

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Arrowhead Regional Medical Center: Pharmacy Inventory Controls Audit



Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector

268 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 382-7000

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

Mission Statement

The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

Audit Team

Denise Mejico
Chief Deputy Auditor

Mary Barber, CPA
Internal Audits Manager

Menaka Burkitt
Supervising Internal Auditor III

Carmel Manela
Internal Auditor III

Thomas Red Eagle
Accountant I

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



- 268 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 890-4045
- 268 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 890-5797

Matt Brown
Assistant Auditor-Controller/Treasurer/Tax Collector

John Johnson
Assistant Auditor-Controller/Treasurer/Tax Collector

August 24, 2016

William L. Gilbert, Hospital Director
Arrowhead Regional Medical Center
400 N. Pepper Avenue
Colton, CA 92324-1819

SUBJECT: PHARMACY INVENTORY CONTROLS AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Arrowhead Regional Medical Center's Pharmacy Inventory Controls for the period of July through October 2015. The objectives of the audit were to determine whether policies and procedures over pharmacy inventory were in place and to determine whether controls over inventory were in place and effective. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We identified one procedure and practice that should be improved. We have listed the area for improvement in the Audit Finding and Recommendation section of this report.

We sent a draft report to the Department on May 23, 2016 and discussed our observations with management on June 27, 2016. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Arrowhead Regional Medical Center who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



Denise Mejico
Chief Deputy Auditor

Distribution of Audit Report:

Robert Lovingood, Vice Chair, 1st District Supervisor
Janice Rutherford, 2nd District Supervisor
James Ramos, Chair, 3rd District Supervisor
Curt Hagman, 4th District Supervisor
Josie Gonzales, 5th District Supervisor
Gregory C. Devereaux, County Executive Officer
Grand Jury
Auditor-Controller Audit Committee

Date Report Distributed: 8.24.2016

OV:DLM:CMM:



Arrowhead Regional Medical Center: Pharmacy Inventory Controls Audit

Executive Summary	1
Audit Background	2
Scope, Objectives, and Methodology	3
Audit Finding and Recommendation	4 - 5



Summary of Audit Results

Our finding and recommendation is provided to assist management in strengthening internal controls and procedures relating to the Pharmacy's inventory of medications.

The table below summarizes the audit finding and recommendation for this audit engagement. For further discussion, refer to our *Audit Finding and Recommendation* section of this report.

Finding No.	Findings and Recommendations	Page No.
1	Controls over the inventory of non-controlled medications at the Inpatient and Outpatient Pharmacies should be improved. Medications subject to a higher risk of theft or misappropriation due to their high value or propensity for abuse should be evaluated and identified by both pharmacies. Both pharmacies should conduct periodic inventory counts of these non-controlled medications to verify existence and value. The pharmacies should compare their inventory reports to actual physical counts and investigate discrepancies.	4



Background

The Department

Arrowhead Regional Medical Center (ARMC) is a 456-bed university-affiliated teaching hospital licensed by the State of California's Department of Public Health and operated by the County of San Bernardino. The hospital, located on a 70-acre campus in Colton, California, is a designated Level II trauma center. ARMC operates a regional burn center, a primary stroke center, a behavioral health center located on the hospital campus, four primary care centers including three family health centers, and provides more than 40 outpatient specialty care services.

The Medical Center recently installed a new, state-of-the-art Computed Tomography (CT) scanner and a dual purpose interventional laboratory to enhance care for patients. In keeping with its mission of providing quality health care, a variety of community outreach and wellness programs are offered, including the Breathmobile (asthma education and screening), a Mobile Medical Clinic, an annual Health Fair and a 5K Walk-Run event.

Pharmacy Services

The Pharmacy Department provides comprehensive pharmaceutical care to patients at the Medical Center. The pharmacy is an integral part of the hospital's clinical services. The Inpatient Pharmacy is located on the lower level, and the Outpatient Pharmacy is located on the first floor of the Outpatient Care Center. Automation is used to facilitate the technical dispensing tasks so that pharmacists can spend an increased amount of time in patient care activities. A dispensing robotic system that uses barcode technology is used to process outpatient prescriptions. Automatic dispensing cabinets are used on the inpatient units to decrease wait times and increase the availability of medications when they are needed.



Scope and Objectives

Our audit examined whether the controls over ARMC Pharmacy inventories were in place and effective.

The objectives of our audit were to:

- Determine whether policies and procedures over Pharmacy inventory were in place.
- Determine whether controls over inventory were in place and effective.

Methodology

In achieving the audit objectives, the following audit procedures were performed, including but not limited to:

- Interviews with Pharmacy staff
- Walkthrough of activity
- Review of policies and procedures
- Examination of system-generated reports



Finding 1: Controls over the inventory of non-controlled medications at the Inpatient and Outpatient Pharmacies should be improved.

The County's Internal Control and Cash Manual (ICCM) Chapter 2 states that a critical step in safeguarding assets is to record them at the time of acquisition and to verify their existence and value periodically. This means a complete physical inventory of assets should be taken periodically to insure that the assets exist and are completely accounted for.

The following conditions were revealed during our inventory count:
For both pharmacies, inventory records indicated there should have been more medications on the shelf than what was physically counted.

- Inpatient Pharmacy
 - When comparing the inventory records to the physical count, one out of 35 tested medications had significant discrepancies. There was an estimated total of \$1,221 in unaccounted inventory.
- Outpatient Pharmacy
 - When comparing the inventory records to the physical count, seven out of 35 tested medications had significant discrepancies. All seven were non-controlled medications.
 - Two out of seven were high-valued medications, totaling \$113 and \$1,288 in unaccounted inventory.
 - Five out of seven exceeded at least \$60 in unaccounted inventory. The total of these medications amounted to an estimated \$1,082 in unaccounted inventory.
 - When comparing the physical count to the inventory records, four out of 20 tested medications had significant discrepancies. All four were non-controlled medications.
 - The total of these medications amounted to about \$863 in unaccounted inventory.
 - There was no system-generated inventory report available to easily identify the non-controlled medication inventory.

Inventory counts of non-controlled medications at both pharmacies are not taken or reviewed by staff on a routine basis. Instead, an inventory count is conducted by an outside party once a year. In addition, since State regulations do not require stringent inventory controls or counts as required for controlled medications, there is no formal inventory control done by the Department. The risk of potential loss or theft of these medications increases when inventory records are not compared to physical counts.



Recommendation:

We recommend that medications subject to a higher risk of theft or misappropriation due to their high value or propensity for abuse should be evaluated and identified by both pharmacies. Both pharmacies should conduct periodic inventory counts of these non-controlled medications throughout the year to verify existence and value. In addition, inventory reports should be generated by the Outpatient Pharmacy. We further recommend that the pharmacies compare their inventory reports to actual physical counts and investigate any discrepancies.

Management's Response:

Quarterly Audits will be performed randomly for high cost pharmaceuticals as identified in purchasing reports. Medications that have abuse potential will be included in the audits.

30 medications will be audited (15 inpatient and 15 outpatient). The audit will compare purchasing information, actual physical counts, and utilization. Discrepancies that are identified will be fully investigated. Corrective action will be implemented according to the root cause. The audits reports will be submitted and reviewed with Hospital Administration.

The outpatient pharmacy will be tracking inventory through Optifill, Foundation System, Correctional Institution Pharmacy System (CIPS), and Talyst. Inventory reports generated by these systems will be compared to actual physical counts.

Auditor's Response:

The Department's planned actions will correct the deficiencies noted in the finding.