

# County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector  
Internal Audits Section**

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## **Arrowhead Regional Medical Center: Pharmacy Inventory Controls Follow Up Audit**



**Oscar Valdez**

**Auditor-Controller/Treasurer/Tax Collector**

268 West Hospitality Lane  
San Bernardino, CA 92415-0018  
(909) 382-3183

Website: [www.sbcounty.gov/atc](http://www.sbcounty.gov/atc)

Fraud, Waste & Abuse Hotline: (800) 547-9540

# Auditor-Controller/Treasurer/Tax Collector

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## Audit Team

**Denise Mejico**  
Chief Deputy Auditor

**Menaka Burkitt**  
Internal Audits Manager

**Carmel Manela**  
Supervising Internal Auditor III

# AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



- 268 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 890-4045
- 268 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 890-5797

**Matt Brown**  
Assistant Auditor-Controller/Treasurer/Tax Collector

**John Johnson**  
Assistant Auditor-Controller/Treasurer/Tax Collector

**June 14, 2017**

**William L. Gilbert, Hospital Director**  
Arrowhead Regional Medical Center  
400 N. Pepper Avenue  
Colton, CA 92324-1819

## **SUBJECT: PHARMACY INVENTORY CONTROLS FOLLOW UP AUDIT**

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed a follow-up audit on the Arrowhead Regional Medical Center's Pharmacy Inventory Controls. The objective of the audit was to determine if the Department implemented the recommendation from the prior audit report. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We have provided a status of the audit finding identified in the original audit report issued on August 24, 2016. The Department has implemented the recommendation from the original audit report.

We would like to express our appreciation to the personnel at the Arrowhead Regional Medical Center who assisted and cooperated with us during this engagement.

Respectfully submitted,

**Oscar Valdez**  
Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By: \_\_\_\_\_

**Denise Mejico**  
Chief Deputy Auditor

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# **Arrowhead Regional Medical Center: Pharmacy Inventory Controls Follow Up Audit**

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## Scope and Objective

Our audit examined whether the controls over ARMC's Pharmacy inventories were in place and effective.

The objective of this follow-up audit was to determine whether the Department implemented the recommendation contained in the prior audit report, *Pharmacy Inventory Controls*, issued on August 24, 2016.

## Methodology

In achieving the audit objective, the following audit procedures were performed, including but not limited to:

- Interviews with Pharmacy staff
- Walkthrough of activity
- Review of policies and procedures
- Examination of system-generated reports



### **Prior Finding 1: Controls over the inventory of non-controlled medications at the Inpatient and Outpatient Pharmacies should be improved.**

The County's Internal Control and Cash Manual (ICCM) Chapter 2 states that a critical step in safeguarding assets is to record them at the time of acquisition and to verify their existence and value periodically. This means a complete physical inventory of assets should be taken periodically to insure that the assets exist and are completely accounted for.

The following conditions were revealed during our inventory count: For both pharmacies, inventory records indicated there should have been more medications on the shelf than what was physically counted.

- Inpatient Pharmacy
  - When comparing the inventory records to the physical count, one out of 35 tested medications had significant discrepancies. There was an estimated total of \$1,221 in unaccounted inventory.
- Outpatient Pharmacy
  - When comparing the inventory records to the physical count, seven out of 35 tested medications had significant discrepancies. All seven were non-controlled medications.
    - Two out of seven were high-valued medications, totaling \$113 and \$1,288 in unaccounted inventory.
    - Five out of seven exceeded at least \$60 in unaccounted inventory. The total of these medications amounted to an estimated \$1,082 in unaccounted inventory.
  - When comparing the physical count to the inventory records, four out of 20 tested medications had significant discrepancies. All four were non-controlled medications.
    - The total of these medications amounted to about \$863 in unaccounted inventory.
  - There was no system-generated inventory report available to easily identify the non-controlled medication inventory.

Inventory counts of non-controlled medications at both pharmacies are not taken or reviewed by staff on a routine basis. Instead, an inventory count is conducted by an outside party once a year. In addition, since State regulations do not require stringent inventory controls or counts as required for controlled medications, there is no formal inventory control done by the Department. The risk of potential loss or theft of these





medications increases when inventory records are not compared to physical counts.

### **Recommendation:**

We recommend that medications subject to a higher risk of theft or misappropriation due to their high value or propensity for abuse should be evaluated and identified by both pharmacies. Both pharmacies should conduct periodic inventory counts of these non-controlled medications throughout the year to verify existence and value. In addition, inventory reports should be generated by the Outpatient Pharmacy. We further recommend that the pharmacies compare their inventory reports to actual physical counts and investigate any discrepancies.

### **Current Status: Implemented**

Quarterly inventory counts of selected non-controlled medications are conducted by both pharmacies and compared with actual physical counts. These medications are selected based on their high value. The Outpatient Pharmacy is generating inventory reports from their Optifill and Talyst systems.