AUDITOR'S REPORT

HARRIS HEALTH SYSTEM
LINEN AND LAUNDRY CONTROLS

July 30, 2015

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HARRIS COUNTY AUDITOR

July 30, 2015

Mr. George Masi
President and Chief Executive Officer
Harris Health System
2525 Holly Hall
Houston, Texas 77054

RE: Harris Health System Linen and Laundry Controls for the six months ended August 31, 2014

The Audit Services Department performed procedures relative to the Harris Health System (Harris Health) Linen and Laundry Controls. The objective of the engagement was to evaluate critical operational and financial controls for linen acquisition and laundry services.

While gaining an understanding of the linen and laundry controls, a need for improvement to certain critical linen and laundry operational and financial controls was identified. As a result, procedures to test the effectiveness of internal controls were not performed. Instead, recommendations for improving critical internal controls were developed in conjunction with management in order to improve the control environment for linen and laundry. Once the recommendations presented in the attached Issues and Recommendations Matrix are implemented, another engagement will be scheduled to test the effectiveness of the critical internal controls.

The engagement process included providing you with an engagement letter and conducting an entrance and exit conference with your personnel. The purpose of the letter and conferences were to explain the process, identify areas of concern, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

Mr. George Masi
President and Chief Executive Officer

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,

Barbara J. Schott
County Auditor

cc: Harris Health System Board of Managers
District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
El Franco Lee
Jack Morman
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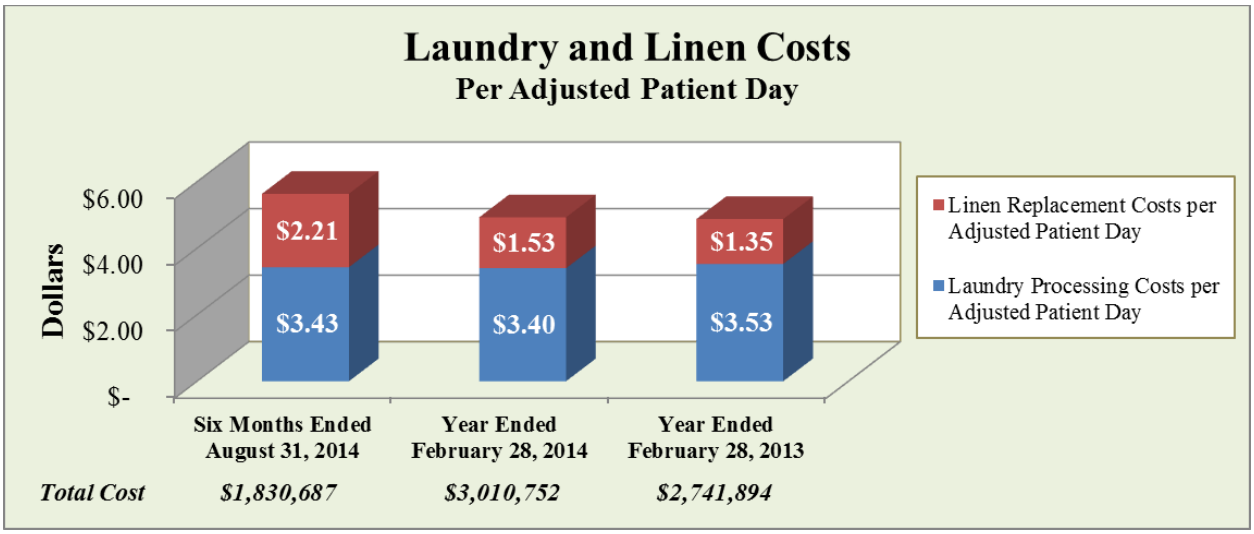
OVERVIEW

Linen and laundry services at Harris Health are managed through the Supply Chain Management Department (Supply Chain Management). Harris Health contracts with the Texas Medical Center Hospital Laundry Cooperative Association (TMC Laundry) to sort, wash, dry, fold, and deliver (process) reusable linen. The TMC Laundry is located near the Texas Medical Center and serves other large hospital systems besides Harris Health.

The TMC Laundry charges Harris Health for processing linen based on the number of pounds delivered, plus a linen cart fee. During the six months ended August 31, 2014, the TMC Laundry delivered 2.8 million pounds of clean linen to Harris Health hospitals, outpatient centers, and clinics. Charges for the pounds delivered were $1,114,201, or $0.40 per pound, and based on pounds of linen required, it costs approximately $2.45 for each patient bed change.

New linen to replace lost, worn, or damaged linen is purchased through the Harris County Purchasing Agent from Standard Textile Company, Inc. (Standard Textile), a linen manufacturer and distributor. Costs for new linen purchases for the six months were $716,486.

The graph below presents linen and laundry processing and replacement costs per adjusted patient day (excluding distribution cost) as reported on Harris Health's monthly laundry and linen operating report (Linen Scorecard) for the six months ended August 31, 2014, and for the last two fiscal years:



Each Harris Health location accumulates soiled linen to be picked up by the TMC Laundry and transported for processing. Soiled linen is accumulated on carts in separate areas from the clean linen carts. Linen Technicians or Environmental Services Technicians visit patient care areas during the day, remove carts containing soiled linen, and replace those carts with empty carts. The carts containing the soiled linen are transported to loading areas to be picked up and transported by the TMC Laundry.

Linen that has been cleaned is placed on clean linen carts by TMC Laundry employees for delivery to Harris Health. The clean linen carts are numbered and designated for delivery to specific Harris Health locations or patient care areas. Harris Health provides instructions (clean linen cart par levels) for TMC Laundry employees to follow when loading the carts with linen. The clean linen cart par levels specify the quantities of clean linen items (i.e. bed sheets, gowns, towels, etc.) to be loaded on each cart based on the projected daily usage for the areas where the carts are assigned.

Clean linen is delivered daily to Ben Taub General Hospital (Ben Taub) and Lyndon Baines Johnson General Hospital (LBJ). Deliveries to other Harris Health locations are based on the specific needs of the location. Linen Technicians or Environmental Services Technicians receive the carts delivered to Harris Health locations, agree the number of carts received to the TMC Laundry delivery tickets, and move the carts to a central clean linen storage area used to restock patient care areas.

The clean linen carts delivered to Ben Taub and LBJ have been loaded according to the par levels for the specific patient care areas (i.e. nursing units, operating rooms, the emergency centers) are also stored in a clean linen storage area when delivered. Linen Technicians at Ben Taub and LBJ transport the clean linen carts from the storage areas to their designated patient care areas during the day. When they deliver the carts, the carts delivered on the previous day are removed. If clean linen is left on the carts removed, it is taken to a clean linen room and used to restock hospital areas that do not receive separate carts.

Harris Health provides surgical apparel (scrub suits) to physicians, residents, interns, and certain Harris Health employees that provide patient care. The distribution of scrub suits at Ben Taub and LBJ is controlled through electronic dispensing machines that restrict access and track the number of scrub suits dispensed to authorized personnel. The distribution of scrub suits at the other locations is controlled through limiting physical access. All scrub suits are marked to show that they are the property of Harris Health.

TMC Laundry employees inspect Harris Health linen as it is being washed, ironed, and folded. Stained, worn, or damaged linen is removed. The stained linen is rewashed and if rewashing does not clean the stained linen, it is placed with worn and damaged linen and sold as scrap by the TMC Laundry. Proceeds from scrap sales are returned to Harris Health as credits on the invoices for clean linen delivered.

The Linen Services Manager orders new replacement linen from Standard Textile. Standard Textile ships new linen orders directly to the TMC Laundry where it is held until used to replace lost, worn, or damaged linen. Standard Textile also provides Harris Health with access to a hospital linen utilization monitoring software system (ControlTex).

Standard Textile employs personnel in Houston that provide consulting services to their customers at no additional cost. The Standard Textile personnel meet with Supply Chain Management twice a year and as requested provide reports that include operating statistics for Harris Health and utilization statistics from other Standard Textile customers for comparison purposes.

RESULTS

The objective of the engagement was to evaluate critical operational and financial controls for linen and laundry services. Based on planning procedures performed, certain critical controls should be improved to better manage risk and increase the likelihood of the achievement of linen and laundry services operational and financial goals. Recommendations for improvements are summarized below:

- Annual linen physical inventories should be performed to assess inventory levels and identify employees that require training on appropriate linen utilization and storage practices.
- Procedures that delineate employees responsible for recording, verifying, and reporting Harris Health linen utilization information in ControlTex should be developed and implemented.
- Invoices for clean linen pounds delivered should be matched to delivery documents that were verified for accuracy by Harris Health employees when the clean linen was delivered.
- Clean linen carts delivered should be re-weighed to verify the accuracy of pounds delivered shown on delivery packing lists.
- Access to new linen purchased by Harris Health and held at the TMC Laundry should be restricted and Harris Health should be informed when the new linen is added to linen in use.
- Requests for changes to cart loading instructions submitted to the TMC Laundry should be documented and approved by a Linen Services Supervisor or the Linen Services Manager.
- Laundry processing costs should be allocated to patient care area cost centers on monthly financial reports.
- Sales of scrap linen should be monitored for reasonableness using scrap sale logs provided by the TMC Laundry.
- Participation of management from patient care areas in the meetings of the Linen Utilization Committee should be encouraged.

These and other issues are discussed in more detail in the following Issues and Recommendations matrix.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Performing Physical Inventories	Performing periodic physical linen inventories helps management assess whether the levels of linen inventory held are appropriate and whether linen is properly utilized and stored in patient care areas. According to Harris Health's Linen Scorecard, new linen costing $716,486 was purchased during the six months ended August 31, 2014, and $934,622 and $757,067 was purchased during the fiscal years ended February 28, 2014 and 2013, respectively.	Harris Health has not performed a physical inventory of linen since 2012. Not performing physical inventories increases the risk that inventory levels are too high and that new linen is being acquired because existing inventory is not appropriately utilized and stored in patient areas.	Supply Chain Management should perform a physical inventory of linen annually. Employees or departments that are not following appropriate linen utilization and storage practices should be trained.	Supply Chain Management (SCM) agrees with the recommendations. The next Physical Inventory Count will be performed before the end of July 2015 and thereafter on an annual basis. A Linen Physical Inventory procedure was developed and reviewed by Linen Committee. The Linen Committee, Supply Chain Management operations staff and TMC Laundry representation also reviewed and approved drafts of the Linen Inventory Count Information Packet and discussed how the Physical Inventory would occur. Procedures supporting appropriate linen utilization are anticipated on being completed by the end of July 2015.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Monitoring Linen and Laundry Utilization	The ControlTex system is able to provide information about where the pounds of clean linen received by Harris Health are delivered and used. This information can assist management in monitoring utilization of 2.8 million pounds of clean laundry delivered to patient care areas. Maintaining the accuracy of the ControlTex system requires that some delivery and usage information be recorded manually using computers or handheld devices.	There are no formal procedures for ControlTex data entry and reporting that delineate: • Employees responsible for recording information in ControlTex. • Requirements for recording information timely. • The processes for verifying the accuracy and completeness of information recorded. • Responsibilities for preparation, distribution, and review of reports. Without formal procedures, there is an increased risk of inaccurate or incomplete information in ControlTex, which could result in management decisions based on incorrect information.	Supply Chain Management should develop and implement procedures that delineate: • Employees responsible for recording linen utilization information in ControlTex. • Requirements for recording the information in ControlTex timely. • The processes to verify the accuracy and completeness of the information recorded. • Responsibilities for preparing, distributing, and reviewing reports. The procedures should be documented in writing and employees should receive appropriate training.	SCM agrees with the recommendations. Control-Tex Linen Management System (ControlTex) maintenance procedure was developed and reviewed by Linen committee. Linen supervisors are trained to use the ControlTex system. The new process outlines recording, monitoring, and utilizing Control Tex System, pavilion Operation Managers will refer to policies and procedures anticipated to be completed by the end of July 2015. These procedures will be provided to all employees, included in all Linen Services employee training and departmental orientation.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Verifying Pounds of Clean Linen Received	The TMC Laundry invoiced Harris Health for 2.8 million pounds of clean linen delivered during the six months ended August 31, 2014, which resulted in charges of $1,114,201. The invoice payment system (PeopleSoft) requires that an authorized person record that the pounds invoiced were actually delivered before a payment is made to the vendor.	The pounds of clean linen that Harris Health personnel record as delivered in PeopleSoft are the pounds obtained from the invoices received from the TMC Laundry. Pounds delivered recorded should be obtained from delivery documents that were verified for accuracy by Harris Health employees when delivered. Using pounds delivered reported on the TMC Laundry invoices to record pounds delivered in PeopleSoft bypasses controls designed to verify that invoiced pounds agree to actual deliveries, and increases the risk of incorrect payments for clean linen delivered.	Supply Chain Management should implement procedures for recording clean linen pounds received in PeopleSoft using pounds that have been validated by Harris Health employees. The procedures should be documented in writing and employees should receive appropriate training.	Supply Chain Management agrees with the recommendations and will review options of receiving a daily summary delivery report from TMC Laundry for entry into PeopleSoft Receiving. Harris Health Linen Services will validate 'Clean linen pounds delivered' by going to the TMC Laundry to do periodic audit validations of the weights of filled clean linen carts. The implementation completion date is anticipated before the end of July 2015. The procedure for this process will be formalized in a procedure prior to the end of July 2015.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Re-weighing Clean Linen Received	The TMC Laundry weighs loaded clean linen carts before transporting the carts to Harris Health. The weights are recorded for each loaded cart, less the weight of the empty cart. The net pounds weighed for each cart shipped is invoiced to Harris Health.	The weight of clean linen delivered to Harris Health is not verified by re-weighing. As a result, overstatements of pounds delivered will not be detected by Harris Health, causing overpayments to TMC Laundry.	Supply Chain Management should consider purchasing scales to re-weigh clean linen carts delivered to Ben Taub and LBJ, and verify that the net-pounds of clean linen shipped agrees to the TMC Laundry packing lists. If purchasing scales and reweighing clean linen carts are too costly, an alternative method of verifying weights should be implemented.	Harris Health SCM agrees to consider the possibility of installing a Receiving scale in each inpatient pavilion to weigh clean linen received from TMC laundry to address this audit recommendation. SCM will conduct a feasibility study of implementing the recommendation and make a decision by the end of July 2015.
Securing New Linen Purchases	Harris Health linen purchases are delivered directly to the TMC Laundry and held until needed to replace lost, worn, or damaged linen. Other customers of the TMC Laundry participate in a linen rental program where all linen is purchased by TMC Laundry and a linen rental fee is charged.	Harris Health linen delivered to the TMC Laundry is held in an area accessible by TMC Laundry employees. As a result, there is an increased risk of theft of Harris Health's linen held at the TMC Laundry.	Supply Chain Management should require that the TMC Laundry secure Harris Health's linen in an area where access is limited. A financial analysis should be performed to reevaluate joining the linen rental program at TMC Laundry each time the contract is reviewed for renewal.	Supply Chain Management agrees with these recommendations. The recommendation was conveyed to TMC Laundry and they allocated a dedicated, camera monitored area for Harris Health new linen purchases. An official letter confirming this requirement was received from TMC laundry and completes SCM's response

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Securing New Linen Purchases				to this recommendation. Harris Health SCM will include an analysis during contract renewal to reevaluate a linen rental vs linen purchase program. This analysis will be completed the end of December 2015.
Adjusting Clean Linen Cart Par Levels	TMC Laundry employees load clean linen onto carts for delivery to patient care areas based on par levels provided by Harris Health.	Requests to change clean linen cart par levels submitted to the TMC Laundry by Harris Health personnel are not consistently documented, reviewed, or approved. As a result, the TMC Laundry may be instructed to make changes to clean linen cart par levels that have not been approved by management and could cause unnecessary increases in linen costs.	Supply Chain Management should implement procedures for requesting changes to clean linen cart par levels that require approval and communication to the TMC Laundry by a Linen Supervisor or the Linen Services Manager. The procedures should be documented in writing and employees should receive appropriate training.	SCM agrees with this recommendation. This recommendation was discussed in the May 2015 Linen Committee meeting, all parties agreed to adjust the Cart Par Level after the physical inventory count. SCM plans to implement these changes within 60 days of the linen physical inventory. The Control Tex maintenance procedure will cover the maintenance of Par Levels and other recommendations. Changes to Linen PAR levels by TMC Laundry will require the approval of a Harris Health Linen Supervisor or Linen

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Adjusting Clean Linen Cart Par Levels				Services Manager. The policies and procedures will be completed by the end of July 2015. The additional training related to these policies and PAR Level Adjustments will also be completed by the end of July 2015
Allocating Laundry Processing Costs	During the six months ended August 31, 2014, the laundry processing costs for clean linen delivered to Harris Health locations or patient care areas were $1,114,201.	Harris Health does not use information available from ControlTex to allocate laundry processing costs to patient care area cost centers on monthly financial reports. As a result, the information is not used to increase accountability and awareness of linen cost at the department level, which could result in reduced departmental oversight.	Supply Chain Management should propose that laundry processing costs be allocated to appropriate patient care area cost centers on monthly financial reports. Management of the cost centers should budget for the costs and explain variances in accordance with Harris Health variance reporting requirements.	SCM agrees with this finding. We will work on this recommendation during the FY2017 budgeting process. The goal will be to develop a process to allocate the Laundry Services cost to the departments after consulting with Financial Accounting and Budget.
Monitoring Linen Scrap Credits	Worn, stained, or damaged linen is removed from Harris Health's linen by TMC Laundry employees and sold as scrap. Scrap	Harris Health does not formally monitor credits on invoices for linen sold as scrap and there is no analysis to assess whether	Supply Chain Management should implement processes to formally review scrap sales credits for reasonableness using	SCM agrees with the recommendation. TMC laundry has provided their process / documentation on how TMC laundry

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Monitoring Linen Scrap Credits	sale proceeds are credited to Harris Health on invoices for clean linen delivered. Harris Health received $5,422 in credits for scrap sales during the six months ended August 31, 2014.	the amounts received are reasonable. Not monitoring the proceeds from scrap sales increases the risk that all credits due are not received.	the scrap sales logs obtained from TMC Laundry. Scrap sales should also be compared to statistics from other hospital laundries or industry benchmarks. Unusual activity or trends should be discussed with TMC Laundry Management to determine the causes.	determines what is considered scrap and the method used to calculate the Scrap Credits. Harris Health Linen committee will review the activity and trends associated with Scrap Linen Credits. This analysis will be completed by the end of August 2015.
Encouraging Linen Utilization Committee Participation	Attendance and participation of patient care area management at meetings of the Linen Utilization Committee (Committee) should be encouraged to obtain their input in discussions of quality and cost issues as policies are developed.	Committee meetings that occurred during the six months ended August 31, 2014, were infrequent and not well attended by management from patient care areas. As a result, policies and procedures developed by the Committee could be less effective and not well communicated, causing reduced compliance.	Supply Chain Management should obtain high level executive sponsorship for the activities of the Committee. A formal charter should be approved designating representation from patient care areas. Copies of the minutes of meetings should be sent to senior management in patient care areas to encourage management participation.	SCM agrees with these recommendations. Two linen committees were formed, one for each pavilion. These committees are scheduled to meet on a bi-monthly basis since February 2015. A Linen Steering Committee has been formed to review system-wide issues, trends and opportunities. Meeting minutes will be taken, reviewed, approved and made available for committee members. Audit recommendations will be conveyed to the Linen

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Encouraging Linen Utilization Committee Participation				Committees. Full completion will be attained by the end of July 2015.
Charging for Scrub Suits Not Returned	Automated dispensing machines track scrub suits issued to but not returned by Harris Health employees, medical staff, and students. Approximately $46,400 was spent to replace worn, damaged or lost scrub suits during the 12 months ended October 2014.	Harris Health does not require employees to pay for scrub suits they have not returned when they leave employment. In addition, medical staff and students are not required to pay for scrub suits not returned when they leave. As a result, Harris Health's cost to replace scrub suits may be high because employees, medical staff, and students are not accountable for scrub suits not returned.	Supply Chain Management should consider obtaining approval from Harris Health administration for deducting the cost of scrub suits not returned from the final paycheck of employees. In addition, methods for collecting for scrub suits not returned by medical staff and students should be considered, such as collecting a refundable deposit.	SCM agrees with this recommendation and is in the process of reviewing the Scrub Policy with the Operations Policy Committee and the Program Manager for Policy and Procedure will assist in assembling a team to review this policy. This policy committee will be a multidisciplinary team and will review the feasibility of the processes recommended by the auditors, including charging for scrubs not returned by employees and medical staff. Date of completion estimated to be September 2015.
Storing Clean Linen in Patient Rooms	If clean linen is stored in a patient's room where it could be contaminated, the	Clean linen discharge audits are not performed in patient care areas.	Supply Chain Management should implement clean linen discharge audits by	SCM agrees with the recommendation. This process is currently being

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Storing Clean Linen in Patient Rooms	clean linen must be re-laundered if it is not used before the patient is discharged. Routine reviews by Linen Supervisors or the Linen Services Manager (clean linen discharge audits) can identify whether clean linen is being inappropriately stored in patients' rooms.	As a result, the practice of inappropriately storing clean linen in patients' rooms may not be identified, which could result in unnecessary re-laundering of clean linen and increased costs.	Linen Supervisors or the Linen Services Manager. Employees identified as inappropriately storing clean linen in patients' rooms should be trained to discontinue the practice.	developed and a policy/procedure will be presented to Pavilion Linen Committees with an implementation plan to be completed by the end of July 2015.

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

Inherent Risk:	**Control Risk:**		**Overall Risk:**
☒ High ☐ Moderate ☐ Low	**Prior to Procedures** **Needed Improvement**	**After Procedures** **Needs Improvement**	☒ High ☐ Moderate ☐ Low
Type of Procedures: Audit			
Purpose: Evaluate critical operational and financial controls for linen acquisition and laundry service controls.			
Outstanding Audit Recommendations:			

Priority Rating:	**Audit Recommendations:** Harris Health System
1	Perform a physical inventory of linen annually. Employees that are not following appropriate linen utilization and storage practices should be trained.
1	Develop and implement procedures that delineate: • Employees responsible for recording linen utilization information in ControlTex. • Requirements for recording the information in ControlTex timely. • The processes to verify the accuracy and completeness of the information recorded. • Responsibilities for preparing, distributing, and reviewing ControlTex reports. The procedures should be documented in writing and employees should receive appropriate training.
1	Implement procedures for recording receipt of clean linen using the quantities delivered that were verified by Harris Health employees when received. The procedures should be documented in writing and employees should receive appropriate training.
2	Purchase scales to re-weigh clean linen carts delivered to Ben Taub and LBJ, and verify that the net-pounds of clean linen shipped agree to the TMC Laundry packing lists.

2	Require that the TMC Laundry secure Harris Health's linen in an area where access is limited. In addition, TMC Laundry should report to Harris Health when new linen is used. A financial analysis should be performed to reevaluate joining the linen rental program at TMC Laundry each time the contract is reviewed for renewal.
1	Implement procedures that require that requests for changes to clean linen cart par levels be documented in writing, include an explanation for the request, and be approved by a Linen Supervisor or the Linen Services Manager. Procedures should be documented in writing and employees trained.
1	Propose that laundry processing costs be allocated to patient care areas cost centers on monthly financial reports. Management of the cost centers should budget for laundry processing costs and explain variances in accordance with Harris Health variance reporting requirements.
1	Implement processes to formally review scrap sales credits for reasonableness using the scrap sales logs obtained from TMC Laundry. Compare scrap sales to statistics from other hospital laundries or industry benchmarks and investigate unusual activity or trends.
1	Obtain high level executive sponsorship for the activities of the Committee. A formal charter should be approved designating representation from patient care areas. Copies of the minutes of meetings should be sent to senior management in patient care areas to encourage management participation.
2	Consider obtaining approval from Harris Health administration for deducting the cost of scrub suits that have not been returned from the final paycheck of employees. In addition, methods for collecting for scrub suits not returned by medical staff and students should be considered, such as collecting a refundable deposit.
1	Implement clean linen discharge audits by Linen Supervisors or the Linen Services Manager. Employees identified as inappropriately storing clean linen in patients' rooms should be trained to discontinue the practice.
Priority Rating	1. **Implement immediately (30 – 90 days) –** Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. **Work towards implementing (6 – 18 months) –** Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. **Implement in the future (two – three years) –** Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).