



*The City of New York
Office of the Comptroller
Bureau of Management Audit*

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Comptroller

**Audit Report on the Inventory Controls of
The Woodhull Medical and Mental Health Center,
New York City Health and Hospitals Corporation,
Over Non-Controlled Drugs and
Medical and Surgical Supplies**

MG02-141A

June 28, 2002

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EXECUTIVE SUMMARY

Background

The New York City Health and Hospitals Corporation (HHC) provides City residents with comprehensive medical and mental health services, as well as treatment for substance abuse, regardless of ability to pay. HHC hospitals, clinics, and other facilities require substantial quantities of drugs and medical and surgical supplies, and must ensure that items are in stock when needed. HHC has a computerized OTPS (Other Than Personal Services) procurement management system that stores perpetual inventory records. Each facility has access to the system, to maintain and update its records as necessary. This system, based on minimum and maximum quantities, includes a reorder point for each item at each facility, and automatically generates a purchase requisition when the reorder point is reached.

Woodhull Medical and Mental Health Center (Woodhull Hospital), the facility covered by this audit, is part of the HHC's North Brooklyn Health Network (Network). Woodhull Hospital officials do not fully utilize the OTPS system: inventory shipments to Woodhull Hospital are recorded in the OTPS system, but inventory issued from the hospital's own stockrooms is not recorded in the system. Both the Pharmacy and Material Management Departments keep only manual inventory records.

Drugs are categorized into two groups: controlled and non-controlled. Controlled drugs are regulated by the Drug Enforcement Administration (DEA), a federal law-enforcement agency that has strict requirements for the storage,

record keeping, and dispensing of controlled drugs. The DEA, however, does not regulate non-controlled drugs. This audit reviews the inventory controls put in place by HHC and Woodhull Hospital over non-controlled drugs, as well as over medical and surgical supplies.

During Fiscal Year 2001, the total cost of drugs (controlled and non-controlled) purchased by the Pharmacy Department was approximately \$6 million. The total for medical and surgical supplies purchased by Material Management was about \$3 million. According to Woodhull Hospital officials, the value of the inventory of all drugs in the Pharmacy Department stockroom at the end of Fiscal Year 2001 was \$1,015,590, and the value of the medical and surgical supplies in the Material Management stockrooms was \$1,212,319.

The Pharmacy stockroom receives orders for non-controlled drugs from the subdivisions of the Pharmacy Department: Main Pharmacy, inpatient satellite pharmacy, and Out-Patient Pharmacy (OPD).

Material Management stores medical and surgical supplies (intravenous solutions, baby formula, diapers, syringes, needles, bed liners, tubing, etc.) in two stockrooms. Each unit of the hospital has one or more supply rooms where medical and surgical supplies are stored. The stockroom staff visit the assigned supply rooms each day and inspect the current inventory. They determine how much of each item should be restocked based on the amount currently on hand or in response to a request of the head nurse.

Once the stockroom staff decide what is needed in the supply rooms, they prepare an order sheet with a list of the items needed. (Occasionally, the staff receives completed order sheets from one of the units.) After they return to the stockroom, they assemble the items and record the issued items on the order sheet. The stockroom staff then deliver the goods to the appropriate units; the nurse for that unit signs off on the order sheets to document receipt.

Objective

Our audit objective was to review the internal controls over Woodhull Hospital's inventory of non-controlled drugs and medical and surgical supplies.

Scope and Methodology

The scope of this audit was January to March 2002. To achieve our audit objectives, we reviewed applicable HHC Operating Procedures and the Division of Material Management's inventory procedures manual and the *Policies and Procedures* manual issued by the Woodhull Hospital Pharmacy Department. We interviewed hospital officials, including the Director of Material Management and

the Director of the Pharmacy. We also interviewed some pharmacists. We performed a walk-through of all areas of the Pharmacy and of the intake and distribution system for medical and surgical supplies, from the receiving dock, to the stockrooms, to the supply rooms on the hospital floors. We observed the receiving operations and traced several shipments received and entered into the logbook to determine whether they were delivered to their appropriate destinations. We performed observations at each area operated by the Pharmacy Department and by Material Management. Based on these walk-throughs and observations, we prepared detailed flow charts of the movement of non-controlled drugs and of medical and surgical supplies.

We initially requested the OTPS perpetual inventory records from HHC in hard copy and on diskette, in order to determine whether they were accurate and reliable. However, hospital officials told us at the entrance conference that items are entered in the OTPS system only when received, and that the perpetual inventory records are kept manually. We therefore decided to perform a physical count of a sample of items and compare the results with the balances on the manual inventory records. For the non-controlled drug inventory, we randomly selected 200 items from a population of 1,062 non-controlled drugs listed in the Pharmacy Department's formulary, which the Pharmacy Director told us was the most accurate listing of drugs stored in the stockroom. We did not perform a physical count for any medical and surgical supplies because we discovered that the manual inventory records that Material Management provided to us were created only two days prior to the start of our audit. No perpetual inventory records were maintained prior to January 27, 2002.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. It was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

Results in Brief

At the entrance conference for this audit, on January 29, 2002, Woodhull Hospital officials informed us that neither the Pharmacy nor Material Management uses HHC's OTPS system to maintain their perpetual inventory records. They said that both Departments maintain manual records. During our initial walk-through of the Material Management stockrooms, however, we discovered that the manual perpetual inventory system itself had only been started three days before our walk-through. The Director of Material Management told us that perpetual inventory records were not maintained prior to January 27, 2002. While Material Management does conduct a required year-end inventory count during June, this does not take the place of the perpetual inventory records that they are required to maintain.

Since neither the Pharmacy Department nor Material Management keep perpetual inventory records on the OTPS system, neither unit had adequate inventory controls or was able to determine the dollar value of its inventory in a timely manner. Neither the Pharmacy Department nor Materials Management maintains a complete list of all inventory items, and the new manual inventory records instituted by Material Management are incomplete and inaccurate.

The auditors also found inaccuracies in the Pharmacy's manual inventory records for the non-controlled drugs. We conducted a physical count of 200 non-controlled drugs with a recorded value of \$136,712. For 27 (13.5%) of the 200 items, there was an actual count difference from that recorded on the manual stock card: for 13 items, there was a lower count in the inventory (valued at \$590) than was recorded, and for 14 items, there was a higher count (valued at \$648).

However, the inventory controls at Woodhull Hospital's Material Management Receiving Department were adequate. We observed the receiving operations and subsequently reviewed and tested them. We found that the shipments received and logged by the Receiving Department were delivered to their appropriate destinations.

This audit makes ten recommendations, some of which are listed below. Woodhull Hospital should:

- Ensure that its Material Management Department maintains its inventory records on a computerized inventory system.
- Ensure that its Material Management Department maintains accurate and complete information on its manual stock cards until the inventory is converted to a computerized system.
- Maintain its Pharmacy Department's perpetual inventory records on a computerized system.
- Ensure that the Pharmacy Department periodically conducts physical inventory counts to verify the accuracy of its records, and investigates all variances to determine their cause.

HHC should:

- Ask its Inspector General to more fully investigate the circumstances related to the absence of inventory controls in Woodhull Hospital's Material Management section, to determine whether any theft of goods occurred.

HHC Response

The matters covered in this report were discussed with Woodhull Hospital officials during and at the conclusion of this audit. A preliminary draft report was sent to HHC officials on May 20, 2002, and was discussed at an exit conference on May 30, 2002. On June 5, 2002, we submitted a draft report to HHC officials with a request for comments. We received a written response from HHC officials on June 20, 2002, which included a memorandum from Woodhull Hospital's staff. In its response, HHC said that it agreed with and will implement eight of the audit's ten recommendations. HHC said, however, that it would not implement the two recommendations regarding the posting and monitoring of inventories on manual stock cards, since Woodhull Hospital would soon maintain computerized inventory records. The President of HHC stated, in part:

“We agree a computerized perpetual inventory system would be an improvement from our current manual process. . . . To expedite the facility's conversion from a manual inventory system to a computerized perpetual inventory, the inventory process will begin on June 20, 2002. . . . Consequently, the implementation of recommendations two and three regarding the posting and monitoring of inventories on manual stock cards will not be necessary. The Materials Management Department is expected to complete the conversion to a computerized perpetual system, including the training of personnel and appropriate segregation of responsibilities by August 2002 and the Pharmacy Department by November 2002.”

The full text of HHC's comments is included as an addendum to this report.

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INTRODUCTION

Background

The New York City Health and Hospitals Corporation (HHC) provides City residents with comprehensive medical and mental health services, as well as treatment for substance abuse, regardless of ability to pay. Within its six regional health care networks, HHC operates 11 acute-care hospitals; four long-term care facilities; six diagnostic and treatment centers; one certified home health agency; and a large number of community-based primary care, dental, and child health clinics.

HHC hospitals, clinics, and other facilities require substantial quantities of drugs and medical and surgical supplies, and must ensure that items are in stock when needed. HHC has a computerized OTPS (Other Than Personal Services) procurement management system that stores perpetual inventory records. Each facility has access to the system, to maintain and update its records as necessary. This system, based on minimum and maximum quantities, includes a reorder point for each item at each facility,¹ and automatically generates a purchase requisition when the reorder point is reached. The requisitions are printed out at each facility's Pharmacy Department or Material Management Department—the entities that order and maintain inventories of drugs and medical and surgical supplies. HHC requires that each facility perform a physical inventory at the end of each fiscal year.

Woodhull Medical and Mental Health Center (Woodhull Hospital), the facility covered by this audit, is part of the HHC's North Brooklyn Health Network (Network). Woodhull Hospital officials do not fully utilize the OTPS system: inventory shipments to Woodhull

¹ The reorder point is reached when the quantity of a stored item is so depleted that it is necessary to reorder.

Hospital are recorded in the OTPS system, but inventory issued from the hospital's own stockrooms is not recorded in the system. Both the Pharmacy and Material Management Departments keep only manual inventory records.

Drugs are categorized into two groups: controlled and non-controlled. Controlled drugs are regulated by the Drug Enforcement Administration (DEA), a federal law-enforcement agency that has strict requirements for the storage, record keeping, and dispensing of controlled drugs. The DEA, however, does not regulate non-controlled drugs. This audit reviews the inventory controls put in place by HHC and Woodhull Hospital over non-controlled drugs, as well as over medical and surgical supplies.

During Fiscal Year 2001, the total cost of drugs (controlled and non-controlled) purchased by the Pharmacy Department was approximately \$6 million. The total for medical and surgical supplies purchased by Material Management was about \$3 million. According to Woodhull Hospital officials, the value of the inventory of all drugs in the Pharmacy Department stockroom at the end of Fiscal Year 2001 was \$1,015,590, and the value of the medical and surgical supplies in the Material Management stockrooms was \$1,212,319.

All shipments to Woodhull Hospital are delivered to the hospital receiving dock. The shipments for the Pharmacy are unloaded onto the dock, and the delivery person takes them immediately to the Pharmacy stockroom. Pharmacy stockroom personnel check each shipment for accuracy and manually record each item on a schedule. The schedule, the packing slip, and a copy of the purchase order (PO) are sent to the Receiving Department, where the storekeeper enters the items in the OTPS computerized system. The staff in the Pharmacy stockroom enter items received onto the manual inventory cards maintained for each item in inventory. Those cards are kept in the stockroom, near the related inventory items.

The medical and surgical shipments are unloaded onto the receiving dock and logged into the Receiving Department logbook. Receiving personnel deliver the shipments to the Material Management stockroom, where storekeepers survey the delivered items and verify them against the packing slips. The items are stored in assigned locations in one of the two stockrooms maintained by Material Management. When medical and surgical items have been checked, the packing slips and purchase orders are sent to the Receiving Department, and the items received are entered in the OTPS system. The staff in the Material Management stockrooms enter the items received onto the manual inventory sheets. These sheets are maintained in the stockrooms, near the related inventory items.

The Pharmacy stockroom receives orders for non-controlled drugs from the subdivisions of the Pharmacy Department. The names and functions of these subdivisions are as follows:

- The Main Pharmacy prepares "floor stock" medication for the floors with patient units and stocks the crash trays that contain emergency drugs used in cardiac arrest and other critical cases. The Main Pharmacy also has a separate oncology section that prepares chemotherapy drugs. Total Parenteral Nutrition drugs are usually prepared in the Main Pharmacy. However, this function has been temporarily assigned to another area until the completion of building renovations. The three satellite pharmacies that had been on

the sixth, eighth, and 10th floors were moved to the Main Pharmacy. These pharmacies prepare drug carts with 24-hour cassettes for all inpatients, except those in the psychiatric unit.

- The inpatient satellite pharmacy on the fifth floor prepares drug carts with a cassette for each inpatient in the psychiatric unit. Each cassette contains a 24-hour supply of non-controlled drugs.
- The Out-Patient Pharmacy (OPD) fills prescriptions for people without insurance who were treated at the outpatient clinic or at one of the Network's off-site clinics. (Persons with insurance are referred to their neighborhood pharmacy.)

Material Management stores medical and surgical supplies (intravenous solutions, baby formula, diapers, syringes, needles, bed liners, tubing, etc.) in two stockrooms. Each unit of the hospital has one or more supply rooms where medical and surgical supplies are stored. The stockroom staff visit the assigned supply rooms each day and inspect the current inventory. They determine how much of each item should be restocked based on the amount currently on hand or in response to a request of the head nurse.

Once the stockroom staff decide what is needed in the supply rooms, they prepare an order sheet with a list of the items needed. (Occasionally, the staff receive completed order sheets from one of the units.) After they return to the stockroom, they assemble the items and record the issued items on the order sheet. The stockroom staff then deliver the goods to the appropriate units; the nurse for that unit signs off on the order sheets to document receipt.

Objective

Our audit objective was to review the internal controls over Woodhull Hospital's inventory of non-controlled drugs and medical and surgical supplies.

Scope and Methodology

The scope of this audit was January to March 2002. To achieve our audit objectives, we reviewed HHC and Woodhull Hospital documents and procedures. The HHC procedures consisted of the following: the HHC Division of Materials Management *Materials Management Inventory Procedures Manual*; *Inventory Verification for Fiscal Year 2001*; Operating Procedures No.140-2, "Repackaging of Drugs, Proper Labeling and Maintaining of Appropriate Records"; Operating Procedure No. 140-1, "Requisitioning Drugs and Pharmaceuticals," and Operating Procedure No. 140-6, "Requisitioning of Drugs and Pharmaceuticals for Ward, Clinic, Emergency Room, and All Other Medication Areas." We also reviewed Woodhull Hospital's *Policy and Procedure Manual*, issued by its Pharmacy Department, which covers the following: drug purchasing and maintenance of an adequate drug supply; requisitioning, storage, and distribution of prepackaged medication; requisitioning of drugs and pharmaceuticals from bulk stock; and unit dose medication distribution system.

We interviewed hospital officials, including the Director of Material Management and the Director of the Pharmacy. We also interviewed some pharmacists. To familiarize ourselves with the operations at the Pharmacy Department, we performed a walk-through of all areas of the Pharmacy with the Pharmacy Director and obtained additional information about the Pharmacy's operations at each of its subdivisions.

Accompanied by the Director of Material Management, we performed a walk-through of the intake and distribution system for medical and surgical supplies, from the receiving dock, to the stockrooms, to the supply rooms on the hospital floors. We thus traced the flow of medical and surgical supplies from the time that shipments arrive at the receiving dock until specific items reach the hospital floors.

We performed observations at each area operated by the Pharmacy Department and by Material Management. We visited each subdivision of the Pharmacy to observe the loading of carts and patient cassettes, and the receipt and storage of non-controlled drugs ordered from the stockroom. We also observed Material Management stockroom personnel as they distributed and replenished medical and surgical supplies to the supply rooms in the different units of the hospital.

To assess the hospital's internal controls, we prepared detailed flow charts of the movement of non-controlled drugs and of medical and surgical supplies. We observed how the shipments arrived at the receiving dock, reviewed the logbook entries, and traced several shipments to their final destinations by comparing the entries in the receiving logbook with the delivery receipts signed by the end-users.

We initially requested the OTPS perpetual inventory records from HHC in hard copy and on diskette in order to determine whether they were accurate and reliable. However, hospital officials told us at the entrance conference that items are entered in the OTPS system only when received, and that the perpetual inventory records are kept manually. We therefore decided to perform a physical count of a sample of items and compare the results with the balances on the manual inventory records. For the non-controlled drug inventory, we randomly selected 200 items from a population of 1,062 non-controlled drugs listed in the Pharmacy Department's formulary, which the Pharmacy Director told us was the most accurate listing of drugs stored in the stockroom.² We did not perform a physical count for any medical and surgical supplies because we discovered that the manual inventory records that Material Management provided to us were created only two days prior to the start of our audit. No perpetual inventory records were maintained prior to January 27, 2002.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. It was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

² The hospital formulary is the list of medications recommended by the Hospital's Pharmacy and Therapeutics Committee and approved by the Executive Committee of the Medical Staff for use within the Network.

HHC Response

The matters covered in this report were discussed with Woodhull Hospital officials during and at the conclusion of this audit. A preliminary draft report was sent to HHC officials on May 20, 2002, and was discussed at an exit conference on May 30, 2002. On June 5, 2002, we submitted a draft report to HHC officials with a request for comments. We received a written response from HHC officials on June 20, 2002, which included a memorandum from Woodhull Hospital's staff. In its response, HHC said that it agreed with and will implement eight of the audit's ten recommendations. HHC said, however, that it would not implement the two recommendations regarding the posting and monitoring of inventories on manual stock cards, since Woodhull Hospital would soon maintain computerized inventory records. The President of HHC stated, in part:

“We agree a computerized perpetual inventory system would be an improvement from our current manual process. . . . To expedite the facility's conversion from a manual inventory system to a computerized perpetual inventory, the inventory process will begin on June 20, 2002. . . . Consequently, the implementation of recommendations two and three regarding the posting and monitoring of inventories on manual stock cards will not be necessary. The Materials Management Department is expected to complete the conversion to a computerized perpetual system, including the training of personnel and appropriate segregation of responsibilities by August 2002 and the Pharmacy Department by November 2002.”

The full text of HHC's comments is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: June 28, 2002

FINDINGS AND RECOMMENDATIONS

At the entrance conference for this audit, on January 29, 2002, Woodhull Hospital officials informed us that neither the Pharmacy nor Material Management uses HHC's OTPS system to maintain their perpetual inventory records. They said that both Departments maintain manual perpetual inventory records. During our initial walk-through of the Material Management stockrooms, however, we discovered that the manual perpetual inventory system itself had only been started three days before our walk-through. The Director of Material Management told us that perpetual inventory records were not maintained prior to January 27, 2002. While Material Management does conduct a required year-end inventory count during June, this does not take the place of the perpetual inventory records that they are required to maintain.

Since neither the Pharmacy Department nor Material Management keep perpetual inventory records on the OTPS system, neither unit had adequate inventory controls or was able to determine the dollar value of its inventory in a timely manner. Neither the Pharmacy Department nor Materials Management maintains a complete list of all inventory items, and the new manual inventory records instituted by Material Management are incomplete and inaccurate.

We also found inaccuracies in the Pharmacy's manual inventory records for the non-controlled drugs.

However, the inventory controls at Woodhull Hospital's Material Management Receiving Department were adequate. We observed the receiving operations and subsequently reviewed and tested them. We found that the shipments received and logged by the Receiving Department were delivered to their appropriate destinations.

No Perpetual Inventory Records Were Maintained in Material Management Stockrooms Prior to This Audit

Material Management did not maintain perpetual inventory records prior to January 27, 2002, which was two days before our entrance conference and more than five weeks after an engagement letter announcing the audit had been faxed to HHC. In addition, the records for the new manual inventory were incomplete and inaccurate.

The HHC *Material Management Inventory Procedures Manual* describes requirements for maintaining both a manual and an automated inventory system. The section titled "Bulk Inventory Control—Manual System" states that if a manual system is used, each department should maintain a stock card system that is updated daily. This updating requirement also applies to the automated HHC OTPS Expense Management System, the benefits of which are described in the manual as follows:

- "the automated system is capable of providing a facility with up-to-date on-hand balance and usage history information on all its inventory items

simultaneously. The same information can be compiled using the manual system; however, this method is more time consuming and prone to error.

- “the automated system calculates on-hand balances as inventory transactions are entered into the computer. These calculations are performed instantaneously and with a higher degree of accuracy than if derived manually. Additionally, the automated system calculates and stores the extension once an internal order is filled.
- “the automated system provides a variety of reports which allows a facility to review expeditiously its purchasing, inventory management and payment process.”

The Director of Material Management told us that he had chosen not to use HHC’s OTPS system and that he had been actively looking for a new computer system to keep track of the inventory. However, at the exit conference for this audit, HHC officials said that Material Management would not be purchasing a new computer system but would be using HHC’s OTPS system.

Material Management Inventory Records Are Incomplete and/or Inaccurate

Our observations at the Material Management stockrooms showed that many of the stock cards are incomplete and/or inaccurate. According to the HHC Materials Management manual, certain information is required to be on the stock cards, but some of that information was missing. In addition, the stock cards are not safeguarded as required.

The HHC Materials Management manual requires that stock cards be secured in a locked file cabinet when not being updated or used to verify inventory counts. According to the manual, access to stock card files should be restricted to designated personnel, and each stock card should contain the following information:

- an HHC purchase catalog number (if appropriate),
- the item’s description,
- the unit of issue,
- the location of the item,
- the reorder point for the item,
- the unit price of the item,
- the item’s on-hand balance, and
- history of the item’s use.

Stock cards should be updated whenever an item is ordered, received, issued from stock, returned to stock, or returned to a vendor. If an error is found, the senior storekeeper must approve the correction prior to the change being made and must maintain a log of all such corrections.

At Woodhull Hospital, the stock cards are not kept in a locked file cabinet with restricted access, but rather in the stockrooms with the stock itself. The person who adds a received item to the shelf, or takes an item to be issued off the shelf, is the same person who updates the stock cards to reflect the transaction. This practice violates the principal of segregation of duties.

During our observations, we did some spot checks of the stock cards and found that they did not contain all the required information. None of those we looked at, for example, contained the unit price or the reorder point, as required by the manual. Also missing in several instances were the purchase order number for receipts and the delivery location for issued items. Since the stock cards had been in use for only a few days into the audit, it would have been pointless to perform a full inventory count to test their accuracy. However, we found that many of the cards listed an incorrect quantity on hand, as compared to the items on the shelf. Other cards had altered balances, with no explanation or adjustment noted, as required by the manual.

Recommendations

Woodhull Hospital should ensure that its Material Management Department:

1. Maintains its inventory records on a computerized inventory system.

HHC Response: “The Materials Management Department has designated an inventory control person to implement, control, monitor and maintain its inventory records within the HHC computerized Inventory System. Under the supervision of the Coordinating Manager (CM), the Assistant Coordinating Manager (ACM) will be trained to spearhead, implement, control, monitor and maintain the HHC Materials Management OTPS Inventory System.”

2. Maintains accurate and complete information on its manual stock cards until the inventory is converted to a computerized system.

HHC Response: “Maintaining inventory stock cards will not be required. The Materials Management Department will maintain a perpetual inventory from the June 20, 2002 inventory records until the Materials Management OTPS Inventory System is fully implemented.”

3. Makes appropriate adjustments to the stock cards to accurately reflect the actual inventory of medical and surgical supplies. Material Management officials should review, approve, and document all adjustments.

HHC Response: “The review, approval, and documentation of adjustments to stock cards will not be required. The Materials Management Department will maintain a perpetual inventory from the June 20, 2002 records until the Materials Management OTPS Inventory System is fully implemented. . . . The CM will be responsible for the review,

approval and documenting of any adjustments in the OTPS system related to the Facility's Materials Management inventory.”

4. Institutes proper internal controls that would ensure that the person updating the inventory records is different from the person(s) handling the inventory and that access to the inventory records be restricted to designated personnel.

HHC Response: “The Materials Management Department will ensure that controls are imposed over the accessibility of the perpetual inventory run. Access to the Materials Management OTPS Inventory System will be limited to specific individuals. No stockhandlers that distribute supplies will be allowed to access Materials Management OTPS Inventory System.”

HHC should:

5. Ask its Inspector General to more fully investigate the circumstances related to the absence of inventory controls in Woodhull Hospital's Material Management section, to determine whether any theft of goods occurred.

HHC Response: In his letter, the President of HHC stated: “As suggested by your audit report, it will be shared with the Corporation's Office of the Inspector General for their assessment and disposition.”

The Manual Inventory System Used by the Pharmacy Department Is Inadequate

The Pharmacy Department at Woodhull Hospital does not maintain a computerized perpetual inventory system. It uses a manual perpetual inventory system instead. As a result, the Pharmacy Department is unable to determine the dollar value of its inventory in a timely manner. Manual inventory cards are kept in the stockroom near the related non-controlled drug(s), and the prices of the drugs are recorded on another set of cards kept elsewhere. Furthermore, the inventory cards are updated by the same personnel who receive and issue the drugs; hence there is no segregation of duties. In addition, when we requested a complete list of all non-controlled drugs in the stockroom, we were given a list that did not include all of the items in the stockroom.

At the entrance conference for this audit, the Pharmacy Director said that the Pharmacy did not use the OTPS system to maintain inventory records. We requested a listing of the total inventory of drugs—controlled and non-controlled—and were subsequently given a list of formulary drugs. All the controlled drugs were identified on this list so they could be excluded from our testing. We used the formulary list of 1,195 non-controlled drugs from which we randomly chose our sample of 200 items to conduct an inventory count. However, when we went to the stockroom to conduct our count, we were told that 41 of our sampled items were either allergy medication, which was not kept in the Pharmacy stockroom, or that the item was no longer carried by the Pharmacy. We replaced these items in our sample. At that time, we asked

the Pharmacy supervisor to identify all the items from the list of 1,195 that were either not kept in the stockroom or discontinued so we would have an accurate population of non-controlled drugs. After the supervisor identified these items, the population of non-controlled drugs was reduced to 1,062.

In order to project our sample to the population, we needed to determine the number and value of the total inventory of non-controlled drugs present on the day of the count. Therefore, we checked every item in the stockroom, identified the recorded ending balance on that day, and then obtained the prices for all the items found in the stockroom.

After identifying all the items present in the stockroom, we tried to match these items to the items listed on the formulary and found that many items in the stockroom were not listed. We concluded that the formulary did not include all the items we found in the stockroom. There were three reasons for these differences:

- There were 127 non-controlled drugs, valued at \$65,338, that were not listed on the Pharmacy's formulary but that were in the Pharmacy stockroom.
- There were 58 non-controlled drugs, valued at \$61,938, that were carried by the Pharmacy in strengths (e.g., 25 mg, 100 mg) and forms (tablet, liquid) different from those listed on the formulary. (The formulary list did not always include all of the strengths and forms of the drugs found in the inventory.)
- There were 244 non-controlled drugs, with an estimated value of \$217,421, on the formulary that were in the Pharmacy stockroom but in different types of packaging.³ For example, a non-controlled drug can be packaged by bulk (e.g., bottles of 100 tablets), or it can come in unit doses (e.g., box of 25 individually wrapped tablets). (When our sample items were counted, we relied on the stockroom clerk who was assigned to us to point out where the items were. He did not inform us that there were, in some cases, two separate packagings in two different locations for the same non-controlled drug.)

In total, 429 non-controlled drugs valued at \$344,697 were not included in the Pharmacy formulary. Thus, these items could not have been selected in our sample.

Because the Pharmacy does not maintain its inventory on the OTPS system, it was difficult and time-consuming to determine the dollar value of the inventory. It took more than a month of working with Pharmacy personnel to determine the dollar value of the inventory of non-controlled drugs in the Pharmacy stockroom.

A computerized system would be better able to track the large amount of drugs going in and out of the stockroom. All the non-controlled drugs received at the Pharmacy are entered in the OTPS system, together with their cost. Therefore, if Pharmacy personnel simply entered in

³ While the formulary shows the strengths and forms of the non-controlled drugs, it does not indicate what type of packaging is used.

the OTPS system the non-controlled drugs issued by the Pharmacy stockroom, they could easily determine the quantity and dollar value of the inventory on hand.

Recommendations

Woodhull Hospital should:

6. Maintain its Pharmacy Department's perpetual inventory records on a computerized system.

HHC Response: "The Pharmacy will obtain training on the OTPS inventory system and replace the present manual system with the OTPS system."

7. Institute proper internal controls that would ensure that the person updating the inventory records is different from the person(s) handling the inventory and that access to the inventory records be restricted to designated personnel.

HHC Response: "The Pharmacy will assure segregation of functions by assigning each task to separate individuals. Access to inventory records will remain restricted to appropriately designated personnel."

Inaccuracies in Recording Issued Drugs

The Pharmacy staff are not consistent in how they record the issuance of non-controlled drugs. Therefore, there are inaccuracies in the recorded inventory. Most of the inventory items received by the Pharmacy stockroom are packaged in boxes that contain smaller units. For example, a box of a particular non-controlled drug might contain anywhere from 10 to 50 vials. A subdivision of the Pharmacy can request one or more vials. When only a portion of a box is issued, the Pharmacy staff records the issuance and the receiving subdivision in one of three different ways. If, in our example, the non-controlled drug had a physical count of four boxes—three unopened boxes containing 10 units, in this case vials, and one opened box containing five units—the record of the drug's issuance could vary as follows:

1. No issuance would be recorded until all of the vials within the opened box were issued (i.e., the stock card would continue to reflect a balance of four boxes),
2. The entire box would be recorded as issued as soon as one vial was issued from the opened box (i.e., the stock card would reflect a balance of three boxes), or
3. Each unit and the receiving subdivision would be recorded when the vial was issued from the box (i.e., the stock card would reflect a balance of three boxes, plus five vials).

Recording these items on the stock cards in the manner described in the first two examples results in an inaccurate inventory count. In the first instance, the stock card overstates the inventory, and in the second instance, the stock card understates it. In addition, neither of those two methods would result in the stock cards' reflecting which subdivisions actually received the non-controlled drugs, since in both cases, only one issuance is recorded. The third method, recording the issuance by unit(s), is the only way that would result in an accurate count of the inventory item. Therefore, it should be the method used by all the stockroom staff.

Recommendation

Woodhull Hospital should:

8. Ensure that when the Pharmacy Department issues non-controlled drugs under its current manual system, staff record the actual number of units issued, using the smallest unit.

HHC Response: "The Pharmacy will review all inventory stock records and will issue items using the smallest packaging unit. All issues not in compliance will be converted to smallest units going forward."

Inaccurate Inventory Records at The Pharmacy Stockroom

To determine whether the manual perpetual inventory records were accurate and reliable, we tested a random sample of 200 non-controlled drugs of the 1,062. We conducted a physical count on these sample items between February 28, 2002, and March 4, 2002, and compared our counts to the manual inventory cards. For 27 (13.5%) of the 200 items, there was an actual count difference from that recorded on the manual stock card: for 13 items, there was a lower count in the inventory (valued at \$590) than was recorded, and for 14 items, there was a higher count (valued at \$648). We therefore estimated that there were discrepancies (both overages and shortages) in the inventory records for 143 of the 1,062 items in the population of non-controlled drugs.⁴ We also estimated that the dollar value of the discrepancies was \$6,938, as shown in Table I, following.

⁴ Statistical estimates are based on a 95 percent confidence level (4.22% precision).

TABLE I

**Estimated Dollar Value of Discrepancies Found in
The Inventory for Non-Controlled Drugs**

Inventory	Number of Items	Dollar Value
(a) Total Overages	14	\$648
(b) Total Shortages	13	\$590
(c) Total Discrepancies	27	\$1,238
(d) Items Sampled (Recorded Value)	200	\$136,712
(e) Percent of the Total Discrepancies (c/d)	13.5%	0.9%
(f) Recorded Value of the Total Inventory	1,062	\$770,920
(g) Estimated Number and Dollar Value of Discrepancies (e*f)	143	\$6,938

Table II, following, lists examples of non-controlled drugs for which there was a different quantity on hand than that recorded on the manual inventory cards.

TABLE II

**Examples of Non-Controlled Drugs with Differences
Between the Inventory Count and Inventory Records**

Item Description	Quantity Recorded	Auditor's Count	(Shortage)/ Overage	Dollar Value of (Shortage)/ Overage
Ferrous Sulfate 15mg/0.6ml Drops (\$1.74 per 50ml bottle)	104	207	103	\$179.22
Ritonavir 100mg Cap. (\$152.34 per bottle)	9	10	1	\$152.34
Multivitamin Pediatric (\$2.48 per vial)	130	72	(58)	(\$143.84)
Sodium Chloride 0.9% Amp. (\$28.66 per box of 25)	18	14	(4)	(\$114.64)

We provided the Director of the Pharmacy Department with a list of all the discrepancies. We received no explanations or comments from the Director that would account for any of the differences.

Recommendations

Woodhull Hospital should ensure that the Pharmacy Department:

9. Periodically conducts physical inventory counts to verify the accuracy of its records, and investigates all variances to determine their cause.

HHC Response: “The Pharmacy currently conducts periodic inventory counts and miscalculations are corrected. Other variances will be investigated by a designated supervisor and appropriate action and follow-up will be documented. Random checks will be conducted to assure compliance.”

10. Makes appropriate adjustments to the inventory records to accurately reflect the inventory of non-controlled drugs. Pharmacy officials should review, approve, and document all adjustments.

HHC Response: “Appropriate corrections to the inventory are made as they are identified. Variances will be investigated by a designated Pharmacy official who will review, approve, and document all adjustments. Documentation records will be reviewed to identify possible trends and opportunities for improvement. Random checks will be conducted to assure compliance.”



Control No. OIA 02-18

Benjamin Chu, M.D., M.P.H.
President

June 20, 2002

Mr. Roger Liwer
Assistant Comptroller for Audits
The City of New York
Office of Comptroller
1 Centre Street, Room 1100 North
New York, New York 10007-2341

RE: AUDIT REPORT ON THE NYC HEALTH AND HOSPITALS CORPORATION'S WOODHULL MEDICAL AND MENTAL HEALTH CENTER'S INVENTORY CONTROLS OVER NON-CONTROLLED DRUGS AND MEDICAL AND SURGICAL SUPPLIES - JANUARY TO MARCH 2002 (AUDIT NUMBER MG02-141A)

Dear Mr. Liwer:

Thank you for the opportunity to respond to the audit regarding non-controlled drugs and medical surgical supplies at Woodhull Medical and Mental Health Center (Woodhull Hospital).

I was pleased to read that the internal controls regarding Woodhull Hospital's Receiving Department were effective and adequate, and all shipments received were appropriately accounted for, logged and reached their appropriate destinations.

We agree a computerized perpetual inventory system would be an improvement from our current manual process. However, it should be noted that the results of your audit testing in the Pharmacy Department determined that there was a less than one percent (\$1,238) variance on \$136,712 worth of items counted. This translates into approximately \$54,000 in variances on a budget that tracks and controls over \$6 million of non-controlled drug inventory. Although zero variances is always the goal, a 99.1% accuracy rate demonstrates a well protected and managed inventory environment.

As part of the Corporation's annual year-end process, Woodhull Hospital routinely inventories pharmaceutical and medical surgical supplies. However, to expedite the facility's conversion from a manual inventory system to a computerized perpetual inventory, the inventory process will begin on June 20, 2002. This year's totals will be the starting point for the perpetual system and reconciliation process going forward, including all necessary controls for accountability and approvals.

Mr. Roger Liwer
Assistant Comptroller for Audits
June 20, 2002

Consequently, the implementation of recommendations two and three regarding the posting and monitoring of inventories on manual stock cards will not be necessary.

The Materials Management Department is expected to complete the conversion to a computerized perpetual system, including the training of personnel and appropriate segregation of responsibilities by August 2002 and the Pharmacy Department by November 2002.

The new system will enable the Facility to:

- Obtain current quantity, dollar value, and usage history information on all inventory items in a timely manner; and
- Generate reports that will enable an expeditious review of purchases, inventory management, and payments.

As suggested by your audit report, it will be shared with the Corporation's Office of the Inspector General for their assessment and disposition.

Attachment I is the Facility's detailed response. **Attachment II** is the Audit Implementation Plan, which addresses all the recommendations cited in the report.

Should you have any questions concerning this response, please contact Mr. Alex Scoufaras, Corporate Director, Internal Audits at (212) 730-3123.

Sincerely,


Benjamin K. Chu, M.D.

Enclosures

CC: F.J. Cirillo, Senior Vice President, Operations
L. Curtis, Senior Vice President, North Brooklyn Health Network
M. Anthony, Network Chief Financial Officer, North Brooklyn Health Network
D. Cates, Chief of Staff, Office of the President
A. Scoufaras, Corporate Director, Office of Internal Audits
K. McGrath, Corporate Director, Communications and Marketing
Z. Baig, Controller, Woodhull Medical and Mental Health Center
C. Jager, Senior Associate Director, Woodhull Medical and Mental Health Center
S. Neiman, Director of Pharmacy, Woodhull Medical and Mental Health Center
D. Baines, Audit Manager, NYC Office of the Comptroller
B. Bernstein, Senior Auditor, Mayor's Office of Operations
W. Otero, Assistant Director, Office of Internal Audits



North
Brooklyn
Health
Network

Mike Anthony
Chief Financial Officer
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Woodhull Medical & Mental Health Center
Cumberland Diagnostic and Treatment Center
Bushwick CommuniCare
Williamsburg Community Health Center
Brooklyn Community Health Center
Brooklyn-Hylan Health Center
Eleanor Roosevelt Houses Child Health Clinic
Fen Greene Child Health Clinic
Greenpoint Community Health Center
Jonathan Williams Houses Child Health Clinic
Lafayette Houses Child Health Clinic
Summer Avenue Houses Child Health Clinic
Williamsburg Child Health Clinic
Wyckoff Corbett Westex Child Health Clinic
Intermediate School 49
550 Grand Street Campus

To: Alex Scoufaras
Director, Internal Audits

From: Mike Anthony *Mike Anthony*

Date: June 6, 2002

Subject: Response to Comptroller's Audit Report on Inventory Controls: Audit # MG02-141A

Staff responsible for pharmacy and materials management has participated in the audit of non-controlled drugs and medical and surgical supplies conducted by the city's Comptroller's office. We acknowledge the basic recommendations and findings of the audit and summarize our response to findings below:

• Use of OTPS system to perform inventory control procedures.

Woodhull will immediately plan for a computerized system to track inventory. In addition, we will provide all necessary MIS support and training to ensure that all policy, procedures and tasks will be accomplished to meet the goal of perpetual inventory management. Beginning 7/1, a PC database utilizing Access or Excel files will be created to track inventory. By August 1, 2002, password access for OTPS will be obtained and training completed to utilize that system. Woodhull has reached out to Queens Hospital Center to learn from their OTPS-based inventory control procedures. This training began the week of June 3rd.

• Institute proper internal controls

Woodhull will insure appropriate division of labor to ensure that staff responsible for updating inventory records are different from staff handling inventory.

• BHC Should ask that its Inspector General investigate the circumstances related to the absence of inventory controls in

Woodhull Medical & Mental Health Center
160 Broadway
Brooklyn, New York
11211-5317
A member of
NYC's City Health and
Hospitals Corporation

Woodhull's Material Management section to determine whether any theft of goods occurred.

The Materials Management Department is conducting an inventory reconciliation to determine if all goods were distributed to the appropriate department. In addition, as was found by the auditors and reported on page ES-4 of the Executive Summary: "... We found that the shipments received and logged by the Receiving Department were delivered to their appropriate destinations." We conclude from that finding that given an absence of thorough inventory controls, other aspects of the process protected the facility from theft. For example, the distribution (issue) sheet tracks where the inventory was distributed and when taken in the aggregate, matches to inventory received.

- **Failure to maintain a complete list of all inventory items**

Woodhull suggests that inventory was maintained on the OTFS system. Where Woodhull was inadequate, was in keeping a timely system to control for inventory balances.

The above highlights the major findings of the audit. In addition to acknowledging the recommendations and committing to specific corrective actions, we would also like to point out that the North Brooklyn Health Network has made significant strides in upgrading personnel capable of delivering on the suggested recommendations.

Thank you

CC: Lynda Curtis, Patrick Sullivan, Candis Best

ATTACHMENT II

Audit Title: Woodhull Medical and Mental Health Center Inventory Controls
 Over Non-Controlled Drugs and Medical and Surgical Supplies

Audit Agency: City of New York Office of the Comptroller
 Audit No.: MC-02-141A

Date: June 19, 2002
 Audit Date: Jan. - March 2002

Control No. CHA 02-18

MAYOR'S OFFICE OF OPERATIONS
 AUDIT COORDINATION AND REVIEW
 AUDIT IMPLEMENTATION PLAN

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT*	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
4) The Facility should ensure that its Material Management Department maintains proper financial controls that would ensure that the person updating the inventory records is different from the person(s) handling the inventory and that access to the inventory records be restricted to the designated personnel.	The Materials Management Department will ensure that controls are imposed over the accessibility of the perpetual inventory run. Access to the Materials Management OTPS Inventory System will be limited to specific individuals. No stockhandlers that distribute supplies will be allowed to access Materials Management OTPS Inventory System.	August 30, 2002	Ensure proper segregation of duties to protect the accuracy and integrity of inventory operations.
5) HHC should ask its Inspector General to more fully investigate the circumstances related to the absence of inventory controls in Woodhull Hospital's Material Management section, to determine whether any theft of goods occurred.	N/A	N/A	N/A
6) The Facility should maintain its Pharmacy Department's perpetual inventory records on a computerized system.	The Pharmacy will obtain training on the OTPS inventory system and replace the present manual system with the OTPS system.	Obtain training, assure compliance on the system, and implement by November, 2002.	The investment gained will be quick retrieval of inventory information.

*Recommendation numbers correspond to the assigned numbers in the City of New York Office of the Comptroller's audit reports.

ATTACHMENT II

MAYOR'S OFFICE OF OPERATIONS
AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

Audit Title: Audit of the Woodhull Memorial and Memorial Health Center Inventory Controls
Over Non-Controlled Drugs and Medical and Surgical Supplies

Audit Agency: City of New York Office of the Comptroller

Date: June 19, 2002

Audit No.: MG-02-141A

Audit Date: Jan. - March 2002

Control No. CHA 02-18

FACT A

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT*	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
7) The Facility should institute proper internal controls that would ensure that the person updating the inventory records is different from the person(s) handling the inventory and that access to the inventory records be restricted to designated personnel.	The Pharmacy will assure segregation of functions by assigning each task to separate individuals. Access to inventory records will remain restricted to appropriately designated personnel.	Resign responsibilities by July, 2002. New functions will commence as training is completed by November, 2002.	The improvement will assure checks and balances in maintaining the integrity and accuracy of the medication inventory.
8) The Facility should ensure that when the Pharmacy Department issues non-controlled drugs under its current manual system, staff record the actual number of units issued, using the smallest unit.	The Pharmacy will review all inventory stock records and will issue items using the smallest packaging unit. All issues not in compliance will be converted to smallest units going forward.	Review of all inventory items to identify issues not in the smallest unit will commence June 3, 2002 and will be completed by July, 2002.	This process will help maintain inventory accuracy.
9) The Facility should ensure that the Pharmacy Department periodically complete physical inventory counts to verify the accuracy of its records, and investigates all variances to determine their cause.	The Pharmacy currently conducts periodic inventory counts and reconciliations are completed. Other variances will be investigated by a designated supervisor and appropriate action and follow-up will be documented. Random checks will be conducted to assure compliance.	The next scheduled physical inventory will occur by July, 2002.	The scheduled inventory will assure the accuracy of the inventory balances. Should any variances be identified at that time, an investigation will disclose the cause and corrective action can be implemented.
10) The Facility should ensure that the Pharmacy Department makes appropriate adjustments to the inventory records to accurately reflect the inventory of non-controlled drugs. Pharmacy officials should review, approve, and document all adjustments.	Appropriate corrections to the inventory are made as they are identified. Variances will be investigated by a designated Pharmacy official who will review, approve, and document all adjustments. Documentation records will be reviewed to identify possible trends and opportunities for improvement. Random checks will be conducted to assure compliance.	By July, 2002.	Corrections and adjustments will serve to assure accuracy. Pharmacy officials will review, approve, and document all adjustments to maintain appropriate inventory control.

* Recommendations numbers correspond to the assigned numbers in the City of New York Office of the Comptroller's audit report.

ATTACHMENT II

MAYOR'S OFFICE OF OPERATIONS
 AUDIT COORDINATION AND REVIEW
 AUDIT IMPLEMENTATION PLAN

Audit Title: Audit of the Woodhull Medical and Mental Health Center Inventory Controls
Over Non-Controlled Drugs and Medical and Surgical Supplies
 Agency: NYC HHC

Date: Aug. 12, 2012
 Audit Agency: City of New York Office of the Comptroller

Control No. OJA 02-18
 Audit No. MC-02-11A

PART B

RECOMMENDATIONS WITH WHICH THE AGENCY AGREES BUT IS UNABLE TO IMPLEMENT*	REASONS FOR INABILITY TO IMPLEMENT	WHAT IS NEEDED TO ALLOW FOR IMPLEMENTATION (RESOURCES, PERSONNEL, LEGISLATION, LEGAL OPINION, ETC.)

*Recommendation numbers correspond to the assigned numbers in the City of New York Office of the Comptroller's audit report.

ATTACHMENT II

MAYOR'S OFFICE OF OPERATIONS
 AUDIT COORDINATION AND REVIEW
 AUDIT IMPLEMENTATION PLAN

Audit Title: Audit of the Westchester Medical and Mental Health Center Inventory Controls Over Non-Controlled Drugs and Medical and Surgical Supplies
 Agency: NYCHHS
 Control No. OIA 02-18

Date: June 19, 2002
 Audit Agency: City of New York Office of the Comptroller
 Audit No.: MS-02-111A
 Audit Date: Jan. - March 2002

RECOMMENDATIONS WITH WHICH THE AGENCY DISAGREES AND DOES NOT INTEND TO IMPLEMENT*	REASONS FOR DISAGREEMENT AND REFUSAL TO IMPLEMENT
<p>2) The Facility should ensure that its Material Management Department maintains accurate and complete information on its manual stock cards until the inventory is converted to a computerized system.</p>	<p>PART C</p> <p>Maintaining inventory stock cards will not be required. The Materials Management Department will maintain a perpetual inventory from the June 30, 2002 inventory records until the Materials Management OTPS Inventory System is fully implemented.</p> <p>The Materials Management Department is in the process of conducting its Year End physical inventory count, for the June 30, 2002 Fiscal Year Closing.</p> <p>The Supervisor (Stockworker Level) III (SSS, III), under the supervision of the Coordinating Manager (CM), will provide to the Assistant Coordinating Manager/Clinical Associate III (ACM/CA III) all daily distribution sheets for the Medical Surgical Stock supplies distributed.</p> <p>The SSS, III will provide to the ACM/CA III daily receipts for all Medical Surgical Supplies that are received via the Receiving Department.</p> <p>The ACM/CA III will be responsible for entering the data onto the Year End 2002 Closing Spreadsheet. Once the OTPS Inventory System is completely updated and ready available for data entry, the ACM/CA III will adjust all balances to the Materials Management OTPS Inventory System.</p> <p>The review, approval, and documentation of adjustments to stock cards will not be required. The Materials Management Department will maintain a perpetual inventory from the June 30, 2002 records until the Materials Management OTPS Inventory System is fully implemented. At that time, the ACM/CA III will be entering the data to accurately reflect the inventory balances.</p> <p>The CM will be responsible for the review, approval and documenting of any adjustments in the OTPS system related to the facility's Materials Management Inventory.</p>
<p>3) The Facility should ensure that its Material Management Department makes appropriate adjustments to the stock cards to accurately reflect the actual inventory of medical and surgical supplies. Material Management officials should review, approve, and document all adjustments.</p>	<p>The review, approval, and documentation of adjustments to stock cards will not be required. The Materials Management Department will maintain a perpetual inventory from the June 30, 2002 records until the Materials Management OTPS Inventory System is fully implemented. At that time, the ACM/CA III will be entering the data to accurately reflect the inventory balances.</p> <p>The CM will be responsible for the review, approval and documenting of any adjustments in the OTPS system related to the facility's Materials Management Inventory.</p>

*Recommendation numbers corresponding to the assigned numbers in the City of New York Office of the Comptroller's audit report.