Third Party Vendors: Are Your Controls Effective?

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Agenda

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

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

- Security
- Financials
- Operations
- Regulatory Compliance
- Reputation

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
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

Mike Paris

Vendormate, a GHX Company
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

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
Piedmont Healthcare

Debi Weatherford

Piedmont Healthcare

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
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?

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?
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

**Piedmont Healthcare Audit Efforts**

- 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
### 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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### The Audit Group

John Weiss

The Audit Group
Multiple vendors entered into an ERP system can cause duplicate payments to occur more frequently.

Invoices paid to vendors from multiple entities need to be examined both together and separately.
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Only one of the invoices is entered with a PO number.

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

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Rebate Dollars Lost Due to Mismanagement
Healthcare system earned more than $175,000 over a seven-month period rebates.

Issues:
- Health system had no tracking program for rebate offers.
- Relied on vendors to manage & issue checks or credit memos for earned rebates.
- Vendors internally “issued” rebate credits, but health system was unaware and never applied the credits to hospital accounts.

TAG Tip:
- When possible, negotiate rebates out of contracts in favor of lower item pricing.
- Create a process tracking rebate requirements and hospital performance;
  - Ensure refunds are received timely and are correct.
Health system was charged more than $270,000 in state sales tax for heart pumps.

**Issue:**
- The state’s tax code applies sales tax on most medical items, so to be “safe,” the hospital chose to pay sales taxes added to its invoices.
- Tax codes vary by state, by item, and also by an item’s usage.
- After TAG review, state tax commission was asked for its opinion and it eventually refunded the full tax bill to the health system.

**TAG Tip:**
- Scrutinize invoices with sales tax to ensure the charge is justified.
- To avoid paying unnecessary taxes understand the tax laws in each state where an organization has an entity.

Vendor’s Summary Statement (De Facto Invoice) Costs

**Hospital $20,000+**

Vendor issued an invoice and a summary statement of open charges, causing a hospital to pay the same bill twice.

**Issues:**
- Invoice #38828565, was issued for $20,439.31.
- Same day a "summary statement" referenced 2 invoices for payment of $20,625.31.
- A/P personnel failed to confirm the $20,439.31 was already paid, entered the summary statement (invoice?) number as a new charge, and processed payment.

**TAG Tip:**
- Accounts Payable staff should carefully evaluate what they are reviewing when looking at vendor documents.
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.

$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. (022415)

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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)
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.

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.