

# AUDIT REPORT

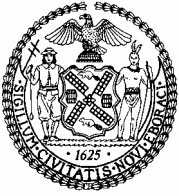


CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BUREAU OF MANAGEMENT AUDIT  
**WILLIAM C. THOMPSON, JR., COMPTROLLER**

## **Audit Report on the Inventory Controls of Harlem Hospital Center Over Noncontrolled Drugs**

*MH05-130A*

**May 03, 2006**



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
1 CENTRE STREET  
NEW YORK, N.Y. 10007-2341

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WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the internal controls over noncontrolled drugs of Harlem Hospital Center of the New York City Health and Hospitals Corporation.

Harlem Hospital Center has approximately 400 beds and is the largest health facility in Harlem. We audit the operations of public agencies such as this to ensure that they are accountable for resources purchased with City funds and manage them in the best interest of those they serve.

The results of our audit, which are presented in this report, have been discussed with Harlem Hospital Center and Health and Hospitals Corporation officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov) or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

**Report:** MH05-130A  
**Filed:** May 03, 2006

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

**Audit Report on the Inventory Controls of  
Harlem Hospital Center over Noncontrolled Drugs**

**MH05-130A**

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**AUDIT REPORT IN BRIEF**

This audit determined whether Harlem Hospital Center of the Health and Hospitals Corporation (HHC) has adequate internal controls over its inventory of noncontrolled drugs. The scope of the audit was Fiscal Year 2005 and July 2005 through September 2005. Harlem Hospital Center has approximately 400 beds and is the largest health facility in Harlem. During Fiscal Year 2005, the total cost of drugs (controlled and noncontrolled) purchased by the Pharmacy Department at Harlem Hospital Center was approximately \$8.4 million, and the value of the inventory of all drugs in the Pharmacy Department stockroom at the end of Fiscal Year 2005 was reported to be \$240,957.

**Audit Findings and Conclusions**

Overall, Harlem Hospital Center's Pharmacy Department has adequate inventory controls over noncontrolled drugs. Based on our observations and testing, we found that access to the Main Pharmacy, stockroom, satellites, and Out-Patient Pharmacy (OPD) is restricted to specific employees. Cameras are installed in all Pharmacy areas to observe their activities. Vendors deliver noncontrolled drugs directly to the stockroom where an employee counts and signs for the number of cases received. Noncontrolled drugs are delivered to OPD and the four satellites in locked containers. Documentation for noncontrolled drugs that were issued from the stockroom is maintained in the stockroom files, and inventory records had only minor inaccuracies.

However, we identified some issues at the Pharmacy Department that must be addressed. Specifically: the count sheets used by Harlem Hospital Center staff members to perform their year-end inventory listed the quantities for each item, contrary to good inventory control practice; adjustments made to the computerized Other Than Personal Services (OTPS) procurement management system did not always have back-up documentation; the Pharmacy did not adequately segregate the duties of the stockroom employees; procedures for purchasing of drugs were not always followed; and the credits and checks for returned expired drugs were not reconciled.

### **Audit Recommendations**

Based on our findings, we make 10 recommendations including those listed below. Harlem Hospital Center Pharmacy officials should:

- Remind all Pharmacy personnel who have access to noncontrolled drugs after the stockroom is closed that they are required to prepare an issue sheet for all noncontrolled drugs removed from the stockroom.
- Ensure that all count sheets used for the year-end inventory do not have balances listed on them.
- Investigate and document all adjustments made to correct inventory balances in OTPS.
- Adhere to their own purchasing procedures and ensure that all purchase orders are prepared, approved, and authorized before drugs are ordered from vendors.
- Perform reconciliations to ensure that they receive all credits and moneys they are entitled to.

## INTRODUCTION

### **Background**

The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health and substance abuse services to New York City residents regardless of their ability to pay. HHC consists of 11 acute-care hospitals, six diagnostic and treatment centers, four long-term care facilities, a certified home health care agency, and a large number of community health clinics. HHC's acute care hospitals serve as major teaching hospitals.

Each of HHC's acute care hospitals purchases, stores, and distributes controlled and noncontrolled drugs.<sup>1</sup> HHC has a computerized Other Than Personal Services procurement management system (OTPS) that stores perpetual inventory records, including those of drugs. Each facility has access to the system so as to maintain and update its records. HHC requires that each facility perform a physical inventory at the end of each fiscal year.

Harlem Hospital Center has approximately 400 beds and is the largest health facility in Harlem. It is a teaching institution affiliated with the College of Physicians and Surgeons at Columbia University and is fully accredited by the Joint Commission on the Accreditation of Healthcare Organizations.

During Fiscal Year 2005, the total cost of drugs (controlled and noncontrolled) purchased by the Pharmacy Department at Harlem Hospital Center was approximately \$8.4 million. According to the *Physical Inventory Evaluation* report that Harlem Hospital Center prepared and submitted to HHC, the value of the inventory of all drugs in the Pharmacy Department stockroom at the end of Fiscal Year 2005 was \$240,957.

### **Objective**

Our audit objective was to determine whether the internal controls over Harlem Hospital Center's inventory of noncontrolled drugs were adequate.

### **Scope and Methodology**

The scope period of this audit was Fiscal Year 2005 (July 1, 2004 – June 30, 2005) and July 2005 through September 2005. To achieve our audit objectives, we reviewed the following HHC documents and procedures for inventory verification for Fiscal Year 2005, including: the *Inventory Procedure Manual*; Operating Procedure No. 140-2, "Repackaging of Drugs, Proper Labeling and Maintaining of Appropriate Records"; Operating Procedure No. 140-1, "Requisitioning Drugs and Pharmaceuticals"; Operating Procedure No. 140-6, "Requisitioning

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<sup>1</sup> Drugs are categorized into two groups: controlled and noncontrolled. Controlled drugs are regulated by the Drug Enforcement Administration (DEA), a federal law-enforcement agency that has strict requirements for storage, record keeping, and dispensing of controlled drugs. The DEA, however, does not regulate noncontrolled drugs.

of Drugs and Pharmaceuticals for Ward, Clinic, Emergency Room and All Other Medication Areas”; Operating Procedure No. 110-24, “Unauthorized Procurements”; and, Operating Procedure No. 110-1, “Procurement of Supplies, Services and Equipment.” We also interviewed hospital officials, including the Director of the Pharmacy.

Prior audits performed by our office on inventory controls over noncontrolled drugs at other HHC facilities were reviewed to determine if there were any recurring issues in the various facilities.

We reviewed the policies and procedures issued by the Pharmacy Department covering the following subjects: purchasing; receiving drugs from vendors; ordering from the stockroom by inpatient pharmacies and Out-Patient Pharmacy (OPD); disposition of unused and expired drugs; stockroom security; and the annual count of the inventory in the Pharmacy stockroom.

To determine whether the above policies and procedures were followed, observations at each area operated by the Pharmacy Department, including the OPD, the Main Pharmacy, and satellite pharmacies were performed. These observations included an assessment of the security at each area.

To familiarize ourselves with the operations at the Pharmacy Department, auditing staff performed a walk-through of all areas of the Pharmacy including the OPD, the Main Pharmacy, and satellite pharmacies. They also interviewed the personnel at these locations.

To assess the hospital’s internal controls over noncontrolled drugs, we prepared detailed flow charts of the movement of noncontrolled drugs. We observed the delivery and receipt of noncontrolled drugs at the Pharmacy stockroom; the storage of the noncontrolled drugs on the stockroom shelves; the updating of inventory cards; and the controls over expired noncontrolled drugs. At each Pharmacy subdivision, we observed the preparation of the patients’ individual drug-dispensing containers and the receipt and storage of noncontrolled drugs ordered from the stockroom. We also accompanied personnel as they delivered the drugs to the nurses’ stations.

To determine whether the Pharmacy Department follows its own purchasing procedures for noncontrolled drugs, we selected a random sample of 58 from a total of 426 purchase orders that were prepared by the Pharmacy staff from April 1, 2005, through June 30, 2005 (the most current available purchases). Five of the purchase orders in our sample were not reviewed because they had been cancelled.

To determine whether there was an adequate accounting of noncontrolled drugs, we observed the 2005 Fiscal year-end inventory count performed by hospital staff in the Pharmacy stockroom on June 27, 2005, and June 28, 2005, and the verification of the count by the HHC internal auditors on June 30, 2005. In addition, on September 13, 2005, we conducted our own physical inventory count of noncontrolled drugs in the Pharmacy stockroom. From the OTPS perpetual inventory listing dated August 17, 2005, we randomly selected a sample of 435 noncontrolled drugs, valued at \$93,630, from a total population of 1,523, totaling \$384,408. We eliminated 90 items with zero stock balances; therefore, our final sample was 345. We also adjusted the OTPS recorded inventory balances to reflect the issuances and receipts that were not

yet recorded at the time of our inventory count. We then compared the inventory count results to the adjusted, recorded balances in OTPS.

To test inventory adjustments, we reviewed all 288 adjustments made to OTPS from January 2005 through June 2005, to determine whether the adjustments were appropriate. This period was selected since it was the most current available information on adjustments. In addition, we examined written explanations and supporting documentation relating to these adjustments to determine whether an investigation was performed for these adjustments.

To determine whether the Pharmacy Department maintains adequate documentation to support the issuances of the noncontrolled drugs from the stockroom to various locations, we randomly selected a sample of 50 from a total population of 1,665 noncontrolled drugs on the OTPS printout received from Pharmacy officials on May 25, 2005. We reviewed reports of the transactions that transpired from December 2004 through May 2005 for our sample of 50 noncontrolled drugs and found that 256 issue sheets<sup>2</sup> were prepared. We reviewed the respective files to determine whether these 256 issue sheets were present.

The results of the above tests, while not projected to their respective populations, provided a reasonable basis for us to assess the adequacy of the inventory controls.

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 audit responsibilities of the City Comptroller, as set forth in Chapter 5, §93, of the New York City Charter.

### **Discussion of Audit Results**

The matters covered in this report were discussed with HHC and Harlem Hospital Center officials during and at the conclusion of this audit. A preliminary draft report was sent to HHC officials and discussed at an exit conference held on February 16, 2006. On March 14, 2006, we submitted a draft report to HHC officials with a request for comments. We received a written response from HHC officials on March 28, 2006. In their response, they agreed with all 10 recommendations made in this report and stated that they have already implemented or intend to implement them.

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

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<sup>2</sup> An issue sheet is a written request by a subdivision of the Pharmacy Department for specified drugs from the stockroom.



## **FINDINGS AND RECOMMENDATIONS**

Overall, Harlem Hospital Center's Pharmacy Department has adequate inventory controls over noncontrolled drugs. Based on our observations and testing, we found that access to the Main Pharmacy, stockroom, satellites, and OPD is restricted to specific employees. Cameras are installed in all Pharmacy areas to observe their activities. Vendors deliver noncontrolled drugs directly to the stockroom where an employee counts and signs for the number of cases received. Noncontrolled drugs are delivered to OPD and the four satellites in locked containers. Documentation for noncontrolled drugs that were issued from the stockroom is maintained in the stockroom files, and inventory records had only minor inaccuracies.

However, we identified some issues at the Pharmacy Department that must be addressed. The count sheets used by Harlem Hospital Center staff members to perform their year-end inventory listed the quantities for each item, contrary to good inventory control practice; adjustments made to OTPS did not always have back-up documentation; the Pharmacy did not adequately segregate the duties of the stockroom employees; procedures for purchasing of drugs were not always followed; and the credits and checks for returned expired drugs were not reconciled.

These observations and findings are discussed in detail in the following sections of the report.

### **Pharmacy Department has Adequate Controls Over the Noncontrolled Drugs in its Stockroom**

#### **Safeguarding of Pharmacy Areas**

Harlem Hospital Center's Pharmacy Department has adequate controls over access to the Main Pharmacy, stockroom, satellites, and OPD. Access to these areas is restricted to specific employees who must use an electronic card or a key to get in to these areas. In addition, non-stockroom employees are prevented from entering or leaving the stockroom without an authorized person opening the door.

Furthermore, cameras are located in all areas of the Pharmacy to record all activities. The Director of the Pharmacy maintains the monitors in his office.

#### **Procedures for Noncontrolled Drug Deliveries to the Stockroom**

Controls over delivery of noncontrolled drugs to the stockroom are adequate. Vendors deliver noncontrolled drugs to the Pharmacy Department daily. These deliveries go directly to the stockroom where an employee counts and signs for the number of cases received. The employee opens each case, counts the number of items received, and checks the items against the invoice or packing slip. The quantity, lot number, and expiration date for each noncontrolled drug is recorded on the invoice. The employee then places the noncontrolled drugs on the shelf

and updates the information on the appropriate inventory stock card. The quantity of noncontrolled drugs received is also updated in OTPS.

### **Issuance of Noncontrolled Drugs to Different Areas of the Pharmacy**

Controls over the issuance of noncontrolled drugs to the satellites and OPD are adequate. The satellites and OPD prepare their own requests for noncontrolled drugs by filling out issue sheets listing the noncontrolled drugs that are needed. The issue sheets are then brought to the stockroom where a stockroom employee removes the noncontrolled drugs from the shelves and places them in locked containers.

The locked containers for the satellite pharmacies are delivered by a stockroom employee. A pharmacist at the satellites reconciles the noncontrolled drugs received to the information on the issue sheet. The locked containers for OPD are picked up from the stockroom by an OPD employee. The OPD employee signs a Medication Movement form to confirm the number of locked containers that were picked up. In both instances the issue sheets are signed by a pharmacist and returned to the stockroom where the information from the issue sheet is entered into OTPS.

### **Documentation for Noncontrolled Drugs Issued**

Controls over the maintenance of documentation for noncontrolled drugs issued are adequate. We found 255 (99.6%) of the 256 sampled issue sheets in the files kept in the stockroom. Issue sheets were grouped in folders by the month the noncontrolled drug was issued. The issue sheets are important since they are the only source documents that indicate where and to whom the noncontrolled drugs were delivered. These documents can be used by Pharmacy employees to investigate discrepancies found in OTPS.

### **Minor Inaccuracies in Inventory Records of Noncontrolled Drugs**

Based on our physical count, we found that 319 (92.5%) of the 345 noncontrolled drugs in our sample matched the balances recorded in OTPS. The remaining 26 discrepancies, totaling \$3,487, represent 3.7 percent of the total dollar value of our sample (\$93,630). Pharmacy officials provided us with supporting documentation to account for 16 (62%) of the 26 discrepancies.

Although there were no supporting documents for the remaining 10 discrepancies, Pharmacy officials stated that the Main Pharmacy is open 24 hours a day but the stockroom room is open from 9:00 a.m. to 5:00 p.m., Monday through Friday. When the stockroom is closed, supervising pharmacists have access to the stockroom and can remove the drugs from the shelves. Not all supervising pharmacists fill out an issue sheet when they remove noncontrolled drugs from the stockroom during off hours. However, they may note the noncontrolled drugs they removed from the shelves on the inventory stock card. In fact, during their review of the discrepancies we identified, Pharmacy officials found instances where inventory stock cards had entries for noncontrolled drugs issued but for which no issue sheets were available. Issue sheets are important since they are the source of the entries entered in OTPS.

## **Recommendation**

1. Harlem Hospital Center Pharmacy officials should remind all Pharmacy personnel who have access to noncontrolled drugs after the stockroom is closed that they are required to prepare an issue sheet for all noncontrolled drugs removed from the stockroom.

**HHC Response:** HHC agreed stating, “Department of Pharmacy has strictly mandated Tour I and III supervisors to follow and record accordingly any off-hour stock room movement. The Department has also revised Policy and Procedure regarding Stockroom medication Discrepancy Report Form.”

## **Count Sheets Used for the Year-end Inventory Had Preprinted Quantities and Were Not Reconciled**

As required by HHC, Pharmacy officials conducted their Fiscal Year 2005 year-end inventory count on June 27, 2005, and June 28, 2005. As part of our audit, we observed the inventory count and found two areas where improvement could be made.

Although the inventory cards were locked away as required, the count sheets used to perform the inventory count had the quantity of each item listed on them. This is contrary to good inventory control practice, since the person who is performing the count should not have a written quantity already available while performing an inventory count. Additionally, once the count was completed, the Pharmacy staff members did not reconcile the multiple copies of the count sheets to ensure that every item on the sheets was counted.

After the count was completed by Harlem Hospital Center Pharmacy staff members, we reviewed and reconciled the count sheets to determine whether all items listed were counted. We found that 17 (1%) of 1,631 noncontrolled drugs were not counted. We provided the Pharmacy officials with a list of these 17 noncontrolled drugs, which were valued at \$6,205. They stated that seven of these noncontrolled drugs, valued at \$4,927, were not part of the stockroom inventory. Upon receipt of these noncontrolled drugs, the drugs are immediately issued to the Main Pharmacy and placed in the unlocked refrigerators that are maintained outside the stockroom area. However, these noncontrolled drugs are not solely for Main Pharmacy use but are also used by other Pharmacy areas; therefore, these drugs should be part of the inventory and included in the year-end count.

## **Recommendations**

Harlem Hospital Center Pharmacy officials should:

2. Ensure that all count sheets used for the year-end inventory count do not have balances listed on them.

**HHC Response:** HHC agreed stating, “Department of Pharmacy created new inventory ‘Count Sheet’ form eliminating any inventory balances.”

3. Reconcile all count sheets at the end of the year-end inventory count to ensure that all items are counted.

**HHC Response:** HHC agreed stating, “Department of Pharmacy created a new inventory ‘Count Sheet’ form that will be implemented at the end of fiscal year 2006. A supervisor will be responsible for ensuring all Count Sheets are accounted for at the conclusion of each year-end inventory count.”

4. Ensure that noncontrolled drugs kept in the refrigerators are included in the stockroom inventory listing and placed inside the secured stockroom area.

**HHC Response:** HHC agreed stating, “Pharmacy has purchased two extra refrigerators for the secured stockroom that will be used to maintain inventory for refrigerated items in the stockroom area.”

### **Undocumented Adjustments Made to OTPS Records**

From January 2005 through June 2005, 288 adjustments were made to OTPS records. Of those, 152 were adjustments made to record the receipt of free drugs from the Department of Health or for the Patient Assistance Program. These free drugs cannot be entered as purchases and were therefore entered as adjustments.

The remaining 136 adjustments were made to OTPS to correct errors found in the inventory balances. Pharmacy officials stated that every adjustment is investigated and the results of the investigation are documented in a memo to the Director of Pharmacy. We found that the investigation results for 120 (88%) adjustments were documented. The remaining 16 (12%) adjustments lacked documentation to verify that an investigation was performed. Table I below shows the number and dollar value of these 136 adjustments.

**Table I**

Adjustments to Correct Errors made to OTPS  
January 1, 2005, to June 30, 2005

|              | Positive Adjustments |                 | Negative Adjustments |                   | Total Adjustments | Percentage of Adjustments |
|--------------|----------------------|-----------------|----------------------|-------------------|-------------------|---------------------------|
|              | Number               | Value           | Number               | Value             |                   |                           |
| Documented   | 88                   | \$38,146        | 32                   | \$(38,984)        | 120               | 88%                       |
| Undocumented | 13                   | \$6,603         | 3                    | \$(453)           | 16                | 12%                       |
| <b>TOTAL</b> | <b>101</b>           | <b>\$44,749</b> | <b>35</b>            | <b>\$(39,437)</b> | <b>136</b>        | <b>100%</b>               |

We brought these undocumented adjustments to the attention of the Stockroom Supervisor who subsequently investigated the reasons for them and provided us with explanations and/or documentation for all of them. However, these explanations and the documentation were not included in the monthly memorandum to the Director of Pharmacy informing him of the adjustments made to OTPS during the month. To ensure that errors or misappropriations do not go undetected, all adjustments should be investigated and documented.

### **Recommendation**

5. Harlem Hospital Center Pharmacy officials should investigate and document all adjustments made to correct inventory balances in OTPS.

**HHC Response:** HHC agreed stating, “Pharmacy Department’s Purchasing section has the responsibility of dealing with matters of stockroom discrepancies. The following policy has been strictly implemented: (1) Stockroom supervisor will generate a discrepancy report if there is a discrepancy occurrence with resolution suggestions. (2) This report will be reviewed by the Director of Pharmacy and if the suggestions are approved, then the Purchasing Supervisor will make the appropriate approved adjustments in the OTPS system. (3) Documentation will be kept on file in accordance with HHC record requirements.”

### **Lack of Segregation of Duties in Pharmacy Department**

The Pharmacy Department does not adequately segregate the duties of its stockroom staff. As part of our review of the Pharmacy’s internal controls, we observed that one stockroom employee prepares the noncontrolled drug orders for the three areas of Main Pharmacy; removes the noncontrolled drugs requested from the stockroom shelves; delivers the noncontrolled drugs; and stocks the Main Pharmacy shelves. In addition, the same employee enters the records of these actions in OTPS. We also observed that another Pharmacy employee who is responsible for entering inventory information regarding purchases and receipts into the OTPS computer is located in the stockroom, with access to the noncontrolled drugs.

Comptroller’s Directive #1 concerning internal controls requires that the responsibility for “the use of physical inventories [should be] . . . segregated from . . . the maintenance of detailed [inventory] records.” Good internal controls require that persons receiving and issuing inventory items should not be responsible for maintaining the records of those items. We believe it is in the Pharmacy Department’s best interest to ensure that there are appropriate controls in place to give management reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly recorded.

Lack of appropriate segregation of duties among employees in an organization can allow errors or irregularities to occur without detection. The Pharmacy Department should ensure that all duties are adequately segregated.

## **Recommendations**

Harlem Hospital Center Pharmacy officials should:

6. Require all subdivisions of the Pharmacy that dispense noncontrolled drugs to prepare their drug orders.

***HHC Response:*** HHC agreed stating, “Intra-Departmental ordering sub-division is responsible for the non-controlled substance active stock minimum levels. The following policy has been mandated: (1) Designated sub-division pharmacist will check his/her par level and will be responsible to provide out-of-stock order form list to the Pharmacy stockroom. (2) Stockroom will handle these request forms appropriately based on the availability of requested medications.”

7. Ensure that the stockroom personnel have read-only access to the inventory information in the computer system.

***HHC Response:*** HHC agreed stating, “The OTPS computer system has been revised as follows: (1) Only stockroom supervising pharmacist designated by the Director of Pharmacy will be able to change any data in the OTPS system via special security code access. (2) All other stockroom staff will have ‘read only’ access to the OTPS system.”

8. Ensure that Pharmacy employees who enter inventory information in OTPS do not have access to the noncontrolled drugs in the stockroom.

***HHC Response:*** HHC agreed stating, “During the interim, Pharmacy employee requiring access to the OTPS system will have to use access terminals located outside of stockroom. CFO has directed the Director of Pharmacy to relocate terminal to his office. The move of the OTPS access terminal will be coordinated as a priority with Pharmacy and MIS.”

### **Guidelines Are Not Always Followed Regarding Purchases of Noncontrolled Drugs**

The Pharmacy Department does not always adhere to its own procedures regarding purchasing of noncontrolled drugs. Specifically, we found that 52 (98%) purchase orders, totaling \$257,663 of the 53 (totaling \$260,430) in our sample were generated at least one day after the noncontrolled drugs were ordered. In fact, one purchase order was generated 39 days after the order was placed.

According to Harlem Hospital Center’s “General Pharmacy Purchasing, Pharmacy Policy PA-1”: “The purchase order shall be placed . . . on the day the purchase order is generated.” Discussions with the Director of the Pharmacy and the Supervisor of Purchasing for the Pharmacy stated that the Budget Department has to approve the requisitions prior to generating the purchase order. However, to expedite the purchasing process of needed drugs, the Pharmacy

Department always orders the drugs prior to the approval of the requisition by the Budget Department. Once the requisition has been approved, the Pharmacy Department will generate the purchase order, usually one or two days after the actual order has been placed.

By allowing noncontrolled drugs to be ordered before a purchase order is prepared, the Pharmacy Department is circumventing the controls it put in place to ensure that only drugs that have been approved and authorized will be ordered and purchased.

### **Recommendation**

9. Harlem Hospital Center Pharmacy officials should adhere to their own purchasing procedures and ensure that all purchase orders are prepared, approved, and authorized before drugs are ordered from vendors.

**HHC Response:** HHC agreed stating, “The following adjustments have been made to insure the proper processing of Pharmacy’s purchase orders: (1) Pharmacy Director has reissued HHC operating Procedures. (2) The Finance Office-Audit Unit will conduct audit reviews to ensure all procedures for purchases are followed.”

### **The Monetary Value of Expired Noncontrolled Drugs Is Not Reconciled**

The Pharmacy Department does not perform reconciliations of the credits and checks received from the vendors for the expired noncontrolled drugs that have been returned. As a result, Harlem Hospital Center officials cannot be assured that they are receiving the correct credits and moneys that they are entitled to. According to available vendor documentation for Fiscal Year 2005, Harlem Hospital Center should have received credits and moneys totaling \$224,303. However, because the Pharmacy Department does not perform reconciliations, we are unable to ascertain the dollar amount of the credits and moneys it received.

According to the Associate Coordinating Manager at the Pharmacy, staff members of stockroom and the different subdivisions of the Pharmacy review the expiration dates of the noncontrolled drugs each month. When they find a noncontrolled drug that has expired or will expire within the month, they set the drug aside in a separate section of the stockroom where it will be picked up by Guaranteed Returns, a company under contract with HHC that returns expired drugs to their manufacturers or destroys the drugs that cannot be returned. A representative of Guaranteed Returns scans the expired noncontrolled drugs into the company’s computer system in the presence of a Pharmacy staff member. The representative then gives the Pharmacy staff member the list of the scanned noncontrolled drugs that were picked up. Every three months, the hospital receives a manifest that lists all the drugs picked up, the credits to purchase additional drugs, and/or moneys due the hospital. At a later date, these credits and moneys are sent to the hospital. Harlem Hospital Center officials do not know whether they received the correct credits and moneys since they do not perform reconciliations.

**Recommendation**

10. Harlem Hospital Center Pharmacy officials should perform reconciliations to ensure that they receive all credits and moneys they are entitled to.

**HHC Response:** HHC agreed stating, “The facility will prepare reconciliation between the controlled substances picked up by Guaranteed Returns and the credit given to the facility. The vendor detailing the drugs returned and their value will provide a list. The facility will have on-line training for reconciliation by Guaranteed Returns.

“Training to be conducted and completed for staff by the end of April. The Finance Office-Audit Unit will conduct audit reviews to ensure all staff is trained timely.”

-





Alan D. Aviles  
President

OIA #05-55

March 28, 2006

Mr. John Graham  
Deputy Comptroller  
Audits, Accountancy & Contracts  
City of New York  
Office of the Comptroller  
1 Centre Street  
New York, NY 10007

**Re: Draft Audit Report on the Inventory Controls of Harlem Hospital  
Center Over Noncontrolled Drugs (Report #MH05-130A)**

Dear Mr. Graham:

Thank you for the opportunity to respond to the above-referenced audit of Harlem Hospital Center's (Harlem) inventory controls over noncontrolled drugs.

I was pleased to read that after thorough review and verification of Harlem's procedures, your audit found Harlem performed very well overall and that the Corporation's and Harlem's procedures adequately and appropriately protect inventory through proper receipt and distribution, the year-end inventory process and access controls.

Part of our success in this area is maintaining a secure and controlled environment. The use of cameras and electronic access cards has proven to be an effective formula to ensure all staff activity is appropriately monitored and inventory is protected.

As your audit confirmed, Harlem's well designed and effective procedures for the issuance of noncontrolled drugs produced virtually a 100% level of accountability. In the very few instances (10 of 345) where minor discrepancies were noted between the Other Than Personal Services (OTPS) balances and the auditors' physical counts, these discrepancies occurred during Tours I and III, (before and after the pharmacies normal hours of operation, respectively). In our effort to strive for 100 percent accuracy, we have in-serviced staff for proper completion of issue sheets for each item removed from inventory.

Additionally the count sheets utilized during the year-end inventory process have been redesigned to exclude any inventory quantities. This will improve our inventory procedures and conform with recognized inventory control practices.

The audit also found that Harlem's year-end inventory count excluded 17 of 1,631 items or 1%, valued at \$6,205 (of a total year-end inventory of approximately \$241,000). To avoid

reoccurrence of omitting items from the year-end count, a pharmacy supervisor will be responsible for ensuring that all count sheets are returned and reconciled.

The report cited further that 16 of 288 adjustments made to OTPS to reconcile inventory balances lacked documentation. Although Harlem's Pharmacy Department successfully explained and subsequently documented these adjustments, we will ensure that contemporaneous records are maintained to reflect any such changes.

We concur that segregation of duties has an important role in maintaining a comprehensive system of controls over inventory. In that regard, Harlem will ensure only stock room supervising pharmacists designated by the Director of Pharmacy will have the ability to change any data in the OTPS system via special security code access. Moreover, other stock room staff will have "read only" access to the OTPS system. Further, sub-division satellite pharmacies will prepare their own re-order form based upon established par levels.

The audit report cites Harlem's Pharmacy Department for not reconciling credits and/or checks received from Guaranteed Returns, the contracted vendor that returns expired drugs to the various manufactures or destroys those drugs that cannot be returned. HHC has been working with this vendor to ensure appropriate reporting is provided in sufficient detail to permit the reconciliation of returned/expired pharmaceuticals. In addition, Guaranteed Returns has agreed to train HHC staff to access and download the necessary reports from their website that will allow a reconciliation of credits/checks received from pharmaceutical manufacturers.

**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, Assistant Vice President, Internal Audits at (646) 458-5601.

Sincerely,



Alan D. Aviles

- C: F.J. Cirillo, Senior Vice President, Operations  
V. Dunn, MD, Senior Vice President, Medical & Professional Affairs  
M. Salamone-Greason, Chief of Staff, Office of the President  
A. Scoufaras, Assistant Vice President, Office of Internal Audits  
J. Sanchez, Senior Vice President, Generations + Northern Manhattan Health Care Network  
J. Palmer, Executive Director, Harlem Hospital Center  
R. Walker, Chief Financial Officer, Harlem Hospital Center

## ATTACHMENT I

**HARLEM** HOSPITAL CENTER

506 LENOX AVENUE NEW YORK NY 10037 TEL (212) 939-1000

*Rick Walker*  
 Chief Financial Officer  
 Tel: (212) 939-2027  
 Fax: (212) 939-2026

To: Alex Scoufaras  
 Assistant Vice President  
 Office of Internal Audits  
 160 Water Street, 7<sup>th</sup> Floor  
 New York, NY 10038

From: Rick Walker 

Date: March 23, 2006

Re: Audit #MH05-130A  
 Inventory Controls Over Non-Controlled Substances

In response to the New York State Comptroller's, Audit # MH05-130A, Inventory Controls Over Non-controlled Substances, attached is the corrective action grid for Harlem Hospital Center.

The Harlem Hospital Center Finance and Pharmacy Department will work collaboratively to ensure each inventory control corrective action measure is implement and maintained. Moreover, immediate action is underway to separate routine employee access to uncontrolled pharmaceuticals inventory during routine database management activities (OTPS System) by relocating the existing OTPS System portal to another area within the Pharmacy Department. During upcoming year-end closing exercises this fiscal year, hospital finance staff will also review Pharmacy Department inventory controls and assess the effectiveness of corrective actions implemented.

Should you have questions contact me or your staff may contact Renee Donaldson, Assistant Controller at (212) 939-2034.

Thank you.

Cc: John Palmer, Ph.D.  
 Stephen Lawrence, Ph.D  
 Renee Donaldson  
 Tracy Green  
 Walter Otero  
 Christopher Provenzano  
 Sonia Tennell

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

ATTACHMENT II  
 PART A

Audit Title: Audit Report on the Inventory Controls over Noncontrolled Substances at Harlem Hospital Center Date: March 23, 2006 Audit Agency: City of New York Office of the Comptroller  
 Agency: NYCHHC—Harlem Hospital Center Audit Date: March 14, 2006 Audit No: MH05-130A OMB Control No: \_\_\_\_\_

| RECOMMENDATION WHICH THE FACILITY/DIVISION INTENDED TO IMPLEMENT  | CORRECTIVE ACTION PLAN - SPECIFIC ITEMS-   | IMPLEMENTATION TARGET DATE (S)  |
|---|--|---|
| <p><b>Recommendation # 1</b><br/>                     Harlem Hospital Center Pharmacy officials should remind all Pharmacy personnel who have access to noncontrolled drugs after the stockroom is closed that they are required to prepare an issue sheet for all noncontrolled drugs removed from the stockroom (Page 8 of the audit report).</p> | <p>Department of Pharmacy has strictly mandated Tour I and III supervisors to follow and record accordingly any off-hour stock room movement. The Department has also revised Policy and Procedure regarding Stockroom Medication Discrepancy Report Form.</p>         | <p>10/30/05</p>   |
| <p><b>Recommendation # 2</b><br/>                     Harlem Hospital Center Pharmacy officials should ensure that all count sheets used for the year-end inventory count do not have balances listed on them (Page 8 of the audit report).</p>   | <p>Department of Pharmacy created new inventory "Count Sheet" form eliminating any inventory balances.</p>   | <p>3/1/06</p>   |
| <p><b>Recommendation # 3</b><br/>                     Harlem Hospital Center Pharmacy officials should reconcile all count sheets at the end of the year-end inventory count to ensure that all items are counted (Page 8 of the audit report).</p>   | <p>Department of Pharmacy created a new inventory "Count Sheet" form that will be implemented at the end of fiscal year 2006. A supervisor will be responsible for ensuring all Count Sheets are accounted for at the conclusion of each year-end inventory count.</p> | <p>June 2006</p>  |
| <p><b>Recommendation # 4</b><br/>                     Harlem Hospital Center Pharmacy officials should ensure that noncontrolled drugs kept in the refrigerators are included in the stockroom inventory listing and placed inside the secured stockroom area (Page 8 of the audit report).</p>   | <p>Pharmacy has purchased two extra refrigerators for the secured stockroom that will be used to maintain inventory for refrigerated items in the stockroom area</p>   | <p>Purchase Order issued 3/05<br/>                     Awaiting Delivery 4/06</p> |

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

ATTACHMENT II  
PART A

Audit Title: Audit Report on the Inventory Controls over Noncontrolled Substances at Harlem Hospital Center Date: March 23, 2006 Audit Agency: City of New York Office of the Comptroller  
 Agency: NYC/HHC—Harlem Hospital Center Audit Date: March 14, 2006 Audit No: MH05-130A OMB Control No: \_\_\_\_\_

| RECOMMENDATION WHICH THE FACILITY/DIVISION INTENDED TO IMPLEMENT  | CORRECTIVE ACTION PLAN - SPECIFIC ITEMS-   | IMPLEMENTATION TARGET DATE (S) |
|---|--|--------------------------------|
| <p><b>Recommendation # 5</b><br/>                     Harlem Hospital Center Pharmacy officials should investigate and document all adjustments made to correct inventory balances in OTPS (Page 9 of the audit report).</p>                            | <p>Pharmacy Department's Purchasing section has the responsibility of dealing with matters of stockroom discrepancies. The following policy has been strictly implemented:</p> <ol style="list-style-type: none"> <li>1. Stockroom supervisor will generate a discrepancy report if there is a discrepancy occurrence with resolution suggestions.</li> <li>2. This report will be reviewed by the Director of Pharmacy and if the suggestions are approved, then the Purchasing Supervisor will make appropriate approved adjustments in the OTPS system.</li> <li>3. Documentation will be kept on file in accordance with HHC record retention requirements.</li> </ol> | <p>3/1/06</p>                  |
| <p><b>Recommendation # 6</b><br/>                     Harlem Hospital Center Pharmacy officials should require all subdivisions of the Pharmacy that dispense noncontrolled drugs to prepare their drug orders (Page 10 of the audit report).</p>       | <p>Intra-Departmental ordering sub-division is responsible for the non-controlled substance active stock minimum levels. The following policy has been mandated:</p> <ol style="list-style-type: none"> <li>1. Designated sub-division pharmacist will check his/her par level and will be responsible to provide out-of-stock order form list to the Pharmacy stockroom.</li> <li>2. Stockroom will handle these request forms appropriately based on the availability of requested medications.</li> </ol>   | <p>3/1/06</p>                  |
| <p><b>Recommendation # 7</b><br/>                     Harlem Hospital Center Pharmacy officials should ensure that the stockroom personnel have read-only access to the inventory information in the computer system (Page 10 of the audit report).</p> | <p>The OTPS computer system has been revised as follows:</p> <ol style="list-style-type: none"> <li>1. Only stockroom supervising pharmacist designated by the Director of Pharmacy will be able to change any data in the OTPS system via special security code access.</li> <li>2. All other stockroom staff will have "read only" access to the OTPS system.</li> </ol>   | <p>4/15/06</p>                 |

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

ATTACHMENT II

PART A

Audit Title: Audit Report on the Inventory Control over Noncontrolled Substances at Harlem Hospital Center Date: March 23, 2006 Audit Agency: City of New York Office of the Comptroller  
 Agency: NYCHHC—Harlem Hospital Center Audit Date: March 14, 2006 Audit No: MH05-130A OMB Control No: \_\_\_\_\_

| RECOMMENDATION WHICH THE FACILITY/DIVISION INTENDED TO IMPLEMENT  | CORRECTIVE ACTION PLAN -SPECIFIC ITEMS-  | IMPLEMENTATION TARGET DATE(S) |
|---|--|-------------------------------|
| <p><b>Recommendation # 8</b><br/>                     Harlem Hospital Center Pharmacy officials should ensure that Pharmacy employees who enter inventory information in OTPS do not have access to the noncontrolled drugs in the stockroom (Page 10 of the audit report).</p>               | <p>During the interim, Pharmacy employee requiring access to the OTPS system will have to use access terminals located outside of stockroom.<br/>                     CFO has directed the Director of Pharmacy to relesase terminal to his office. The move of the OTPS access terminal will be coordinated as a priority with Pharmacy and MIS.</p>  | <p>3/31/06</p>                |
| <p><b>Recommendation # 9</b><br/>                     Harlem Hospital Center Pharmacy officials adhere to their own purchasing procedures and ensure that all purchase orders are prepared, approved, and authorized before drugs are ordered from vendors (Page 11 of the audit report).</p> | <p>The following adjustments have been made to insure the proper processing of Pharmacy's purchase orders:</p> <ol style="list-style-type: none"> <li>1. Pharmacy Director has reassued HHC operating Procedures.</li> <li>2. The Finance Office-Audit Unit will conduct audit reviews to ensure all procedures for purchases are followed.</li> </ol>   | <p>2/1/06</p>                 |
| <p><b>Recommendation # 10</b><br/>                     Harlem Hospital Center Pharmacy officials should perform reconciliations to ensure that they receive all credits and monies they are entitled to (Page 11 of the audit report).</p>  | <p>The facility will prepare reconciliation between the noncontrolled substances picked up by Guaranteed Returns and the credit given to the facility. The vendor detailing the drugs returned and their value will provide a list. The facility will have on-line training for reconciliation by Guaranteed Returns.<br/>                     Training to be conducted and completed for staff by the end of April. The Finance Office-Audit Unit will conduct audit reviews to ensure all staff is trained timely.</p> | <p>4/15/06</p>                |