OBM | Office of Internal Audit

Department of Mental Health & Addiction Services

Office of Support Services Pharmaceutical Activities Audit

Audit Period: April through September 2013

Results Summary:

Objective	Conclusion
Purchasing and Receiving Pharmaceutical and Administrative Supplies and Services	**Well-Controlled with Improvement Needed**
Contract Monitoring	**Well-Controlled**

Report number: 2014-MHA-01 **Issuance date: December 9, 2013**

Executive Summary

Background

The Ohio Pharmacy Service Center (OPSC), within the Office of Support Services (OSS) purchases wholesale pharmaceuticals on behalf of certain state facilities and community agencies. OSS handles the bidding, term contracts, and direct procurement of goods and services, including pharmaceuticals. OSS also provides pharmacy dispensing and delivery services. Central Pharmacy Inpatient (CPI) offers competitively priced medications through consolidated purchasing to state, county, or governmental inpatient settings. Central Pharmacy Outpatient (CPO) assists Community Mental Health Boards with the economic purchasing and dispensing of psychotropic medications to needy clients meeting specific clinical and income eligibility criteria. Historically, the State spends about $45 million annually on pharmaceuticals.

During the engagement, OIA identified opportunities for management to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank the Department of Mental Health and Addition Services (MHA) staff and management for their cooperation and time in support of this audit. This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA performed assurance work related to OSS' Pharmaceutical Activities between September and November 2013. The scope of this review included the key processes over procurement and distribution of pharmaceutical and administrative supplies to the state mental health facilities, CPI and CPO, but excluded distribution of pharmaceuticals from the CPI and the CPO. The audit period is April through September 2013.

The objectives of the review included the following:

- Evaluate the design and effectiveness of controls over purchasing and receiving pharmaceutical and administrative supplies.
- Evaluate the design and effectiveness of contract monitoring.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Inventory Cycle Counts

Effective inventory counts should include tracing and vouching inventory records and the assets inspected during the physical count. Documentation of the occurrence of the count should be retained in order to evidence that an inventory count was completed.

It is MHA's practice to conduct an annual physical inventory count of all items in the Pharmacy Service Center, as well as to conduct inventory cycle counts according to cycles (between 45 and 80 days) assigned to every inventory item. However, 23 of 24 (96%) inventory items tested did not have evidence in the Warehouse Management System (IRMS) that a cycle count was conducted within the required cycle count interval.

The purpose of cycle counting inventory is to verify the inventory exists for items that require a high degree of accuracy. Failure to perform inventory counts, or to retain documentation evidencing the inventory count, increases the risk of inaccurate financial reporting, or the misappropriation of assets.

Recommendation

Develop and implement a policy over managing the Pharmacy Service Center inventory. The policy should outline the frequency that each inventory item should be cycle counted, the individuals responsible for conducting the cycle counts, and the documentation to maintain in IRMS to evidence that cycle counts are conducted. A periodic supervisory review may be implemented to ensure that items are cycle counted as required by policy.

Additionally, evaluate the inventory cycle count process and consider limiting the inventory cycle counts to only those inventory items that require a high degree of accuracy (i.e., controlled substances) to make the cycle count process more efficient and effective.

Management Response

The cycle counting codes are used to determine how frequently items are counted. OSS/OPSC is in the process of reassigning the cycles counting codes (A, B, C, and D codes) per item to better represent the goals of the cycle counting process. All cycle counts are, and continue to be, generated by the system based on the goals and assigned criteria (A, B, C, and D codes).

ARCOS reportable items (i.e. controlled substances) have been recorded on paper each month because of DEA requirements and were not recorded in the system. This process will now be done through the standard electronic IRMS method in conjunction with the manual paper-based process, which is still required by the DEA.

The warehouse manager will conduct a weekly review to ensure that all daily cycle counts have been completed for the week. Cycle counts that have not been completed will be documented.		
Risk*	**Remediation Owner**	**Estimated Completion Date**
Moderate	OSS Manager	February 2014

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee