

**Finding #6 No independent detail testing was performed for expenditures approved by Nutrition Management Services.**

A contract was adopted on March 2, 1995 with Nutrition Management Services Company to provide for dietary management services, including the supervision of BVGC employees and day to day dietary operations. Nutrition Management Services had control over the purchasing, receiving, and payment approval process. Expenditures totaling over 1.4 million dollars in 1998 were approved by Nutrition Management Services and paid by the BVGC without periodic reviews being performed. A review of 1998 purchases was expanded into 1999 purchases due to management turnover and purchasing procedures being changed. A total of \$226,210.09 paid to 11 vendors for 214 invoices referencing 104 purchase orders was reviewed. This included:

1998 Purchases	\$121,954.59
1999 Purchases	\$104,255.50

Contracted prices were not verified to invoice prices.

Stroehmann over billed the BVGC for four out of six items bid. This resulted in an overpayment of \$27.40 for the 3 weeks tested for an average of \$9.14 per week. All invoices were approved by the outside contracted service personnel and paid at the higher price without verifying the prices.

An agreement was not on file for the loaning of equipment.

Nutrition Management Services had a computer on loan from U.S. Food Service, but did not have the Hardware and Software agreement on file. Upon testing, the agreement was obtained from the vendor. An attachment was on the agreement supplied by the vendor which contained the following clauses that the Nutrition Management personnel were unaware of:

-“Equipment shall remain with the client as long as the client agrees to purchase 80% of all purchases from U.S. Food Service.”

-“The client is requested not to load other software packages,” “an overload of software could cause the system to crash or malfunction.” “If damage or theft occurs through negligence of the client, it will be the responsibility of the customer to pay for any repairs that may occur.”

Other companies, particularly Avalon in 1999, were being used for a greater amount of purchases by the BVGC. Also, Nutrition Management Service personnel had Parkways’ software loaded on to the system and planned to install Avalon’s software.

An agreement was not done.

There was no rental agreement with Lance Inc. for a cafeteria vending machine. Rent charged per invoices was \$7 per week. (\$7 per week times 52 weeks or \$364 per year).

Nutrition Management Services did not follow established BVGC procedures.

-Vendors were qualified and orders placed without enforcing required specifications.

A BVGC policy was established for Nutrition Management Service personnel for the purpose of qualifying vendors from which price quotations could be accepted throughout the year. The BVGC advertises one time, once a year, in the Beaver County Times and then Nutrition Management Services personnel qualifies vendors for the purpose of accepting weekly orders from those that respond and meet certain specifications. After the responses were submitted in 1999, there was a lack of follow up to test the vendors for compliance with the specifications requested.

Of the nine vendors sampled for testing, it was found that one packet from Parkway was never opened at the BVGC, but the vendor was qualified anyway. Multiple companies did not submit all the required paperwork, but were still qualified. Exceptions include:

- 6 out of 9 qualified vendors did not have evidence of Workers Comp. Insurance
- 6 out of 9 qualified vendors did not have evidence of Public Liability Insurance
- 6 out of 9 qualified vendors did not have evidence of Property Damage Insurance
- 8 out of 9 qualified vendors did not have evidence of Umbrella Insurance
- 9 out of 9 qualified vendors did not have evidence of Fidelity Bond Insurance
- 4 out of 9 qualified vendors did not have two Current References
- 3 out of 9 qualified vendors did not sign the Bid or Non-Collusion Form

Information was unable to be located for Alliant or Sysco. Therefore, 2 of the above exceptions for each of the categories includes these companies. Additionally, information was not found for the department of health surveys, distributor information, or vendor acknowledgment of all BVGC conditions for Alliant and Sysco.

-Errors were detected for Dietary's procedure on comparing prices.

A system was used where vendors were qualified and then the qualified vendors were asked to submit price quotations weekly. Dietary personnel then compared the quotations and chose the lowest priced vendor for each category. Dietary's process of purchasing items from the lowest priced vendor was ineffective because errors were made when creating the price comparison sheet, and when the order was placed no documentation existed to link the purchase order created to the price comparison sheet. Review of prices submitted by three companies in April 1999, revealed the following errors in the price comparisons:

a.) The prices and items Dietary personnel used for U.S. Food Service were inaccurate. Price quotations were printed out for US Food Service from the computer system that did not add. It was determined that the printer in the Dietary department was set for 8 ½ x 14 paper; however, 8 ½ x 11 paper was put in the feeder. Items were therefore missing from the quoted price sheet, and

not all data was considered in the process. Additionally, the quoted prices from this vendor were printed 2 weeks early (4/2/99 for the week of 4/19/99 to 4/23/99). These prices would have fluctuated and Nutrition Management Services used incorrect information when comparing prices. The contractor has real time access to US Food Service prices.

b.) Calculation errors were found in the compiled price sheet. For 46 items in the meat category, 3 errors (6.5%) were found. For 23 items in the frozen fruit and vegetables category, 5 errors (21.7%) were found. These errors made ordering decisions ineffective, because the comparison sheet was inaccurate. In the 2 categories tested for week 2, the errors had an impact on obtaining the lowest price for the meat category. Audit calculation of the meat category for U.S. Food Service was \$12,436.68 while Avalon was \$12,396.03. The price sheet, compiled by Nutrition Management personnel, calculated the meat category to be \$12,382.70 for U.S. Food Service and \$12,396.00 for Avalon. Based on pricing Avalon, not U.S. Food Service, should have received the order. (Note: the actual order could not be determined.)

There were a lack of controls over purchase orders.

Purchase orders were not required for payment of invoices; therefore, Nutrition Management Service personnel did not accurately complete purchase orders. The following are some of the exceptions noted during reviewing 104 purchase orders and 214 invoices.

-In 46 instances (44%) purchase orders did not have any prices listed. A total of \$78,662.53 was paid out of \$226,210.09 tested (34.8%) for these purchase orders.

-In 92 instances (43%) invoices reviewed did not have a purchase order referenced or attached to the payment file. These invoices totaled \$28,720.67 in payments out of the \$226,210.09 (12.7%) tested.

-In 12 instances (12%) purchase orders did not have all the prices listed.

-In 9 instances (9%) purchase orders did not have any items listed on the purchase order.

-In 5 instances (5%) purchase orders had a different price listed compared to the invoiced price for an apparent overpayment of \$96.58.

There was a lack of segregation of duties.

Routinely, the Nutrition Management Service Manager was purchasing supplies to supplement for shortages in required inventory. For these purchases, the manager verbally placed orders, picked-up the orders, and approved the invoices for payment.

There was no records retention policy in place.

-Dietary discarded or misplaced documents.

Per Nutrition Managements contract with the BVGC, "until the expiration of four years after the furnishing of services pursuant to this contract, manager shall make available,..., this contract, and books, documents and records of Manager that are necessary to verify the nature and extent of costs incurred by Manager under this contract." Documents discarded included: unsuccessful bids, pick-up slips, packing slips, and par levels assigned to vendors.

A copy of the unsuccessful bid for bread from Nickles was not kept. The record retention policy per the County Records Manual is (2-B-3):

(1)Bids, Proposals, Price Quotations, and Qualified Contractor Memoranda:

- i - If successful - Retain 6 years after termination of general written contracts.  
Retain 12 years after termination of construction contracts.
- ii- If unsuccessful - Retain 3 years after the job completions.

### Accounts Payable Weaknesses

-All documents were not attached prior to payment.

In addition to the purchase order problems noted under the lack of controls over purchase orders section, 6 purchase orders, although referenced on the invoice, were not attached to the payment file. A total of \$22,993.80 was paid out of \$226,210.09 tested (10.2%) for these purchase orders.

-Double payments were made.

Seven turkeys were invoiced on 6/16/99, invoice #354105, and invoiced again on 6/18/99, invoice #354411. Both invoices were for the same 7 turkeys at the same price and weight. The double billing was verified by the auditor with the vendor and a credit memo for \$140.42 was to be sent. The second invoice was processed and paid through Dietary and Accounts Payable without a purchase order or a receiving signature. Payments were based solely on the approval from a Manager employed by Nutrition Management Services.

The BVGC paid Alliant Food Service twice for Invoice #39754 for \$210.00 based upon a fax and a copy of the same fax. Payments were made on 9/22/98 and on 10/1/98, then corrected on 2/17/99. Problems occurred because the original invoice / packing slip was lost, no purchase order was done, Nutrition Management personnel authorized the payment twice, and accounts payable did not check if it was a double payment after seeing: payment was based upon a fax, there was no purchase order and the receiving signature was a copy.

-A non Geriatric Center invoice was processed for payment.

A U.S. Food Service invoice for the account of Dockers Restaurant in the amount of \$19.90 was approved by Nutrition Management Services personnel and processed through Accounts Payable. The invoice was on the check run when the auditor requested that it be voided.

-Invoices were paid without proper approval.

Out of 214 invoices reviewed, 6 were not approved for payment. A total \$12,726.66 was paid out of \$226,210.09 (6%) to 3 vendors without payment approval.

### Receiving Weaknesses

-Dietary receivers signed shipping documents prior to orders being checked.

Dietary's procedure was to sign a receipt for orders delivered prior to checking the order. The order would later be checked only against a packing slip. There was no procedure in place to check the packing slip against a purchase order. The invoices from Alliant stipulated that "all claims for shortages or damage must be made upon receipt of merchandise." The invoices from Avalon stated "you must check your merchandise. No credit will be issued for shortages or returns unless noted on this invoice. Perishable merchandise is not eligible for return after delivery."

-Receiving documents were not located or signed.

In 36 out of 214 invoices, no receiving document was found. Payments totaling \$10,636.22 were paid out of the \$226,210.09 in purchases tested without receiving documents. Additionally, \$16,541.62 out of the \$226,210.09 was paid for 47 invoices that did not have a receiving signature.

-Items received in Dietary were not compared to purchase orders.

Dietary was unaware of the differences between what was ordered and what was received. Several purchases from Avalon were reviewed to examine discrepancies between what was received versus ordered. There were 24 differences out of 290 items tested. Dietary personnel were unaware 8.27 % of the time that what they ordered was not received in this sample.

It was noted in a review of payments made to Sysco in 1999 that 11 out of 33 (33.33%) invoices were being paid for "customer will" deliveries. These purchases were not delivered by a Sysco truck, but rather they were picked up by the manager from Nutrition Management Services. The frequent need for the manager to supplement normal orders was a possible result of inventory shortages due to short shipments. However, without a control in place to compare orders to receipts, management was unable to determine a cause.

## Budgeting Weakness

-Incorrect cost center was being charged.

Dietary charged the rental of equipment from Lance, Inc. to dietary staples. The \$7 per week should have been charged to dietary rentals.

## Inventory Weakness

-Non-Geriatric employees were used in place of BVGC employees.

Multiple internal controls were given to the vendor. Vendors (Stroehmann Bakeries and Lance, Inc.) increased inventory levels to a par. The vendors had access to Dietary inventory, the vendors created a mental purchase order, the vendors received the items for Dietary, the vendors stocked the inventory for Dietary, and then left an invoice that a contracted service employee approved for payment. Dietary employees did not take inventory before or after the shipments.

**Recommendations:** We recommend that:

A BVGC employee periodically perform detail reviews of purchases made by the contracted management service personnel. The BVGC is paying the invoices and proper documentation should be examined prior to accounts payable issuing payment. All payments should be based upon original documentation and only those items received should be paid for. Additionally, items received should be paid based upon negotiated prices. The full amount of the invoice should not be paid with an expectation of receiving future credits or adjustments.

Purchase orders be properly completed and utilized. This includes preparing a purchase order and then comparing the items, amounts and negotiated terms to the invoices and receiving documents. No payments should be made without documentation stating the items were ordered and then received at the negotiated price.

Agreements be formed and maintained in the files for the renting or loaning of equipment.

Qualifying vendors is a good business practice which should be continued. The procedures put in place at the BVGC would be an effective procedure, if more care was taken in establishing specifications and ensuring that vendors meet the specifications.

Obtaining and comparing prices is also a good business practice and should continue to be done periodically. The procedures established by the BVGC can be effective, if care is taken in soliciting accurate prices from qualified vendors and completing a price comparison sheet that can be relied upon for decision-making.

Access to inventory be restricted to only the Management Service and Dietary personnel. Outside vendors should not be given unsupervised access to the kitchen.

All deliveries be checked against the packing slip PRIOR to receivers signing for the merchandise. All packing slips must be signed as received prior to payment approval.

A record retention's policy be established. The County Records Manual lists the minimum record retention period for County Administrative and Financial Officers.