

AUDITOR'S REPORT

HARRIS HEALTH SYSTEM MEDICAL EQUIPMENT ACQUISITION CONTROLS FOR THE 12 MONTH PERIOD ENDED APRIL 30, 2014



January 29, 2015

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HARRIS COUNTY AUDITOR

January 29, 2015

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

RE: Harris Health System Medical Equipment Acquisition Controls for the 12 month period ended April 30, 2014

At the request of Medical Capital Group Management, the Audit Services Department performed procedures relative to the Harris Health System (Harris Health) Medical Equipment Acquisition Controls. The objective of the engagement was to evaluate critical operational and financial controls for acquiring medical equipment. The Medical Capital Group's adherence to the following medical equipment acquisition procedures was selectively tested:

- Maintaining required documentation, including evidence of required approvals on the Medical Equipment Requirement form.
- Utilizing available resources to assist with equipment vendor selection.
- Communicating with appropriate personnel and coordinating required meetings.
- Ensuring Harris Health employees outside of the Medical Capital Group participate in the acquisition process as required.

The engagement process included providing former President and Chief Executive Officer, David Lopez with a combined engagement and scope letter and conducting an entrance and exit conference with Harris Health personnel. The purpose of the letter and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, 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
Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

The acquisition of medical equipment is centrally managed through the Medical Capital Group. Departments request the acquisition of medical equipment by completing a *Medical Equipment Requirement* (MER) form which is forwarded to the Medical Capital Group. The MER includes a description of the equipment, justification for the acquisition, documentation of approvals by the department's administrative or medical director, and documentation of approvals by the hospital or clinic administrator.

The Project Coordinator in the Medical Capital Group assigns a project number to the request and records it on an electronic spreadsheet. Medical equipment requests with unit costs greater than or equal to \$5,000 are recorded as capital equipment on the electronic spreadsheet and the source of funding for capital equipment is the Harris Health Capital Budget. Medical equipment requests with unit costs less than \$5,000 are recorded as non-capital equipment, and the source of funding is the requesting department's operating budget. (Some equipment with a unit cost less than \$5,000 may be funded through the Capital Budget if acquired in large quantities for a strategic project).

Requests for *capital* equipment require the additional approval of the Harris Health Medical Capital Committee (Committee). The Committee meets quarterly and is chaired by the Chief Executive Officer. Voting members include Harris Health senior management and medical staff. If capital equipment is needed before the Committee can approve a request, an emergency capital process is used where a hospital or clinic administrator sends a MER and a justification memo directly to the Committee Chairman for approval. Approved emergency capital acquisitions that occurred after the last meeting are disclosed to the Committee at the next scheduled meeting.

The Director of the Medical Capital Group initially prioritizes medical equipment requests using an *Equipment Ranking Criteria Worksheet* completed by the requesting department. Before capital equipment requests are submitted to the Committee for approval, the Director of the Medical Capital Group meets with hospital and clinic administrators, medical staff, and other appropriate management to verify that the priorities assigned are appropriate.

The Director of the Medical Capital Group assigns approved capital and non-capital medical equipment requests to a Project Manager to manage the acquisition. The Project Manager meets with the requesting department to discuss equipment specifications and requirements and obtains needed reviews by technical experts in other departments, such as Biomedical Maintenance, Property Management, Planning/Engineering, or Information Technology.

The Project Manager also utilizes resources available to Harris Health for the equipment acquisition. For example, Harris Health is a member of a Group Purchasing Organization (Premier) which negotiates contracts with equipment vendors on behalf of its members. The Project Manager will research Premier's internet site to determine whether Premier contracts are available to Harris Health for the equipment purchase. Harris Health is also a member of the ECRI Institute, a non-profit organization that helps institutions acquire medical equipment by providing independently researched patient safety, quality, and cost information.

The Project Manager will obtain information about available equipment and equipment vendors, and discuss the results with the requesting department management and technical experts to identify qualified vendors. The equipment vendors to be used are selected in accordance with Harris Health's purchasing procedures through the Harris County Purchasing Agent (Purchasing Agent).

After the equipment vendor is selected, the Director of the Medical Capital Group reviews documentation in electronic project folders (project folders) for completeness and compliance with Harris Health policies and guidelines. After completing the review, the Director instructs the Project Coordinator to enter a purchase requisition into Harris Health's material management information system (PeopleSoft) after all necessary approvals are received. The requisition authorizes the Purchasing Agent to issue a purchase order to the equipment vendor.

Purchasing notifies the Project Manager when the purchase order is transmitted to the equipment vendor, and the Project Manager contacts the vendor to obtain delivery information and an estimated delivery date. The estimated delivery date is communicated to the Property Management Department, which is responsible for recording and tagging equipment received. The Project Manager also coordinates delivery, installation, or training with the vendor and with other Harris Health departments as required.

RESULTS

Based on procedures performed, critical operational and financial controls reviewed for acquiring medical equipment are adequate. The controls reviewed are designed to provide assurance regarding:

- Obtaining appropriate approvals for medical equipment acquisitions.
- Utilizing resources that are available to identify qualified and desirable equipment vendors.
- Ensuring that necessary communication and coordination occurs and that employees outside of the Medical Capital Group participate in the acquisition process as required.

Although controls have been developed and implemented, the following opportunities were identified to improve documentation of adherence with the controls:

- Medical Capital Group Management should continue with their plan to implement electronic approval of MERs in accordance with electronic signature authentication standards.
- Guidelines for using research available through the ECRI Institute should be included in the *Medical Capital Group Program Guidebook*, including documentation requirements.
- Requirements for documenting necessary communication and coordination should be enforced and verified.
- Processes should be improved to ensure that documentation of Committee approvals is complete.

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

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Documenting Hospital or Clinic Administrator Approval	Hospital or clinic administrators approve MERs for medical equipment acquisition requests before they are forwarded to Medical Capital Group. Approvals are currently documented by manual signatures (original signatures), but Medical Capital Group Management is working to implement a process for electronic approvals.	<p>Project folders for 2 of 25 (8%) projects tested did not include documentation of hospital or clinic administrator approval of MERs. One of the MERs was for capital equipment that was approved by the Committee. The other MER was for a small capacity refrigerator to store vaccines at a clinic.</p> <p>Not documenting hospital or clinic administrator approval of MERs does not comply with the <i>Medical Capital Group Program Guidebook</i>, and increases the risk that medical equipment will be acquired without approval and will not comply with organizational needs.</p>	Medical Capital Group Management should continue implementing a process for electronic hospital and clinic administrator approval of MERs in accordance with electronic signature authentication standards to ensure the approvals are received before purchase requisitions are issued.	Medical Capital Group validates that all capital requests are approved by the Committee prior to execution. Also, the e-MER request process has been implemented since June 2014 and will replace the paper/manual MER process. The e-MER approval process will require electronic approval of all the specified level approval before the request is routed to Medical Capital Group. Paper MER will be discontinued by the end of fiscal year 2015. In the meantime, if any paper MER is submitted, the Director and/or Manager of Medical Capital will ensure all proper signatures are obtained before the request is added to the equipment list.
Using Available Resources	Through its membership in the ECRI Institute, Harris Health can obtain independently researched	Research using the ECRI Institute was not performed before issuing a purchase requisition for 12 of 25	Medical Capital Group Management should document when research using ECRI should be	The Medical Capital Group Program Guidebook will be updated to include guidelines when ECRI analysis will be

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Using Available Resources</p>	<p>pricing analysis, product comparisons, user experience, and other information to assist with selecting medical equipment and qualified vendors.</p> <p>Obtaining research through the ECRI Institute may not be beneficial for every medical equipment acquisition (i.e. when standard or preapproved equipment is acquired).</p>	<p>(48%) projects tested. The <i>Medical Capital Group Program Guidebook</i> does not provide guidance for when research using ECRI should or should not be performed. As a result, there is an increased risk that available independent research such as pricing analysis, product comparisons, user experience, and other information will not be obtained for medical equipment acquisitions where it would be beneficial to Harris Health.</p>	<p>performed in the <i>Medical Capital Group Program Guidebook</i>. The <i>Guidebook</i> should also state how the use of ECRI should be documented in the project folders. The Director of the Medical Capital Group should review for documentation of the proper use of ECRI before a purchase requisition is issued.</p>	<p>required for specified type of projects to include: standardized equipment, contract pricing that are pre-negotiated and set pricing for equipment, strategic, capital, and non-capital equipment. Update to the guidebook is in progress and will be completed by November 2014.</p>
<p>Documenting Meetings</p>	<p>Documentation of communication and coordination of meetings with the Project Manager, requesting departments, and technical experts should be maintained in the project folders.</p>	<p>Eleven of 25 (44%) project folders tested did not include adequate documentation of necessary communication and coordination. As a result, there is an increased risk of inadequate communication and coordination, which could increase cost due to delay in completing an</p>	<p>Medical Capital Group Management should enforce requirements for documenting necessary communication and coordination in the project folders. Additionally, the Director of the Medical Capital Group should review the project folders for adequate documentation</p>	<p>To ensure adequate documentation and communication are captured for each project, a communications log has been created/added to the Project Management Plan where project managers can capture vital communications throughout a project. Project managers</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Documenting Meetings		equipment acquisition and/or installing acquired equipment or purchasing equipment that does not comply with user needs.	when projects are closed.	will also be utilizing meeting minutes and will be archiving all important emails to project folder. The Director or manager will review/QA project folders as they are closed to ensure adequate documentation and project close-out documentations are completed.
Documenting Committee Approval	Capital equipment requests are presented to the Committee on separate lines on an electronic spreadsheet. The lines are numbered and the minutes for the Committee meeting document the line numbers approved.	During the Committee meeting on March 18, 2014 (first quarter), one request was not documented in the meeting minutes as approved due to human error. Not having complete documentation of capital equipment acquisitions approved by the Committee increases the risk that capital equipment not approved will be acquired.	Medical Capital Group Management should ensure complete documentation of approved capital equipment acquisitions by verifying that the lines on the electronic spreadsheet are in numeric sequence and attaching a copy of the approved spreadsheet to the meeting minutes provided to the Committee for approval. In addition, the request not documented in the meeting minutes as approved as a	Currently meeting minutes along with approved spreadsheet from each Medical Capital Committee meetings are sent to the Committee members for review and approval. The meeting minutes and spreadsheet are also archived in a public SharePoint folder made available to any stakeholders and management for review. To ensure that any changes to the spreadsheet during meetings are accurately captured and to prevent any

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Documenting Committee Approval			result of the error, should be communicated to the Committee and the communication documented in the meeting minutes.	further modification after the approval has been made, the spreadsheet will be PDF and sent with the meeting minutes where the approved line items will be accurately identified. Further, any error/update will be communicated to the Committee and documented accordingly.