



AUDIT DEPARTMENT

Audit Report

University Medical Center Surgery Vendor Audit

August 2012

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Angela M. Darragh, CPA, CFE, CISA, Director



August 28, 2012

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

We conducted an audit of the Surgery Vendors at UMC. The audit covered the period from July 1, 2011 through December 31, 2011.

The objectives of the audit were to:

- Determine if purchase orders for implants match the vendor's packing slip.
- Determine whether each implant is recorded by the Operating Room nurse on the implant log.
- Determine if patient charges were captured for the purchase order items.
- Evaluate the effectiveness of procedures in place to assure accuracy and compliance.
- Determine if the vendor is charging the hospital the correct price for implants.

The manual process currently used to verify vendor prices for accuracy can allow potential overcharges to the hospital. We found freight charges on various implants that ranged from \$100 to \$1,000 from vendors with only a verbal agreement. Further, some patient charges for the implants were not captured. Finally, tracking of implant devices and documentation of the implants in the patient's medical record needs to be improved.

A draft report was provided to the UMC Chief Executive Officer and his response is included in the report. We appreciate the cooperation and assistance provided by the UMC staff.

Sincerely,

/s/ Angela M. Darragh

Angela M. Darragh, CPA
Audit Director

TABLE OF CONTENTS

BACKGROUND.....	1
OBJECTIVES, SCOPE, AND METHODOLOGY.....	1
RESULTS IN BRIEF	2
DETAILED RESULTS	2
Vendor Contracts and Pricing.....	2
Not All Charges Captured	3
Insufficient Implant Documentation.....	3
Appendix A: Management Response Letter.....	5

BACKGROUND UMC utilizes various vendors to supply surgical implants. Vendors who supply these implants often have their sales representatives deliver the items the day of the patient's surgery. When this happens, the process begins with the sales representative delivering the implant item along with a packing slip of the implants needed with the price the vendor charges the hospital. A purchase requisition is completed by hospital staff based on the vendor's packing slip and sent through the approval process. Once approvals are completed, a purchase order (PO) is created by a Purchasing Analyst from the approved purchase requisition. The PO is sent to the vendor who then sends an invoice to the hospital for payment.

Vendor pricing for implants is based on individual vendor agreements, letters of commitment, or a verbal agreement with the vendors.

Audit was asked to expand the scope of work from a review done by the FTI consultants on surgery POs from the vendors who supply implant items.

**OBJECTIVES, SCOPE, AND
METHODOLOGY**

The objectives of the audit were to:

- Determine if PO s for implants match the vendor's packing slip.
- Determine whether each implant is recorded by the Operating Room nurse on the implant log.
- Determine if patient charges were captured for the PO items.
- Evaluate the effectiveness of procedures in place to assure accuracy and compliance.
- Determine if the vendor is charging the hospital the correct price for implants.

The audit covers the period of July 1, 2011 through December 31, 2011. We examined purchase orders, patient data, medical records, and vendor related documents. We also interviewed management and staff as well as reviewed policies and procedures and other documentation in performing this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

- RESULTS IN BRIEF** The verification of implant pricing from the vendor's packing slip before a PO is issued is difficult due to the manual process. We found that:
- Freight is sometimes included in the charge for items but is not included in contracts.
 - Some of the items from the implant POs were not captured as charges on the patient's account.
 - Tracking of implant devices and documentation of the implants in the patient's medical record needs to be improved.

DETAILED RESULTS

Vendor Contracts and Pricing The hospital has a number of signed contracts with some spinal implant vendors, letters of commitment based on group purchasing organization prices for others, and, in some cases, only a verbal agreement. UMC does not enter these implant items in the purchasing system to be reused on future purchase orders, and no one from surgery verifies the pricing on the vendor packing slip. A cursory check for correct prices is done when the vendor's packing slip is received prior to creation of the PO. However, with the volume of implant items, it is difficult to do this on a manual basis. Also, the hospital was charged freight on some of the implant surgical procedures due to the lack of specific vendor contracts and a 2008 guideline for freight.

UMC should have specific agreements or contracts with the vendors who supply implants for best and consistent pricing. The hospital's cost on various implants from the vendor should be same. We believe the most common purchased implant devices should be assigned material numbers and entered into the purchasing system for future use to ensure accuracy when purchase orders are created.

Why is this important? Our testing on vendor purchase orders showed 41 price differences for the same implant device and vendor. This can result in UMC's Accounts Payable Department paying more than necessary for items if the wrong price is not caught by hospital staff. The hospital was charged freight by some of the orthopedic implant vendors, while no freight was charged by spinal implant vendors with contracts. Freight charges ranged from \$100 to \$1,100, without terms specified in the contract that could result in an overcharge if not properly reviewed.

Recommendation We recommend Materials Management have contracts for all implant vendors for best and consistent prices on implantables. The new contracts should consider cost of the implants versus the reimbursement received from the hospital's managed care contracts. Also, the contracts should have language that addresses freight charges. Finally, Materials Management should assign a material

number to the implant items and enter into the purchasing system so that the same item can be selected for future purchase orders, allowing prices to be verified electronically.

Not All Charges Captured During testing of purchase orders for implants, we found charges for some devices were not captured on the patient's account. Fifteen of the 76 implant purchases, or 20%, missed some of the implant items on the PO. One account did not include any items on the purchase order.

All reimbursable patient charges need to be captured and posted on the patient's account. The Operating Room (OR) nurse assigned to the case should document all charges on the various patient charge sheets, with a reconciliation process to assure all charges are captured on the patient's account.

The OR nurses assigned to a case may not be documenting all charges and charges are therefore missed when entered on the patient's account, or charges may be missed by the Office Specialist who posts to the patient's account.

Why is this important? Without a consistent compliance with the current process in place to assure that all charges are captured, a significant amount of revenue can be lost during the year.

Recommendation We recommend that the Director of Surgery develop a system to assure all charges are documented on the various OR charge sheets and a reconciliation process implemented for posting of charges on the patient's account. Prior to data entry of surgical charges, a chart review should be performed. This would entail verifying that start and stop times are recorded, and perfusion documents, charge documents and implant logs are all present.

Insufficient Implant Documentation Implants used for surgical procedures are not all documented in the patient's medical record or the perioperative report. Our testing of the perioperative nursing records found five records out of 71, or 7%, had no logs and 11 records out of 71, or 15%, were incomplete or had errors. Surgery uses a manual database to track implants. The US Food and Drug Administration (USFDA) and the Joint Commission require a data base to track implants.

Surgical implants that are placed in the patient's body need to be documented in the medical record and listed on the perioperative report or a separate implant log. The hospital should also have a system in place to easily track all implants in case of an implant recall. The USFDA requires tracking obligations for implants with various

information such as the manufacturer identifier (lot, batch, model or serial number), and the patient who received the implant with the date of the procedure. This is considered part of documenting the surgery for the medical records.

There is currently no consistent process in place to assure the implants used are recorded in the perioperative report or attached to an implant log that should be attached to the perioperative report.

Why is this important? If the hospital becomes responsible for notifying a patient or patients of an implant recall, it would be a difficult and labor intensive to identify patients who received the recalled implant. Also, implants not recorded as part of the patient's medical record can be denied reimbursement by a third party.

Recommendation We recommend the Director of Surgical Services assign staff to create a database to track implants electronically. Additionally, the Director should require that implants used in procedures are documented in the patient's medical records and put a reconciliation system in place to assure that documentation is completed.

MEMORANDUM

BRIAN G. BRANNMAN
Chief Executive Officer

University Medical Center
Administration

TO: Clark County, Audit Department
FROM: Brian G. Brannman, Chief Executive Officer 
SUBJECT: Management Response to Surgery Vendor Audit
DATE: July 2, 2012

Thank you for the opportunity to review and respond to the recent Internal Audit Draft Report completed by your department, examining the Surgery Vendor process at UMC. We appreciate the opportunity to work with you and your staff on this important project, which identified areas for improvement and provided support for existing concerns.

Please find our response to the resulting recommendations:

Recommendation: That Materials Management have contracts for all implants vendors for best and consistent prices on implantables. The new contracts should consider cost of the implants versus the reimbursement received from the hospital's managed care contracts.

Response: Management agrees that we should have written contracts or signed letters of (GPO) commitment for all implantable devices. We have recently subscribed to ECRI, a service that allows us to compare proposed vendor pricing with best pricing that other hospitals have obtained, and we will continue to use this tool to ensure that we receive aggressive pricing in all our contracts. We also agree that reimbursement should be a consideration in agreeing to cost of implants. Management agrees to:

- Review usage of implantable devices and work towards written contracts or signed letters of (GPO) commitment for all such devices.
- Work with Managed Care department to share our pricing data to ensure that pricing is appropriate for the contracted reimbursement levels.

Finding: That the Director of Surgery develop a system to assure all charges are documented on the various OR charge sheets and a reconciliation process implemented for posting of charges on the patient's account. Prior to data entry of surgical charges, a chart review should be performed. This would entail assuring the start and stop times are recorded, and perfusion documents, charge documents and implant logs are all present.

Response:

There are multiple processes in place to capture charges.

- There are multiple processes to document and track charges:
 - o Implants: tissue, bone, organ, screws / plates, mechanical, mesh, etc.
 - o Supplies
 - o Room time
 - o Procedure
- As an on-going process, the supply chain and charge capture procedures continue to be assessed and updated. The current re-design includes a supply description update, verification of quantity of items used, reference re-order numbers, and verification of the charge description master (CDM).
- The Transplant Department resolved the charges for the \$90,000 facility fee. Since transplant cases are pre-authorized by the insurance provider, the Transplant Service will now enter the facility fee at the time the service is provided. The Department of Surgery will still capture the room time and supplies. This was initiated during the week of June 4.
- Pharmacy has launched a program to capture the cost of anesthesia gases. Surgery will document the type of agent and amount of anesthesia time. This program was launched Friday, June 8. Periodic audits will be conducted to validate the new procedures are in place.
- There is a 100% review of the peri-operative records to capture OR time and anesthesia time. This entails the start and stop of the case and anesthesia start and stop as well as the incision and closure of the operative site. The expectation is that charges will be submitted within five (5) days of discharge. The surgery department has an average of 2.5 to 3 days of completing the in-patient charges.
- To improve charge capture, the primary tool will be to utilize the McKesson – ORSOS platform. The foundation is to update the preference card which in turn drives the inventory and later, based on the actual use of the item, the charge for the supply.

Management agrees to:

- Follow up on all processes listed above to ensure all charges are being documented in the appropriate places and that all required documents and logs are present.

Finding: That the Director of Surgical Services assign staff to create a database to track implants electronically. Additionally, the Director should require that implants used in procedures are documented in the patient's medical records and put a reconciliation system in place to assure that documentation is completed.

Response: Management agrees that there should be an automated database to track implants.

It should be noted that there is a manual process to document the implants. The data points include, but are not limited to collecting the patient name, purchase date, implant number, date of implant, manufacture serial number, and cost.

There are three areas where the implants are documented:

1. In the upper left hand corner of the peri-operative record
2. On the vendor invoice
3. On the implant log attached to each peri-operative record.

Regarding future plans; there are two options; continue the manual file system or, if possible purchase a web-based subscription rather than a stand-alone tracking system. For any audit or inspection, the data sheets are open for review and assessment. There are current reconciliation reviews, however, spot checks will continue.

Management agrees to:

- Consider allocating resources (both human and capital) to automating the implant documentation process.
- Continue to spot check the current reconciliation process.