

Finding #3 Internal controls over contracts were inadequate.

- Approval by the Board of Commissioners for \$223,007 in change orders for construction related projects was not obtained

Construction projects in which disbursements were made during 1998 were reviewed. 12 projects were reviewed involving 9 contractors for a total project amount of \$2,779,893. 33 change orders were issued increasing the contract cost by \$239,539.54. 31 (94%) of these change orders totaling \$223,007.54 (93%) were not approved by the Beaver County Commissioners.

Construction contract change orders not approved by Beaver County Commissioners

| Contractor | Project | Original Contract Value | Change Orders Not Approved |
|------------------|--------------|-------------------------|----------------------------|
| Reno Brothers | Phase II | \$ 52,044.00 | \$ 643.00 |
| Guys Mechanical | Phase II | 28,489.00 | -0- |
| Guys Mechanical | Plumbing | 22,800.00 | 2,965.00 |
| Guys Mechanical | Plumbing | 10,450.00 | 2,300.00 |
| Blackhawk-Neff | Fire Alarm | 518,000.00 | 27,022.00 |
| Turney Electric | Phase I | 27,200.00 | -0- |
| Turney Electric | Phase I | 350,600.00 | -0- |
| Van Dusen Const. | Phase I | 552,523.00 | 37,285.24 |
| Traco | Windows | 398,880.00 | 24,486.00 |
| Advanced Heating | Phase I HVAC | 46,844.00 | 3,649.30 |
| Modany Brothers | Phase II | 472,600.00 | 72,542.00 |
| C.W. Smith | Phase III | <u>299,463.00</u> | <u>52,115.00</u> |
| | | <u>\$ 2,779,893.00</u> | <u>\$ 223,007.54</u> |

The Beaver County Law Department issued a memorandum dated April 14, 1997 stating that all change orders of any kind to an existing contract must be submitted in the form of a resolution for the approval of the County Commissioners in order to comply with provisions of the Sunshine Law. This law requires governmental bodies to disclose business, policy making or official action.

- The BVGC paid \$120,811.02 in 1998 for services without agreements.

| | | |
|------------------------------|----------------|---------------------|
| These payments were made to: | Reno Brothers | \$90,249.54 |
| | United Safety | 20,713.48 |
| | Earskin Priest | 6,488.00 |
| | Pestco Inc. | <u>3,360.00</u> |
| | Total | <u>\$120,811.02</u> |

A total of \$120,811.02 was paid to vendors in 1998 without agreements based solely on departmental approval. Additional information for these vendors is listed below.

Reno Brothers - No agreement was entered into for payments totaling \$90,249.54 for general maintenance work performed on an as needed basis during 1998. Work orders were reviewed to determine if work performed was properly invoiced. 82% of the invoices reviewed did not have the work order attached. Of the work orders reviewed, it could not be easily determined specifically what was repaired by nor could the Maintenance department readily provide the information when questioned. Several work orders reviewed did not list the number of hours worked. Labor charges of \$2,392 were paid in excess of the normal rate of \$52.00 per hour. Maintenance Department personnel could not explain when overtime was charged.

United Safety sent two proposals to the BVGC Safety Department, one in 1997 and one in 1989. These proposals were verbally approved and were still being used in lieu of agreements. These proposals accounted for \$11,362 out of the \$20,713.48 paid to United Safety Services. The additional \$9,172 was paid for services performed without any proposals or agreements.

Earskin Priest was paid \$6,488 in 1998 for plaster work and submitted itemized invoices for labor charges. When the hourly rate was recalculated on the invoices it ranged between \$13.33 and \$16.09 per invoice. There was no agreement on file to establish the hourly rate; therefore, it was not possible to independently establish the correct payment. The Maintenance Director stated the rate of pay should have been \$13.00 per hour, but some of these charges may have been for overtime.

Pestco Inc. was paid \$3,360 in 1998 for air freshener servicing. The billings were \$280 per month for an undisclosed number of units. The individual authorizing the payments did not know how much the monthly cost should be, how many air freshener units there were, or where they were located. The vendor was relied on to track the units.

- The BVGC paid \$80,155.20 for expired agreements to the following vendors:

| <u>Vendor</u> | <u>Description</u> | <u>1998 payments</u> | <u>Expired</u> |
|------------------------------|-----------------------------|----------------------|----------------|
| Continental Health Equipment | Mattress rental | \$70,800.00 | 10/18/97* |
| Joseph J. Brunner Inc. | Rubbish / recycling charges | <u>9,355.20</u> | 2/28/96 ** |
| Total | | <u>\$ 80,155.20</u> | |

A total of \$80,155.20 was paid to vendors in 1998 for expired agreements based solely on departmental approval.

*The agreement was obtained from the vendor, because BVGC personnel did not have it on file.

**The original contract for recycling charges only included prices from 3/1/94 to 2/28/96. The prices and number of containers for recycling increased, but the changes were only verbally established for the period from 3/1/96 to 2/28/99.

- The BVGC paid \$101,964.07 in 1998 for the following agreements which could not be located.

| <u>Vendor</u> | <u>Description of service / agreement</u> | <u>1998 payments</u> |
|-----------------------------|--|----------------------|
| Abbott Laboratories | Leasing agreements (3) for IV pumps | \$ 30,870.08 |
| KCI Therapeutic | 1 ½ year bariatric wheelchair lease | 6,729.93 |
| Butler Gas Company | Cylinder rental, oxygen, and repairs | 6,421.58 |
| Universal Hospital Services | T-pump rentals | 4,260.00 |
| Copy World of Pittsburgh | Lease agreements for 10 copiers/2 Doc feeders and maintenance agreements for 10 out of 12 pieces of equipment. | 19,618.43 |
| Global Imaging System | Lease agreements for 11 copiers. | <u>34,064.05</u> |
| | Total | <u>\$101,964.07</u> |

- Charges paid, particularly concerning labor rates, totaling \$15,188.31 were unclear or not negotiated.

| <u>Vendor</u> | <u>1998 payments</u> |
|---|----------------------|
| Associated Cleaning Consulting Services | \$ 12,544.06 |
| Honeywell, Inc. | 2,096.75 |
| Hoffmeier Communications | <u>547.50</u> |
| Total | <u>\$ 15,188.31</u> |

Additional cleaning services, due to construction, were performed by Associated Cleaning Consultants & Services, Inc. for a total \$12,544.06 paid in 1998. Pricing was not obtained and services were not documented for approval prior to the services being performed. Payments for the additional cleaning were based upon departmental approval, and the department head relied on the vendor to invoice correctly.

Honeywell was paid \$2,096.75 for labor charges on 4 invoices in 1998 which were not negotiated. The original contract between the BVGC and Honeywell did not state hourly rates or prices for additional services. The 4 payments were authorized without knowing the hourly rates the company was charging. The hourly rates charged did not appear on the invoices or on the service reports or work orders. A Honeywell representative faxed maintenance rates to the BVGC on 3/11/99. Mechanical contract customer rates were \$68.00 straight time and \$102.00 overtime. These rates were considerably lower than the rates actually paid by the BVGC. A maintenance employee called Honeywell again on 3/12/99. The company explained they decreased their rates on 8/31/98 to be more competitive. The old rate for mechanical contract was \$82.00 straight time

and \$123.00 over time. This was a 17% decrease in rates. The BVGC employee approving the payments was unaware of the old rates or the new reduced rates.

Resolution 010891-1 stated that Hoffmeier Communications would provide telephone maintenance service at the Beaver County Courthouse and BVGC, at a cost of \$35.00 per hour. Hourly rates charged differed from the resolution rate approved for 9 out of 54 (17%) invoices. Hourly rates charged for these nine invoices were \$50 per hour for a total of 36.5 hours. This is a \$15 per hour overpayment or $\$15.00 \times 36.5 \text{ hours} = \547.50 overpaid. Additionally, 1 invoice did not state the number of hours worked; therefore, the labor rate could not be calculated.

Note: For General Elevator Company Inc., 20 out of 29 (68.97%) invoices were for services performed outside of the contract. The invoices totaled \$15,852.07 and did not have purchase orders for the services or parts. A maintenance employee authorized 12 out of the 19 invoices for labor without knowing the hourly rates. The rates did not appear on the invoices or on the time tickets. A maintenance employee authorized 7 of the 19 payments without knowing the prices for parts. One invoice for \$885.60 was not approved.

Note: Pestco's charges for additional services were unclear and inconsistently applied. Per the contract "Additional emergency services between regularly scheduled calls will be at a charge of \$60.00 per hour (with minimum charge of \$30.00 per call)." The following two additional services were required in 1998 and charges were inconsistently applied.

| | | |
|----------------|-------------------------------|------------------------|
| Invoice #91862 | Service for 1 hour 35 minutes | Charged / Paid \$90.00 |
|----------------|-------------------------------|------------------------|

| | | |
|----------------|------------------------|------------------------|
| Invoice #12356 | Service for 45 minutes | Charged / Paid \$90.00 |
|----------------|------------------------|------------------------|

No backup was attached for an itemization of either of the \$90.00 invoices.

Additionally, these two invoices were not signed acknowledging satisfactory service was rendered.

- Contracted prices and terms were not verified to invoiced prices.

The BVGC was over billed (and paid) a total of \$351.26 to Joseph J. Brunner Inc. in 1998. The contract anniversary date was 3/1/98; however, new rates were charged by the company on 1/22/98, prior to the anniversary date. After audit inquiry, Joseph J. Brunner Inc. was to send a credit to the BVGC.

GCS Service was under contract to repair and maintain equipment in the Dietary department. The contract with GCS stated that mileage would not be charged for any service call whether the item repaired was covered in the service contract or not covered. GCS billed and was paid \$353 in mileage charges in 1998. These charges should have been noted and disallowed when the invoice was approved for payment by Nutrition Management Service personnel.

Honeywell was paid \$25,361.34 in 1998 for temperature control maintenance. The BVGC was sent a yearly letter stating the new monthly contract rate, this letter had been misplaced and not used to compare to the invoice charges in 1998.

- Contract with Nutrition Management Services was unclear and not followed.

The wording in the contract for payment of 1998 services to Nutrition Management Services for dietary services was unclear. Per the contract, the payment for 1998 was to be "\$278,863 plus negotiated wage increases for Beaver Valley Geriatric Center". There are two collective bargaining agreements at the BVGC, Local 585 and the District 1199P. It is unclear as to which negotiated wage increase is to be used to calculate the new payment rate with Nutrition Management Services. Fortunately, the collective bargaining agreements entered into for April 1, 1998 through March 21, 2002, had the same wage increase. Additionally, the contract was based upon a calendar year, while the negotiated wage increases were for the fiscal year beginning April 1st. There is a potential for confusion because the 1998 negotiated wage increase could be interpreted for the period April 1, 1997 to March 31, 1998 or April 1, 1998 to March 31, 1999. Both terms include wage increases for the 1998 calendar year. Again, fortunately both periods had the same increase amount for both contracts.

Management Staffing per the contract with Nutrition Management Services was different from actual staffing without approval from the Beaver County Commissioners. A Part-Time Dietician was hired by Nutrition Management Services for \$20 per hour. The BVGC paid an additional \$25,280.00 for this dietician in 1998.

If Nutrition Management Services Company meets 3 criteria, an incentive award of \$3,000 per quarter is given. The company received \$12,000 in 1998 incentives. Criteria #1 was not met, and the facility did not have information to determine if criteria #3 was met.

Criteria #1 "Operating at or below budgeted expenditures." Nutrition Management Services exceeded their budget every quarter in 1998. At 12/31/98 they were over budget by a total of \$352,692.60 in 15 sub accounts out of 25. The largest accounts' budget overages were:

| | |
|---------------------------|--------------|
| 600-64 Staples | \$151,708.02 |
| 600-25 Part Time Wages | \$107,084.02 |
| 600-62 Meat, Fish, & Eggs | \$ 38,748.63 |
| 600-04 Staff Salary | \$ 37,826.13 |

Criteria #3 "Maintain the Nutrition Management Services Company quality assurance program to consist of satisfactory monthly regional dietitian monitors and quarterly standards reviews of 80% or better." The department head who authorized the incentives, did not have back up submitted by the Company proving satisfactory monitoring or quarterly reviews. Five standard reviews were obtained from the contractor covering the period January 1998 to March 1999. All five met the 80% criteria.

- Formalized policies and procedures were not established to define the relationship and flow of information between the BVGC and Heritage Valley Health Systems.

The Medical Center of Beaver County combined with Sewickley Valley Hospital to become Heritage Valley Health Systems. A contract was adopted by resolution on January 1, 1995 which, along with various other management services, provided for consulting services with respect to purchasing of equipment and supplies for the BVGC. Where permitted by law and available, the Medical Center was to provide opportunities for the BVGC to participate in central purchasing.

The Medical Center was paid a total \$712,167.09 in 1998, this included a \$145,000.00 management fee and \$567,167.09 for merchandise purchases. A review of payments totaling \$63,999.31 relating to 58 purchase orders for 17 product types purchased in 1998 through the Medical Center purchasing program revealed the following:

There were no Medical Center policies or procedures published specifically for BVGC purchases. Official policies were not established to limit type or dollar volume of products allowable for ordering, or to assure that the legal guidelines for quote and bid requirements were followed for purchases in excess of \$4,000 and \$10,000. The BVGC was merely afforded the opportunity to participate in the contracts and pricing which the Medical Center had for their own needs. Medical Center personnel gave no consideration to large dollar value orders to assure that they were placed through a nonprofit cooperative hospital service association nor were the BVGC personnel notified when orders were purchased outside the national contracts. Of the 17 products in the sample for review, two were purchased with orders exceeding \$10,000 and three were purchased on orders over \$4,000. Per County Code, purchases of these 5 items required some form of documented bidding or price quotes unless a nonprofit cooperative hospital service association agreement was used. In only 2 of the 5 was an association used (one over \$10,000, one over \$4,000). The remaining three items were purchased outside the association contracts with no documentation maintained of the evaluation process used to establish the contracts (3 of 5 is 60%).

No procedure was in place to consistently communicate pricing changes to the BVGC. Nonprofit cooperative hospital service associations adjust markup percentages based on vendor qualifications and purchaser volumes, although these changes are monitored and reflected on the Medical Center system, the BVGC was not always informed. In 10 of 53 orders reviewed (19%), the purchase order price on file at the BVGC did not agree to the price at the Medical Center.

No formal policies or procedures were in place to establish what documentation was required or the retention period requirements. The Medical Center retention requirement for original packing slips or receipt documentation was two months. Upon audit review it was indicated that because of frequent questions, for the BVGC, packing slips were retained for one year. The County Records Manual issued by the Pennsylvania Historical and Museum Commission requires the

retention of accounts payable documentation including receiving documentation for 7 years. All packing slips processed through the Medical Center computer system January through June 1998 were destroyed therefore only those processed July through December 1998 could be examined. For the products sampled in this six month period, receipt documentation was not in the Medical Center file in 16 of 110 instances (15%).

For items issued to the BVGC from Medical Center stock, no procedure was in place to document the transfer of merchandise between facilities. The signature of a BVGC employee was not required to release merchandise. Although in the sampled period this practice was limited to emergency shortages, discussions with Medical Center personnel revealed that in 1999, due to a change in the contract, purchases of IV solutions, irrigation solutions, IV sets, and suction canisters from Abbott Labs are now being routinely picked up by BVGC staff from Medical Center stock. (Note: purchases from Abbott labs in 1998 amounted to approximately \$30,000).

- The contract to provide the supplies and process the corresponding insurance reimbursements related to Federal Medicare Part B for urological, tracheostomy, ostomy, and enteral feedings did not state the BVGC's responsibility with regard to reimbursements for residents without medical coverage or for products not covered by Medicare Part B. Also, controls were inadequate for the verification of these billings.

Supplies and the corresponding insurance reimbursements related to Federal Medicare Part B for urological, tracheostomy, ostomy and enteral feeding are administered for the Center by an outside contracted service company. Health Care Concepts, Inc. was engaged to provide Part B Medicare products to the center through the certified Medicare Provider, Ronette Corporation. After the June 1998 Medicare Part B payment, Health Care Concepts, Inc. was acquired by Gatti LTC Services (G.S.H.C., Inc.) which became the product provider. At that time Gatti LTC Services, a unit of Omnicare, Inc., continued to perform the services. The BVGC was billed for residents without medical coverage or for products used for procedures not covered by Medicare Part B.

A contract with Health Care Concepts, Inc. was adopted by resolution on March 25, 1993 which stated:

“HCC agrees that there will be no charge to the Center or the County of Beaver for Medicare products used by those patients not covered by Medicare or other third party insurance carriers.

HCC agrees that there will be no charge to the Center or the County of Beaver for non-covered services when such services are medically necessary in the treatment of a patient's condition as determined by the attending physician.”

These sections were in violation of the Medicare and Medicaid anti-kickback statute of the Federal laws and therefore the BVGC was being charged for any such products or products expended for such services at the center. However, a contract addendum was not negotiated to reflect the change or to stipulate the method for pricing such items.

During 1998, 95 invoices were paid by the BVGC for these supplies without independent verification of merchandise receipt, reasons for product exclusion from insurance reimbursement, or pricing:

Eighty nine Health Care Concepts, Inc. invoices totaling \$51,369.43 were paid for “products used for procedures not covered by medicare” or “no medical coverage”. No supporting documentation was attached. Per the Materials Management Director, documentation of individual products was scanned and reviewed to determine if the charges were reasonable, then the documentation was destroyed. No independent verification, however, was performed by BVGC personnel to assure that individuals were accurately classified as not covered, or that charges were passed through properly. Per the Internal Control Coordinator, no periodic audits were performed to assure these billings were accurate.

Six invoices totaling \$20,420.99 were paid to Gatti LTC Services for “non-covered product use” based on Materials Management Departmental approval. Although detail listings were attached showing resident identification, products, and pricing, no independent verification or detail testing was performed to assure that billings were accurate. Per the Materials Management Director the listings were reviewed to determine if the charges were reasonable, however, documentation of the reviews was not present.

Recommendations:

We recommend that:

Approval from the Board of Commissioners be obtained for change orders.

Contracts be formed and/or updated for recurring services.

Charges be in agreement with the contract prior to payment

A new contract be negotiated for Dietary Management Services, which clearly states the method of determining wage increases, staffing, and incentive payments. Any amendments or deviations from the contract must be approved by the Beaver County Commissioners. (The contract with Nutrition Management Services expires December 31, 1999.)

Formalized policies and procedures be established to define the relationship and flow of information between the BVGC and Heritage Valley Health Systems. The BVGC needs to assure that procedures be established and adhered to certifying the following:

- General guidelines such as authorized personnel, type and dollar volume of allowable purchases
- Compliance with county code quote and bid requirements for purchases over \$4,000 and \$10,000
- Which nonprofit hospital service association contracts are in use when this exemption is claimed
- Periodic audits of contract pricing and pass through invoicing can be performed by BVGC personnel
- Documentation requirements for receipt verification used for invoice payment purposes for drop shipments, and those picked-up from the Medical Center
- Notification of change orders, especially for all price changes
- Record retention requirements of original documentation

The contract for urological, tracheostomy, ostomy, and enteral feeding supplies be reviewed and renegotiated as necessary, and that a procedure be developed whereby invoices are periodically sampled for detail review.