COUNTY OF MONTEREY
AUDITOR-CONTROLLER DEPARTMENT
INTERNAL AUDIT DIVISION
NATIVIDAD MEDICAL CENTER
PHARMACY DEPARTMENT OPERATIONAL REVIEW

County of Monterey
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Introduction

An operational audit of the Natividad Medical Center (NMC) Pharmacy Department commenced in July 2012.

Executive Summary

Objective:
This review examined existing policies and procedures for the procurement of goods and services as well as the administration and control of pharmaceuticals to patients. Dispensing and control systems were evaluated as a part of this review. Departmental Internal Controls were assessed for each pharmacy function.

Scope:
The period July 2011 to August 2012 was the test period for detail testing of the procurement process. The procurement process includes: requisitioning, purchasing, receiving, and accounts payable.

Conclusion:
NMC Pharmacy Department has installed comprehensive technology to assist in the daily operations of dispensing and controlling pharmaceuticals to patients. These systems appear to provide a significant benefit to the Pharmacy operations.

The accounts payable function continues to be inefficient and appears to be overwhelmed by the number of transactions that require processing. The staffing in the Accounts Payable department
should be evaluated with the emphasis on more timely and efficient processing of all vendor payments.

The benefits could easily provide for the taking of early payment discounts and the avoiding of credit holds, especially where patient care is affected.

**Response**

NMC Pharmacy Department has a comprehensive technology system to assist in the daily operations of dispensing and controlling pharmaceuticals to patients. We concur that these systems provide a significant benefit to the Pharmacy operations.

The accounts payable function continues to improve efficiencies through staff training on existing and new processes and procedures; and the implementation of new management tools. In addition, the integration of Meditech and Advantage interface solution under work by NMC and County staff is expected to decrease the work load of existing staff.

AmerisourceBergen is pharmacy’s primary supplier of pharmacy products. They supply nearly 100% of all pharmacy needs for all patients. NMC arranged a pre-paid payment arrangement with AmerisourceBergen a few years ago to effectively maximize its product discount from meeting the agreed upon contractual payment terms. The arrangement provides for a 7% discount on purchases or approximately $200,000 to $300,000 in annual savings.

**Background:**
The California Business and Professions Code provide the basis for the clinical and operational pharmacy department functions. (Refer to Sections 4029, 4037, 4050, 4051, 4052). In addition the Drug Enforcement Agency (DEA) procedures and directives must be implemented.

Natividad Medical Center’s Pharmacy provides pharmaceuticals for inpatients and for outpatients, predominantly medically indigent adults (MIAs).

Pharmacy achieves oversight, control, and administration of pharmaceuticals through the use of an automated dispensing system. Medication management is provided by Pyxis Medication
Technology, a CareFusion company product. Pharmacy also has a responsibility to maintain billable charges to patients within Meditech.

Mobile computer systems with Pyxis Connect, a computer program, scans physicians' handwritten orders that are then transcribed into the patient's profile in Meditech, reviewed by pharmacists, pharmaceuticals are pulled from Pyxis, and the charge is populated into Meditech. Twenty-five Pyxis medication control stations are located throughout NMC, these medication control stations consist of a touch screen computer, drawers with individual pockets, carousels, and mini drawers, and some stations have refrigeration capability; all stations are linked to a main computer console located in the Pharmacy Department. The stations require a log-in and bio-ID, patient name, and drug selection chosen prior to retrieval. Each medication control station sends data to the main console where Pharmacy can oversee the medication administration and review a variety of reports from the system, i.e. daily overrides, departments' adherence to the need to count controlled substances, etc.

The Outpatient Pharmacy utilizes the QS1 data systems, which provides a drug information database, prints prescription instructions, prescription labels for bottles, reports for billing purposes, and tracking of distributed pharmaceuticals. Outpatient Pharmacy provides filling prescription services to MIAs by taking bulk bottle items and repackaging into smaller bottles.

Materials Management and Accounts Payable are an integral part for procuring pharmaceuticals. Materials Management enters all orders placed by Pharmacy into Meditech and closes out the transaction once the goods are received at Materials Management or Pharmacy. Accounts Payable receives invoices, performs matching of invoices to receiving documents in Meditech, submits invoices to department for approval, and enters invoices into Advantage for payment.
Observations

Observation One: Use of Other Purchase Orders to Pay Invoices

Condition:
BPO 3980, for California Radiographics, was being used to pay invoices coded for cost centers 7630 and 7680, as well as invoices coded as Pharmacy (7710) by Accounts Payable; some invoices listed a different BPO number than 3980, therefore matching of invoices to the purchase order was not being performed accurately.

Criteria:
The Natividad Medical Center’s Contracts/Purchasing Manual provides that, “NMC Accounts Payable team shall be responsible for invoices, matching invoices to purchase orders, batching invoices for payment, and sending check request to County Controller” (The Purchase Order section, V. D).

Cause:
Invoices, because of excessive delays, will need to get paid and the other departments have either run out of money on their purchase orders and/or do to the staff level and work load, Accounts Payable is unable to perform their necessary procedures when matching invoices to purchase orders.

Effect:
Pharmacy may not have funds available when needing diagnostic supplies or medications because their approved purchase order amount is being utilized by another department.

Recommendation:
Accounts Payable should perform matching of the invoice to the correct purchase order.

Response
Accounts Payable processes the invoices through both systems to make sure the vendor is paid as timely as possible. To accurately assign an approved PO, we have provided reminders to the Purchasing Department to consistently and carefully place orders and process payment requests.
on the correct PO. NMC is working with County departments staff to develop an all inclusive purchase order to accommodate all purchases from a same vendor. The vendor’s agreement would list each contracted service and all related expenses would be processed under one purchase order line item and one purchase order. This method of purchase orders would eliminate the need for manual logs and it would eliminate the need to match invoices to specific purchase orders with specific line items.

**Observation Two: Purchase Order Log**

**Condition:**
Purchase order logs for vendors are not maintained by Pharmacy. The department does not know if increases may be necessary in the purchase order or if other departments have been using available PO balances.

**Criteria:**
Hospital policy and good business practice requires the maintenance of purchasing logs for each vendor listing the starting amount of each purchase order, all of the invoices, and the running balance.

**Cause:**
Purchase order amounts can be used without department’s knowledge and the department may be scolded when an increase is needed even though the department did not place many orders with the vendor.

**Effect:**
Maintaining a log would assist in knowing amounts available for ordering and knowledge of when an increase is needed.

**Recommendation:**
Pharmacy should maintain logs for each vendor that a purchase order has been created.
Response
In order to ensure the maintenance of logs for each vendor for which a Purchase Order (PO) has been created, Pharmacy has implemented an Excel spreadsheet with separate sheets for each vendor. Purchase Orders are logged on each of the respective vendors’ sheets. The current limit of the Purchase Order is displayed at the top of the sheet. The running total is calculated and subtracted from this limit notifying the user of the amount remaining on the PO.

Observation Three: Entry of Invoices into Financial Systems
Condition:
It took the following number of days for invoices to be entered into Meditech once received on average, 22 days. It took the following number of days from Meditech entry to Advantage for invoices on average: 17 days for service contracts, 18 days for blanket purchase orders, and 43 days for purchase orders.

Criteria:
Good business practice is to enter invoices into financial accounting systems in a prompt and punctual manner for payment.

Cause:
Having to enter into two financial systems, waiting for approval from departments or needing more documentation from departments and/or vendors and three or fewer staff to do entry into systems causes delays and more time required to disburse payments.

Effect:
Invoices not processed in a timely manner can cause late payments, missed discount opportunities, credit holds, and rush payments to the Auditor’s office.

Recommendation:
Process invoices in a timely and accurate manner in Meditech to enter into Advantage so revenue saving opportunities are not missed. Staffing should be evaluated in the accounts payable function.
Response:
We are currently working on a system’s interface from Meditech to the Advantage system, to reduce both the double-handling aspect of transactions and the need for additional staff in the Accounts Payable function.

Observation Four: Controlled Substance Count
Condition:
The Pharmacy requires that departments that have access to controlled substances perform a daily count of controlled substances, however many departments are not complying with Pharmacy’s protocol.

Criteria:
The Drug Enforcement Agency regulations require control and custody of scheduled medications, otherwise known as controlled substances. The Pharmacy Director has implemented procedures to assure 100% compliance to daily counts.

Cause:
Employees responsible for the daily counts are not fully implementing the procedures.

Effect:
The hospital is at risk of DEA sanctions if adequate controls are not in place.

Recommendation:
Clinical and management personnel should emphasize to assigned employees the importance of completing controlled substance counts.

Response:
In order to ensure improved compliance rates with the daily controlled substance counts among nurses, NMC’s clinical and management personnel emphasizes to the assigned employees the importance of completing controlled substance counts. Specifically:
1.) All HANs are reminded to advise all night shift charge nurses of the requirement that
daily controlled substance accountability is a requirement and to assist them as the
second RN to count, if necessary.

2.) Signs are made to remind staff of the requirement to count controlled substances every
day. These signs are placed in areas frequented by hospital staff.

3.) Directors are advised that counting controlled substances is a high priority requirement,
and they must ensure compliance on their units. Failure to ensure compliance could
result in progressive discipline from the Director.

Observation Five: Service Contract Data Entry

Condition:
Three service contracts required Board of Supervisors' approval; it took an average of 161 days
from when the contract was approved by the Board of Supervisors to being entered into
Advantage.

Criteria:
Good business practice is to enter all purchase documents into a financial accounting system
in a prompt and punctual manner to allow for utilization by the purchasing department.

Cause:
It is unclear as to why once Board of Supervisors' approval was received it took Materials
Management an inordinate period of time to create the document in Advantage. Since one
Materials Management employee oversees all the service contracts for the entire hospital
additional support for materials management functions is in order.
Effect:
The service contract is not considered approved until Auditor-Controller’s approval; therefore a department has to wait to use the vendor.

Recommendation:
Additional staff to enter into Advantage would help lighten the workload of the one employee who oversees all of the contracts for Natividad Medical Center.

Response:
In two of three observed instances (SC904, 4 and SC2208, 1), for vendor First DataBank (CV741), the lengthy delay in entering the contract into Advantage resulted from an unexpected need for a pharmacy software agreement. NMC worked extensively with County counsel to determine the specific classification for the software as service or supply product. Numerous discussions took place between NMC and County counsel staff to review and study the nature of the software product until a final determination was made after lengthy discussions.

In the third instance (SC1917, 2), for vendor Pharmmedium Services LLC (CV1916), the delay in entering the service contract into Advantage resulted from multiples changes in the process on how the Auditor’s Office would require Multiple Year Agreements (MYA) to be treated from a service contract and then a DO for the Current Fiscal Year. In addition, increased work load for NMC Purchasing staff and the Auditor Controller’s Office at fiscal year-end contributed to the delay.

Observation Six: AmerisourceBergen payment arrangement
Condition:
The County has permitted the prepayment of the estimated and anticipated purchases for the month following the date of payment. These payments are defined by AmerisourceBergen and are recorded on the hospital’s books as a prepaid. This arrangement provides for a 7% discount on purchases. The Blanket Purchase Order provides for $2.6 million in annual purchases.
Purchases are made in the Pharmacy Department using the company online ordering system. Goods are received directly in the Pharmacy Department along with invoices and receivers.

Criteria:
Hospital and County procedures require the matching of invoices with receivers and an entry in the BPO log. This is not occurring in the accounts payable department. Only the prepayment amount is considered by accounts payable.

Cause:
Accounts payable is not adequately staffed to accomplish their control and custody responsibilities.

Effect:
No reconciliation of invoices is performed for a significant amount of purchases for the hospital which could result in overpayments to vendors.

Recommendation:
The Accounts Payable department previously performed a reconciliation of prepayments such as AmerisourceBergen. This procedure should be reinstituted.

Response:
NMC identified this lapse of reconciling payment to invoices during the FY2012 preparation of its financial audit. Immediately thereafter, NMC reinstated the process of reconciliation of the detail statement against all purchases during the month.

Additional Observations:
Policies/procedures of the duties/responsibilities of the Pharmacy buyer are not written. The staff is proficient in the process and should be required to draft the process. The procedures for controlled invoices were written.
Response to Additional Observations:

Policies and procedures of the duties and responsibilities of the Pharmacy buyer are being developed and it is expected to be completed and approved before the end of this fiscal year.

Distribution
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Issued this 10th day of April, 2013,

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