

Finding #4 Follow-up to ensure that credits were received was inadequate.

During a review of the Materials Management, Dietary and Laundry credit control procedures, it was determined that these department's procedures were inadequate. It was also found that, in the absence of a center wide policy and procedure for credit control, reliance on decentralized departmental control of credits did not necessarily ensure that those credits were received.

Materials Management

Discussion with B.V.G.C. personnel revealed that returns were monitored and controlled by the Internal Control Coordinator. For items purchased and held in the Materials Management stockroom, a Remove from Inventory Form (numerically sequenced) was prepared and arrangements were made for the merchandise to be picked-up by the vendor or freight company. Inventory was reduced based upon the Remove from Inventory Form when merchandise left the storeroom. The Internal Control Coordinator would receive a copy of all these forms and follow-up to assure credit was received as appropriate. No documentation of these reviews could be located. Materials Management personnel were under the impression that the Internal Control Coordinator maintained a record and therefore did not maintain a copy of these documents. The Internal Control Coordinator was under the impression that the original records of these returns were maintained in Materials Management and he destroyed his copies after assuring credit was received.

Review of the \$2,329.60 credit processed on the April 1998 Medical Center bill revealed that the above controls did not assure that all return merchandise was followed for credit verification. The credit reviewed resulted from a return of 840 bottles of bacti-stat to the vendor due to an overstock condition in the housekeeping department. The Internal Control Coordinator was under the impression that controlling removals from the inventory system would control all returns. However, in this case the merchandise was already disbursed to the housekeeping department and no Remove from Inventory form was needed. Housekeeping maintained their own storeroom of cleaning supplies which materials management ordered, initially received, then immediately upon receipt, disbursed to housekeeping for their control. Per the Housekeeping Supervisor, an over stock condition was detected in the housekeeping storeroom and verbal arrangements were made with Materials Management to return the merchandise. For any merchandise returned by a department other than Materials Management or for any returns from materials management that did not directly affect the inventory system the Internal Control Coordinator did not receive information of the return.

Discussions with receiving dock personnel further revealed that procedures were not in place to monitor or record merchandise returns. It was indicated that no signatures were obtained when return merchandise was released and that no log was maintained of merchandise returns. A UPS shipping document was attached to the daily receipt log for any items returned via UPS, however, no further follow-up was performed to assure receipt of credits for these items. These daily receipt logs were destroyed after 6 months. In addition, it was revealed that for merchandise returned

other than by UPS (i.e. merchandise picked-up by a vendor, or delivered to the Medical Center for return) no documentation of the release from the receiving dock would be created. Because controls were established at the point of entry into the computerized inventory control system and not at the point of release from the center, any merchandise returned by a department other than Materials Management and any merchandise not processed through the current inventory system were not necessarily controlled to assure that credit was received.

Credits for returned merchandise:

The BVGC recouped only 75% of the merchandise returned to Abbott Laboratories.

Invoice #	Amount Paid	Credit Given	Difference
12202051	639.52	479.64	159.88
51200259	<u>395.12</u>	<u>296.35</u>	<u>98.77</u>
	<u>1,034.64</u>	<u>775.99</u>	<u>258.65</u>

No log was kept to illustrate what merchandise was sent back or on what date. The Abbott invoices stated that only 75% of the cost was credited because merchandise was returned past 45 days of receipt. For the \$639.52 invoice, the merchandise was never put into inventory or removed from inventory. For the \$395.12 invoice, Materials Management personnel did not complete a remove form inventory form. For these reasons verifying the accuracy of the credit could not be done. The Internal Control Coordinator at the BVGC would not have received any information to verify the credits or the accuracy of the credits.

The following problems arose with the 2 invoices and their related credits:

Invoice #12202051 - A faxed invoice was paid with no receiving document obtained. This payment was made 3 months after the invoice date and a month after the 75% credit was received for the merchandise.

Invoice #51200259 - Inventory was not removed from the system.

Dietary

Documentation was not maintained to track credits due the BVGC for returned merchandise. For merchandise received that was in disagreement with the packing slip or the purchase order, documentation was not kept of the discrepancies and no follow up was done to ensure they were received.

Credits for returned merchandise:

Documentation was not kept to verify that credits were received in Dietary. The process was:

- a. A Dietary employee called the vendor to return the merchandise. The vendor created a “pick-up slip”, containing the items, descriptions, quantities to be picked up, and prices. The “pick-up slip” was given to Dietary by the salesman, then was forwarded to receiving.
- b. The vendor sent a truck to pick up the products. The driver signed the pick-up slip at the receiving dock, then the signed slip was sent back to Dietary.
- c. The pick-up slip was kept in Dietary until they received confirmation of a credit for the product.

d. After a Nutrition Management Service employee compared the original amount paid for the product, the credit, and the pick-up slip, the pick-up slip was discarded.

A total of \$11,519.00 was received in credits from U.S. Food Service for returned merchandise from 12/16/97 through 2/5/99.

This process could not be tested because documentation was destroyed and no log was kept in receiving or Dietary of returned merchandise. Therefore, it was not possible to verify that all credits were received.

The process regarding credits required for shipping errors or pricing errors was:

- a. Shipments were received and the Dietary receivers signed the packing slip prior to checking the full shipment.
- b. The packing slip (which acts as an invoice for many Dietary vendors) was sent up to Nutrition Management personnel for payment authorization. The invoice was then forwarded to Accounts Payable.

Weaknesses included receiving signing the packing slips prior to checking the full order and not checking the packing slips against purchase orders. Usually when errors were found, the invoice was paid in full and Nutrition Management personnel verbally notified the vendors of adjustments needed. However, no documentation or follow-up was performed to ensure that credits were received.

In one instance, a Nutrition Management Service employee authorized an Alliant Food Service invoice for only what was received. Dietary personnel deducted \$175.49 for merchandise on the invoice but not received. A credit memo followed and a Nutrition Management Service employee authorized Accounts Payable to take the credit again for \$175.49. Alliant recognized the error of taking the credit twice and requested a payment for the \$175.49 which the BVGC paid.

Miscellaneous Credits:

Nutrition Management Personnel did not track if credits were received for CO2 cylinders returned. The BVGC paid a deposit of \$50 on each CO2 cylinder. The BVGC put "empty cylinder(s)" on the purchase order for cylinders to be returned. When a cylinder was picked up by Pepsi, the deposit of \$50 was supposed to be credited on the next invoice. These credits were not tracked and there were no receiving signatures to verify the cylinders were picked up. For the period January 1999 - July 1999, 13 cylinder deposits were paid and 12 cylinder credits were given. No credit was received from April 15, 1999 - July 1999 on the remaining cylinder not credited for the deposit.

Credit vouchers from U.S. Food Service for incentives totaling \$17,055.23 were received from 12/16/97 through 2/5/99. These vouchers showed only a dollar amount. No supporting documentation was received. Nutrition Management Service employees did not know if the credit

amounts were accurate. They did not know what rebates they should receive or what purchases were applicable to rebates. Per U.S. Food Service, the BVGC was established to receive 2% brands rebate and 1% volume rebate (\$8,000 to \$10,000 per week).

Laundry

There was no process in place to ensure credits were received for the returning of drums to Ideal Soap and Chemical Company. Auditor expanded testing and tested 1/98 to 8/99 payments for deposits paid for drums and credits received when the drums were returned. There was no consistent link (ie./ invoice number) between credits received and deposits paid. In total for the period examined, \$1,500 (60 drums times \$25 per drum) was received in credits while only \$1,475 (59 drums x \$25 per drum) was paid for drum deposits.

Recommendations:

We recommend that procedures be implemented to ensure credits are received for returned merchandise as well as for merchandise received that is in disagreement with the packing slip or the purchase order.

Procedures should be established center wide for returned merchandise whereby:

- 1.) All returned merchandise leave via the receiving dock
- 2.) No merchandise be released without the signature of the individual assuming responsibility for the merchandise.
- 3.) Every return be followed to assure receipt of credit.

Procedures should be established center wide for shipment credits due (i.e./ shortages, price adjustments).

- 1.) All shipments be compared to the packing slip BEFORE signing for the merchandise. Any merchandise on the packing slip not received must be noted.
- 2.) Packing slips should be checked against the purchase order.
- 3.) Payment of invoices should be adjusted to reflect any discrepancies noted in actual items received or agreed upon prices.