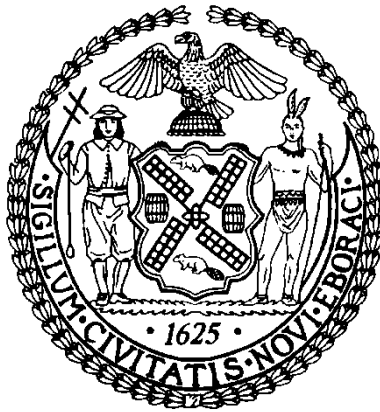


**CITY OF NEW YORK
OFFICE OF THE COMPTROLLER**

**John C. Liu
COMPTROLLER**

MANAGEMENT AUDIT

**H. Tina Kim
Deputy Comptroller for Audit**



**Audit Report on the Inventory Controls of
North Central Bronx Hospital over
Noncontrolled Drugs**

MH10-099A

October 13, 2010



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

John C. Liu
COMPTROLLER

October 13, 2010

To the Residents of the City of New York:

My office has audited the adequacy of the internal controls of the North Central Bronx Hospital (NCB) over its inventory of noncontrolled drugs. We conduct these audits to ensure that City hospitals maintain adequate internal controls over inventory to properly safeguard assets, thereby reducing the risk of misappropriation and theft.

NCB is one of 11 New York City Health and Hospitals Corporation (HHC) acute-care hospitals that provide medical, mental health, and substance abuse services. The audit found that NCB's Pharmacy Department has adequate inventory controls over noncontrolled drugs. There were no inaccuracies in the inventory records; security in the various pharmacy areas was adequate; documentation for noncontrolled drugs that were issued from the stockroom is maintained; and adjustments to inventory records were properly supported. Nevertheless, the audit found control weaknesses: the Pharmacy Department did not adequately segregate the duties of the stockroom employees; Pharmacy officials did not track the expired noncontrolled drugs kept in the stockroom prior to their being picked up to either return to manufacturers or destroy; and Pharmacy officials did not reconcile the dollar value of the returned expired drugs to the credits and checks it received from the vendors. Some of the weaknesses noted were addressed by the Pharmacy Department during the course of this audit.

The audit made six recommendations including that NCB Pharmacy officials should ensure that the stockroom personnel have read-only access to the inventory information in the computer system; perform reconciliations to ensure that NCB is receiving the correct amount of credits and monies for the expired drugs that have been returned to vendors; and maintain a record of the expired noncontrolled drugs kept in the stock room awaiting pick-up.

The results of the audit have been discussed with HHC and NCB officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@Comptroller.nyc.gov.

Sincerely,


John C. Liu

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

**Audit Report on the Inventory Controls of
North Central Bronx Hospital over
Noncontrolled Drugs**

MH10-099A

AUDIT REPORT IN BRIEF

The objective of this audit was to determine whether the internal controls over North Central Bronx Hospital's (NCB) inventory of noncontrolled drugs (drugs) were adequate. The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health, and substance abuse services through its 11 acute-care hospitals, 6 diagnostic and treatment centers, 4 nursing facilities, and more than 80 community-based clinics.

During Fiscal Year 2009, the total cost of drugs (controlled and noncontrolled) purchased by the Pharmacy Department at NCB was approximately \$2.1 million. According to the "Physical Inventory Evaluation" report (Exhibit H) that NCB prepared and submitted to HHC, the value of the inventory of all drugs in the Pharmacy Department stockroom at the end of Fiscal Year 2009 was \$309,806.

Audit Findings and Conclusions

Overall, NCB's Pharmacy Department has adequate inventory controls over noncontrolled drugs. Based on our testing and observations, we found no inaccuracies in the inventory records. We also found that access to the Inpatient Pharmacy, stockroom, and Out-Patient Pharmacy (OPD) is restricted to specific employees, and cameras are installed in Pharmacy areas to observe their activities. Documentation for drugs that were issued from the stockroom is maintained in the Pharmacy Department files, and adjustments made to Other Than Personal Service procurement management system (OTPS) have supporting documentation.

Nevertheless, we identified some control weaknesses. The Pharmacy Department did not adequately segregate the duties of the stockroom employees: one employee was responsible for all the duties relating to receiving the drugs, maintaining the drugs, issuing the drugs, and updating the drug inventory records on OTPS. In addition, Pharmacy officials did not track the expired drugs kept in the stockroom prior to their being picked up to either return to manufacturers or destroy. Pharmacy officials also did not reconcile the dollar value of the returned expired drugs to the credits and checks the Pharmacy Department receives from the

vendors. Some of the weaknesses we noted were addressed by the Pharmacy Department during the course of this audit.

Audit Recommendations

Based on our findings, we make six recommendations, three of which are listed below. NCB Pharmacy officials should:

- Ensure that the stockroom personnel have read-only access to the inventory information in the computer system.
- Perform reconciliations to ensure that the NCB is receiving the correct amount of credits and monies for the expired drugs that have been returned to vendors.
- Maintain a record of the expired drugs kept in the stock room awaiting pick-up.

In their response, HHC officials stated that they agreed with and have implemented all of the audit's recommendations.

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. HHC consists of 11 acute-care hospitals, 6 diagnostic and treatment centers, 4 nursing facilities, and more than 80 community-based clinics.

Each of HHC's acute care hospitals purchases, stores, and distributes controlled and noncontrolled drugs.¹ This audit focuses on the inventory controls over noncontrolled drugs at North Central Bronx Hospital (NCB), which is part of the North Bronx Healthcare Network (Network) established by HHC in 1994. NCB has approximately 232 beds and is a teaching institution affiliated with the Albert Einstein College of Medicine.

HHC has a computerized Other Than Personal Service procurement management system (OTPS) that stores perpetual inventory records, including those for 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.

During Fiscal Year 2009, the total cost of drugs (controlled and noncontrolled) purchased by the Pharmacy Department at NCB was approximately \$2.1 million. According to the "Physical Inventory Evaluation" report (Exhibit H) that NCB prepared and submitted to HHC, the value of the inventory of all drugs in the Pharmacy Department stockroom at the end of Fiscal Year 2009 was \$309,806.

Objective

Our audit objective was to determine whether the internal controls over NCB's inventory of noncontrolled drugs (drugs) were adequate.

Scope and Methodology

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

¹ 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.

The scope period of this audit was July 1, 2008, through March 2010. To achieve our audit objective, we reviewed the following HHC documents and procedures for inventory verification for Fiscal Year 2009, 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”; and Operating Procedure No. 140-6, “Requisitioning of Drugs and Pharmaceuticals for Ward, Clinic, Emergency Room and All Other Medication Areas.” We also interviewed hospital personnel, including the Network Director of Pharmacy, the two Assistant Directors of the Pharmacy, the Purchasing Agent, the Stock Room Supervisor, and the Stock Worker.

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; and stockroom security. To determine whether the above policies and procedures were followed, we performed multiple observations in the Pharmacy stockroom. These observations included an assessment of the security at the area. In addition, we performed a walkthrough of areas of the Pharmacy including the stockroom, OPD, and the Inpatient Pharmacy.

To assess the hospital’s internal controls over drugs, we observed the delivery and receipt of drugs at the Pharmacy stockroom; the storage of the drugs on the stockroom shelves; the filling of orders for the various pharmacy areas; the updating of inventory records; and the controls over expired noncontrolled drugs.

To assess the data reliability of OTPS, we obtained an OTPS listing of all drugs at NCB and checked its completeness by judgmentally selecting 55 drugs (every thirtieth drug on the shelf) in the pharmacy stockroom on January 12, 2010, and determined whether each was listed in the OTPS listing as of December 4, 2009.

To determine the accuracy of the drug balances in OTPS, we conducted our own physical inventory count of drugs in the Pharmacy stockroom, on March 9, 2010. From the OTPS perpetual inventory listing dated December 4, 2009, we obtained a total population of 1,757 drugs valued at \$536,394. From this population, we randomly selected a sample of 118 drugs valued at \$32,541. We eliminated 40 items with zero stock balances; therefore, our final sample was 78.

To test the accuracy of the entries made to the OTPS system, we randomly selected one week from the first quarter of Fiscal Year 2010 (September 26, 2009, to October 2, 2009) and one week from the second quarter of Fiscal Year 2010 (December 12, 2009, to December 18, 2009). We then reviewed all transactions relating to the corresponding 212 purchase entries for these drugs and the corresponding 634 entries for the issuance of these drugs from the stockroom to the different pharmacy areas in the hospital. Specifically, we traced the supporting documentation for each of the 212 purchase entries to the corresponding invoices and purchase

orders and for each of the 634 issuance entries to the corresponding charge-out² sheets and request sheets.³

In addition, to identify those drugs that may be more susceptible to misappropriation or theft, we selected an additional sample of drugs that had both a high unit cost and a high usage. In order to do this, we determined the total value of each drug issued during the period June 1, 2009, to December 31, 2009. From this population, we judgmentally selected the eight drugs each of which had a total usage value of more than \$30,000. For these eight drugs, we traced the corresponding 187 issuance entries, totaling \$319,059, to the corresponding charge-out sheets and request sheets.

We conducted two different tests on the adjustments. The first test was to determine whether the adjustment entries made to OTPS were appropriate and had adequate supporting documentation. We reviewed all 73 adjustment entries made to OTPS during November and December 2009 (both the recording of free drugs and corrections to inventory balances) and traced them to the corresponding supporting documentation.

For the second adjustment test, we obtained the monthly folders for July through December 2009 maintained by the Purchasing Agent that contain written explanations and supporting documentation for the 107 adjustments (corrections) that were made to OTPS's inventory balances. These 107 adjustments were recorded in OTPS as either issuance entries, receipt entries, or adjustment entries. We reviewed this documentation to determine whether the Purchasing Agent performed an investigation prior to making the adjustments and whether these adjustments were approved by one of the Assistant Directors.

We reviewed prior audits conducted by the Comptroller's Office, *Audit Report on Inventory Controls over Non-Controlled Drugs at Coney Island Hospital* issued on June 25, 2009 (Audit # MG07-111A) and *Audit Report on the Inventory Controls of Harlem Hospital Center over Non-Controlled Drugs*, issued May 3, 2006 (Audit # MH05-130A) to determine whether there were any recurring issues at the various facilities.

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.

Discussion of Audit Results

The matters covered in this report were discussed with North Central Bronx Hospital officials during and at the conclusion of this audit. A preliminary draft report was sent to HHC officials and was discussed at an exit conference held on August 19, 2010. On August 27, 2010, we submitted this draft report to HHC officials with a request for comments. We received a written response from HHC officials on September 13, 2010. In their response, HHC officials stated that they agreed with and have implemented all of the audit's recommendations. The full text of the HHC response is included as an addendum to this report.

² A charge-out sheet contains up to nine identifying stickers, which include a description of the drug, such as the brand and generic names, strength, package size, quantity issued, quantity remaining on the shelf, and the initials and date of the person who removed the drug from the shelf.

³ A request sheet is a written request for specified drugs in the stockroom from a subdivision of the Pharmacy Department.

FINDINGS AND RECOMMENDATIONS

Overall, NCB's Pharmacy Department has adequate inventory controls over noncontrolled drugs. Based on our testing and observations, we found no inaccuracies in the inventory records. We also found that access to the Inpatient Pharmacy, stockroom, and OPD is restricted to specific employees, and cameras are installed in Pharmacy areas to observe their activities. Vendors deliver drugs directly to the Pharmacy Department where an employee counts and signs for the number of cases received. Documentation for drugs that were issued from the stockroom is maintained in the Pharmacy Department files, and adjustments made to OTPS have supporting documentation.

However, while we found the inventory controls at the Pharmacy Department to be adequate, we identified some control weaknesses. The Pharmacy Department did not adequately segregate the duties of the stockroom employees; did not track the expired drugs kept in the stockroom prior to pick 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); and did not reconcile the dollar value of the returned expired drugs to the credits and checks it receives from the vendors. Some of the weaknesses we noted were addressed by the Pharmacy Department during the course of this audit.

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

Pharmacy Department Has Adequate Controls Over the Drugs in Its Stockroom

Inventory Records of Drugs Are Complete and Accurate

Based on our review of controls and the results of our test counts of inventory, we conclude that the inventory records in OTPS for the drugs maintained in the stockroom are complete and accurate. On March 9, 2010, we conducted an inventory count of a sample of 78 drugs, valued at \$32,541, accompanied by officials from NCB, the Network, and HHC's central office and found that the balances recorded in OTPS were accurate.

Pharmacy Areas Are Safeguarded

NCB's Pharmacy Department has adequate controls over the access to the Pharmacy stockroom. Access to this area is restricted to specific employees who must use an electronic card to enter this area. In addition, non-stockroom employees are prevented from entering the stockroom without an authorized person opening the door. Furthermore, cameras are located in many areas of the Pharmacy to record activities, including a camera that faces the door to the stockroom.

Adequate Procedures for Drug Deliveries to the Stockroom

Controls over delivery of drugs to the stockroom are adequate. Vendors deliver drugs to the Pharmacy Department daily. These deliveries go directly to the Pharmacy area 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 drug is recorded on the invoice. The employee then places the drugs on the shelf and updates the information in OTPS.

Adequate Documentation for Noncontrolled Drugs Issued

Controls over the maintenance of documentation for drugs issued are adequate. Request sheets are used by the Pharmacy Department to document the requests and receipt of drugs from the stockroom. The sheets are important since they are the only source documents that indicate to whom and to what area the drugs were issued. The request sheet is required to be signed by the person requesting the drugs, the person filling the order in the stockroom, and the person receiving the drugs from the stockroom. These documents can be used by Pharmacy employees to investigate discrepancies in OTPS.

We found that request sheets were maintained for 632 (99.7%) of the 634 entries, valued at \$124,311, recorded in OTPS as drugs that were issued to areas of the Pharmacy for the two weeks of our test. In addition, request sheets were maintained for 182 (97.3%) of the 187 entries, valued at \$319,059, recorded in OTPS as drugs issued to areas of the Pharmacy for the sample of eight drugs that appeared to have a high cost and a high usage.

While reviewing the request sheets, we noted that there were times when all three signatures were not filled out or when the same person signed all three places on the sheet. Pharmacy officials stated that the Inpatient Pharmacy is open longer hours than the stockroom. When the stockroom is closed, the In-Charge Pharmacist has access to the stockroom and can remove needed drugs from the shelves. During these off hours, there could be occasions when the In-Charge Pharmacist does not properly fill out the request sheet, signs all three places on the sheet or could forget to fill it out altogether.

As a result of our bringing the above matters to their attention, during our audit, Pharmacy officials implemented new policies and procedures to strengthen controls over documentation. A new daily reconciliation is performed by the Stock Room Supervisor, which is documented on a "NCBH Pharmacy Storeroom Reconciliation Sheet." This sheet requires the Stock Room Supervisor to note whether the request sheets have all the appropriate signatures on them. In addition, the policy entitled "Stock Room Procedures and Safety Practices" has been updated to require that both the In-Charge Pharmacist and the Pharmacy Technician/Pharmacy Intern, who work in the Inpatient Pharmacy after the stockroom is closed, sign the request sheet. This new procedure addresses the lack of signatures on the request sheets when drugs are issued after the stockroom is closed.

Adjustments Made to OTPS Records Are Adequately Documented

At the beginning of our audit, Pharmacy officials informed us that up until we started the audit, their procedure was to correct inventory discrepancies on OTPS by recording them as issuance entries or receipt entries rather than adjustment entries. They told us that they have since changed this procedure and are entering corrections to inventory discrepancies as adjustment entries. They also told us that while they used the adjustment entries only to record the receipt of free drugs, they had been maintaining documentation for all adjustments regardless of how they were entered into OTPS. We reviewed all the paperwork documenting the corrections to inventory discrepancies maintained in the adjustment files from July 2009 through December 2009. This was done to determine whether there was evidence that an investigation was performed and whether one of the Assistant Directors approved the adjustment. We found evidence that investigations were performed by the Purchasing Agent for all 107 adjustments from the files we reviewed and that 102 (95%) were initialed by one of the two Assistant Directors.

In addition, from November 2009 through December 2009, 73 adjustment entries were made to OTPS. Of those, 43 were adjustments made to record the receipt of free vaccines received from the Department of Health. These free drugs cannot be entered as purchases and were therefore entered as adjustments. The remaining 30 adjustments were made to OTPS to correct inventory discrepancies identified by either the Stock Worker or the Purchasing Agent in the inventory balances. We found adequate documentation to support all 73 adjustment entries.

Recommendation

1. NCB Pharmacy officials should establish formal written procedures to require that:
 - all adjustments to the OTPS system are recorded as adjustment entries and not as receipt entries or issuance entries and
 - all adjustments are approved by one of the Assistant Directors of Pharmacy.

HHC Response: HHC agreed stating, “NCBH will develop a formal written policy for recording adjustments correctly.”

Weaknesses in Controls in Pharmacy Department

Lack of Segregation of Duties in Pharmacy Department

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. At the beginning of our audit, we found that the Pharmacy Department did not adequately segregate the duties of two of its stockroom staff.

We observed that the duties assigned to the Stock Worker lacked mutual checks and balances. Specifically, he was responsible for all the duties relating to receiving the drugs, maintaining the drugs, issuing the drugs, and updating the drug inventory records on OTPS. The second staff member, the Purchasing Agent likewise had too much control, in this case over the physical movement of the drugs and the electronic inventory records. During our testing of the supporting documents for adjustments, we found that the Purchasing Agent removed drugs from the Inpatient Pharmacy and returned them to the stockroom after which he made the corresponding entries in the OTPS system. While we found no indication that these employees did anything inappropriate, the lack of segregation of duties increases the risk that fraudulent activities could occur and go undetected.

During our audit, the Pharmacy Department instituted a number of changes regarding responsibilities of the stockroom staff. The department hired a Stock Room Supervisor, who is currently in charge of receiving drugs from the vendor and taking them to the stockroom. However, he currently has access to the drugs and is making entries in the OTPS system which still does not resolve the inadequate segregation of duties. In addition, the department assigned the duties of entering the issue of drugs in OTPS to a clerk who does not have access to the stockroom, thus eliminating the conflicting responsibilities of the Stock Worker. In addition, Pharmacy officials told us that prior to our audit they had been conducting spot checks of orders filled by the stockroom as a type of compensating control. They provided us with 20 such spot checks that were conducted during May, June, August, and October 2009. After reviewing the spot checks, it appears that the form used for the spot checks has been revised and is now being used to conduct the daily reconciliations by the Stock Room Supervisor that were discussed previously in this report. Overall, while these are some positive changes, a lack of segregation of duties still exists within the Pharmacy Department that needs to be addressed either by eliminating access to OTPS from certain employees or by instituting compensating controls.

Recommendations

NCB Pharmacy officials should ensure that:

2. The stockroom personnel have read-only access to the inventory information in the computer system.

HHC Response: HHC agreed stating, “Stockroom personnel no longer have access to the inventory information in the OTPS computer system.”

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

HHC Response: HHC agreed stating, “Pharmacy employees who enter inventory information into the inventory system no longer have access to the physical inventory of the stockroom. Swipe card access has been removed for these employees.”

Controls over Expired Drugs Could Be Improved

The Pharmacy Department does not perform reconciliations of the credits and checks received from the vendors for the expired drugs that have been returned. As a result, there is no assurance that the NCB is receiving the correct amount of credits and monies for the expired drugs that have been returned to vendors. In addition, the Pharmacy does not maintain a record of expired drugs that are stored in the stockroom prior to their being picked up from the hospital for return to vendors.

According to the Assistant Director of the Pharmacy, staff members of the stockroom and the different subdivisions of the Pharmacy Department review the expiration dates of the drugs each month. When they find drugs that have expired or will expire within the month, they set the drugs aside in boxes in a designated area of the stockroom. These drugs will be removed from the stockroom to another location within the pharmacy area and 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.

We observed a representative of Guaranteed Returns scan the expired noncontrolled drugs into the company's computer system and place them in boxes in the presence of a Pharmacy staff member. The representative then seals and labels the boxes for pick up by UPS and gives the Assistant Pharmacy Director the list of the scanned drugs that were boxed for pick-up. The hospital then receives a manifest that lists all the drugs picked up, including the value of those drugs that are identified as returnable. At a later date, credits and monies are sent to the hospital for the returnable drugs.

NCB officials do not know whether they received the correct credits and monies since they do not perform reconciliations of the credits and checks received from the vendors for the expired drugs that have been returned. According to available vendor documentation for calendar years 2008 and 2009, NCB should have received credits and monies totaling \$312,147. However, because the Pharmacy Department does not perform reconciliations, we are unable to ascertain the dollar amount of the credits and monies it actually received or should receive.

In addition, when the noncontrolled expired/soon to be expired drugs are placed in boxes in the Pharmacy stockroom, no record of those drugs is kept. As a result, Pharmacy officials are limited in their ability to verify that all of the drugs will still be there when they are picked up by Guaranteed Returns.

Recommendations

NCB Pharmacy officials should:

4. Perform reconciliations to ensure that the NCB is receiving the correct amount of credits and monies for the expired drugs that have been returned to vendors.

HHC Response: HHC agreed stating, "The facility's account on the Returns Vendor's website is accessed to review the Credit Status Report. (This indicates estimated return

values from each company, date estimate was posted and quarterly payments posted). This process is dependent on outside sources, i.e. drug manufactures for completeness and accuracy.”

5. Maintain a record of the expired drugs kept in the stock room awaiting pick-up by Guaranteed Returns.

HHC Response: HHC agreed to implement a compensating control stating, “Expired medications have been moved to a secure location outside of the general stock storage area, only accessible by supervisory staff. Pickup by the returns vendor is witnessed by pharmacy staff and will continue as established procedure.”

Other Matters

Certain Employees Have Unnecessary Access to the Pharmacy Department’s Inventory Records

During our review of employees who have access to the Pharmacy’s inventory records in the OTPS system, we found four employees who are not responsible for overseeing the inventory at the Pharmacy Department but have the authority to make entries to the inventory records. The four employees are a Network Associate Executive Director, an Assistant Director of Pharmacy from Jacobi Hospital, and two employees from NCB’s Materials Management Department—a Supervisor of Stock Workers and a Stock Worker. When employees who are not responsible for managing the inventory nevertheless have the ability to adjust the inventory records, the risk that unauthorized changes will be made to the inventory records is increased. When we brought this matter to the attention of the Assistant Director of the Pharmacy, he agreed that these employees should not have this type of access. He stated that he has attempted to restrict access for these individuals, but does not have the authority to make the change. He has requested this change from the HHC Central Office, which does have the authority to make the change.

Recommendation

6. NCB Pharmacy officials and HHC officials should restrict access to the Pharmacy Department inventory records to only those individuals authorized by the Pharmacy Department.

HHC Response: HHC agreed to implement a compensating control stating, “The OTPS system grants access privileges on security level, not department or location. As a result, non-pharmacy employees have OTPS receiving functionality. As compensating controls the pharmacy reviews receiving activity for possible unauthorized access.”

Alan D. Aviles
President

September 8, 2010

Tina Kim
Deputy Comptroller for Audits
The City of New York
Office of the Comptroller
1 Centre Street, Room 1100
New York, New York 10007-2341

RE: Draft Audit Report on the Inventory Controls of North Central Bronx Hospital over Non-controlled Drugs (MH10-099A)

Dear Ms. Kim:

Thank you for the opportunity to respond to the above referenced audit.

I was pleased to read that after a thorough review and verification of North Central Bronx Hospital's (NCBH) procedures, your audit found adequate internal controls existed over NCBH's non-controlled drugs. I also appreciate that the audit recognized the efforts set forth to ensure that access to the Pharmacy Department was restricted and secured.

As the NCBH Pharmacy Department continues to make efforts to further strengthen operations, we are in agreement with and have implemented all of the recommendations cited.

Enclosed please find the Audit Implementation Plan (Attachment I), which addresses all of the recommendations cited.

If you have any questions regarding our response, please call Mr. Christopher Telano, Chief Internal Auditor/ Assistant Vice President at 646-458-5623.

Sincerely,



Alan D. Aviles

cc: Ramanathan Raju, MD, MBA, FACS, Executive Vice President/Corporate Chief Operating Officer
Salvatore J. Russo, Esq., General Counsel, Legal Affairs
Marlene Zurack, Senior Vice President/CFO, Finance/Managed Care
Joe Schick, Chief of Staff, President's Office

Ana Marengo, Senior Vice President, Communications & Marketing
William P. Walsh, Senior Vice President, North Bronx Network
Kathy Garramone, CFO, North Bronx Network
Alex Scoufaras, Internal Audits, North Bronx Network
Vincent Giambanco, Director, Pharmaceuticals, Material Management
George Davis III, The City of New York, Office of the Mayor
Christopher Telano, Chief Internal Auditor/AVP, Office of Internal Audits
Chalice Diakhate, Director, Office of Internal Audits

ATTACHMENT I
PART A

AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

Audit Title: Audit Report of on the Inventory Controls of North Central Bronx Hospital Date: August 27, 2010 Audit Agency: Office of the New York City Comptroller

Agency: NYCHCC (OIA # 10-21) - North Central Bronx Hospital Audit Date: November 23, 2009 Audit No: MI10-099A OMB Control No: _____

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE
<p>Recommendation # 1 NCBH Pharmacy officials should establish formal written procedures to require that: All adjustments to the OTPS system are recorded as adjustments entries and not as receipt entries or issuance entries and add adjustments are approved by one of the Assistant Directors of Pharmacy</p>	<p>NCBH will develop a formal written policy for recording adjustments correctly</p>	<p>Completed, December 2009</p>
<p>Recommendation # 2 NCBH Pharmacy officials should ensure that: The stockroom personnel have read-only access to the inventory in the computer system.</p>	<p>Stockroom personnel no longer have access to the inventory information in the OTPS computer system.</p>	<p>Completed, July 2010</p>
<p>Recommendation # 3 NCBH Pharmacy officials should ensure that: Pharmacy employees who enter inventory information into the OTPS (inventory system) do not have access to the non controlled drugs in the stockroom.</p>	<p>Pharmacy employees who enter inventory information into the inventory system no longer have access to the physical inventory of the stockroom. Swipe card access has been removed for these employees.</p>	<p>Completed, August 2010</p>
<p>Recommendation # 4 NCBH Pharmacy Officials should: Perform reconciliations to ensure that the NCB is receiving the correct amount of credits and monies for the expired drugs that have been returned to vendors</p>	<p>The facility's account on the Returns Vendor's website is accessed to review the Credit Status Report. (This indicates estimated return values from each company, date estimate was posted and quarterly payments posted). This process is dependant on outside sources, i.e. drug manufacturers for completeness and accuracy.</p>	<p>Completed, May 2010</p>

ATTACHMENT I

AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

PART A

Audit Title: Audit Report of on the Inventory Controls of North Central Bronx Hospital Date: August 27, 2010 Audit Agency: Office of the New York City Comptroller

Agency: NYCHCC (OIA # 10-21) - North Central Bronx Hospital Audit Date: November 23, 2009 Audit No: MH10-099A OMB Control No: _____

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE
<p>Recommendation # 5 NCBH Pharmacy officials should: Maintain a record of the expired drugs kept in the stock room awaiting pick-up by Guaranteed Returns.</p>	<p>Expired medications have been moved to a secure location outside of the general stock storage area, only accessible by supervisory staff. Pickup by the returns vendor is witnessed by pharmacy staff and will continue as established procedure.</p>	<p>Completed, July 2010</p>
<p>Recommendation # 6 NCB Pharmacy officials and HHC officials should restrict to the Pharmacy Department inventory records to only those individuals authorized by the Pharmacy Department.</p>	<p>The OTPS system grants access privileges on security level, not department or location. As a result, non-pharmacy employees have OTPS receiving functionality. As compensating controls the pharmacy reviews receiving activity for possible unauthorized access.</p>	<p>Completed, August 2010</p>