

# **PHARMACY INVENTORY AUDIT**

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**Audit Report No. PHA0109**

**June 26, 2009**



**MENTAL HEALTH MENTAL RETARDATION  
AUTHORITY OF HARRIS COUNTY**

**Internal Audit Report**

**AUDITOR'S REPORT**

**Pharmacy Inventory Audit**

**Harris County, Texas**

**Internal Audit Report**

**June 26, 2009**

**Henry E. Webb, CFE**

**Internal Auditor**





June 26, 2009

Steven B. Schnee, Ph.D.  
Executive Director  
MHMRA of Harris County  
7011 SW Freeway  
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Re: Pharmacy Inventory Audit (Report No. PHA0109)

### BACKGROUND

Mental Health and Mental Retardation Authority of Harris County has 4 retail and 1 hospital pharmacy that provide services to the clients who utilize case management or physician services within the Agency. The pharmacies are located at the following locations: Ripley, Southwest, Northwest, Southeast and at the Comprehensive Psychiatric Emergency facility.

Table 1 below presents a summary of the sampled inventory count.

**Table 1**  
**MHMRA of Harris County**  
**Summary of Inventory Audit**  
**Reference to Audit Sample Only**

Pharmacy Location	Quantity of Pharmaceuticals At Last Inventory by Outside Firm	(Net) Dispensed and Received Pharmaceuticals	Quantity That Should be on Hand	Quantity of Pharmaceuticals at Time of Audit	Variance*	Value of Pharmaceuticals at time of Audit
Ripley	3,156	2,134	5,290	4,789	<501>	\$4,034
Northwest	3,815	<11,329>	<7,514>	4,090	<3,424>	75,092
Comprehensive Psychiatric Emergency	7,734	<6,989>	745	3,676	2,931	4,223
Southeast	1,222	<209>	1,013	3,649	2,636	9,774
Southwest	28,064	<1,771>	26,293	31,442	5,149	15,911
						<b>Total: \$109,034</b>

*Note:* The approximate value of the samples counted on the dates of the audit was \$179,998. The error rate of sampled pharmaceuticals varied from <1% - 1% and the random sample size as a percent of inventory was 1% - 19%.

\* Internal Audit was furnished the following list for the discrepancies:

1. Inventory contractor estimates in tenths rather than doing an exact count
2. Expired drugs are discarded or returned for credit and not accounted for nor is there a regulatory requirement to do so.
3. Excess PAP/Samples are moved between pharmacies to maximize usage (no sender/receiver form).
4. Staff may choose a PAP drug or sample and use bought stock or vice versa.

## OBJECTIVES

The overall objectives of the audit were to determine whether the department:

- Managed and used resources in an efficient, effective, and economical manner
- Administered pharmaceuticals in compliance with applicable laws, regulations, policies and procedures
- Implemented internal controls to prevent or detect material errors and irregularities

The specific objective in this audit was to:

- Assist management with the assessment of the adequacy of internal controls associated with compliance with applicable federal and state laws, regulations and policies.
- Quantities of inventory of pharmaceuticals tested could be adequately accounted for with supporting documentation.
- Adequate documentation to support physical inventory of controlled substances were performed daily.
- Adequate documentation to support physical counts of inventory of all non-controlled substances was performed yearly (more often if variances were determined to be greater than desired level).
- Controlled substances were maintained in a secure location.

## SCOPE

The scope of the work did not constitute an evaluation of the overall internal control structure of the units. The examination was designed to evaluate and test compliance with established policies and procedures and to test the internal control over tested areas and material. The audit scope was from April 1, 2009 through June 9, 2009.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected in a timely manner. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected.

Internal Audit would like to thank management and staff for their cooperation throughout the audit.

## METHODOLOGY

In order to meet the objectives, Internal Audit evaluated controls and reviewed policies and procedures for compliance and completeness. MHMRA staff was interviewed and audit tests and procedures were conducted as considered necessary.

A simple random sample (SRS) was used for testing. A simple random sample is a subset chosen from the larger set. Each pharmaceutical was chosen randomly and entirely by chance, such that each pharmaceutical had the same probability of being chosen at any stage during the sampling process, and each subset of the pharmaceuticals had the same probability of being chosen for the sample as any other subset.

An unbiased random selection of pharmaceuticals was important so that in the long run, the sample represents the population. However, this does not guarantee that a particular sample is a perfect representation of the population. Simple random sampling merely allows one to draw externally valid conclusions about the entire population based on the sample.

Conceptually, simple random sampling is the simplest of the probability sampling techniques. It requires a complete sampling frame. Even if a complete frame is available, more efficient approaches may be possible if other useful information is available about the units in the population.

Advantages are that it is free of classification error, and it requires minimum advance knowledge of the population other than the frame. Its simplicity also makes it relatively easy to interpret data collected via SRS. For these reasons, simple random sampling best suits situations where not much information is available about the population and data collection can be efficiently conducted on randomly distributed items, or where the cost of sampling is small enough to make efficiency less important than simplicity.

#### **STATEMENT OF AUDITING STANDARDS**

The audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to afford a reasonable basis for the judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. An audit also includes assessing the estimates, judgments, and decision, made by Agency management. It is believed that this audit provides a reasonable basis for the findings, conclusions, and recommendations.

#### **RESULTS**

As a result of the audit procedures and surveys conducted, it was determined that the departmental compliance with established criteria and accuracy of reporting generally meets Agency Policy and Procedures. Internal Audit expresses an opinion on the Authority's compliance based upon the audit.

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Henry E. Webb, CFE, Internal Auditor

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