

Presented by:

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Agenda

- Background
- Vendormate Controls
- Piedmont Third Party Vendor Audits
- The Audit Group Findings
- Key Controls
- Questions/ Comments

vendor

| Third-party risk management is one of the greatest challenges and compliance risks affecting: Security Financials Operations Regulatory Compliance Reputation | | | | ackground - Overvie |
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Background – Vendormate and Piedmont

Piedmont Vendor Credentialing Program is operated by Vendormate. Vendors and Vendor Representatives must be:

- Screened and registered through credentialing program
- Must have an appointment when visiting and wear an assigned badge

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Abide by Vendor Conduct Standards

vendor Diedmont

Background – The Audit Group and Piedmont

Conducts audit every two years reviewing:

- Duplicate payments
- Vendor Statements to identify credit balances
- Returned goods
- Rebates
- Pricing and contracts
- Freight
- Taxes paid in error

vendor Piedmont



Vendormate Credentialing

- Service to assist with registration, screening and credentialing of prospective and existing vendors
- Establishes vendor risk profiles type of business, products/services offered, access to patient information
- Indexes self-reported data about the vendor business and its representatives
- Continuously monitors vendor status, alerts buyers of any non-compliance and delivers integrated badging
- Screens against government sanctioned watch lists
- Acknowledgement by vendors of Vendor Visitation Guidelines, Code of Business Conduct, Conflict of Interest Statements, Gift/Gratuity Policies

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• Centralizes vendor master across organization

vendor Piedmont

Vendormate Credentialing (continued) Centralized Vendor Data Entity Level

- Business verifications
- Ongoing sanction checks
- Conflict of interest
- (HIPAA) Business associate management
- Insurance certificates • Minority or diversity certificates
- IRS Form W-9
- Service contracts
- Representative Level
 - Professional licenses or certifications
 - Product competency and training certificates
 Immunization records

 - Photo identification

Ongoing sanction checks

vendor Piedmont



Piedmont Healthcare Audit Efforts

- Review policies, procedures and standard guidelines for management vendor activities
- Assess the process for setting up new vendors
- Review the process for monitoring existing vendors
- Evaluate vendor performance
- Interview key personnel



vendor Piedmont

Piedmont Healthcare Audit Efforts

- What information does that vendor have regarding your company and how secure is the data?
- Does the vendor subcontract with other vendors to provide services to your organization?



Piedmont Healthcare Audit Efforts

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Piedmont Healthcare Audit Efforts

vendor

Choose a vendor to conduct a drill-down review:

- Top ten paid vendor
- Prior overpayment and/or unused credit discrepancies
- Multiple divisions and locations included in the vendor master file

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Key Controls

- ✓ Due diligence before entering business relationship
- ✓ Requesting assurance reports (SOC) from key vendors
- ✓ Including and using right-to-audit clause in contracts
- ✓ Policies/procedures
- ✓ Conducting third party vendor audits
- ✓ Monitoring for Compliance
- ✓ Evaluate third parties in pre-engagement, contracting and post-engagement stages

vendor Piedmont

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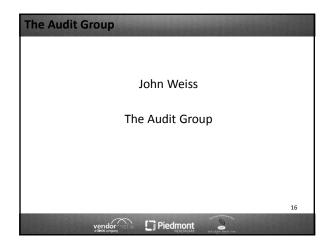
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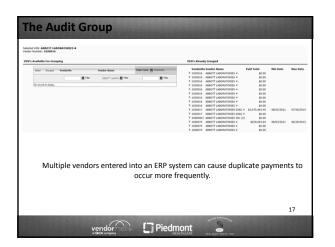
Key Controls (continued)

- ✓ Vendor file management
 - ✓ Review for duplicates
 - ✓ Remove inactive vendors
- ✓ Returned good procedure
- ✓ Use of purchase orders when possible avoiding the use of blanket purchase orders
- ✓ Standard nomenclature to set up vendors and label invoices
- ✓ Process for credit memos
- ✓ Standard application for management of vendor documentation (contracts, agreements, IRS Form W-9)

vendor Piedmont



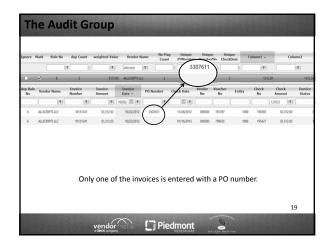






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| | ORCE INC 277997 | \$6,312.12 | 4515290 | 09/14/2012 | 71232113901 | 11/20/2012 | \$6,312.12 | 0001527387 | ρ | 7123 |
| anket PO did not prevent this duplicate payment from occurring. | ORCE INC 277997 | \$6,269.43 | 4525949 | 09/28/2012 | 71232113981 | 12/19/2012 | \$6,269.43 | 0001547431 | P | 7123 |
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| \$717.5 | 6 5461.38 | 3.00 | 07,03/2013 | 1001 | SUT ENDOSTITO 0.48IN ES-91 | | | BX. | 18540112 | 02-284512-4 | 3.00 | \$256.08 | |
| \$2564 | • | 2.00 | 05/16/2013 | 1001 | SUT ENDOSTITO 0.48IN ES-91 | | | BK. | 18352289 | 02-281411-4 | 2.00 | \$256.08 | |
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| | | | | | PHU | ing anic | illaly | | | | | | 21 |



The Audit Group Rebate Dollars Lost Due to Mismanagement Healthcare system earned more than \$175,000 over a seven-month period rebates. Issues: Health system had no tracking program for rebate offers. - Relied on vendors to manage & issue checks or credit memos for earned rebates. Vendors internally "issued" rebate credits, but health system was unaware and never applied the credits to hospital accounts. TAG Tip: When possible, negotiate rebates out of contracts in favor of lower item pricing. · Create a process tracking rebate requirements and hospital performance; Ensure refunds are received timely and are correct. (051214) 22

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Health system was charged more than \$270,000 in state sales tax for heart pumps.

Issue:

- The state's tax code applies sales tax on most medical items, so to be "safe," the hospital chose to pay sales taxes added to its invoices.
- Tax codes vary by state, by item, <u>and also</u> by an item's usage.

vendor

vendor

· After TAG review, state tax commission was asked for its opinion and it eventually refunded the full tax bill to the health system.

TAG Tip:

- Scrutinize invoices with sales tax to ensure the charge is justified. To avoid paying unnecessary taxes understand the tax laws in each state where an organization has an entity. (102113)

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Vendor's Summary Statement (De Facto Invoice) Costs Hospital \$20,000+

Vendor issued an invoice and a summary statement of open charges, causing a hospital to pay the same bill twice.

Issues:

• Invoice #38828565, was issued for \$20,439.31.

vendor

- Same day a "summary statement" referenced 2 invoices for payment of \$20.625.31.
- A/P personnel failed to confirm the \$20,439.31 was already paid, entered the summary statement (invoice?) number as a new charge, and processed payment.

TAG Tip:

Accounts Payable staff should carefully evaluate what they are reviewing when looking at vendor documents.

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The Audit Group Vendor's Contract Promises are Partly Fulfilled Issues: • A vendor promised to hold pricing until a healthcare system signed a new contract. • However, one of the healthcare system's three entities was charged list price on five invoices in the period between contracts. • The system short-paid an invoice but paid the others, costing it \$30,000. *TAG Tips:* • Periods between contracts are susceptible to overcharges. • Contracting or Purchasing agents need to be actively engaged. • When POs and invoices disagree, withhold payment until resolving issues. Don't feel compelled to pay until you have a correct invoice.

The Audit Group

\$77,000 Ships Out of a Hospital's Accounts for Freight Charges a Vendor Should Have Paid

\$76,794.44 in freight costs paid despite contract requiring vendor to pay freight. Issues:

- . A vendor didn't enter the contract's "no freight" terms into its system.
- · PO's didn't indicate product shipped at no freight cost.

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- AP paid invoices with freight charges because other terms were correct.
- TAG Tip:
- ALL Purchase Order terms need to be correctly specified so AP personnel can identify incorrect invoices.

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Contract Expiration Costs Hospital \$98,000

Item pricing went from \$1,300 per package to \$2,800 after a contract expired, costing the organization an extra \$98,000 in a few months.

- *Issues:* Vendor raised item pricing after a local contract expired.
- Purchasing approved invoices with the higher pricing because the items weren't on a contract.
- TAG Tips:
- · Contracting or Purchasing needs to track contract expiration dates.
- · Contact vendor sales rep to identify why contract lapsed.
- Most vendors will work with clients to reestablish contract pricing.
 (022415)

vendor Piedmont

The Audit Group

Vendor Holds \$466K of Hospital's Funds; half of it in an Unlisted Account

Issues:

- Vendor had a 1-year agreement, with monthly payments, effective May 30, 2013.
- Billings to the health system began February 2013 and continued until contract end in May 2014.
- Purchasing approved all invoices: System made 16 payments on a 12-month contract, overcharges totaled \$466,668.00. .
- · Vendor provided a statement to confirm its invoice accuracy, referencing a credit of \$233,334.00.
- · TAG investigated the credit and realized the supplier was crediting half what was due the client.
- · Vendor explained the funds were in a "miscellaneous" account-one the system didn't know existed.

- TAG Tip:
 Closely examine invoices against POs and contracts before payment approval.
- AP should request *full* and *accurate* vendor statements for, at least, your largest vendors. (072814) • 28

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Pharmacy Contract Price not Uniformly Applied Across Health System

A hospital pharmacy received a higher GPO contract price while other hospital pharmacies within the same system received lower local contract pricing.

Issue:

- A healthcare system negotiated a system-wide contract with its pharmacy . distributor.
- For an unknown reason, a hospital pharmacy was shifted in error to GPO .
- Portain to the other states and a topological point marky was sance in error to or of the pricing for almost a 2-year period. Pharmacies are generally operated independently of other health system departments; Purchasing and Accounts Payable were unaware of pricing error. .

TAG Tip:

Regularly obtain pricing downloads directly from Pharmacy vendors and do price matching across your entities to confirm all prices are the same; or not. 29

> vendor Piedmont

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The Audit Group

Managing Risk

- Introduce policy, procedures, and controls which are reviewed on a regular basis.
- Properly train all employees on policies and fraud awareness.
- Segregate duties.
- Use passwords to control certain types of payments. •
- Review financial reporting monthly. .
- Perform pre-employment screening. Establish strong internal audit functions. ٠
- .
- Benchmarking – comparing one financial period to another, or one cost center to another. This may highlight any anomalies.
- Periodically identify any system weaknesses. Benford's Law look for any irregularities in accounts. • .
- Trend/Ratio analysis - look for any abnormal trends or ratios.

vendor Diedmont



