



# City of New York

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OFFICE OF THE COMPTROLLER

**Brad Lander**

**COMPTROLLER**



## MANAGEMENT AUDIT

**Maura Hayes-Chaffe**

Deputy Comptroller for Audit

Audit Report on the New York City  
Health + Hospitals' Controls over  
Inventory of Medical Surgical Supplies  
Including Personal Protective Equipment  
at Its Post-acute and Long-term Acute  
Care Facilities

MG21-059A

June 29, 2022

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BRAD LANDER

June 29, 2022

To the Residents of the City of New York,

My office has audited the New York City (City) Health + Hospitals (H+H) to ascertain whether its post-acute and long-term acute care facilities (facilities) comply with applicable inventory rules and guidelines regarding the supply and management of medical surgical supplies, including personal protective equipment (PPE).

The audit found that H+H established several inventory rules and guidelines relating to the management of medical surgical supplies. However, the agency did not adequately ensure that its facilities comply with those rules and guidelines, nor do those rules and guidelines address certain essential aspects of inventory management. Although the auditors found no instances of misappropriation or theft, correction of the weaknesses identified in this report reduce the risk that errors, misappropriation, and theft can occur and remain undetected.

The audit makes four recommendations that H+H agreed to implement. We appreciate H+H's efforts to improve its controls over the management of medical surgical supplies at its facilities. We also wish to acknowledge, as H+H noted in its response, that the audit was conducted during the height of the pandemic when H+H's facilities were impacted by the public health emergency.

The results of the audit have been discussed with H+H officials throughout the audit, and their comments have been considered in preparing this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "B. Lander".

Brad Lander  
New York City Comptroller

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
Audit Findings and Conclusion .....	1
Audit Recommendations .....	2
Agency Response .....	2
<b>AUDIT REPORT .....</b>	<b>3</b>
Background .....	3
Objective .....	4
Scope and Methodology Statement .....	4
Discussion of Audit Results with H+H .....	4
<b>FINDINGS AND RECOMMENDATIONS .....</b>	<b>5</b>
Deficiencies Identified at Carter and Coler Facilities .....	5
Carter .....	5
Coler .....	8
Inventory Operations Weaknesses .....	9
Inadequate Segregation of Duties .....	9
User Rights Not Granted to Individuals Tasked with Entering Physical Count Results .....	9
Weaknesses Found Regarding Discrepancies and Balance Adjustments .....	10
Cycle Count Discrepancies Are Not Analyzed .....	10
Reasons for Balance Adjustments Are Not Recorded .....	11
Recommendations .....	11
<b>DETAILED SCOPE AND METHODOLOGY .....</b>	<b>12</b>
<b>ADDENDUM</b>	

# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

## Audit Report on the New York City Health + Hospitals' Controls over Inventory of Medical Surgical Supplies Including Personal Protective Equipment at Its Post-acute and Long-term Acute Care Facilities

MG21-059A

### EXECUTIVE SUMMARY

This audit was conducted to determine whether New York City (City) Health + Hospitals (H+H)<sup>1</sup> ensures that its facilities comply with applicable inventory rules and guidelines regarding its management of personal protective equipment (PPE) and other medical surgical supplies.

H+H is a public benefit corporation and is the largest municipal health system in the country. H+H manages five post-acute/long-term care facilities (facilities) that operate as licensed nursing homes and are required to follow New York State Department of Health (SDOH) regulations.

PPE falls under six general categories—gloves, gowns, shoe covers, face shields, caps, and masks (surgical and N95). H+H utilizes a computer-based program called PeopleSoft to manage their medical surgical inventory, including ordering and end user distribution, as well as the management of inventory records of medical surgical items.

The total medical surgical supply purchases for the five facilities for Fiscal Year 2021 totaled \$11,474,698.27.

### Audit Findings and Conclusion

H+H has established several inventory rules and guidelines relating to the supply and management of medical surgical supplies at its facilities. However, the agency does not ensure that its facilities comply with those rules and guidelines.

Auditors visited all five facilities, conducting a PPE count at one (Carter) and observing a year-end count at another (Coler). At both facilities, the auditors identified deficiencies which are discussed in the body of this report. In its response, H+H noted that this audit was conducted during the height of the pandemic and that H+H's facilities were significantly impacted by the

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<sup>1</sup> Formerly known as the Health and Hospitals Corporation.

public health emergency. The auditors acknowledge the difficult circumstances under which H+H was operating at various points during the audit scope period. Recommendations for improvement are nonetheless offered in the interest of improving processes for the future.

## **Audit Recommendations**

The audit makes four recommendations that will help H+H ensure that its facilities comply with applicable rules and guidelines regarding its management of medical surgical supply inventory. These appear in the body of this report.

## **Agency Response**

In its response, H+H agreed to implement the audit's recommendations.

# AUDIT REPORT

## Background

H+H was established in 1969 under the New York City Health and Hospitals Corporation Act as a public benefit corporation and receives funding from the City tax levy. According to the Fiscal Year 2021 *Mayor's Management Report* (MMR), H+H is the largest municipal health system in the country, and it includes 11 acute care hospitals, five post-acute/long-term care facilities, and 70 patient care locations of community- and school-based health centers. H+H's mission is to "deliver high quality health care services to all New Yorkers with compassion, dignity, and respect, regardless of income, gender identity, or immigration status."

H+H's five post-acute/long-term care facilities are Henry J. Carter, Coler, McKinney, Sea View, and Gouverneur. The operation of these facilities is regulated and monitored by SDOH. Each of the five facilities are, in part or in whole, licensed nursing homes and each is required to follow related regulations. A licensed Administrator of Record (AOR) is ultimately responsible for managing each facility and ensuring compliance with SDOH regulations.<sup>2</sup>

PPE falls under six general categories—gloves, gowns, shoe covers, face shields, caps, and masks (surgical and N95). Each category is comprised of multiple types of items, differentiated based on factors such as size, material, etc. In response to the COVID-19 pandemic, SDOH mandated that, as of July 22, 2020, each nursing home in New York State maintain at minimum a 30-day supply of the following three categories of PPE—gloves, gowns, and masks—as part of its stock inventory. In October 2020, this requirement was increased to a 60-day supply.

The Materials Management Director at each facility is responsible for managing the facility's inventory of medical surgical items including PPE. Each facility has a Central Store that is responsible for ordering, storing, and distributing medical surgical items to the nursing units. The Central Stores Manager is tasked with overseeing these functions. H+H's Supply Chain Services supports the facilities in contracting with vendors and purchasing medical surgical items. In addition, its Regional Directors facilitate distribution of PPE to ensure optimum levels on inventory. H+H utilizes PeopleSoft to manage their medical surgical inventory, including ordering and end user distribution, as well as the management of perpetual inventory records of medical surgical items.<sup>3</sup>

In three of the five facilities (Carter, McKinney, and Sea View), Central Stores staff inspect the nursing units' stock of medical and surgical items and determine replenishment quantities. In two facilities (Coler and Gouverneur) staff rely on the nursing units to submit requests for medical surgical items.

To monitor the PPE usage and to ensure that facilities had enough PPE in stock, H+H mandated weekly inventory counts of all PPE items, starting with the onset of the COVID-19 pandemic in February 2020 through April 2021, after which H+H amended the requirement to bi-weekly counts.

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<sup>2</sup> Post-acute/long-term care administrators are, in effect, the CEOs of health care organizations and, as such, are responsible for the health, safety and well-being of the most vulnerable New Yorkers. According to the New York State Department of Health standards, no post-acute/long-term facility in New York State is permitted to operate unless it is under the supervision of an administrator who holds a currently valid administrator's license and registration.

<sup>3</sup> Perpetual inventory is a method of accounting for inventory that records the sale or purchase of inventory immediately through the use of computerized point-of-sale systems and enterprise asset management software.

According to its policies and procedures, H+H requires each facility to conduct a fiscal year-end inventory count.

The total medical surgical supply purchases for the five facilities for Fiscal Year 2021 totaled \$11,474,698.27.<sup>4</sup>

## Objective

The objective of this audit was to determine whether H+H ensures that its post-acute and long-term acute care facilities comply with applicable inventory rules and guidelines regarding the supply and management of medical surgical supplies, including PPE.

## Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was April 2020 through October 2021. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

## Discussion of Audit Results with H+H

The matters covered in this report were discussed with H+H officials during and at the conclusion of this audit. A preliminary draft report was sent to H+H on May 13, 2022, and discussed with H+H officials at an exit conference held on May 25, 2022. On June 7, 2022, we submitted a draft report to H+H with a request for written comments. We received a written response from H+H on June 23, 2022. In its response, H+H agreed with all four recommendations.

In its response to the draft report, H+H also provided additional context regarding some of the audit's findings cited in the report. Where relevant, footnotes have been added to provide additional information. The full text of H+H's response is included as an addendum to this report.

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<sup>4</sup> The breakdown of the purchases amongst the five facilities is as follows: Coler-\$2,299,637.92; Gouverneur-\$2,199,600.19; Carter-\$5,047,313.77, Sea View-\$893,380.31; and McKinney-\$1,034,766.08.

## FINDINGS AND RECOMMENDATIONS

Although H+H has established several inventory rules and guidelines relating to the supply and management of medical surgical supplies at its post-acute and long-term acute care facilities (facilities), the agency does not adequately ensure that its facilities comply with those rules and guidelines, nor do those rules and guidelines address certain essential aspects of inventory management.

Auditors visited all five facilities, conducting a PPE count at one (Carter) and observing a year-end count at another (Coler). At both facilities, the auditors identified deficiencies which are discussed further below.

H+H has instituted cycle counts to help ensure that each facility has sufficient PPE in stock and has established policies requiring that physical inventory counts be conducted periodically and that material discrepancies be investigated. In addition, H+H has established protocols to distinguish responsibilities for receiving inventory from storing and distributing inventory, thereby strengthening some aspects of segregation of duties.

The auditors found, however, that H+H did not ensure that some of its inventory policies and procedures were implemented. Additionally, some of the existing inventory procedures do not appropriately account for all inventory items. In its response, H+H stated that many of the audit findings stemmed from the need to implement temporary interim processes to meet the goals of handling the public health emergency.

Although the auditors found no instances of misappropriation or theft, the weaknesses identified in this report create an environment in which there is an increased risk that errors, misappropriation, and theft can occur and remain undetected.

These deficiencies are discussed in greater detail in the sections below.

### Deficiencies Identified at Carter and Coler Facilities

#### Carter

Carter did not institute cycle counts as required for more than one year, and the inventory records maintained by the facility were inaccurate and incomplete. A count of 35 sampled PPE item types found that the balances for 13 were inaccurate. The Central Stores Manager also issued certain PPE items out of PeopleSoft to a tracking system that he alone maintained, and the auditors also found that some items were being stored in an unsecured location and that many of the items stored in overflow areas were not tracked in inventory records.

According to H+H management, Carter is a large healthcare provider for the City's elderly population, and the top priority of management during the COVID-19 outbreak was to ensure that patients were properly cared for and protected from the spread of the virus. H+H management also stated that during the height of the pandemic, many of the storeroom staff were on leave due to contracting COVID-19, hindering the facility's ability to implement adequate controls over its inventory.



*PPE Cycle Counts Were Not Conducted and Recorded in PeopleSoft*

At the onset of the COVID-19 pandemic, H+H required each facility to conduct periodic cycle counts (initially weekly, later biweekly) of their PPE inventory levels and enter the results into PeopleSoft. The purpose of the cycle count was two-fold: (1) it allowed each facility to ensure that it carried adequate amounts of PPE items, as required by SDOH, and (2) it helped to ensure that the recorded balance in the PeopleSoft perpetual inventory reflected the quantity on hand.

According to H+H officials, the Central Stores Manager at Carter recorded the weekly count results in an Excel spreadsheet, rather than in PeopleSoft, and submitted the results to the Materials Management Regional Director and to the Strategy Manager via email. H+H officials cited challenges in dealing with the pandemic and a shortage of staff as the reason for Carter deviating from the prescribed method of performing cycle counts. As a result, balances recorded in PeopleSoft may not accurately reflect quantities on hand.<sup>5</sup> H+H management immediately addressed the issue by ensuring that, as of September 30, 2021, Carter conducted regular cycle counts and entered the results into PeopleSoft.

*Inaccurate Inventory Records*

An inventory count of 35 PPE inventory item types that were recorded on the inventory list found that the balances recorded in PeopleSoft were accurate for only 22 (or 63%) of them.<sup>6</sup> For the remaining 13 item types, the amount recorded in PeopleSoft either overstated or understated the amount counted, resulting in a net overstatement of \$14,831. The breakdown of the count results and discrepancies in monetary value is shown in Table I below.

**Table I**

PPE Inventory Count Results

Category	# of Items	\$ Value of Items Counted	\$ Value of Items as per PeopleSoft	Net Discrepancy (in \$)
Amount on hand equals amount recorded	22	\$1,077	\$1,077	\$0
Less on hand than amount recorded	7	\$1,473	\$3,988	(\$2,514)
More on hand than amount recorded	6	\$24,506	\$7,161	\$17,345
<b>Totals</b>	<b>35</b>	<b>\$27,056</b>	<b>\$12,226</b>	<b>\$14,831</b>

<sup>5</sup> In its response, H+H stated that Carter performed manual cycle counts in lieu of cycle counts in PeopleSoft. During the audit, H+H had presented auditors with manual count results for 38 of the 72 weeks covering the period February 2020 through August 2020.

<sup>6</sup> Nineteen of the item types were properly recorded as having a zero balance in PeopleSoft.

*Certain Items Not Tracked in Inventory Records or Kept  
in a Secured Location*

At Carter, PPE items are stored and maintained in four locations: (1) Central Stores, which stores PPE items that are regularly dispensed to nursing units; and (2) the “Renaissance Room,” which stores the 60-day emergency supplies—items from both rooms are distributed by the Materials Management Department; (3) Environmental Services Room, which stores protective blue gowns, which are distributed to the nursing units by the Environmental Services Department; and (4) another overflow inventory area called the “Cage,” which is used by both departments to store PPE items in this area. Auditors found, however, that not all items were tracked in inventory records and, as a result, gowns were stored in an unsecured location, as detailed further below.

PPE Items Issued Out of PeopleSoft to an Alternate Tracking System Maintained by the Central Stores Manager

Of the 73 types of items stored in the “Renaissance Room” (one of two inventory overflow areas), auditors found that 15 item types were inaccurately recorded in PeopleSoft as having been issued to nursing units. These items included gowns, gloves, and face masks, and fell under the 60-day emergency supply requirement mandated by SDOH. The Central Stores Manager recorded the items as disbursed in PeopleSoft and instead tracked them on an Excel spreadsheet that he alone maintained. According to the Regional Director and Central Stores Manager, because these items were issued out of PeopleSoft they were not included in the year-end count. The value of these 15 item types (consisting of 1,008,045 individual units) is \$282,183.

The Central Stores Manager, who is employed by the Materials Management Department, stated that he issued the items out of PeopleSoft to ensure that the facility maintained the minimum 60-day supply. H+H officials confirmed this and stated that the manager had been counseled and retrained regarding the correct procedures for tracking and disbursing items in PeopleSoft.

The remaining 58 item types (consisting of 500,098 individual units) were replacement and donated items<sup>7</sup> with an estimated value of \$348,169, and these were tracked by the Central Stores Manager in an Excel spreadsheet. H+H officials stated that they did not create an inventory line in PeopleSoft to account for these items because they often lacked crucial information, such as manufacture’s name, item number, etc., and replacement items were typically ordered only once.

During the exit conference, H+H officials stated that they have taken steps to remedy the issues in the Renaissance Room. The 15 item types that were issued prematurely out of PeopleSoft have been reinstated. For the 58 donated item types, H+H officials stated that they had conducted an evaluation, discarding those items that were not being utilized and adding the remaining items to PeopleSoft.

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<sup>7</sup> At the height of the pandemic, H+H procured replacement items from new vendors. Additionally, H+H facilities received donations of PPE items from government agencies (e.g., SDOH, the City’s Department of Mental Health and Hygiene) to alleviate the national PPE shortage.

### Items Stored in “Cage” Overflow Area Not Tracked

Auditors observed 24 types of items stored in the “Cage” overflow area. These items are not tracked in PeopleSoft, and the Materials Management Director provided no evidence that they are being tracked in manual records.

The estimated value of the 82 item types that were not included in the perpetual inventory records in PeopleSoft was \$356,780. These items were not accurately tracked in manual records.

### Inventory of Gowns Not Maintained in a Secure Location

Due to a facility-wide increase in the need for gowns during the pandemic, H+H purchased gowns in bulk and the Regional Directors distributed them as needed to the facilities. As a tracking mechanism, the Director of the Environmental Services Department maintained a manual log to track the gowns that were issued. However, the Director stated that he had lost track of the gowns in December 2020 and stopped recording issuances.

The Regional Director continued to distribute additional gowns to Carter in an attempt to ensure gowns were available throughout the pandemic. As a result, the Environmental Services Department ran out of secure storage space. Auditors observed pallets of gowns stored in the public hallway of the basement and saw open boxes with missing gowns. Auditors also observed pallets of additional gowns being delivered to the facility. Per the physical count, the value of the blue gowns under the management of the Environmental Services Department was \$226,200. The Director of the Environmental Services Department stated that the facility had no other space available for storing excess gowns and they had to be stored in the hallway for extended periods of time.

During the exit conference, H+H officials stated that it is the goal of the agency that all deliveries received by the facility, including gowns, be put away in a secured location by the end of the day. In its response, H+H stated that during the COVID-19 outbreak, facilities were not configured to store the volume of supplies that were required to be on hand.

## **Coler**

During the year-end count at Coler, which took place June 10, 2021, auditors observed the Central Stores Manager incorrectly enter the recorded amounts as the official count results. The manager, who was tasked with conducting the final recount of 10 types of line items that had discrepancies between the recorded amount and the amount on hand during the initial count and two subsequent recounts, simply wrote down the exact quantities that matched the recorded values to the pre-printed values on the count sheet.<sup>8</sup> For seven of the 10 items, the number of units counted was less than what was recorded, and for three items, the number of pieces counted was more than what was recorded, resulting in a total net amount of \$7,813 that was not recorded properly.

Auditors subsequently asked the manager to count the 10 types of items in their presence, and the totals differed from what he recorded. At that point, the manager had already submitted the incorrect count sheet to the Regional Director for entry into PeopleSoft. After numerous inquiries to the Materials Management Director at Coler, the count totals for these items were corrected as

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<sup>8</sup> The discrepancies for these 10 items consisted of the following: 310 dressings of 3 different sizes; 4,096 gloves of 2 types; one central line kit; 160 shower caps; one abdominal binder; 500 bag liners; and two catheters.

of October 2021. H+H stated that the Central Stores Manager at Coler had been counseled and retrained regarding the correct counting procedures.

## **Inventory Operations Weaknesses**

### **Inadequate Segregation of Duties**

Facilities have not segregated inventory duties among different individuals, nor instituted compensating controls if such segregations are not feasible. The *H+H Physical Inventory 2021* handbook states that all facilities should ensure that “segregation of duties is maintained throughout the inventory process to promote the safeguarding of the assets, protection of employees, and objective reporting of inventory.” Additionally, the United States Government Accountability Office (GAO), in its guide relating to inventory counts, recommends that in instances where a full segregation of duties may not be feasible, the entity should establish compensating controls, such as increased reviews of inventory-related transactions at the managerial or supervisory level.

The audit found that:

- The storeroom employees at all five facilities are responsible for handling stock every day and for performing the cycle and fiscal year-end counts and recording the year-end count results into PeopleSoft.
- At the Coler facility, the same employees responsible for conducting the initial year-end count are also responsible for performing two of the recounts in the event of discrepancies.<sup>9</sup> Auditors did not observe the counts at the other four facilities.
- In three of the five facilities (Sea View, Carter, and McKinney), the stockroom employees who are charged with inspecting the nursing units’ stock of medical and surgical items and determining replenishment quantities are also tasked with pulling these items from the stockroom and delivering them to the nursing units.<sup>10</sup>
- In all five facilities, the Central Store Managers, who have physical custody of the inventory, also have the authority to enter inventory balance transactions (e.g., receipts, disbursements) into PeopleSoft.

### **User Rights Not Granted to Individuals Tasked with Entering Physical Count Results**

H+H has not granted the individuals responsible for entering count results into PeopleSoft the user rights to make such entries into the system, requiring that managers share their usernames and passwords with staff.<sup>11</sup>

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<sup>9</sup> The third recount is performed by the Central Stores Manager, who is also tasked with daily management of inventory.

<sup>10</sup> In its response, H+H stated that the stockroom employees submit Material Stock Request (MSR) paperwork to the management team who enter the MSR into PeopleSoft, and that the management team evaluates any questionable submissions. However, the Central Stores Manager at each facility is also a member of its management team and has responsibilities that conflict with an adequate segregation of duties. For example, the Central Stores Managers are also able to pull items from the stockroom, deliver them to the nursing units, and record the entries into PeopleSoft.

<sup>11</sup> In its response, H+H stated that it does not condone or permit any password sharing and that NYC Health + Hospitals only grants user rights to the individuals tasked with entering the count results into PeopleSoft. Nevertheless, as

According to the Department of Information Technology and Telecommunication's *Identity Management Security Policy—Identity Life Cycle*, "Access permissions must be defined in accordance with a user's actual functional work requirements."<sup>12</sup>

H+H does not assign user rights that align with the duties and responsibilities of stockroom staff. For example, according to H+H's inventory guidelines, the Central Stores Managers, who are authorized to record inventory transactions in PeopleSoft, are prohibited from entering the count results for items into the system. Instead, one of the staff from the Central Stores, other than the manager, is assigned this task. However, H+H does not grant user rights to the person tasked with entering the count results into PeopleSoft. H+H confirmed that in order to make the entry, managers at each of the five facilities share their usernames and passwords with the staff, who enter the count results into the system.

During the exit conference, H+H officials stated that the management at each facility is responsible for determining the level of access required for each of its staff. H+H officials also stated that they are in the process of reviewing the user rights for all staff and management within the material management line and will be making appropriate changes to ensure that those charged with entering the count into PeopleSoft are assigned proper access.

## **Weaknesses Found Regarding Discrepancies and Balance Adjustments**

### **Cycle Count Discrepancies Are Not Analyzed**

Central Stores Managers do not investigate the causes for discrepancies between the quantities counted and the quantities recorded in PeopleSoft, as required by H+H procedures. Performing such analyses would help to detect and prevent misappropriation and errors.

According to H+H officials, Materials Management Directors are responsible for overseeing and monitoring the operations of the Central Stores and for checking the activities of the Central Stores Managers. As per H+H procedures, their responsibilities involve investigating the cause of discrepancies that arise between the physical count quantity and the recorded perpetual inventory (root-cause analysis). However, auditors found that the Materials Management Directors did not enforce this requirement.

Central Stores Managers at four of the facilities stated that they had not conducted any root-cause analyses because they have never found discrepancies in any of their cycle counts. A review of the June 2021 through September 2021 cycle counts, however, show that all four facilities had discrepancies recorded during the cycle counts.

The fifth facility, Carter, did not record any cycle counts in PeopleSoft prior to September 30, 2021.

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indicated in the report, this was an on-going practice which H+H has agreed to rectify by implementing the recommendation.

<sup>12</sup> This policy is not binding on H+H, which is a non-Mayoral agency, but is being presented as a best practice.

## Reasons for Balance Adjustments Are Not Recorded

H+H does not require that inventory personnel record the reasons for balance adjustments in inventory records. Such a requirement would help to protect against inappropriate adjustments and adjustments intended to conceal misappropriation or theft.

As reflected in Comptroller's Directive #1, *Principles of Internal Control*, all transactions should be clearly and promptly documented to provide management with the information needed to properly oversee operations.

Within PeopleSoft, the inventory balances of medical surgical items are adjusted when (1) purchased items are received at a facility and placed in inventory and (2) items are distributed to staff (based on requisitions submitted from the nursing units). Both the receipt and disbursement functions are designed to contain detailed information about the items and the reasons for the transactions.

The auditors identified two internal control weaknesses associated with adjustments. First, adjustments are made by each of the five Central Stores Managers, who also have physical custody of the stock and do not require approval from another individual who is *not* responsible for physical custody of the inventory. This provides inadequate segregation of duties. Second, the system does not have a field for recording the reasons for balance adjustments unrelated to receiving or issuing stock.

## Recommendations

1. H+H should ensure that cycle counts and fiscal year-end counts are conducted in accordance with agency protocols, that discrepancies identified during counts are investigated, that all inventory items are recorded and tracked in inventory records (whether PeopleSoft or in manual records) and securely stored.

**H+H Response:** H+H agreed with this recommendation.

2. If staffing levels permit, H+H should segregate the responsibilities for handling and issuing items, recording the issuance of items, and conducting the periodic counts among different staff. If such segregation of duties is not feasible, H+H should implement compensating controls, such as increased reviews of inventory-related transactions at the managerial or supervisory level.

**H+H Response:** H+H agreed with this recommendation.

3. H+H should ensure that access controls in PeopleSoft align with the duties and responsibilities of its users.

**H+H Response:** H+H agreed with this recommendation.

4. H+H should ensure that the reasons for all inventory balance adjustments are documented (either in or outside of PeopleSoft) and that the adjustments are authorized by an individual who does not have physical custody of the inventory.

**H+H Response:** H+H agreed with this recommendation.

## DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was April 2020 through October 2021.

To determine whether H+H had adequate controls in place to ensure that its post-acute and long-term acute care facilities (facilities) complied with inventory rules and guidelines regarding supply and management of medical surgical supplies, including PPE, and to obtain an understanding of supply and management of the medical surgical supplies inventory, auditors reviewed the following and, where applicable, used as criteria:

- *NYC H+H Physical Inventory Guide 2021*, which includes instructions for fiscal year-end counts;
- *NYC H+H Inventory Count* guide, which includes instructions for cycle counts;
- *NYC H+H Supply Chain Services PPE Surge and Flex Response Plan*;
- *EXECUTIVE GUIDE -- Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, issued by the GAO;
- *Public Health Law Section 415.19* amended on July 22, 2020, and a subsequent amendment as of July 30, 2021;
- Comptroller's Directive #1, *Principles of Internal Control*; and
- Department of Information Technology and Telecommunication's *Identity Management Security Policy*.

To assess the internal controls pertaining to the inventory process, auditors interviewed the following H+H representatives from the Central Office: Senior Vice President for the Post-acute and Long-term Care Service Line, Vice President for Supply Chain Service Line, Senior Director for Procurement and Systems Operation, Senior Director for Materials Management, Senior Project Manager, three Regional Directors and three Strategy Managers. In addition, auditors met with the Facilities Director and Central Stores Manager for each of the five facilities. Finally, to obtain more detailed information regarding the operation of the Carter facility, auditors interviewed its Associate Executive Director and Environmental Services Manager.

At each facility, auditors conducted a virtual walkthrough of all locations that were involved with processing medical surgical inventory—from the receiving dock through the Central Stores and up to the final destination of inventory at the nursing units. Additionally, auditors conducted an in-person walkthrough of receiving docks and Central Stores in all five facilities.

To obtain an understanding of H+H's digital perpetual inventory records and to determine whether H+H implemented system controls that would have allowed it to ensure that records were secure

and accurate, auditors conducted a walkthrough of the system with the Director for Procurement and Systems Operation and Project Manager and observed PeopleSoft entries at various facilities for receiving, dispensing and counting of medical surgical items. Auditors completed their review of the inventory system by obtaining and reviewing the following reports generated from PeopleSoft for all five facilities: *Pre-Count and Post-Count Inventory Values Queries* for fiscal year-end counts<sup>13</sup>; cycle count reports from June 1, 2021 through October 13, 2021; multiple *Inventory Values Queries*; multiple *Item Master* reports; pick-sheets; inventory count sheets and count reconciliation reports.<sup>14</sup>

In addition, auditors performed detailed testing of inventory at two out of the five facilities—Coler and Carter. Auditors selected Coler, the largest of the five facilities, to observe the fiscal year-end count.<sup>15</sup> At the Carter facility, interviews with the staff and observations of the process led the auditors to conclude that the Carter facility had the highest level of risk due to the fact that the facility (1) did not perform cycle counts, (2) reported that the count was completed in considerably less time than the counts conducted at the other facilities, (3) acknowledged that some items were not tracked through PeopleSoft, and (4) did not maintain its inventory of gowns in a secure location. As a result, auditors selected Carter to conduct the physical inventory count of the PPE and a more detailed review of its records and processes.

To establish a population for the inventory count at Carter, auditors used a Post-Inventory Value Query that was generated by the Central Stores Manager on June 10, 2021. This was after the completion of the fiscal year-end count, which included a total of 835 medical surgical items. Auditors performed a partial test of the reliability of the data by checking for duplicates and incomplete information of the items included on the list. Based on this limited review, the auditors deemed the data reliable for further testing. To determine the accuracy of Carter’s perpetual inventory records for PPE, auditors compared the recorded value and the physical count for all 36 item types that were maintained by Carter on the day of our count. While conducting the count, the auditors also inspected Central Stores and two overflow areas, “Renaissance Room” and “Cage,” for items that were not recorded in PeopleSoft, as well as for items that were charged out from the PeopleSoft perpetual inventory as though they were issued to nursing units, but in reality, the items remained under the care of Central Stores Manager. Auditors compared the counts of these issues and unrecorded items to the manual records received from the Central Stores Manager.

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<sup>13</sup> The auditors used the reports to assess the types of items that were part of the medical and surgical inventory, whether the lists vastly differed from facility to facility and determined whether information may have been missing from the inventory lists, such as prices, units, proper description and then used the lists to assess the risks at each facility.

<sup>14</sup> *Inventory Value Query* (including pre and post count) – inventory levels for all items listed in the perpetual inventory as of the time the report is generated, including the manufacture’s name and reference number, the price of the item, packaging information, and extended cost;

*Cycle Count Report* – list of items that were chosen for a cycle count including the quantity on hand and on record and, if a discrepancy was found, quantity of the adjustment;

*Item Master Report* – inventory list of all items recorded in the perpetual inventory, which includes all of the same information as the *Inventory Value Query* and additionally contains a historical data such as but not limited to the data of last purchase, last price paid, last time item was counted, etc. It also includes the location the item is stored within the Central Stores.

*Pick Sheet* – preprinted sheet from PeopleSoft used by staff to record the number of items that are pulled from the shelves to be issued to nursing unit;

*Inventory Count Sheet* – preprinted sheet from PeopleSoft of all items that have a location specified on the record, used for recording a physical inventory count;

*Reconciliation Reports* – reports showing the comparison between the recorded inventory value and the physical count for all items, for which the discrepancy between these two values is either five percent or \$500.

<sup>15</sup> H+H conducted the inventory fiscal year-end count on the same day in all five facilities. Since auditors were not able to observe all of the facilities at the same time, they selected the largest one.



To assign a dollar value to the results related to the inventory count at Carter, auditors used the price assigned in PeopleSoft, as well as the prices offered by H+H representatives. For items that had no price listed in PeopleSoft, but with compatible PPE items with a price in PeopleSoft, auditors estimated the prices in the following manner: price that was paid by another H+H facility; average price of similar items recorded in PeopleSoft; market price advertised by manufacturer or distributor.

The results of the above tests, while not projectable to their respective populations, provide a reasonable basis for the auditors to assess H+H's controls over ensuring that its post-acute and long-term acute care facilities comply with inventory rules and guidelines regarding supply and management of medical surgical supplies, including for PPE.

**Catherine G. Patsos, Esq., CHC**  
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**VIA ELECTRONIC MAIL**

June 22, 2022

Maura Hayes-Chaffe  
Deputy Comptroller for Audit  
NYC Office of the Comptroller  
One Center Street  
New York, NY 10007

**Re: Audit Report on the New York City Health + Hospital's Controls over Inventory of Medical Surgical Supplies Including Personal Protractive Equipment at Its Post-acute and Long-term Acute Care Facilities  
MG21-059A**

Dear Maura Hayes-Chaffe:

Thank you for sharing the draft audit report for the above-mentioned audit, which is attached hereto as Attachment A (the "Draft Audit Report"). Please accept this letter as NYC Health + Hospitals' formal response to the Draft Audit Report. In addition to addressing the recommendations in the Draft Audit Report, NYC Health + Hospitals includes in this response comments to some of the findings in the Draft Audit Report.

Although briefly acknowledged in the Draft Audit Report, it should be emphasized that the audit was conducted during the height of the COVID-19 public health emergency ("PHE"). NYC Health + Hospitals and its post-acute and long-term acute care facilities were significantly and uniquely impacted during the many phases of the PHE. These impacts included higher than usual occupancy rates with significantly sicker residents, including many on ventilators; enhanced regulatory compliance requirements for staff and resident testing; and deployment of a large number of supplemental professional staff to care for the increased and sicker residents.

In addition, for Materials Management specifically, there were staffing shortages due to staff falling ill to COVID-19, which required the onboarding of new, temporary staff and utilizing staff from other departments who were less experienced in the normal inventory processes. There were also space limitations due to receiving bulk deliveries, which required redistributing supplies to other facilities and external warehouses.

The post-acute and long-term care facilities were also required to maintain sixty (60) days of personal protective equipment (“PPE”) supplies on-site, rather than in warehouses for periodic deliveries. These facilities were not constructed or configured to allocate the space required to maintain this volume of supplies within their facility storerooms.

In line with its mission, NYC Health + Hospitals’ primary goals and points of focus throughout the PHE were the care and treatment of its patients, maintaining sufficient PPE on hand to keep its patients and staff safe, reducing the spread of COVID-19, and meeting applicable New York State Department of Health requirements. The challenges in meeting these goals during the PHE occasionally required NYC Health + Hospitals to implement temporary interim processes, which included changes to the normal course and process for accounting for and maintaining PPE inventory. Many of the findings in the Draft Audit Report stemmed from the need to implement such processes.

In addition, please note the following:

- With regard to the deficiencies identified at Carter and Coler on page 5, the Draft Audit Report states that Carter did not institute cycle counts for more than a year. However, Carter did perform manual cycle counts in lieu of cycle counts in PeopleSoft, thirty-eight weeks of which were provided to the auditors.
- With regard to the findings related to separation of duties on page 9, the Draft Audit Report states that the stockroom employees at Sea View, Carter, and McKinney, “who are charged with inspecting the nursing units’ stock of medical and surgical items and determining replenishment quantities are also tasked with pulling these items from the stockroom and delivering them to the nursing units.” Contrary to this statement, however, the stockroom employees submit the Material Stock Request (MSR) paperwork to the management team who enter the MSR into PeopleSoft, and the management team would evaluate any questionable submissions.
- Also, on page 9, NYC Health + Hospitals wishes to make clear that it does not condone or permit any password sharing. Similarly, NYC Health + Hospitals only grants user rights to the individuals tasked with entering the count results into PeopleSoft.

Below are NYC Health + Hospitals’ responses to the Office of the Comptroller’s audit recommendations:

1. *H+H should ensure that cycle counts and fiscal year-end counts are conducted in accordance with agency protocols, that discrepancies identified during counts are investigated, that all inventory items are recorded and tracked in inventory records (whether PeopleSoft or in manual records) and securely stored.*

NYC Health + Hospitals agrees with this recommendation. This is in progress, and will be completed by the end of the calendar year 2022.

2. *If staffing levels permit, H+H should segregate the responsibilities for handling and issuing items, recording the issuance of items, and conducting the periodic counts among different staff. If such segregation of duties is not feasible, H+H should implement*

*compensating controls, such as increased reviews of inventory- related transactions at the managerial or supervisory level.*

NYC Health + Hospitals agrees with this recommendation. This is in progress, and will be completed by end of the calendar year 2022.

3. *H+H should ensure that access controls in PeopleSoft align with the duties and responsibilities of its users.*

NYC Health + Hospitals agrees with this recommendation. A review of PeopleSoft Inventory Access is in process, and will be completed by the end of August 2022.

4. *H+H should ensure that the reasons for all inventory balance adjustments are documented (either in or outside of PeopleSoft) and that the adjustments are authorized by an individual who does not have physical custody of the inventory.*

NYC Health + Hospitals agrees with this recommendation. This will be completed by the end of the calendar year 2022.

Thank you for your due diligence during this audit. If you have any questions or would like additional information, please feel free to contact me.

Sincerely,



Catherine G. Patsos

Attachment

cc: Jose A. Pagan, PhD, Chairman, NYC Health + Hospitals  
Mitchell Katz, M.D., President and CEO, NYC Health + Hospitals  
Devon Wilson, Senior Direct, Internal Audits, NYC Health + Hospitals