January 7, 1994
ILR 93-V

Senator Eldon A. Money
1450 West 5348 South
Spanish Fork, UT 84660

Subject: State Hospital Purchasing

Senator Money:

As you requested, we conducted a review of certain purchases made by the Utah State Hospital in Provo. During this review, we focused on those specific allegations of wasteful spending identified in the complaint. Specifically, we reviewed purchases of vehicles, computer equipment, furniture, and clothing for residents to determine whether those end-of-year purchases were unneeded.

We found no indication that State Hospital purchases of vehicles, computer equipment, furniture, and clothing for residents were wasteful or unneeded purchases. However, we did find that end-of-year purchasing in some commodity areas was somewhat extraordinary.

End-of-Year Purchases Are Explainable

The State Hospital has a unique situation to deal with regarding their operating budget.

Approximately one third of the hospital's budget last fiscal year came from "collections" received from other agencies, principally the federal government for medicaid and medicare. Because the amount of collections varies from year to year, the total operating budget can only be estimated. As such, the hospital routinely waits until the end of the fiscal year before obligating funds for purchases such as those identified in the complaint. By waiting to the end of the year, the hospital staff can ensure that sufficient funds are available throughout the year for month-to-month operations.

Purchases of Vehicles

Financial Information Resource Management System (FIRMS) reports indicate that the hospital purchased nine new vehicles during the latter part of fiscal year 1993, at a total cost of $166,926. All vehicles were purchased as replacement vehicles.

According to current state policy, vehicles will be considered for surplus when they reach either five years of age and/or exceed 80,000 miles. All of these vehicles complied with that policy.

An additional expenditure of $24,134 was recorded in July 1993 for modifying a 1985 Ford Box Van to convert it to a mobile kitchen. This vehicle replaced a similar vehicle previously sent to surplus due to age and mechanical problems. The design and installation of the van is such that the box containing the kitchen equipment could be removed and installed on another vehicle when the need arises. Hospital staff indicated that the alternative of investing in a trailer which could be towed, had been considered but rejected as less desirable. We also asked why an older vehicle was used for this modification. The supervisor indicated that the age of the vehicle was considered, but that the vehicle was in very good condition. State policy does allow some flexibility regarding when to surplus vehicles with regard to age and mileage. Under this provision, a vehicle older than five years of age which still runs well and/or has low mileage, may be retained in the motor pool.

The following figure shows data for those vehicles sent to surplus prior to buying new vehicles:

Figure I
Vehicles Sent to Surplus

Year	Description	Mileage
1973	Chevrolet Stepvan	153,656
1974	Chevrolet Pickup	176,151
1974	Chevrolet Van	132,209
1976	GMC Sierra	100,013
1980	Dodge Van	81,575
1984	Ford Van	78,608
1986	Chevrolet Celebrity	106,705
1987	Chevrolet Celebrity	108,230
1987	Chevrolet Celebrity	83,311

Purchases of Computers

Approximately $242,000 was spent at the end of the year on data processing equipment. This expenditure completed the initial purchase of over 180 computer workstations, software applications, a local area network (LAN), and a custom designed software program. This custom designed software will be used for admissions, records, billing, scheduling, inventory control, accounts payable, and other ancillary activities. The requirement for this upgraded capability was identified over a year earlier and detailed requirements and acquisition plans were developed by the hospital. Those plans were discussed with the Offices of Planning and Budget and the Fiscal Analyst, where support was gained along with the recommended course of action of identifying end-of-year funds for the purchases since appropriated funds were not identified for this requirement.

These purchases were not replacement computers and software, but rather, an initial effort to modernize and automate the processes at the hospital. Until that time, only a few aging Wang computers were in use at the hospital, and used strictly for administrative functions such as word processing. The newly installed system, along with the software purchased and under development, should enhance the efficiency of the hospital operations significantly, especially those functions wherein the custom design software is applied.

Purchases of Furniture and Clothing for Patients

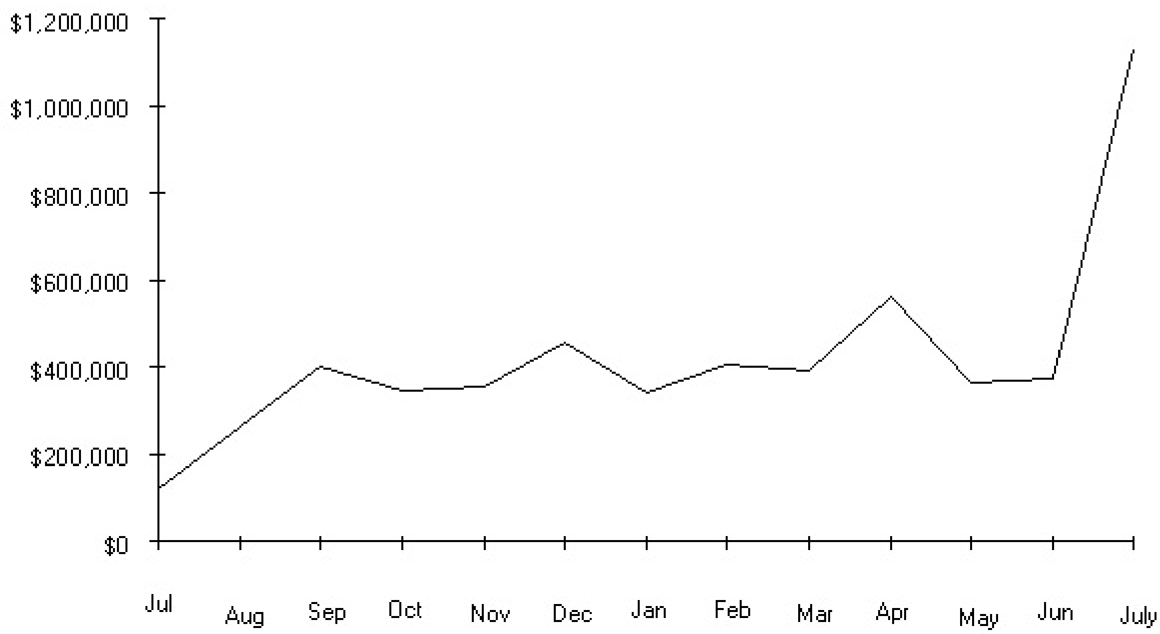
Approximately $13,000 were spent at the end of the year on furnishings. However, we found nothing to indicate any unusual or extraordinary furniture purchases. For the most part, furniture purchases were to refurbish newly remodeled facilities, such as the canteen and the pharmacy.

Clothing purchases were made at the end of the fiscal year. FIRMS reports indicated $7,626 were spent during the last part of fiscal year 1993 on patient clothing, all during the last quarter of the fiscal year. Items included underwear, shoes, jeans, and shirts. Clothing is provided, when necessary, to the patients, many of whom have little or no clothing when they are admitted to the hospital. Even if we assume the population of 350 patients at the hospital to be static, expenditures for clothing would equate to less than $22.00 per patient, per year. These expenditures do not appear to be extraordinary.

Other End-of-Year Purchases

For this review, we checked specific purchase orders, vehicle utilization records, and conducted interviews with purchasing agents, cost center supervisors, and administrators. Although we looked specifically at those areas of concern identified in the complaint, we also collected FIRMS reports for the entire fiscal year 1993 activity at the State Hospital. These reports provided a profile of the year's expenditures as well as detail concerning specific purchases. To illustrate, we totalled the monthly expenditures of 16 cost centers at the hospital from July 1992 through June 1993. Figure II graph depicts our findings:

Figure II
Monthly Expenditures
(1992-1993)



The overall profile of expenditures indicated that end-of-year expenditures are inconsistently higher than previous monthly expenditures. The average monthly expenditure for these centers throughout the year (July 1992 through June 1993) was $365,251 per month. However, during the month of July 1993 those same centers spent a combined $1,131,025. This $765,774 difference represents a 210% increase from the average. Since only about $356,000 of this increase is attributable to vehicle and computer equipment purchases, we conducted a review of the remaining $410,000 in end-of-year expenditures.

What we found was that cost centers such as the pharmacy, food services, and maintenance spent money on items to build their inventory level of needed items for the upcoming year, rather than have the funds lapse back into the general account. Moreover, we found that control features regarding inventory, inventory reordering, and the ability to readily account for the use of inventory items was generally lacking. Although the scope of this audit did not allow us to delve deeply into these areas, we found reasons to be concerned. The hospital is aware of their shortcomings in these areas, however. It should be noted that inventory control is an element of the computer program being developed for the hospital and slated for implementation in the spring of 1994.

We did find one example where end-of-year spending may have been too hastily accomplished. In July 1993, a $20,000 expenditure was reported for a backhoe/front-end loader. This purchase was a major capital outlay that may not have been necessary as the backhoe/front-end loader was purchased as a replacement for an existing backhoe/front-end loader that was out of service and thought to be beyond economical repair. After the purchase, the original backhoe was determined to be economically repairable and repairs were completed. There are now two of these vehicles at the hospital. It is surmised that had there not been a sense of urgency to spend available funds before the end of the year, more time would have been taken to determine if a replacement was really necessary or if the older equipment could be repaired economically.

We would suggest that a more thorough review of purchasing at the State Hospital be accomplished after implementation of their new computerized system during calendar year 1994. The practice of making extraordinary end-of-year purchases is an issue that can be dealt with also. Alternatives include legislation which changes lapsing fund policies and placing limitations on the amount that can be spent during any given quarter as a percentage of the total budget. This latter method can be effective in reducing end-of-year expenditures. However, it could also have an adverse impact on State Hospital operations since, as previously noted, they must depend on collections as part of their operating budget. If end-of-year spending limitations are imposed, they should be judiciously applied.

We hope this letter has provided you with the information you need regarding purchasing at the State Hospital. If you have any questions or need additional information, please feel free to contact us.

Sincerely,

Wayne L. Welsh
Auditor General

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