

KNOX COUNTY GOVERNMENT

Knoxville, Tennessee

AGREED-UPON PROCEDURES

Quarter Ending March 31, 2021



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Independent Accountant's Report

Mr. Dwight Van de Vate, Chief Operating Officer
Office of the Mayor
Knox County Government
400 Main Street
Knoxville, Tennessee 37902

We have performed the procedures enumerated in the attached document on the supply chain operations regarding inventory and medical supplies received by the Knox County Health Department during the quarter ending March 31, 2021. The procedures we performed and the related findings and recommendations are attached to this report.

The Knox County Government Office of the Mayor has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Office of the Mayor to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively on the supply chain operations regarding inventory and medical supplies received by the Knox County Health Department during the quarter ending March 31, 2021. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Knox County Government and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of Knox County Government Office of the Mayor, and is not intended to be, and should not be, used by anyone other than the specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
June 30, 2021



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The procedures we performed and the results of those procedures are as follows:

1. Interview personnel in the Knox County Health Department who are part of the supply chain for inventory and medical supplies to determine current procedures in place.

Specifically, we interviewed Health Department personnel with the following job titles: Support Service Manager, Maintenance Specialist, Quality Improvement Manager, Pharmacy Technician, Immunization VFC IQIPS Program Manager, Clinic Program Manager, WIC Program Manager, and Chief Administrative Officer.

2. Review processes and controls for receiving, handling, and accounting for inventory and medical supplies.

We reviewed and those communicated verbally during our interviews for receiving, handling, and accounting for inventory and medical supplies for the following departments: Building Operations, Pharmacy, Preventive Services, and Women Infants and Children (WIC).

We selected ten expenditures from each department from the general ledger during the quarter ending March 31, 2021. Preventive Health Services' small population limited us to only selecting three expenditures. These expenditures were examined and compared to controls and documentation requirements noted during our review of processes and controls. The results of our testing were as follows:

- Two out of ten vendor invoices in the pharmacy were not dated and signed off on as received by pharmacy technicians.
- Three out of three preventive health services invoices were not matched to packing slips or other receiving documentation.
- Four out of ten WIC invoices were not matched to packing slips or other receiving documentation.
- None of the sample selections from the general ledger were able to be traced back to the Building Operation's logbook to confirm receipt due to the logbook not containing enough information to perform this task.

We selected 27 entries from the Building Operations' receiving logbook during the quarter ending March 31, 2021. These entries were examined and compared to controls and documentation requirements noted during our review of processes and controls. The results of our testing were as follows:

- For 14 of 27 items, we were not able to trace the item to invoices matched to packing slips or other receiving documentation.
- For 12 of 27 items, we were not able to trace the item to an invoice, check copy, or credit card statement to confirm payment.
- We were not able to trace any of the 27 items to corresponding items in the general ledger detail due to the logbook not containing enough information to perform this task.

3. Assess sufficiency of procedures in place for different types of inventory items or supplies including personnel involved and storage locations utilized.

We performed walkthroughs to observe the procedures in place for different types of inventory items and supplies, including personnel involved and storage locations utilized, for Building Operations, Pharmacy, Preventive Services, and WIC. During these walkthroughs we toured each department's respective areas and inventory locations. We observed each department's procedures for receiving, handling, and accounting for inventory and medical supplies.

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4. Review the supply chain process regarding the internal distribution of inventory items and supplies to the end user.

We obtained five internal supply requests and the accompanying sales orders. These items were examined to ensure that the supply requests matched the sales order. We did not have any exceptions during this testing.

5. Review the reconciliation process for and accountability of supplies ordered.

We obtained and reviewed the month end inventory listings for Building Operations, Pharmacy, Preventive Services, and WIC without exception.

6. Identify strengths and deficiencies in the supply chain operations, accountability and management of inventory items and supplies.

We found the process of ordering, receiving, handling, distributing, and accounting for inventory and medical supplies to be stronger in Building Operations and Pharmacy due to internal inventory management systems in these departments. In addition, personnel in each department with responsibilities over inventory and supplies are knowledgeable and capable in their roles. Specific deficiencies are identified in the findings and recommendations below.

Our findings and recommendations are as follows:

1. Written procedures for ordering, receiving, handling, distributing, and accounting for inventory and medical supplies

We noted a lack of written procedures both Health Department-wide and for each department related to ordering, receiving, handling, distributing, and accounting for inventory and medical supplies. There appears to be some common general practices utilized by the Health Department as a whole related to inventory and the supply chain, but they are not formally documented. There are other practices identified that are vastly different between departments. The combination of these items could result in an internal control system that may not be able to prevent or detect errors or misappropriation within the supply chain in a timely manner.

We recommend that the Health Department draft and adopt formal procedures related to ordering, receiving, handling, distributing, and accounting for inventory and medical supplies. The formal procedures should be approved internally in accordance with County guidelines. In cases where a department may differ from the Health Departmental policy, that department should maintain a specific written procedure to document their variance from the Health Departmental procedure. These varying procedures should be approved by senior management.

2. Limited cross training within Building Operations

We noted limited cross training in the building operations department. Employees are not cross trained to perform the Support Service Manager's duties or the Maintenance Specialist's duties for receiving, loading dock and inventory supply procedures if they are simultaneously absent or unable to perform their duties. This could result in incomplete or inaccurate recording of inventory information or the incorrect internal distribution of supplies from building operations to other departments.

We recommend that building operations employees be cross trained to learn the job duties of the Support Service Manager and Maintenance Specialist related to the receipt and internal tracking and distribution of supplies.

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3. Limited segregation of duties in Building Operations

We found limited segregation of duties in the building operations department where one employee is able to order with no approval and is also the main employee that receives items into the loading dock. Without proper segregation of duties, the Health Department is vulnerable to employee theft or misappropriation. However, there is a mitigating internal control in place whereby at the end of each month the employee is required to turn in all receipts accompanying credit card purchases to the finance department.

We recommend that the Health Department either implement an internal control requiring approval prior to ordering or require that the individual ordering supplies should be different than the individual receipting items on the loading dock.

4. Controls to prevent unauthorized ordering

In relation to ordering medication and vaccines, it was noted that there were limited controls in the pharmacy department to prevent unauthorized orders from other internal departments. The pharmacy technician does not require employees submitting orders for medications or vaccines to provide proof of approval from the respective department head or the finance department before submitting these orders to the pharmacist for placement.

We recommend that the pharmacy technician require proof of approval to accompany all internal requests for medication and vaccine orders prior to submitting these orders to the pharmacist for fulfillment.

5. Physical security over inventory storage area

We noted a weakness in physical security over the loading dock and building operations department where inventory is maintained. Several employees that do not work in this area have access to come into the area without prior authorization in order to retrieve COVID supplies. Additionally, some individuals have access to enter the building operations area to accept vaccine and sensitive items received through the loading dock.

We recommend the area remain locked and the code given only to employees who work in the building operations area. COVID supplies should be moved to an area outside of the building operations area or the inventory and distribution of these items handled exclusively by building operations. Additional procedures should be put in place to monitor individuals coming into the loading dock to accept receipt of sensitive items.

6. Receiving documentation for supplies and medication

We noted the Health Department does not have a process to reconcile vendor invoices with proof of receipt of supplies and medication. Few invoices and payments tested included a packing slip or other proof of receipt prior to payment. In addition, the logbook maintained by building operations did not contain a sufficient amount of information to enable its use as receiving documentation for individual invoices. The lack of reconciliation increases the risk of paying invoices for items not received.

We recommend that the Health Department implement a process to verify receipt of items ordered prior to payment of any invoice. Additionally, we recommend increasing the quantity of information maintained in the logbook so that it may be used as a tool to confirm receipt of expenditures found in the general ledger.

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7. Inventory control

We noted that the Health Department does not maintain a formal inventory control system or inventory procedures to produce an accurate count of inventory at any given time. Building operations and the pharmacy both maintain their own electronic inventory systems which are unique to their departments and do not interface with each other. All other departments track their inventory manually. These processes are prone to errors and reconciliations and do not provide detail about when inventory was used and who was the end user.

We recommend that the Health Department consider a Department-wide inventory system to track the flow of supplies and medications from receipt to end user across the entire department. A Health Department wide system will also decrease the chance of human input error into accounting for inventory and produce more accurate inventory counts on a real time basis. In addition, we recommend that inventory be reconciled by each department at least quarterly. We also recommend that the Health Department evaluate the feasibility of hiring a full-time person to oversee its inventory control system.