

vendor
a GHX Company

Piedmont
HEALTHCARE

Vendor Management
Piedmont Healthcare, LLC
The Audit Group

Third Party Vendors: Are Your Controls Effective?

Presented by:

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John Weiss, Founder/CEO, The Audit Group

Agenda

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

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Background - Overview

Third-party risk management is one of the greatest challenges and compliance risks affecting:

- Security
- Financials
- Operations
- Regulatory Compliance
- Reputation

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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
- Abide by Vendor Conduct Standards

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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

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Mike Paris

Vendormate, a GHX Company

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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
- Centralizes vendor master across organization

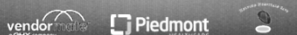
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Vendormate Credentialing (continued)

- 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

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Piedmont Healthcare

Debi Weatherford


Piedmont Healthcare




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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




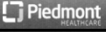

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Piedmont Healthcare Audit Efforts

- 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?




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vendor  a CHS company |  Piedmont  HEALTHCARE

Piedmont Healthcare Audit Efforts

- Does your organization have a current contact list for this vendor (credit memos, rebates, returned goods, warranty items)? Are there any on-line tools offered by the vendor to track these items?



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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


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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)

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Ignore	Mark	Rule No	dup Count	weighted Value	Vendor Name	No Flag Count	Unique Problem	Unique CheckNo	Unique CheckDate	Column1	Column2
		6	2	\$1312.50	ALLSCRIPTS LLC	2		3307611	10/22/2012		

dup Rule No	Vendor Name	Invoice Number	Invoice Amount	Invoice Date	PO Number	Check No	Vendor No	Voucher No	Entity	Check No	Check Amount	Invoice Status
6	ALLSCRIPTS LLC	1013241	\$1,312.50	10/22/2012	3307611	11/08/2012	096585	781397	1000	190385	\$1,312.50	
6	ALLSCRIPTS LLC	1013241	\$1,312.50	10/22/2012		01/16/2013	096585	799635	1000	195427	\$1,312.50	

Only one of the invoices is entered with a PO number.

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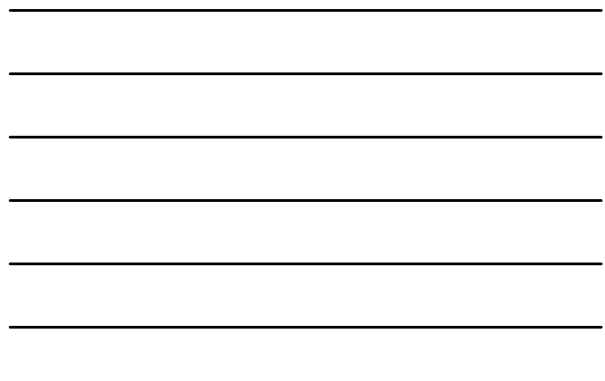


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Vendor Name	Invoice Number	Invoice Date	PO Number	Check Date	Check Amount	Check No	Invoice Status	Entity
KFORCE INC 277987	4820547	06/21/2012	71232113981	11/29/2012	\$8,903.32	0001527387	P	7123
KFORCE INC 277987	4802964	05/13/2012	71232113981	08/26/2012	\$8,768.97	0001482066	P	7123
KFORCE INC 277987	4801598	05/10/2012	71232113981	08/22/2012	\$8,589.87	0001470833	P	7123
KFORCE INC 277987	4801193	06/03/2012	71232113981	08/22/2012	\$8,584.33	0001470833	P	7123
KFORCE INC 277987	4801233	08/10/2012	71232113981	08/26/2012	\$8,238.96	0001482066	P	7123
KFORCE INC 277987	4801701	08/24/2012	71232113981	08/26/2012	\$8,208.15	0001482066	P	7123
KFORCE INC 277987	4801769	07/27/2012	71232113981	08/22/2012	\$8,209.49	0001470833	P	7123
KFORCE INC 277987	4801730	07/27/2012	71232113981	08/22/2012	\$8,201.93	0001470833	P	7123
KFORCE INC 277987	4802021	10/05/2012	71232113981	02/06/2013	\$8,076.00	0001500190	P	7123
KFORCE INC 277987	4800886	08/17/2012	71232113981	08/26/2012	\$7,847.08	0001482066	P	7123
KFORCE INC 277987	4800880	08/31/2012	71232113981	11/29/2012	\$7,734.60	0001527387	P	7123
KFORCE INC 277987	4800993	08/07/2012	71232113981	11/29/2012	\$7,633.80	0001527387	P	7123
KFORCE INC 277987	4801520	08/14/2012	71232113981	11/29/2012	\$6,912.12	0001527387	P	7123
KFORCE INC 277987	4820949	08/28/2012	71232113981	12/19/2012	\$6,288.43	0001547431	P	7123

This blanket PO did not prevent this duplicate payment from occurring.

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Ignore	Mark	Tag	Item Descr	UOM	Vendor Name	Total	Price Median	Price Min	Price Max	Price Mode	Price Weighted	Benchd	Benchmark Audit Count	Benchmark V Avg PCT
		17002			CONVDR	\$29,915.52	\$296.08	\$296.08	\$717.36	\$296.08	\$424.79	800.13	2	48.87%

Unit Price Paid	Price Delta	Quantity Inv	Invoice Date	Entity	Client Item Description	UOM	Item Number	PO Number	Quantity Received	Unit Price Po	Contract Ref	Net Cost
\$296.08	-1387.72	3.00	11/21/2013	1001	SFT ENDOCTOPH POLYURE 6.48N IS-9-AKDE 17002	BX	18909367	02-29402-4	3.00	\$943.00		
\$943.00	1387.72	3.00	10/08/2013	1001	SFT ENDOCTOPH POLYURE 6.48N IS-9-AKDE 17002	BX	18918542	02-29075-4	3.00	\$943.00		
\$296.08	\$481.08	2.00	08/10/2013	1001	SFT ENDOCTOPH POLYURE 6.48N IS-9-AKDE 17002	BX	18761824	02-28246-4	2.00	\$296.08		
\$177.66	\$481.08	3.00	07/03/2013	1001	SFT ENDOCTOPH POLYURE 6.48N IS-9-AKDE 17002	BX	18548112	02-28412-4	3.00	\$296.08		
\$296.08		2.00	05/16/2013	1001	SFT ENDOCTOPH POLYURE 6.48N IS-9-AKDE 17002	BX	18252289	02-28411-4	2.00	\$296.08		
\$296.08		4.00	04/03/2013	1001	SFT ENDOCTOPH POLYURE 6.48N IS-9-AKDE 17002	BX	18218834	02-27878-4	4.00	\$296.08		

Pricing anomaly

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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.

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\$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.
- 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.

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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)

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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 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. (102813)

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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.
- 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.

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