UCIRVINE | INTERNAL AUDIT SERVICES

Purchasing, Accounts Payable and Premier System

Internal Audit Report No. I2018-204B

November 6, 2018

Prepared By
Darlene Nunez, Senior Auditor
Lorenzo Wasan, Senior Auditor
Evans Owalla, IT Principal Auditor
Reviewed By
Niran Joshi, Associate Director
Approved By
Mike Bathke, Director

UNIVERSITY OF CALIFORNIA, IRVINE

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO   SANTA BARBARA • SANTA CRUZ

November 6, 2018

NEIL MEYERS
CONTROLLER
CONTROLLER'S SERVICES

SUSANNA RUSTAD
DIRECTOR, PROCUREMENT & SUPPLY CHAIN
PURCHASING

Re: **Purchasing, Accounts Payable and Premier System**
       No. I2018-204B

Internal Audit Services has completed the review of the University of California Irvine Health (UCI Health) Purchasing, Accounts Payable and the Premier System and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) reviewed business operations and other financial activities within the Purchasing Department (Purchasing), Accounts Payable (AP) and the Premier System (Premier). The review identified internal control and compliance weaknesses that should be improved to minimize business risks and ensure compliance with University policies and procedures and/or best business practices. While many improvement opportunities were noted by IAS, there have been changes in Purchasing and AP management, who have already begun implementing process improvements. The following observations were noted.

Duplicate Payments – AP does not have processes to identify duplicate payments and limited data analysis found $857,978 in duplicate payments. Also, Purchase Order (PO) numbers were entered as invoice numbers which increases the risk of duplicate payments. For example, although an invoice number was provided on the invoice, AP staff entered the PO number as the invoice number. This resulted in a duplicate payment of $222,084. Details of these observations are discussed in A.1 and A.7.

Early Payment Discounts – UCI Health is not utilizing early payment discount terms, costing UCI an estimated $500,000 per year in potential discounts. This observation is discussed in A.2.

Invoice Payment Timeliness and Approvals– Late invoice payments resulted in service charges and fees in which initial review of a report found at least $34,000 in late fee payments. Also, proper approvals were not always obtained and documented prior to payment of invoices. These observations are discussed in sections A.3 and A.4.

Invoices Created Without a PO – Payments totaling $118,656 were paid without a PO therefore bypassing the three-way matching process. Consequently, PO blanket balances were not properly reduced making it difficult to manage blanket funds/budget. This observation is discussed in A.5.

Credit Memos – Controls surrounding credit memos need strengthening. When applying a credit memo, the correct PO was not always identified and the funds were credited to the incorrect cost center. Furthermore, outstanding credit memos are not monitored. This observation is discussed in A.6.

Maintaining Invoices – The accuracy of four invoice payments totaling $212,884 could not be validated as the original invoices were not scanned and maintained in Premier. This observation is discussed in section A.8.

Policies and Procedures – AP does not have written policies and procedures to address vendor master file maintenance, stale dated checks, standardized data entry processes, etc. This observation is discussed in section A.9.

Vendor Payments by ACH – IAS observed that only 547 of 3,896 vendors (14 percent) are being paid by ACH. By comparison, 29 percent of the campus vendors are being paid by ACH. Converting as many vendors as possible to ACH payments improves efficiency and reduces the risks associated with mailed checks. This observation is discussed in section A.10.

Purchase Requisition Approvals – A review of requisition approvals disclosed a lack of evidence of proper approvals, appearing as an unauthorized purchase. This observation is discussed in section A.11.

Receiving Documentation – Supporting receiving documentation is maintained in paper files and is not scanned and maintained electronically in Premier. Documents are at risk or getting lost and difficult to retrieve. This observation is discussed in section A.12.

Premier Vendor Master File (VMF) – The Premier VMF lacks various controls to ensure accuracy and completeness and to prevent duplicate vendors in the system. These and other observations are discussed in sections B1-B4.

Premier Item Master – The Item Master is incomplete, which is due largely to the widespread use of blanket POs. This results in a lack of visibility to contract pricing for many items purchased by UCI Health, hindering Purchasing's ability to negotiate best pricing and allowing vendors to potentially overcharge UCI Health. This and other observations are discussed in sections C1-C3.

II.   BACKGROUND

Purchasing at UCI Health is led by the Director of Procurement and Supply Chain Management. Purchasing's responsibilities include the procurement of goods and services at UCI Health. AP is a unit in Controller's Services and is responsible for ensuring timely and accurate payments for services and goods received by UCI Health. AP's duties include verifying that payments are properly approved and authorized, payments are accurately recorded, and the VMF is properly maintained. Efficient and effective coordination between AP, Purchasing, and various other departments is required to procure and process payments accurately and timely.

The Premier system was implemented in September 2017 and is used to facilitate Purchasing processes such as warehousing, cataloging of supplies, online requisitioning, authorizing and managing POs and receiving activities. AP's main functionalities include payment processes (invoice processing, invoice exceptions, processing payments, and vendor maintenance).

A late decision was made by UCI to adopt the use of Premier in conjunction with UCSD to take advantage of the Shared Services. Consequently, the implementation timeline of Premier was condensed and took approximately four months due to EPIC dependencies and EPIC Go-Live scheduled date. Typically, ERP implementations are planned and allotted 18-24 months.

The Kuali Financial System (KFS) and Campus Finance dependencies also added complexity and additional requirements/considerations. In addition, the system implementation was to be a joint effort between Purchasing and AP. However, the system was predominately implemented by Purchasing with limited participation by AP and UCI Health Affairs Information Systems (HAIS) department, resulting in some implementation challenges related to the VMF and Item Master as well as limitations with IT security standards. Currently, Purchasing is also responsible for system security.

III.   PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess components of business processes within Purchasing, AP and Premier system. The review was designed to determine whether sufficient internal control measures are in place to prevent or detect

inappropriate, non-compliant, and/or fraudulent transactions, while ensuring efficiency and effectiveness in business operations. The audit scope included fiscal year 2017-2018 business operations and financial activities of Purchasing and AP business processes, as well as system controls related to the Premier application, which is discussed in a separate report.

The following audit objectives were included in the review.

1. Purchasing Processes – Reviewed requisition approvals, POs and receiving activities for completeness and proper authorization, assessed the adequacy of separation of duties through the purchasing and AP process, determined if processes exist to monitor and review anomalies in purchasing activity, determined if purchasing staff received proper training to perform job functions.

2. AP Processes – Evaluated vendor payments to ensure proper approvals are obtained, invoices paid within the due date and adequately supported with documentation, determined if processes exist to monitor potential duplicate payments and/or erroneous payments, examined and assessed other AP processes including credit memos, Automated Clearing House (ACH) set-up or changes, voiding checks, stale dated checks and bank reconciliations for adequacy.

3. VMF – Performed testing on the VMF for accuracy and completeness, adequacy of controls to prevent duplicate vendors, VMF policies and procedures, vendor onboarding, vendor adds/changes, employee/vendor conflicts of interest, and VMF access roles and permissions.

4. Item Master – Interviews of staff and management from various departments were conducted to gain an understanding of the Premier Item Master, how it was created, issues that were identified after the Premier go-live, and how management was addressing those issues.

IV.   CONCLUSION

Some basic internal controls related to AP, Purchasing, and the Premier System have not been established and implemented. Concerns were noted regarding duplicate vendor payments, early payment discounts, invoice processing, AP

policies and procedures, requisitions and POs, VMF controls, and completeness of the VMF and Item Master.

Observation details were discussed with management who formulated action plans to address the issues. These details are presented below.

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

A. PURCHASING AND ACCOUNTS PAYABLE

1. Duplicate Payments

Observation

AP does not have processes to identify duplicate payments and limited data analysis found $857,978 in duplicate payments (IAS verified some invoices as described below). These payments were identified as follows.

a. Since multiple ERP systems are utilized to manage AP, data analytics was performed of matching invoice numbers between KFS, AMS and the Premier system and identified $537,925 in possible duplicate payments comprising of 154 invoices. Upon review of the top 18 invoices, IAS determined that all 18 were duplicates totaling $251,580.

b. Analysis of duplicate payments within the Premier system was also conducted and found another $320,053, comprising of 11 invoices, were paid twice within the Premier system. Upon review of four invoices, IAS determined that all four were duplicates totaling $249,381. One of the four invoices was worth $222,084.

As of the end of March 2018, UCI Health discontinued using AMS for AP processing and converted all access to "Read Only" which would reduce the risk of duplicate payments from multiple systems. Also, although the Premier system prevents duplicate payments to the same vendor using the same invoice number, there are ways that it can be bypassed. For example, $222,084 of $320,053 was a result of AP staff keying in the PO number as the invoice number.

Management Action Plan

Duplicate payments recovery efforts are currently being reviewed and coordinated with the vendors by a recovery specialist. By April 1, 2019 management will identify what caused the duplicate payments to occur and implement process improvements to reduce the potential for future duplicate payments. For example, data analytics and system reports will be generated regularly to detect potential duplicate payments. Also, implement consistent data entry standards when entering invoices in Premier to prevent duplicate payments. The VMF will be reviewed to remove duplicate vendors from the master file as the existence of duplicate vendors increases the risk of duplicate payments made in error.

2. **Early Payment Discount Terms**

Observation

During our review of the VMF, IAS noted that no early payment discount terms were entered for any of the vendors listed. According to Purchasing management, UCI Health has not taken advantage of early payment discounts. Early payment discounts should be negotiated with vendors whenever possible and should always be taken advantage of when paying vendors. By not doing so, UCI Health has lost a substantial amount in potential discounts. By comparison, according to information provided by Purchasing management, UC San Diego is saving approximately $500,000 per year in discounts with a goal of saving $1 million in FY19.

Management Action Plan

Purchasing has already started to reach out to vendors to negotiate early payment discount terms. To date, Purchasing has negotiated discounts with three vendors, saving UCI Health approximately $50,000 per year. Purchasing has set a goal to save $150,000 by the end of 2018, $250K by the end of 2019, and $500K by the end of 2020. AP management will work with Purchasing to update the VMF with early payment discount terms. AP management will create a process by which to automate application of early discount payments in order to earn/take credits when applicable. However, management will continually assess and evaluate the trade-off between savings from early payment discounts and interest earned from UCI's Short Term Investment Program (STIP).

3. Invoice Payment Timeliness

Observation

Invoices were not always paid by the due date. Most invoices are due 30 days from the invoice date however testing found that 12 of the 25 vendors (48 percent) reviewed were paid 13 to 593 days after the due date. While many factors such as the transition to Premier, lost invoices and discrepancies between invoices and POs could contribute to the delay in invoice processing, the timeliness of invoice payments should be monitored.

Late payments result in service charges and fees in which initial review of a report found at least $34,000 in late fee payments that are not tracked. As a result, IAS was unable to adequately analyze the total impact of late fees. Finally, late payments also negatively impact the University's relationship with vendors resulting in credit holds and missed opportunity for early payment discounts. (Also, see Observation C1 - Early Payment Discount Terms)

Management Action Plan

Management will assess the Procure-to-pay process to identify and streamline business process improvements. Effective April 1, 2019, management will establish metrics including untimely invoice payments to measure the work performed by procure to pay staff. Staff will be reminded to prioritize older invoices to ensure payment by the due date. Outstanding invoices will also be monitored to ensure prompt payment within the invoice due date. Finally, AP staff will be instructed to identify payments for late fees and charges to allow for proper tracking and reporting.

4. Invoice Approvals

Observation

A sample of vendor payments was evaluated for adherence to procedures. The analysis found that internal controls surrounding invoice approvals need improvement.

a. Invoices greater than $5,000 paid against a blanket PO require departmental review and approval prior to payment. However, 10 of 33 (30 percent) invoices reviewed did not have evidence of department approval prior to payment. In addition, AP has not required that the approvals be obtained electronically through the Premier workflow. Instead, AP staff will contact the authorized approver via email to obtain the approval, and the approval is scanned into Premier which does not promote efficiency.

b. Regular PO invoices, regardless of dollar amount, and blanket PO invoices less than $5,000 do not require approval by the department. Instead, departments are required to review purchasing activity through the general ledger.

Lack of proper review of invoices or evidence of review increases the risk of unauthorized, improper or fraudulent payments.

Management Action Plan

Resources currently available through UC Learning will be required as an annual training for the registered users and approvers. Controls surrounding invoice approvals will be reassessed and improved to ensure invoices are properly reviewed prior to payment. Management will require AP staff to utilize the Premier workflow to obtain proper invoice approvals within an established timeframe. The invoice approval process will be documented in the AP policies and procedures manual by April 1, 2019. In addition, Purchasing and AP will train and require more departments to utilize Premier to promote efficiency and ensure approvals are routed to the correct individual and evidenced in Premier. Management has just hired an AP Manager who will facilitate the above action plan.

5. Invoices Created Without PO / No Match Status

Background

A three-way match is an important control, which is a comparison of three documents (vendor invoice, PO and receiving documentation) prior to payment. This process is automated in Premier and any discrepancies are identified as exceptions and must be rectified by Purchasing and AP prior to payment of the invoice.

Observation

Invoices totaling $118,656 were created/paid without a PO, thereby bypassing the three-way matching process. Consequently, it did not properly reduce the blanket PO remaining balance which could create issues in managing blanket funds/budget. Additionally, invoices created without a PO when a valid regular PO exists, could also result in higher prices paid or overspending, fraud and misappropriation.

In another example, IAS noted that there were invoices received electronically through a vendor interface, with a "No Match" status. However, these invoices totaling $675,475 were also paid bypassing the three-way matching process. Consequently, this amount was not deducted from the remaining blanket PO, overstating the balance.

Management Action Plan

AP will develop a defined policy limiting when invoices could be created without a PO and communicate to AP staff by April 1, 2019. Any exceptions to the policy will be documented, approved by management and evidenced in Premier. Management will also monitor invoices created without a PO to ensure compliance with policy. Transactions that show a "No Match" status in Premier will be reviewed prior to payment. AP will also contact Premier to determine why the three-way match for certain invoices (from import) is not occurring prior to payment.

6. **Credit Memos**

Background

Credit memos are received from vendors for various reasons such as goods returned or incorrect billing. AP credits the appropriate department general ledger account/cost center based on the PO number provided on the credit memo document, but the credit memo amounts are held in AP until the University does business with the vendor issuing the credit memo or University requests a refund.

Observation

IAS reviewed internal controls surrounding credit memos and found areas for improvement.   Reports of outstanding and applied credit memos were reviewed and revealed the following.

a. When applying credit memos, AP staff did not enter PO numbers into Premier for 49 credit memos totaling $492,049. Without the PO numbers, it makes it difficult to trace the credit memo to the original invoice, allowing for proper tracking and follow-up.

b. In one instance, the correct PO number/cost center was not identified and entered into Premier. If AP staff cannot obtain a valid PO number/cost center, the AP Manager will research and identify the PO number/cost center however in this case it was incorrect. Consequently, the $8,923 credit memo was applied and credited to the wrong cost center/department.

c. Credit memos entered into Premier are only applied when the invoice amount is greater than the credit memo amount. If the current invoice amount is less than the credit memo amount, Premier will hold payment until the invoice totals are greater than the credit memo amount. Without proper monitoring, payments to vendors could be untimely, resulting in late fees/charges and possibly credit holds. As such, AP staff will wait in entering credit memos into Premier until invoice totals are greater than the credit memo amount. This practice makes it difficult to track/monitor all credit memos and the credit memo documents may get lost. As of April 2018, 23 credit memos totaling $17,556 were entered into Premier. However IAS was unable to determine the complete total outstanding credit memos as some may be located on the desk of AP staff.

Management Action Plan

Effective immediately, AP staff will be instructed to enter credit memos into Premier once received to allow for proper tracking and monitoring. AP staff will also be trained to research and enter the correct PO number in Premier to ensure the credit memo is traceable to the original invoice and is reflected to the proper cost center. Management will regularly monitor outstanding credit memos, and if it is unlikely, there will be sufficient invoices to apply the credit memo in a given time, a refund will be requested from the vendor. Finally, an

established written policy and procedures regarding credit memos will be developed by April 1, 2019 to promote consistency.

7. PO Numbers entered as Invoice Numbers

Observation

For 35 invoices totaling $390,683, PO numbers were entered as invoice numbers in Premier although an invoice number was provided on the invoice. Such practice increases the risk of duplicate payments. To prevent duplication, it is important that AP staff enter vendor invoice numbers exactly as they appear on the invoice.

Management Action Plan

Management will develop standardized AP procedures that instruct AP staff to enter invoice numbers into Premier as they appear on the invoice. Policies and procedures will be documented by April 1, 2019.

8. Maintaining Invoices

Observation

The accuracy of the payments for four transactions totaling $214,884 could not be validated as the invoices were not scanned and maintained in Premier. As such, payments are not properly supported and may appear fraudulent. Furthermore, Patient Financial Services (PFS) requires access to particular invoices in order to submit health insurance claims. If invoices are not readily available to PFS in Premier, this could result in the untimely submission of health insurance claims for reimbursement, which could then result in denials by payers. (Also, see Observation D2 – Invoices for Claims Submissions)

Management Action Plan

Management will remind AP staff to scan and maintain all invoices in Premier to ensure payments are supported. AP Policy and Procedures will include the maintenance of invoices in Premier and be documented by April 1, 2019.

9. **Accounts Payable Policies and Procedures**

Observation

There are no documented policies and procedures for the following AP processes.

Vendor Master File – Policies and procedures are required for VMF access roles and permissions, vendor maintenance, ACH set-up/changes, management approvals, and other additions and changes.

Stale Dated Checks - The Premier system does not identify checks nearing the stale date. An established process should be developed including notifying the payee in writing, voiding/canceling the check and reissuing the check.

Troubled Invoices - There is no guidance for the handling of troubled invoices. Discussion with the AP Manager revealed that about 200 troubled invoices, which are invoices requiring a valid PO number or vendor information, were not entered into Premier timely and readied for payment. However, these invoices are at risk for getting lost, paid late, or not paid at all.

Additionally, there are no documented policies and procedures for bank reconciliations, standardized data entry guidelines, management review and approval of invoices, and credit memos.

Failure to have formal, documented and clearly stated policies and procedures result in poorly executed processes, inconsistency and/or increased operating costs. By establishing written procedures, this ensures that staff have a clear understanding of the AP process.

Management Action Plan

By April 1, 2019, management will establish adequate written policies and procedures surrounding all of the above AP processes, and AP staff will be trained accordingly. Regarding vendor additions, this is now processed and documented through a third party onboarding process. Any VMF changes that take place outside of this process will be documented on a vendor add/change form and submitted to management for approval.

10. Vendor Payments by ACH

Background

Automatic Clearing House (ACH) is an electronic network used for financial transactions in the United States. The ACH process can be used for many types of financial transactions, including payments to vendors as an alternative to check payments by mail. Some vendors prefer to be paid by ACH as they typically receive their payments sooner and without the hassles of paper checks.

Observation

During the Vendor Master File analysis, IAS observed that only 547 (14 percent) of 3,896 vendors in the Premier system are being paid by ACH. By comparison, 29 percent of the campus vendors in KFS are being paid by ACH. Converting as many vendors as possible to ACH payments improves efficiency and reduces the risks associated with mailed checks.

Management Action Plan

AP has begun contacting vendors to inform them of the benefits of receiving payments by ACH. To date, we have increased the number of vendors on ACH payments to 690 (17.7 percent). Management will focus initially on vendors with the highest spend, and progress will be evaluated by April 1, 2019.

11. Purchase Requisition Approvals

Background

A purchase requisition is a formal request for goods and services and must be authorized by the proper individual prior to creating a PO. Buyers review the requisitions for reasonableness and create detailed line item POs. A sample of purchase requisitions were reviewed for proper approvals and found that internal controls need enhancement.

Observation

Twelve of 36 (33 percent) transactions did not have an approved requisition on file and for eight others, requisition approvals were not maintained in Premier. Although Premier is capable of completing requisition and invoice approval routing, this workflow feature is not fully utilized and most approvals are still completed manually and outside the premier workflow process. For example, the requisitions were maintained in emails or purchase requests were obtained verbally and not scanned into Premier.

In addition, in accordance with the Standard Requisition Spend Authorization form, regular requisitions below $500 do not require approval. Purchase requisitions without any management approval may appear unauthorized, unnecessary or fraudulent. Finally, the Standard Requisition Spend Authorization form does not agree to the Purchasing Approver Groups spend limits built in Premier. Due to this inconsistency, there is a risk that a user may approve a purchase beyond their approval limit.

Management Action Plan

Management will review the Standard Requisition Spend Authorization form and the Approver Group spend limits in Premier to ensure it is accurate and consistent by April 1, 2019. As not all departments are utilizing the online requisition form (Premier workflow), buyers were instructed as of March 2018 to scan and maintain all manual requisitions in Premier.

By April 1, 2019, Purchasing will train and require more departments to utilize the Premier online requisitions to promote efficiency and ensure approvals are routed to the correct individual and evidenced in Premier. Management has requested a dedicated trainer resource to help achieve faster results and adoption rate of Premier for REQS, REQ Approvals, Invoice Approvals, and self-service reporting features.

12. Receiving Documentation

Observation

Receipt of goods is evidenced in Premier by employees performing the receiving. All receiving documentation such as packing slips and/or bill of ladings are maintained in a paper filing system. As such, documents

containing evidence of inspection or notes including partial deliveries may get lost or cannot be readily accessible if needed, which may delay payment to vendors.   Premier should be the central repository for all supporting documentation.

Management Action Plan

Effective April 1, 2019, all receiving documentation will be scanned and maintained in Premier. Management has requested additional resources to accomplish this task. Receiving will also begin utilizing electronic advance ship notices (EDI 856/857) to input receipt details in Premier in lieu of scanning, when applicable.

B. VENDOR MASTER FILE

1. Premier Vendor Manager Input Controls

Background

The Premier Vendor Manager is an interface for adding vendors and making changes to vendor data in the VMF. To determine what input controls are in place to ensure completeness and accuracy of vendor information and to prevent duplicate vendors, various test entries were submitted through the interface.

Data analytics was also performed to ensure that duplicate vendors did not exist in the VMF.

Observation

Through various test entries of vendor data, IAS observed that the Premier Vendor Manager interface:

- Allows entry of duplicate vendor information, such as vendor names, vendor ID's, and addresses;
- Allows submission of blank fields, such as Tax ID;
- Does not always alert the user when required fields marked with an asterisk are left blank; and

- Does not require standard formatting of address fields and tax ID's

Limited analysis performed on the VMF revealed only two cases of duplicate vendors. However, this indicates that a lack of the above controls allows the possibility of duplicate vendors in the system, and therefore, the possibility for duplicate vendor payments. It also increases the possibility for errors and inefficiencies in maintaining vendor data.

Management Action Plan

Purchasing and AP will continue to collaborate with the assistance of HAIS and Premier Inc. as necessary to accomplish the following by April 1, 2019.

- Where it is possible to do so, management will change Premier settings to ensure controls are in place to alert users of possible duplicate vendors and when required fields are submitted with no entry.

- For controls that cannot be implemented in Premier, management will discuss with the vendor the possibility of making such controls available or implementing compensating controls, such as an exception report that can be reviewed by management.

- Management will document policy and standards for how vendor information should be entered into the system.

2. **Vendor Payments without Tax ID**

Observation

Analysis of payments made to vendors since the Premier go-live showed that five vendors without a tax ID were paid a total of $196,420 comprising of 35 invoices. Although further review revealed that none of the five vendors required a 1099 issuance, it is best business practice to ensure all vendors have a tax ID on file, and no payments should be made to vendors without a tax ID. Analysis of all vendors in the vendor master file, as of March 13, 2018, showed that eight U.S. vendors that are open for payments did not have a tax ID on file.

Management Action Plan

By April 1, 2019, AP management will document policy and train staff accordingly to ensure that no payments are made to any applicable companies without a tax ID on file.

3. **Premier Vendor Master File Data Conversion**

Observation

The VMF was analyzed to ensure that the conversion from KFS to Premier was accurate, complete, and did not contain duplicate vendors. Analysis of the VMF dated March 13, 2018, which contained 3,896 vendors that were marked as active, showed the following number of vendors with blank fields.

- 242 vendors (6.2 percent) did not have an entry for the "Group" field, which shows whether a vendor is a corporation, non-profit, partnership, government entity, etc. This is information is needed for 1099 reporting purposes.

- 124 vendors (3.2 percent) did not have addresses, and of those, 115 were set up to be paid by check. Vendors without addresses can be manipulated and used to misappropriate funds.

- 499 vendors (12.8 percent) did not have a telephone number.

- 3,349 vendors (86 percent) did not have email addresses in Premier. A sample of 25 of these vendors were compared to corresponding data in KFS, and IAS found that only 20 percent of KFS data did not have email addresses. This suggests that although a majority of vendors in KFS included emails, they were not transferred over to Premier;

- 3,836 vendors (98.5 percent) did not have an entry for a contact person. A sample of 25 of these vendors were compared to corresponding data in KFS, and IAS found that only four vendors (16%) in the KFS data did not have a contact person. This suggests that although a majority of vendors in KFS included contacts, they were not transferred over to Premier.

Management Action Plan

Since the Premier go-live, management has been working to ensure that key vendor information, such as tax ID, "Group", and addresses are populated for all active vendors, and to that end, significant progress has been made. For vendor contact and other information, we will investigate the feasibility of transferring such data from KFS by January 31, 2019.

4. **Conflicts of Interest**

Data analysis was performed on the VMF and the employee master file to determine if there were any conflicts of interest (COI). COI may arise when a UCI employee is also a UCI vendor or has a financial interest in a UCI vendor. The analysis was accomplished by merging the two files and reviewing any vendors and employees who shared the same addresses.

Observation

Analysis of the vendor master and employee master files for COI revealed the following.

- Two vendors were found to have UCI employee/vendor relationships. However, for one of the vendors, the COI was properly disclosed on the Kuali Vendor Onboarding (KVO) form, and a COI Disclosure form was submitted and subsequently approved by Purchasing. In contrast, the other vendor, who is performing photographic services at the annual CDDC GI Symposium, is a child of the Director of the CDDC, and although this employee/vendor relationship was disclosed on the KVO form, evidence of submission of a COI Disclosure form and subsequent approval by Purchasing was not found.

- Three vendors who eventually became UCI employees still have active vendor accounts. Although no vendor activity was found since their employee hire dates, these vendor accounts should have been deactivated upon being hired as employees.

Management Action Plan

Vendor onboarding, including vetting for COI, is now performed by a third party (GHX). Management will review the vendor/employee relationships discussed above and determine the proper course of action by April 1, 2019.

C. PREMIER ITEM MASTER

Background

Interviews of Purchasing management were conducted to gain an understanding of the Premier Item Master, how it was created, issues that were identified after the Premier go-live, and how management was addressing those issues.   In addition, interviews were conducted of management from General Accounting, Revenue Integrity, and PFS to determine if they were aware of any issues related to the Premier Item Master.

The Premier Item Master is a catalog of products, both medical and non-medical, that are purchased by UCI Health and is used by staff to initiate purchase requisitions.

Perhaps the most challenging task performed by Purchasing management during the Premier implementation was identifying supplies purchased by UCI Health, entering a majority of them into the Item Master manually, and ensuring that information for all items were accurate. Purchasing management populated the Item Master with purchasing information from a variety of sources, including AMS, PO history, Surgical Information Systems (SIS) in OR, automated Omnicell cabinets, and group purchasing tools from Vizient, HCIQ, and ECRI. Currently, the Item Master consists of approximately 32,000 items and growing. AMS was the source for about 3,000 items, which were mainly products stocked in the warehouse, and the remaining 29,000 were obtained from the other sources.

Currently, the Premier Item Master online purchasing requisition system is accessible by a limited number of departments, including Facilities Management, Laboratory, Cath Lab, OR, and perioperative areas, such as Sterile Processing, Anesthesia, Post-Anesthesia Care Unit, and others. All other departments may use the item Master to search for items which they plan

to purchase, but will submit paper requisitions outside of Premier to Purchasing for processing.

It is very important that data in the Item Master is accurate and complete, especially for medical supplies, in terms of pricing, various code numbers, units of measure, and others, to ensure proper alignment with the KFS general ledger and Epic billing modules. Inaccurate information in the Item Master could result in inaccurate accounting of expenses in the general ledger and/or inaccurate patient billing.

For medical supplies in the Item Master, accuracy was addressed by using an industry-wide tool called Nuvia by GHX. Nuvia has a robust database of medical supply items with up to over 100 fields of product information for each item, including part numbers, UNSPSC and HCPCS codes, item descriptions, contract prices, and units of measure. Nuvia obtains this information from manufacturers, suppliers, and a large number of hospitals who are members of the GHX network. Contract prices are obtained from a Nuvia feed from Vizient.

Data from the Item Master is then fed into Nuvia, which compares the feed to its database and returns a set of standardized and updated information for those items. According to management, approximately 82 percent of the item master has been successfully discerned and standardized through Nuvia. The remaining items are largely non-medical supplies that cannot be standardized through Nuvia.

According to management, to the best of their knowledge, data in the Item Master is largely accurate. However, as much as 20 percent of the data is constantly being changed by the manufacturer and suppliers. For this reason, it is important that data feed to Nuvia is performed regularly to ensure supplies in the Item Master are up to date.

IAS was unable to independently verify the accuracy of the Item Master as well as the Nuvia database. However, reasonable assurance was obtained through a walkthrough of the Nuvia system and the fact that it is utilized by over 4,100 providers and 600 manufacturers/suppliers in North America.

Many issues with the Item Master that were identified after the Premier go-live have largely been resolved, and although the Item Master will continue to be a work in progress, there are issues that are ongoing, which are noted below.

1. **<u>Item Master Completeness</u>**

Background

Since PO history is one of the major sources Purchasing is using to populate the Item Master, identification of such items has been difficult due largely to the widespread use of blanket PO's, which do not provide itemized information for supplies purchased. For this reason, Purchasing staff must reach out to suppliers to obtain UCI Health's historical spend information, and according to management, analysis of documents provided by suppliers, for various reasons, has been a very time-consuming process.

At the beginning of the Premier implementation project in early 2017, there were at least 7,000 blanket PO's in AMS. According to Purchasing management, as of April 2018, there were 1,835 blanket PO's that were open in Premier, many of which were migrated from AMS, with a total remaining open balance of approximately $362 million. However, this amount is based only on invoices that have been matched to the blanket PO's. There are also invoices that have already been paid but were not deducted from the open blanket PO's. Therefore, any reporting on open PO balances will likely be overstated.

Observation

Many supply items, both medical and non-medical, that are purchased by UCI Health have yet to be listed in the Item Master. Not having supplies listed in the Item Master or not having visibility to information for supplies being purchased, due largely to the widespread use of blanket PO's, has created the following issues:

- Ordering departments unable to find items in the Item Master are submitting purchase requisitions manually, bypassing Purchasing's ability to negotiate best pricing. It also creates a large volume of manual requisitions that must be processed by Purchasing staff;

- No contract pricing information available for many supply items hinders Purchasing's ability to negotiate and obtain best pricing from vendors. It may also allow vendors to charge more than previously negotiated prices;

- Identifying items to add to the Item Master is a slow process requiring a large amount of resources, posing a maintenance challenge for Purchasing staff; and

- Medical supplies that are not listed in the Item Master will not be regularly updated through Nuvia. Outdated or inaccurate information for billable items can lead to patient billing inaccuracies and denials.

Management Action Plan

- Department policies and procedures will be written to include the requirement that Premier is utilized for purchase requisitions whenever possible by April 1, 2019.

- Management will continue to work with suppliers and various departments to identify items to be included in the Item Master.

- Additional resources may be necessary to assist with the above function, as well as other functions in Purchasing, as deemed appropriate by management.

- Management has been working on reducing the use of blanket PO's, and policy will be documented by April 1, 2019 to allow its use only in limited circumstances.

2. **Invoices for Claims Submissions**

Background

PFS is responsible for submitting claims to payers for reimbursement. Charges within a claim that are submitted for reimbursement must be accompanied by corresponding invoices for medical supplies used to treat patients. Without invoices, payers will deny payment of those charges. Payments may also be denied if claims are submitted late. The timeframe of when claims must be submitted to payers after the dates of service vary by payer. For Medicare, it's 12 months after the dates of service, and for most major insurance companies, it's 90-120 days after the dates of service. Those deadlines include the initial submission of claims as well as the resubmission of corrected claims.

Observation

According to PFS management, there are many cases where they are unable to immediately locate invoices in Premier, KFS, or other areas, that are needed to submit reimbursement claims. As a result, claims are being submitted without invoices. PFS management stated that charges are submitted without invoices to avoid delaying the entire claim, of which only a small portion is comprised of the charges without invoices, and a corrected claim is subsequently resubmitted when invoices are found.

A report obtained from PFS showed approximately $890,000 in charges, comprising of 26 claims that were pending invoices. These charges had dates of service ranging from August 16, 2017 to November 3, 2017, but as of April 9, 2018 (5-8 months past the dates of service), the invoices still had not been located.

IAS was unable to obtain a complete report, of which the 26 claims mentioned above are only a subset, showing all claims that had been submitted without invoices. Lastly, IAS was unable to obtain information on any denials that may have resulted from delays in locating invoices. PFS management stated that they were not tracking such denials.

Management Action Plan

Management will continue to enhance and fine tune the Epic conversion process to ensure proper charge capture.

3. **Integrated Policies and Procedures**

Observation

No policies and procedures have been documented to govern the interactions and processes between the various Premier system stakeholders, including Purchasing, AP, PFS, and Revenue Integrity. Interviews of management from those departments confirmed that an integrated set of policies and procedures would be very helpful in governing processes, such as change/update requests, expected turnaround times, responsible parties and points of contact at various stages of processes, communication protocols, minimum expectations from the various stakeholders, and other best business practices.

Management Action Plan

Management is meeting regularly with all major stakeholders to discuss issues related to Premier, especially as it relates to the Epic interface and the revenue cycle. Management will establish a task force to determine best business practices and come to an understanding on what the policies and procedures should be for the benefit of all departments involved. From these discussions, policies and procedures will be documented by April 1, 2019.