



Audit Report Number 2006-04  
**City of Richmond**  
**Richmond Hospital Authority**  
**Expenditures Audit**  
2 years ended June 30, 2004

**Prepared by**  
CITY AUDITOR  
Richmond, Virginia

**Submitted to**  
The Richmond City Council  
The Richmond Hospital Authority  
**September 8, 2005**

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The Honorable Members of City Council  
Richmond Hospital Authority Board  
Richmond City Audit Committee  
City of Richmond, Virginia 23219

## **City Auditor's Report**

### **SCOPE**

As part of this special request from the City Council, we reviewed the records of payments issued by the Richmond Hospital Authority d/b/a Seven Hills Health Care Center (SHHCC) for the period July 2002 through June 2004. We have reviewed and evaluated their system of internal controls for the same period to the extent considered necessary.

### **OBJECTIVE**

Our objective was to determine whether the SHHCC expenditures were appropriate and reasonable.

We also identified opportunities for improvement in the internal control structure which had significant shortcomings. Our testing indicated weaknesses in the internal control system that would allow material misstatements in the records processed and maintained by the Authority to go undetected.

### **METHODOLOGY**

We conducted our audit in accordance with Government Auditing Standards for Performance Audits issued by the Comptroller General of the United States. During the course of our work, we reviewed supporting documents, evaluated management controls, and conducted other appropriate tests. We believe that our audit provides a reasonable basis for our conclusions regarding the internal control structure and our recommendations.

## CONCLUSIONS

- The Hospital Authority needs to establish internal controls in the Accounts Payable and the Purchasing departments. Internal controls were weak at best. These weaknesses led to:
  - Duplicate payments
  - Erroneous payments
  - Lack of adherence to the Virginia Procurement Act
- The Hospital Authority should implement formal policies and procedures for accounts payable and travel. These policies and procedures should be similar to those of any well-managed facility.
- Charitable donations and the fees for the previous Executive Director and support services seemed excessive.

The Richmond Hospital Authority is responsible for maintaining financial records. It is also responsible for establishing and maintaining an effective system of internal accounting controls and management controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures.

We discussed the attached comments and recommendations with management throughout the audit and formally with the Board on August 24, 2005. We have included the Board responses.

We would like to thank the Seven Hills Health Care Center staff for their cooperation and assistance during this audit.

This report is intended for the members of the Richmond City Council, the Richmond Hospital Authority, and the City Audit Committee; it is a matter of public record.

Respectfully submitted,

Lance Kronzer, CPA  
City Auditor

Amarilis M. Hernandez, CPA, CGAP  
Auditor IV

April 8, 2005

## Executive Summary

### Background

During the fall of 2004, the Richmond City Attorney retained a law firm to investigate allegations regarding conflicts of interest that may have arisen between the Richmond Hospital Authority and its Commissioners. During the investigation, the law firm found some of the Commissioners had conflict of interest activities. The former City Mayor requested an audit to review the Seven Hills Health Care Center's expenditures. The events described in this report occurred before the office term of the present Board.

### Summary of Payments to Executive Director and Management Services

- The expenditures for professional services for the Executive Director and related support for the Richmond Hospital Authority and Seven Hills Healthcare Center totaled \$412,607 for FY03 and FY04. The management company was involved in many roles on behalf of the Hospital Authority. Some of those roles included publishing monthly newsletters, taking minutes, attending meetings, filing, organizing the 10<sup>th</sup> anniversary celebration, organizing a retreat, and developing policies and procedures.
  - Hours charged for work on behalf of the facility could not be matched exactly to the time sheets. The company did not maintain a summary of hours charged and the rates for those hours. Time sheets were available, but the basis for the number of hours and the hourly rate could not be determined. The net hours overcharged totaled 327 hours. We could not determine the dollar value associated with the overcharge.
  - One of the staff member's time sheets described only the number of hours worked in a given period. 100% of his time was charged to SHHCC. In one instance, we noted he filled out a billable sheet for spending 5.5 hours in another company. However, this was charged to SHHCC.
  - Monthly invoices included payments for secretarial support expenses, telephone, filing, even though the invoices included hourly charges of at least \$25 per hour spent on the Health Care and the Authority's business.

- Monthly invoices did not specify the number of hours charged for each staff and the specific tasks performed by each staff.
- Invoices contained numerous errors. Total overpayments due to mathematical errors totaled \$4,040.55.
- A contract, as required by the Virginia Procurement Act, did not exist. Therefore, the company conducted business without a contract that specified services to be provided and compensation for those services.

**Summary of  
Payments to Medical  
Director**

- The Medical Director contract was not procured by competitive negotiations.
- Payments during FY03 and FY04 totaled \$60,720.
- According to the contract, the Medical Director was to be compensated \$150 per hour, not to exceed \$2,500 per month, unless approved.
- Without approval, staff processed five invoices that exceeded the limit.

**Summary of  
Payments to Law  
Firm**

- Payments totaled \$88,466.
- All invoices disclosed staff name, specific project, and time spent on each project. Invoices were approved by the Chairperson.

**Charitable Donations**

The \$25,000 contribution to the Martin L. King Commission for the re-enactment of Brown Vs the Board of Education was paid prior to approval. The Hospital Authority provided 15% of the project's budget.

The \$10,000 contribution to Theater Virginia was authorized by the Board, contingent upon its development of a presentation for SHHCC residents. It was also contingent on receiving other benefits, such as 100 vouchers exchangeable for any performance throughout the 2002-2003 season, access to Directors' box for 3 performances with complementary bar, recognition as a corporate partner in each season playbill, etc. The check was issued under extreme urgency. SHHCC did not receive the benefits because Theater Virginia closed its doors in December 2002.

**Other Weaknesses**

Our Office observed the following weaknesses in internal controls that are worth mentioning:

1. There was lack of segregation of duties within the Accounts Payable Department.

2. Assets were not safeguarded.
3. Voided checks were not mutilated.

**Summary of  
Recommendations**

In order to improve operations and better achieve the Board's objectives, we recommend the following for the Board's consideration. The Board and the Administration should:

1. Establish policies and procedures guidelines.
2. Establish controls to prevent duplicate payments.
3. Ensure compliance with the Virginia Procurement Act.
4. Ensure that purchase orders are properly used.



## FINDINGS AND RECOMMENDATIONS

### 1. Establish Policies and Procedures Guidelines

SHHCC operated without travel and accounts payable procedures. Written procedures should be available to the staff to enhance the effective operation of SHHCC. Written procedures:

- Provide guidance to the staff as they perform their duties and whenever questions arise concerning the appropriate way to resolve problems,
- Help ensure management that procedures are carried out according to established guidelines, and
- Facilitate training of new employees.

Accounts Payable staff did not review invoices adequately before issuing payment. We observed the following transactions that would clearly be in violation of accounts payable “best practices”:

- Staff paid “previous balance” amounts on invoices even though those amounts were already paid: two transactions totaling \$8,459.
- Staff paid sales taxes even though the facility is tax exempt: two transactions totaled \$1,162.77.
- Staff did not properly check the mathematical integrity of invoices. Consequently, the Company overpaid approximately \$4,040 to one company.
- Staff processed an accounts payable check for a payroll related expenditure. As a result, taxes were not withheld from the employee and SHHCC did not pay its related tax payment.
- Staff reimbursed an employee’s book expenditures even though the Company Policy allowed tuition reimbursement only.
- CFO did not approve invoices prior to payment.
- Staff generally paid credit card invoices for travel and other expenditures without supporting documentation.

Further, the A/P staff lacked proper training and monitoring.

### RECOMMENDATION

We recommend that the Board establish procedures, specific to each operation. The procedures should be distributed and the staff should be trained according to the procedures. The Accounts Payable Policy and Procedures should at least address required procedures before payments are initialized. The procedures should include:

1. the proper use of purchase orders and related receiving report, and

2. adequate procedures for processing and reviewing vendor invoices.

Additionally, the A/P staff should be properly trained and monitored.

The Travel Policy should at least address meal allowance, car rental, and other allowable/disallowable expenditures.

## BOARD RESPONSE

Person Responsible	Implementation Date	Corrective Action
Department Managers	9/1/2005	Initiate pre-numbered Purchase Orders prior to placing an order for goods and services
Nursing Home Administrator	9/1/2005	Approve Purchase Orders
Department Managers	9/1/2005	Place order after Administrator has approved the Purchase Order
Department Managers	9/1/2005	Verify receipt of goods and services
Business Office Associates	9/1/2005	Open mail and date stamp invoices, hold for Department Manager review
Department Managers/Business Office Associates	9/1/2005	Match invoices to Purchase Orders
Business Office Associates	9/1/2005	Enter each invoice into the system to process for payment
CFO	9/1/2005	Review the check register and indicate which invoices are to be released for payment.
Business Office Associates	9/1/2005	Process checks for payment
Department Managers/Business Office Associates	9/1/2005	Sign acknowledgment of in-service on accounts payable procedures
Nursing Home Administrator/CFO	12/1/2005	Develop travel policy based on industry standards and City of Richmond policies



## 2. Establish Controls to Prevent Duplicate Payments

SHHCC made duplicate payments of \$8,864.40 for the same goods and services. Our sample revealed:

- \$404.66 to a paper and supply company.
- \$8,459 to two different companies.

The duplicate payments resulted from:

- a. Overriding the invoice field,
- b. Paying previously paid balances, and
- c. Not marking invoices paid.

The accounts payable software allowed staff to override invoice numbers and allowed the invoice field to be left blank. It also allowed the entry of the same invoice number for the same vendor. On numerous occasions, A/P staff entered dates as the account numbers. Additionally, A/P staff paid previously paid invoices. Although the two companies reduced the following month's invoices by the overpayments, dishonest vendors are able to take advantage of this weakness. These weaknesses exposed SHHCC to making the duplicate payments.

Additionally, the invoices should be marked "paid" to curb paying for the same invoice twice. The weaknesses resulted from the A/P Staff lacking proper training and monitoring by supervisors.

### RECOMMENDATION

We recommend that the Board establish controls that:

- Specifically prohibit the invoice number field override,
- Require the use of the actual invoice number, when available, instead of fictitious numbers,
- Ensure invoices are marked "paid",
- Ensure that a certain level of experience is required, and
- Ensure that on-going training in this area occur on a regular basis.

Finally, the Board should hold management accountable for proper guidance and monitoring of staff.

**BOARD RESPONSE**

<b>Person Responsible</b>	<b>Implementation Date</b>	<b>Corrective Action</b>
CFO	9/1/2005	In-service business office staff to use only actual invoice numbers when available and ensure invoices are marked "paid"
Business Office Associates	9/1/2005	Sign acknowledgment of in-service on the use of actual invoice number and marking invoices "paid"
CFO	Ongoing	Provide ongoing training to business office personnel on proper accounts payable processing procedures



**3. Ensure Compliance with the Virginia Procurement Act**

The Virginia Procurement Act Section 2.2-4303 requires all public contracts with nongovernmental contractors for the purchase or lease of goods, or for the purchase of services, insurance, or construction, to be awarded after competitive sealed bidding, or competitive negotiation as provided in this section, unless otherwise authorized by law. SHHCC paid \$412,607 to a company for Executive Director and management consulting services without competitive bidding or negotiations and without a contract. Additionally, the Medical Director was awarded a contract without competitive negotiations. Payments for the service totaled \$60,720.

**RECOMMENDATION**

We recommend for the Board to ensure all procured goods and services are conducted in accordance with Virginia statutes. Awarded contracts should be competitively procured.

**BOARD RESPONSE**

<b>Person Responsible</b>	<b>Implementation Date</b>	<b>Corrective Action</b>
Nursing home staff; Board	9/1/2005	Issue Request for Proposals for the appropriate services



#### 4. Ensure Purchase Orders are Properly Used

69 of 189 invoices did not contain purchase orders. The staff responsible for issuing purchase orders did not fill out fields related to:

- o Items requested,
- o Quantity,
- o Prices, and
- o Approval of purchase.

The purchase orders were filled out to match the amount due on the invoices. An invoice for \$4,886.83, which included sales taxes of \$210.43, was paid in its entirety. Another purchase order issued to pay the accounting firm included only the name of the company and the date.

It is common business practice to use purchase orders as a control. Purchase orders should be issued when goods and services are requested. The purchase orders should at least include:

- o Description of items requested,
- o Quantity, and
- o Price.

#### RECOMMENDATION

We recommend that the Board establish specific purchasing procedures guidelines to ensure purchase orders are used as intended. The Board should also establish monitoring controls, accordingly.

#### BOARD RESPONSE

Person Responsible	Implementation Date	Corrective Action
CFO	9/1/2005	In-service business office personnel and department managers on proper completion of the Purchase Order form to include Items Requested, Quantity, and Price
Department Manager/Bus iness Office Associates	9/1/2005	Sign acknowledgments of in-service on proper completion of purchase orders
CFO	Ongoing	Monitor the appropriate completion of purchase orders

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