

**COUNTY OF SAN MATEO**

**INTERDEPARTMENTAL CORRESPONDENCE**

**DATE:** September 17, 2009

**TO:** Jean Fraser, Chief - San Mateo County Health System  
**FROM:** Tom Huening, Controller  
**SUBJECT:** **Follow-up Audit Report - San Mateo Medical Center Materials Management Division**

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Attached is the follow-up report on the audit of the San Mateo Medical Center Materials Management Division dated August 2002. We are pleased to report that most of the audit recommendations have been implemented.

We appreciate the proactive effort by your management and staff in addressing the concerns raised in our audit and the opportunity to work with them in improving processes that provide management increased assurance regarding the achievement of the program's financial and operational goals and objectives.

cc: Dr. Susan Ehrlich, CEO, San Mateo Medical Center  
James Hughey, CFO, San Mateo Medical Center  
Henry Sellenthin, Director of Materials Management  
Kris Rozzi, Director of Patient Financial Services  
Joji Lilles, Director of Reimbursement  
Dhurup Maharaj, Accounting Manager  
David Boesch, County Manager/Clerk of the Board of Supervisors (6)  
Charlene Kresevich, Superior Court (Civil Grand Jury)

## **SAN MATEO MEDICAL CENTER – MATERIALS MANAGEMENT DIVISION**

### **FOLLOW-UP AUDIT ON OPERATIONAL REVIEW REPORT OF AUGUST 2002**

#### **PURPOSE & SCOPE**

We conducted an operational review of the San Mateo Medical Center – Material Management Division and issued our report dated August 2002. The operational review included five recommendations for improvement. The primary objective of this follow-up was to determine the status of these recommendations. We also reviewed three additional areas - contractual allowance, emergency purchase orders, and control issues from an embezzlement incident.

The follow-up audit was discussed with the Director of Materials Management, Director of Patient Financial Services, Chief Financial Officer, Director of Reimbursement, and Accounting Manager.

#### **RESULTS OF REVIEW**

##### **I. Follow-up on Prior Audit Recommendations**

The San Mateo Medical Center implemented four of the five recommendations. One of the five recommendations is in progress as a new purchasing system will be selected and installed later in the year.

##### **Recommendation 1 - Limit Payments to Non-contracted Physicians to Authorized Amounts**

The hospital should establish adequate control procedures over the utilization of non-contract physicians, which limit payments only to non-contract physicians utilized infrequently and ensure total payments do not exceed Board authorized amounts.

##### ***Status of Implementation***

Implemented.

Controls are in place to limit the use of non-contract physicians and non-contract medical service providers to services that SMMC cannot provide. Board Resolution 068884 authorized the Controller to pay non-contract medical services providers in an amount not to exceed \$1.5 million for fiscal year (FY) 2007-08 and FY 2008-09. The total amount paid during that period was \$565,000. Similarly, Board Resolution 068885 authorized the Controller to pay non-contract physicians in an amount not to exceed \$300,000 for FY 2007-08 and FY 2008-09 and the total amount paid during those fiscal years was only \$42,000.

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**Recommendation 2 – Reduce Delays during Contract Drafting & Agency Review/Approval**

Senior hospital management should adequately communicate to department managers the need to comply with its policies and procedures, which should be adequately documented and clearly reflect management’s expectations. The written procedures should set standards and clear and measurable goals and provide adequate guidance towards meeting the standards and goals. Where possible such guidance should include checklists.

***Status of Implementation***

Implemented.

Senior hospital management and department managers have streamlined the contract drafting and agency review/approval processes in accordance with policies and procedures. The data below shows the average processing time for a contract in August 2002 and the processing time at the time of our review.

<u>Contract Amount</u>	<u>Aug 2002 Audit Report</u>	<u>Current</u>
Contracts < \$25,000	13 weeks	2 weeks
Contracts >\$25,000 and < \$100,000	15 weeks	6-8 weeks
Contracts > \$100,000	21 weeks	8 weeks

**Recommendation 3 – Implement an Integrated Automated System that Meets User Needs**

Materials Management needs a system that interacts seamlessly with IFAS financial and purchasing functions, provides a consistent, integrated and automated method of tracking and paying for contractual services and meets the information needs of personnel involved in the contract process.

***Status of Implementation***

In progress.

Support for the current purchasing system, Shellsoft, will cease by December 2009. The Director of Materials Management is considering IFAS and Caduceus as a replacement. The IFAS demo took place on April 30<sup>th</sup>, and the Caduceus demo on July 6<sup>th</sup>. Ongoing discussions are in progress to determine which system best meets the needs of the Medical Center.

**Recommendation 4 – Maintain Supporting Documentation for Contracts**

Materials Management should maintain adequate contract supporting documentation evidencing compliance with County policies, including evidence of contractor’s insurance coverage during the entire term of a multi-year contract. A checklist for agreements with independent contractors is on the county intranet.

***Status of Implementation***

Implemented.

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The service, physician, and medical provider contracts are maintained alphabetically and clearly labeled with the name, valid dates, and contract number. Thirty service, physician, and medical provider contracts were randomly selected and manually inspected for completeness. Each contract file had the required supporting documentation with valid agreements and current proof of insurance. A process is in place to address expired/expiring contracts with a bi-weekly contract review/update meeting.

**Recommendation 5 – Other Unbilled Charges**

The Hospital should establish procedures that ensure all patient Encounter Forms are accounted for and billable patient services and charges are timely billed. The Hospital should identify patient accounts not billed in prior periods and invoice all outstanding balances.

*Status of Implementation*

Implemented.

Patient Service Assistants reconcile encounter forms daily and submit an exception notice for each missing or incomplete form to physicians. Clinic managers receive a weekly cumulative report that lists forms with outstanding issues. In 2008, 94% of encounter forms were submitted without issues. Most of the remaining forms with issues were ultimately resolved.

**II. Additional Areas Reviewed**

**1. Contractual Allowance**

The external auditor's past Reports to the Board of Supervisors and the Grand Jury have included recommendations on improvements to the Medical Center's contractual allowance analysis worksheet and on the need to document internal controls for the purpose of assessing risk over financial reporting as required by new auditing/reporting standards. During this follow-up review we collaborated with staff to ensure that the recommendation relating to contractual allowance analysis is implemented and since contractual allowance is a significant area (FY08: \$221.6 million) also ensure that its internal controls are adequately documented and evaluated as required by the new auditing standards.

The improvements to the contractual allowance analysis worksheet that were recommended by the external auditors have been implemented. A process is now in place to update the percent distribution of Undetermined ("U") AR (Accounts Receivable) into other categories annually. We are in the process of documenting and evaluating the internal controls over contractual allowance. Since this is a significant area, we will be working closely with Medical Center staff as considerable collaboration will be needed to complete this work.

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**2. Emergency Purchase Orders**

In our pre-audit meeting management had raised concerns regarding the possible over-use of Emergency Purchase Orders (EPOs) and requested that we review their usage during the follow-up audit.

We reviewed EPOs since July 2008 and noted that all related purchases (surgical supplies and service of equipment) were for legitimate emergencies and in accordance with policies. To monitor EPO usage, the Central Services & Supply Supervisor has created and maintained a log of all EPO's since the beginning of the year. County policy requires departmental units to use long-term Vendor Agreements, which incorporate negotiated discounts and other favorable terms, to purchase commonly used supplies with minimum purchase volume of \$5,000 or an average of 12 purchases per year. We noted that the development of Vendor Agreements is in various stages for the high-dollar EPO vendors.

**3. Embezzlement Incident – Internal Control Issues**

Management had requested that we follow-up on any internal control issues arising from an embezzlement incident reported in April 2008 relating to contracts. The incident related to embezzlement of filming revenue.

Prior to April 2008, only one individual handled all aspects of filming revenue, including scheduling and collecting fees. The Medical Center has since implemented a process that involves separation of duties among three personnel, which minimizes the risk of embezzlement. We also noted that restitution payments were subsequently received by the Medical Center.

We wish to convey our appreciation for the cooperation and assistance accorded us during the course of our follow-up.