recommendations for management of the Nashville General Hospital to:
1. Assign one employee and one backup employee to maintain (add, update, inactive) the vendor master listing. The employees assigned this responsibility should be independent of the procurement-to-pay process.

2. Periodically review the vendor master to identify duplicate entries, vendors needing a tax identification numbers (obtain W-9 for new vendors), or vendors that should be inactivated.

Observation C – Paragon Access Controls

Segregation of duties internal controls within the Procurement-to-Pay process should be improved. Unrestricted access (full access) to the Materials Management (Procurement) module, the Accounts Payable module, and the General Ledger module existed for three Nashville General Hospital employees. These employees have the ability to create requisitions, create purchase orders, enter invoices, process payments, and make journal entries.

Additionally, employees with access to the Accounts Payable module either have full access or view only access. Employees with full access can enter invoices, set up vendors, enter credits, select vouchers for payment, process payments, and record manual checks. Access to the Accounts Payable module should be commensurate with the job responsibilities of the employees. Employees that do not perform any duties within the Accounts Payable module should have their access removed or be given view-only access.

Criteria:
COSO, Control Activities—Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.

Recommendation for management of the Nashville General Hospital to:
Ensure that access to the Paragon information system is commensurate with the job responsibilities of employees.

Observation D – Credit Card Controls

Policies and procedures providing managements intention on the usage of credit cards, review and approval, and reconciliation with credit card statements do not exist. Supporting documentation was not available for 40 out of 47 (85 percent) of transactions. Additionally, sales tax was paid on 3 of 7 reviewed receipts. Credit card statements and transaction receipts were not available prior to April 2017.

There are three credit cards holders, and transactions totaled $401,419 from January 1, 2016, through December 31, 2017.

Criteria:
COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Recommendation for management of the Nashville General Hospital to:
1. Develop policies and procedures for credit cards usage. Policies and procedures should address acceptable use, approvals, reconciliation of statements and receipts, transaction limits, travel, and retention of supporting documentation.

2. Ensure credit card holders possess the Nashville General Hospital sales tax exemption number and are instructed not to pay sales tax on credit card purchases.

Observation E – Invoice and Payment Approvals

Evidence of invoice review and approval to ensure services or goods are received and invoice amounts agree to agreement terms did not exist for all invoices. Out of 37 invoices not originating from a purchase order reviewed, 9 invoices (24 percent) documentation of approval did not exist.

An additional invoice payment process control includes all payments are reviewed and approved by the Controller prior to checks being printed and mailed. Out of 60 payments sampled, 21 payments (35 percent) did not have documented review and approval by the Controller. This was partly due to an employee resigning that had custody of the documentation.

Prior to mid-2016, the approval process was manual where a hard copy of the invoice was reviewed and approved by the necessary parties. SoftCo, an automated invoice processing application, currently uses an approval workflow that ensures approvals are obtained before the invoice is paid.

Criteria:
COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Recommendation for management of the Nashville General Hospital to:
1. Ensure invoices are approved within SoftCo prior to payment.

2. Ensure payments are approved prior to payment.

3. Establish a retention schedule and maintain payment approvals for the specified period.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Nashville General Hospital.

- Reviewed and analyzed documentation for compliance with the Tennessee Code Annotated, Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.

- Evaluated internal controls currently in place.

- Performed analytics on invoice, purchase order, and payment data extracted from the Paragon Information System.

- Reviewed sample selections to determine the effectiveness of internal controls.

- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Seth Hatfield, CPA, CIA, CFE, In-Charge Auditor

Nan Wen, CPA, Staff Auditor

Qian Yuan, CIA, CISA, ACDA, CMFO, Quality Assurance

Mark Swann, CPA, CISA, CIA, ACDA, CMFO, Metropolitan Auditor

Metropolitan
Nashville Hospital Authority

August 21, 2018

Mr. Mark Swann
Mr. Seth Hatfield
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue N, Suite 401
Nashville, TN 37201

Dear Mr. Swann and Mr. Hatfield,

The Executive Management Team and our Finance and Materials Management leaders have reviewed the audit findings and recommendations from your Procurement-to-Pay Process report dated July 30, 2018, and we accept your recommendations. Please see our attached responses to those findings and recommendations and our timeline for implementing corrective action.

We look forward to working with you and Metro Finance to ensure responsible management of resources to care for some of Nashville's most fragile residents.

Regards,

Joseph Webb, D,SC, FACHE
Chief Executive Officer

Bruce Naremore
Chief Financial Officer

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APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to understand best their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
Recommendation for management of the Nashville General Hospital to:		
A.1 - Add cost thresholds for bidding to the updated Metropolitan Hospital Authority Purchasing Policy. Ensure that bidding requirements are communicated to and followed by hospital departments.	**Accept** - We will establish a policy to bid out supplies and equipment that are not otherwise covered by our GPO or City contract, and we will establish bid processes, communications and recordkeeping to meet the highest standards of accountability.	11/5/2018
A.2 - Establish a retention schedule and maintain bidding documentation for the specified period.	**Accept** – see above – as part of the new bidding requirements, we will retain records for 5 years from date of award.	11/5/2018
A.3 - Develop procedures for the competitive sealed bidding process at the Nashville General Hospital.	**Accept** – See A.1	11/5/2018
B.1 - Assign one employee and one backup employee to maintain (add, update, inactive) the vendor master listing. The employees assigned this responsibility should be independent of the procurement-to-pay process.	**Accept** – We have assigned this primary task for vendor maintenance and updates to the Executive Assistant for our Finance Department. The backup support will be from our FIS/HRIS Manager. Neither is involved in procurement process.	10/1/2018
B.2 - Periodically review the vendor master to identify duplicate entries, vendors needing a tax identification numbers (obtain W-9 for new vendors), or vendors that should be inactivated.	**Accept** – At least quarterly, the staff involved in Section B.1 will review the vendor master for duplicates, TINs and long term inactive vendors.	10/1/2018
C.1 - Ensure that access to the Paragon information system is commensurate with the job responsibilities of employees.	**Accept** – We have tasked our IT department with removing access for all inactive employees or staff who have not worked for 90 days.	10/1/2018

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
D.1 - Develop policies and procedures for credit cards usage. Policies and procedures should address acceptable use, approvals, reconciliation of statements and receipts, transaction limits, travel, and retention of supporting documentation.	**Accept** – Effective immediately, all requests for credit card usage are being routed to the CEO Executive Assistant to ensure that purpose is appropriate, that there are no other means to pay for the services or goods, and that receipts will be generated at the time of the spend, thereby eliminating the need to collect receipts after the purchase. In addition, we will create a comprehensive policy on credit card usage and seek to drive purchases through traditional procurement channels to ensure all controls are in place and we complying with GPO and City contracts.	11/5/2018
D.2 - Ensure credit card holders possess the Nashville General Hospital sales tax exemption number and are instructed not to pay sales tax on credit card purchases.	**Accept** – Note that some transactions do not allow that option for credit card purchases, but we will ensure that our card holders have our sales tax exemption information readily available for when the opportunity to provide that information exists.	10/1/2018
E.1 - Ensure invoices are approved within SoftCo prior to payment.	**Accept** – There is a hard stop in the SOFTCO system requiring COO and/or CFO approval on items above $1,000. For purchases less than $1,000, invoices are approved at the department manager (or similar) level.	8/23/2018
E.2 - Ensure payments are approved prior to payment.	**Accept** – The Controller reviews all invoices approved for payment will sign off on the paymaster before actual checks/EFT are issued.	8/23/2018
E.3 - Establish a retention schedule and maintain payment approvals for the specified period.	**Accept** – We will establish a retention schedule and ensure that the approved paymaster or ledger is maintained according to that schedule.	8/23/2018