

# AUDIT REPORT



CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BUREAU OF MANAGEMENT AUDIT  
**WILLIAM C. THOMPSON, JR., COMPTROLLER**

## **Audit Report on the Inventory Controls Of Bellevue Hospital Center Over Noncontrolled Drugs And Medical and Surgical Supplies**

*MG03-179A*

**April 21, 2005**



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

WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has reviewed the internal controls of Bellevue Hospital Center, New York City Health and Hospitals Corporation, over noncontrolled drugs and medical and surgical supplies.

The results of our audit, which are presented in this report, have been discussed with officials from Bellevue Hospital Center and the Health and Hospitals Corporation, and their comments have been considered in the preparation of this report.

Audits such as this provide a means of ensuring that City hospitals maintain adequate internal controls over inventory to properly safeguard assets, thereby reducing the risk of misappropriation and theft.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov) or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in black ink, appearing to read "Will C. Thompson, Jr.", written in a cursive style.

William C. Thompson, Jr.

**Report: MG03-179A**  
**Filed: April 21, 2005**

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### **ADDENDUM Health and Hospitals Corporation Response**

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

**Audit Report on the Inventory Controls of  
Bellevue Hospital Center  
Over Noncontrolled Drugs  
And Medical and Surgical Supplies**

MG03-179A

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**AUDIT REPORT IN BRIEF**

The New York City Health and Hospitals Corporation (HHC) provides City residents with comprehensive medical and mental health services, as well as treatment for substance abuse, regardless of ability to pay. HHC hospitals, clinics, and other facilities require substantial quantities of drugs and medical and surgical supplies, and must ensure that items are in stock when needed. To maintain inventory records, each facility has access to the HHC computerized OTPS (Other Than Personal Services) procurement management system. During Fiscal Year 2003, Bellevue Hospital, the facility covered by this audit, spent approximately \$15 million for drugs (controlled and noncontrolled) and \$8 million for medical and surgical supplies. Our objective was to evaluate the adequacy of the internal controls over Bellevue Hospital's inventory of noncontrolled drugs and medical and surgical supplies.

**Audit Findings and Conclusions**

Bellevue Hospital has inadequate controls over its inventory of noncontrolled drugs and medical and surgical supplies. Our review of its inventory practices disclosed significant weaknesses in the issuing, recording, maintenance, and security of both types of inventories. It failed to institute and enforce the controls necessary to ensure the proper safeguarding and accounting of its inventories. Because of these significant weaknesses, we were unable to determine with reasonable assurance that inventory items were appropriately issued from the storerooms to the operating departments. As a result, we concluded that Bellevue Hospital's noncontrolled drugs and medical and surgical supplies are vulnerable to theft and misappropriation.

The Pharmacy Department at Bellevue Hospital does not maintain its inventory records on an adequate or appropriate perpetual inventory system; it uses inventory cards kept next to the corresponding noncontrolled drug to manually record the receipt and issuance of the drug. Numerous unsupported adjustments were made to the inventory card balances, and discrepancies between the amounts on hand and the recorded balances were not investigated. The Pharmacy

Department does not maintain a complete list of noncontrolled drugs kept in the stockroom, and has no documentation to support all the inventory issued from the Pharmacy stockroom. Further, the segregation of responsibilities in the stockroom was inadequate: the stockroom employee who receives and issues noncontrolled drugs also maintains and updates the inventory cards; and access to the Pharmacy was inadequately restricted.

Central Supply Stores, responsible for the purchasing and issuing of medical and surgical supplies, maintains no perpetual inventory records; instead, it conducts an inventory count at the end of each fiscal year. (Because there were no existing perpetual inventory records, we did not perform an inventory count of medical and surgical supplies.) In addition, our observation of the basement stockroom revealed that medical and surgical supplies were not always properly safeguarded, as excess inventory was stored in the basement hallways (photographs of the inadequate storage space appear in the body of this report).

Finally, neither the Pharmacy Department nor Central Supply Stores properly conducted their year-end physical counts. Moreover, the HHC auditors from the Office of Internal Audit did not adequately perform the inventory count verification at Bellevue Hospital Pharmacy Department and Central Supply Stores. Based on the figures shown on the inventory cards, Bellevue Hospital may not have included approximately \$1.6 million of noncontrolled drugs in its valuation of inventory. Therefore, we estimate that HHC's financial statements for Fiscal Year 2003 may also be understated by \$1.6 million.

### **Audit Recommendations**

The report makes 17 recommendations, some of which are listed below. Bellevue Hospital officials should:

- Institute and enforce proper internal controls over its inventory of noncontrolled drugs maintained in the stockroom. The Pharmacy should: maintain its inventory of noncontrolled drugs separate from the related inventory records; assign different personnel to handle the drugs and to update the inventory records; and ensure that only designated personnel have access to the stockroom.
- Ensure that the Pharmacy Department maintains a computerized perpetual inventory system for its inventory of noncontrolled drugs kept in the stockroom. The perpetual inventory records should be kept separate from the physical inventory.
- Ensure that adjustments to inventory records (for noncontrolled drugs) are documented, reviewed, and approved by appropriate Pharmacy officials.
- Restrict access to the Pharmacy stockroom to authorized stockroom personnel.
- Ensure that all noncontrolled drugs stored in the Pharmacy stockroom are correctly counted, and their total quantity and value correctly reported.

- Ensure that Central Supply Stores maintains perpetual inventory records, preferably on a computerized inventory system. Central Supply Stores should ensure that the persons updating the inventory records are different from the persons handling the inventory; and access to the inventory records should be restricted to designated personnel.
- Ensure that Central Supply Stores maintains all medical and surgical supplies in a locked and restricted area so that they are properly safeguarded.
- Ensure that when preparing and conducting the physical inventory count of the medical and surgical supplies, its staff follow the inventory count procedures outlined in the *Inventory Procedures Manual*.

### **HHC Response**

The matters covered in this report were discussed with Bellevue Hospital officials during and at the conclusion of this audit. A preliminary draft report was sent to HHC officials on November 30, 2004, and was discussed at an exit conference on January 14, 2005. On March 3, 2005, we submitted a draft report to HHC officials with a request for comments. On March 18, 2005, we received HHC's response, which included a letter from the Acting President of HHC and responses from officials at Bellevue Hospital and the HHC Office of Internal Audits.

In his letter, the Executive Director of Bellevue states: "While we agree with certain findings and disagree with the severity of others, we recognize the need for improvement cited in the audit and implemented the majority of the recommendations." The Assistant Vice President of the Office of Internal Audits, in his letter, states: "It is not the role of this office to value HHC's inventory but to participate as part of a larger operation to ensure reasonable inventory valuations." The audit implementation plan, attached to their letters, showed that of the 17 recommendations made in the report, 14 recommendations have already been implemented and the remaining three will be implemented by June 30, 2005.

The full text of the HHC response is included as an addendum to this report.

## INTRODUCTION

### Background

The New York City Health and Hospitals Corporation (HHC) provides City residents with comprehensive medical and mental health services as well as treatment for substance abuse, regardless of their ability to pay. Within its seven regional health care networks, HHC operates 11 acute-care hospitals; four long-term care facilities; six diagnostic and treatment centers; one certified home health agency; and a large number of community-based primary care, dental, and child health clinics.

HHC hospitals, clinics, and other facilities require substantial quantities of drugs and medical and surgical supplies, and must ensure that items are in stock when needed. HHC has a computerized OTPS (Other Than Personal Services) procurement management system that stores perpetual inventory records. To maintain and update its records, each facility has access to the system, and the system, based on minimum and maximum quantities, includes a reorder point for each item at each facility.<sup>1</sup> The OTPS system can generate a purchase requisition when the reorder point is reached. In addition, HHC requires that each facility count its physical inventory at the end of each fiscal year.

Bellevue Hospital Center (Bellevue Hospital), the facility covered by this audit, is part of the HHC South Manhattan Healthcare Network. This audit reviewed the inventory controls put in place by HHC and Bellevue Hospital over noncontrolled drugs and medical and surgical supplies (i.e., intravenous solutions, baby formula, diapers, syringes, needles, bed liners, and tubing). Drugs are classified as either controlled or noncontrolled. Controlled drugs, which are not a subject of this audit, are regulated by the Drug Enforcement Administration, a federal law enforcement agency, which has strict requirements for the storage, record-keeping, and dispensing of controlled drugs. These regulations do not pertain to noncontrolled drugs.

During Fiscal Year 2003, the total cost of drugs (controlled and noncontrolled) purchased by the Pharmacy Department at Bellevue Hospital was approximately \$15 million. The total cost for medical and surgical supplies purchased by Central Stores was about \$8 million. According to the *Physical Inventory Evaluation* report (Exhibit H) that Bellevue Hospital prepared and submitted to HHC, the value of the inventory of all drugs at the end of Fiscal Year 2003 was \$1,128,634, and the value of the medical and surgical supplies was \$2,183,791.

When ordering medical and surgical supplies, Bellevue Hospital staff uses the OTPS system to prepare requisitions and purchase orders. When ordering noncontrolled drugs, the staff uses both OTPS and its primary vendor computer system. Therefore, purchases are recorded in OTPS. However, when the purchased noncontrolled drugs and medical and surgical supplies are issued from the storerooms, they are not deducted from the inventory quantities recorded in the OTPS system.

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<sup>1</sup> The reorder point is reached when the quantity of a stored item is so depleted that it is necessary to reorder.

All shipments to Bellevue Hospital are delivered to the hospital receiving dock. When shipments for the Pharmacy are unloaded, the truck driver takes the delivery to the Pharmacy stockroom. The Pharmacy personnel check each shipment for accuracy and then enter the items onto the manual inventory cards maintained for each item in inventory. These cards are kept in the stockroom, near the related inventory items. The Pharmacy stockroom receives requests for noncontrolled drugs from the Main Pharmacy; the Out Patient Pharmacy (OPD); four in-patient satellite pharmacies; and various out patient clinics. According to Pharmacy Department procedures, pharmacists from the Pharmacy subdivisions can requisition pharmaceuticals by use of an approved issue book or an approved order sheet. These documents are brought to the stockroom and an assigned stockroom employee fills the requested order; the issued items are recorded on the manual inventory cards.

When medical and surgical shipments are unloaded, the items received are logged into the Receiving Department logbook. The items are transferred to one of the two storage areas in Central Supply Stores: either the warehouse in the basement or the storeroom on the 14th floor. Most of the bulk items are first stored in the basement warehouse and then, as they are requested, transferred to the 14th floor storeroom. Needles, syringes, and smaller items are stored only on the 14th floor. The storekeeper of the warehouse in the basement verifies the delivered items against the packing slips. Afterwards, the packing slips and purchase orders are sent to the Receiving Department, and the items received are entered in the OTPS system.

The staff from the 14th floor storeroom deliver medical and surgical supplies to all hospital units with the exception of a few areas that receive bulk supplies directly from the basement warehouse staff. For example, the Labor and Delivery Unit receives Obstetrics Pack Kits directly from the warehouse.

Most units of the hospital have Omnicell machines, which are computerized storage units that store medical and surgical supplies. These machines operate like vending machines and allow nurses and storeroom staff, using individual personal codes, to open the Omnicell machine to add or remove supplies. The staff are required to enter the quantities (using the machine buttons) that are being added or removed, which enables the computer to track the quantity of items used by a particular hospital unit. For those areas of the hospital that do not have an Omnicell machine, designated storage areas are used to store the medical and surgical supplies.

To determine the value of the inventory to be reported on HHC's financial statements, HHC requires each facility to perform a fiscal year-end inventory count in all departments that store inventory. The inventory is first recorded manually on preprinted inventory lists (count sheets) by the employees counting the inventory. The count sheet results are then entered in the computer as a spreadsheet to generate formal inventory reports (e.g., *Fiscal Year 2003 Inventory Report*), which list the individual inventory items. The inventory reports are then summarized so the hospital drugs (controlled and noncontrolled) and the medical and surgical supplies each appear as an individual item showing the total dollar value. This summary of the value of all the hospital's inventory by categories is referred to as Exhibit H. This is submitted to HHC to be used for its annual financial statements.



To ensure that the inventory counts performed by the hospitals are performed accurately, HHC internal auditors from the Office of Internal Audits verify the count on a sampling basis by counting 10 or more inventory items and comparing the results with the hospital's inventory count of those items. (If differences exist, further testing may be performed.) Once HHC auditors complete the verification of the inventory, they inform the external auditors that the inventory records can be relied on. Based on that reliance, the CPA firm attests to the accuracy of the inventory value shown in the financial statements.

### **Objective**

Our audit objective was to evaluate the adequacy of the internal controls over Bellevue Hospital's inventory of noncontrolled drugs and medical and surgical supplies.

### **Scope and Methodology**

The scope period of this audit was Fiscal Years 2003 and 2004. Our fieldwork was conducted from June 2003 through April 2004.

To achieve our audit objectives, we reviewed the following HHC documents and procedures:

- Inventory Verification for Fiscal Year 2003;
- *Inventory Procedure Manual*;
- Operating Procedure No. 140-1, Requisitioning Drugs and Pharmaceuticals;
- Operating Procedure No. 110-24, Unauthorized Procurements; Operating Procedure No. 110-1, Procurement of Supplies, Services and Equipment; and
- *Materials Management Inventory Procedures Manual*.

We also reviewed the policies and procedures issued by the Pharmacy Department covering the following subjects: requisitioning, issuing, and receiving pharmaceuticals; disposition of returned drugs; inpatient drug distribution under the unit dose drug distribution system; daily operation of Pharmacy satellites; and purchasing of pharmaceuticals under HHC guidelines. We reviewed the policies and procedures of Central Supply Stores that govern the following operations: receiving, distributing and ordering of supplies; handling of outdated supplies; and manufacturer's recall. To determine whether the policies and procedures were actually followed, we subsequently performed observations at the Pharmacy Department and Central Supply Stores.

We interviewed hospital officials, including the Controller, Director of the Pharmacy, Director of Purchasing/Materials Management, Associate Director of Central Sterile Supply, and Coordinating Manager of Central Supply.

To familiarize ourselves with the operations at the Pharmacy Department, we performed a walk-through of all areas of the Pharmacy with the Controller, the Pharmacy Director, and the

Assistant Director. During our walk-through and observations of the Pharmacy subdivisions, we observed the loading of carts and patient medication cassettes, and the receipt and storage of noncontrolled drugs ordered from the stockroom. We also interviewed personnel from several Pharmacy subdivisions.

Accompanied by the Controller, the Associate Director of Central Sterile Supply, and supervisors from the basement warehouse and the 14th floor storeroom, we traced the flow of medical and surgical supplies. We performed a walk-through of the intake and distribution system—from the receiving dock, to the storerooms, to the Omnicell machines and supply rooms on the hospital floors. We also accompanied Central Supply Stores personnel when they inspected the inventory levels of Omnicells and other storage areas, collected items needed from the storeroom, and then distributed the items to the hospital floors.

To assess the hospital's internal controls, we prepared detailed flowcharts of the movement of noncontrolled drugs and medical and surgical items. We observed how the shipments arrived at the receiving dock, reviewed the logbook entries, and traced each shipment to its final destination by comparing the entries in the receiving logbook with the delivery receipts signed by the end-users.

To understand the process involved in the year-end inventory count performed by the hospital staff and the verification of the count performed by HHC auditors, we observed the fiscal year-end inventory counts and the subsequent verifications at both the Pharmacy Department and Central Supply Stores. In addition, we copied all documents created and compiled during the inventory count and verification process, such as the Bellevue Hospital count sheets and the HHC verification worksheet. We also obtained copies of current purchase orders for the items verified and any documents copied by HHC auditors when there was a difference between the inventory count and the recorded inventory amount.

To select a random sample of noncontrolled drugs, we attempted to obtain the population of noncontrolled drugs kept in the stockroom. However, there were no perpetual inventory records on the OTPS system nor on any other computerized system, and Bellevue Hospital could not provide a reliable listing of the population. To establish a population, we copied all the manual inventory cards for all noncontrolled drugs kept in the stockroom for Fiscal Year 2003 and the first three months of Fiscal Year 2004. We compared the noncontrolled drugs listed on the inventory cards to the noncontrolled drugs listed on the Fiscal Year 2003 Inventory Report to ensure that all noncontrolled drugs stored in the stockroom were included. We determined that the Pharmacy stockroom had a population of 1,921 noncontrolled drugs that were available for use in Fiscal Year 2003. We then randomly selected a sample of 300<sup>2</sup> noncontrolled drugs from the population of 1,921 and performed a physical inventory count on February 18 and 19, 2004. To maintain our sample size of 300, we replaced any out-of-stock drugs with other randomly

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<sup>2</sup> Our sample sizes were based on prior experience in conducting audits of this type as well as the desire to select sufficiently large samples that would allow us to project our results at meaningful confidence and precision levels. We did in fact project the results of our sample of inventory counts of the 300 noncontrolled drugs. We did not project the results of our sample of the manual inventory card adjustments (309 noncontrolled drugs) because the sample results illustrated our finding effectively without projection.

selected drugs. We then compared our inventory count results to the recorded balances on the inventory cards.

We randomly selected 309 noncontrolled drugs to determine whether the adjustments made on their related inventory cards from July 1, 2002, through September 30, 2003 were appropriate. We reviewed the inventory cards for each noncontrolled drug and determined how many times the card was adjusted without a corresponding record of receipt or issuance. To determine what investigation and approval processes were involved in these adjustments, we requested documentation or a discrepancy/adjustment log. We were told by Pharmacy officials that no such documentation or log was maintained. We also interviewed Pharmacy officials and stockroom personnel and performed observations to determine whether procedures regarding adjustments to correct discrepancies on the inventory cards were followed.

We requested from the Director of Pharmacy a list of Pharmacy personnel who were allowed access to the stockroom and were assigned to receive, issue, and record the activities for noncontrolled drugs. To determine whether access was adequately restricted, we conducted unannounced observations for five days in March and April 2004—March 3, 4, April 22, 26, and 29.

To determine the accuracy of the Fiscal Year 2003 Inventory Report, we attempted to match the drugs listed on the count sheets to those listed on the Inventory Report. We found inconsistencies in the first 35 drugs listed on the count sheets when compared to the Inventory Report. We then compared the drugs listed on the Fiscal Year 2003 Inventory Report to the balances on the manual inventory cards as of June 21, 2003, the date that the Pharmacy conducted its inventory count. We also compared the noncontrolled drug prices listed on the Fiscal Year 2003 Inventory Report to the June 2003 price list provided by the Pharmacy Director.

To determine whether purchase orders were prepared properly, we interviewed staff responsible for preparing the purchase orders for noncontrolled drugs and medical and surgical supplies. For the Pharmacy Department, we randomly selected a sample of 50 purchase order numbers of 243 that we believed had been prepared in the first quarter of Fiscal Year 2004. Of the 50 purchase orders, one purchase order was cancelled and seven were not in fact prepared during the first quarter of the fiscal year. We reviewed the remaining 42 purchase orders of 222 that we determined were prepared during the first quarter of the fiscal year. We also reviewed all 242 purchase orders for medical and surgical supplies that were prepared during July 1, 2003 to September 30, 2003, the first quarter of Fiscal Year 2004. Bellevue Hospital's Purchasing Department prepares the medical and surgical supplies purchase orders after receiving a purchase requisition from Central Supply Stores. We found these purchase orders to be in order.

### **Scope Limitation**

We could not test the accuracy of the inventory of medical and surgical supplies at the Central Supply Stores since no perpetual inventory records were maintained. Instead, to

determine whether all issued items could be accounted for, we selected a random sample of 226<sup>3</sup> medical and surgical items from a population of 1,045 (as listed in the Fiscal Year 2003 Inventory Report) and conducted an inventory count between August 7 and August 12, 2003. Using the balances from the Central Stores physical count in June 2003, we attempted to deduct quantities issued and add quantities received between the dates of the hospital's physical count and our physical count. We copied all the manual and Omnicell issue sheets from July 2, 2003, to August 12, 2003. However, we were not able to complete this test because the handwritten issue sheets did not include the HHC catalog numbers, were incomplete and in many cases illegible. Therefore, we were not able to identify the inventory items accurately, nor could HHC officials identify specific inventory items based on the description recorded on the issue sheets.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. The audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

### **Discussion of Audit Results**

The matters covered in this report were discussed with Bellevue Hospital officials during and at the conclusion of this audit. A preliminary draft report was sent to HHC officials on November 30, 2004, and was discussed at an exit conference on January 14, 2005. On March 3, 2005, we submitted a draft report to HHC officials with a request for comments. On March 18, 2005, we received HHC's response, which included a letter from the Acting President of HHC and responses from officials at Bellevue Hospital and the HHC Office of Internal Audits.

In his letter, the Executive Director of Bellevue states: "While we agree with certain findings and disagree with the severity of others, we recognize the need for improvement cited in the audit and implemented the majority of the recommendations." The Assistant Vice President of the Office of Internal Audits, in his letter, states: "It is not the role of this office to value HHC's inventory but to participate as part of a larger operation to ensure reasonable inventory valuations." The audit implementation plan attached to their letters showed that of the 17 recommendations made in the report, 14 recommendations have already been implemented and the remaining three will be implemented by June 30, 2005.

The full text of the HHC response is included as an addendum to this report.

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<sup>3</sup> Our sample size was based on the intent to project our results at meaningful confidence and precision levels.

## FINDINGS AND RECOMMENDATIONS

Bellevue Hospital has inadequate controls over its inventory of noncontrolled drugs and medical and surgical supplies. Our review of its inventory practices disclosed significant weaknesses in the issuing, recording, maintenance, and security for both types of inventories. Bellevue Hospital failed to institute and enforce the controls necessary to ensure the proper safeguarding and accounting of its inventories. The Pharmacy Department and Central Supply Stores at Bellevue Hospital purchased approximately \$23 million worth of drugs and medical and surgical supplies in Fiscal Year 2003. Because of these significant weaknesses, we were unable to determine with reasonable assurance that these items were appropriately issued from inventory to Bellevue Hospital's operating departments. We believe that Bellevue Hospital's noncontrolled drugs and medical and surgical supplies are vulnerable to theft and misappropriation.

We identified the following discrepancies and areas of concern:

- The Pharmacy Department does not maintain its inventory records on an adequate or appropriate perpetual inventory system nor does it maintain a complete list of noncontrolled drugs kept in the stockroom. In addition, the Pharmacy Department does not have documentation to support all the inventory issued from the Pharmacy stockroom in Fiscal Year 2003.
- The Pharmacy Department does not investigate discrepancies between the amounts on hand and the amounts recorded.
- The Pharmacy Department does not segregate the responsibilities of its personnel in the Pharmacy stockroom. The stockroom employees that receive and issue noncontrolled drugs also maintain the inventory cards.
- Noncontrolled drugs are not purchased properly.
- Access to the Pharmacy stockroom was inadequately restricted.
- Based on Bellevue Hospital's records, Bellevue Hospital undervalued its inventory of noncontrolled drugs by \$1.6 million.
- Central Supply Stores does not maintain perpetual inventory records for its inventory of medical and surgical supplies.
- Medical and surgical supplies were not always properly safeguarded.

Neither the Pharmacy Department nor Central Supply Stores conducted their year-end physical count properly. Moreover, HHC auditors from the Office of Internal Audit did not adequately perform the inventory count verification at Bellevue Hospital's Pharmacy and Central Supply Stores. Because of the lack of controls over noncontrolled drugs and medical and

surgical supplies in Bellevue Hospital, theft and misappropriation may have occurred and it may never be detected by appropriate hospital management.

### **Pharmacy Department has Inadequate Controls Over the Noncontrolled Drugs in its Stockroom**

The Pharmacy Department failed to institute proper controls over its inventory operations in the Pharmacy stockroom. As a result it is unable to ensure that waste and mismanagement of inventory are minimized and that inventory is effectively protected against theft.

Effective inventory controls require accurate and up-to-date inventory records that are maintained separate and apart from the actual inventory. Good controls also require adequate segregation of duties and restricted access to the inventory items. We found that the Pharmacy Department lacked the internal controls that would effectively protect the inventory of noncontrolled drugs in the stockroom. In fact, the Pharmacy Department chose not to use the HHC OTPS computerized perpetual inventory system that could have enhanced the department's internal controls over its noncontrolled drugs.

To maintain its inventory records in the stockroom, the Pharmacy Department keeps manual inventory cards next to the corresponding noncontrolled drug. The stockroom personnel record the receipt and issuance of inventory and keep a running balance of the inventory on hand. However, the many handwritten inventory adjustments on the cards suggest that the actual receipt and issuance of inventory are not always recorded or are not recorded accurately. For example, during our April 26, 2004 observation, we observed an employee assigned to the main pharmacy, not the stockroom, take Lidocaine 2%, a noncontrolled drug, directly from the stockroom shelves. This employee stated that he could not find the inventory card so he did not deduct the issuance of this noncontrolled drug from the inventory record. Further, this employee did not submit an issue sheet, which would document the authorization for the issuance of this noncontrolled drug. This is just one example that clearly indicates the Pharmacy Department's lack of controls over its noncontrolled drugs. First, this employee should not have had access to the stockroom since he was not assigned to work there; second, there is no record of this drug having been taken from the stockroom since it was not recorded on a related inventory card; and, third, there is no documentation authorizing the drug issuance and indicating the destination of the drug.

When there is a discrepancy between the balance on the inventory cards and the actual number of items in inventory, stockroom personnel routinely make adjustments to the inventory cards. The inventory cards are kept right next to the corresponding noncontrolled drug. Although Pharmacy officials stated that this is done to ensure that the inventory cards accurately identify the actual number of items available in inventory, adjustments are made without any investigation or explanation for the discrepancies. This, we believe, explains the relatively minor discrepancies we found between the amounts recorded on the inventory cards and the actual number of items in inventory when we conducted a physical inventory count of a sample of items (discussed later in the report).

In addition, stockroom employees perform all the tasks related to the inventory of noncontrolled drugs; there is no segregation of responsibilities. The employees who receive and issue the drugs also maintain the inventory cards. This violates the control principle that the person responsible for maintaining the assets should be separate from the person maintaining the records for that asset. When an employee maintains both the assets and the records, that employee has the opportunity to remove items and manipulate the records so that any theft would go undetected. These internal controls weaknesses may have resulted in the following findings.

### **Inventory Records Inadequate and Inaccurate**

The Pharmacy Department in Bellevue Hospital did not adhere to its own policy as set forth in Procedure #78-71, which states: “There shall be a procedure for the proper receipt and accounting of all pharmaceuticals and supplies purchased by the pharmacy based on approved purchase orders.” The Pharmacy Department has failed to establish an inventory system that properly accounts for its inventory. The Pharmacy did not have a complete list of the noncontrolled drugs maintained in the stockroom and was unable to accurately determine the dollar value of its inventory. Inventory records were not complete, and numerous adjustments were made to inventory records without explanation or approval.

### ***Manual Inventory System Inadequate and Inefficient***

The Pharmacy Department’s system of maintaining inventory records is inadequate and does not allow for the proper accounting and tracking of the inventory of noncontrolled drugs. The Pharmacy Department does not use the HHC OTPS computerized perpetual inventory system or any other computerized inventory system to maintain its inventory of noncontrolled drugs. In this, the Pharmacy has failed to follow its own procedures, which include steps that clearly indicate that the OTPS computerized perpetual inventory system should be used. Specifically, Procedure #78-71, Section I.E.5, states that upon receipt of pharmaceuticals and supplies, “The packing slip and purchase order . . . [are] given to the OTPS computer entry person as soon as the check in process is completed.” Section III.A.7 states that after inventory discrepancies are discovered, investigated, and corrected, “The OTPS computer entry person may now make all required entries into the system.” Section VI.D states that upon issuance of drugs from the stockroom, “All completed orders will be given to the OTPS entry person for deduction of all issues from inventory immediately upon completion of filling the order.”

The Pharmacy Department maintains its inventory records on manual inventory cards that are kept next to the corresponding noncontrolled drug. The inventory cards, which are the only record of the noncontrolled drugs stored in the Pharmacy stockroom, show the number of items received and dispensed, and the balance of inventory on hand.

To test the inventory system in place, we requested from Pharmacy officials a complete list of drugs maintained in the Pharmacy stockroom. We received numerous incomplete lists. Bellevue Hospital officials concluded that a complete list could only be compiled from the

inventory cards in the Pharmacy stockroom. Therefore, for Fiscal Year 2003 and the first three months of Fiscal Year 2004, we copied and reviewed all the available inventory cards for the 1,921 noncontrolled drugs stored in the stockroom.

Our review of the inventory cards revealed that for 220 of the 1,921 noncontrolled drugs there is no record of inventory activity (receipts and issuance) for various parts of the time reviewed. For the remainder of the time, we noted that these drugs were consistently received and issued. Pharmacy officials could not provide us with an explanation or additional inventory records to account for the missing information for the 220 drugs. In addition, it was difficult to determine the total cost of the noncontrolled drugs on hand since the Pharmacy does not maintain this information, nor does it include the cost of each drug on the inventory card. After numerous requests, a Pharmacy official researched the price for each drug, which allowed us to estimate a total cost of \$2.6 million for the noncontrolled drugs, as of June 21, 2003.<sup>4</sup>

Using the system that is currently in place, the Pharmacy Department in Bellevue Hospital cannot adequately account for the noncontrolled drugs in the stockroom. The inventory cards serve neither as an inventory tool for management nor as a monitoring tool for Bellevue Hospital or HHC. Inventory records must be maintained that are separate from the inventory. Pharmacy officials should either use the OTPS inventory system or use another computerized inventory system to meet the requirements specified in their own procedures. Use of a computerized perpetual inventory system would provide many benefits including the listing and pricing of individual noncontrolled drugs and the ready availability of the total value of the inventory. Such a system would assist management by providing information on issuance volume and purchasing trends, inventory turnover, and price fluctuations, all of which could improve inventory planning. In addition, maintaining inventory records that are kept apart from the inventory is a key factor in promoting better controls.

### ***Physical Count Results Inconclusive***

We conducted a physical inventory count on February 18 and 19, 2004, to determine the reliability of the manual inventory card system. We took a random sample of 300 drugs of the total of 1,921 noncontrolled drugs stored in the stockroom and compared our results to the inventory balances recorded on the manual inventory cards. For 20 (6.7%) of the 300 items, the inventory count differed from the recorded balance on the inventory cards: for 14 items there was less in the inventory (valued at \$714) than was recorded, and for six items there was more in the inventory (valued at \$3,805) than was recorded. We are therefore 95 percent confident (+ or - 2.59%) that of the 1,921 items in the population of noncontrolled drugs, there were discrepancies (both shortages and overages) in the inventory records for 128 items (90 shortages and 38 overages), or 6.7 percent.

However, after we conducted the inventory count, we found that numerous unsupported adjustments were made to the inventory card balances, as discussed in the following section. We, therefore, believe that the statistical results of our inventory count comparison to the manual inventory cards are inconclusive. Neither the auditors nor Bellevue Hospital can rely on the

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<sup>4</sup> Bellevue Hospital conducted its year-end inventory count on June 21, 2003.



inventory records because they do not reflect inventory balances based on appropriate and adequately documented inventory disbursements or receipts.

### ***Improper Adjustments to Inventory Balances***

Personnel in the Pharmacy Department made numerous adjustments to the balances on the inventory cards without conducting proper investigations of the discrepancies. A review of a random sample of inventory cards representing 309 of the 1,921 noncontrolled drugs found that over the 15-month period reviewed—July 1, 2002 through September 30, 2003—1,393 adjustments, for a gross total of \$315,630, were made on inventory cards for 229 (74%) noncontrolled drugs in the sample.

According to Procedure #78-71: “When the amount on the inventory card does not coincide with actual physical inventory” it should be brought to the attention of a supervisor who should investigate the discrepancy. “If the problem cannot be rectified, it must be brought to the immediate attention of the Director of the Pharmacy or one of the Assistant Directors.”

However, based on interviews with the stockroom personnel who maintain the inventory cards and on our observations of the day-to-day operation of the stockroom, the procedures outlined in Procedure #78-71 were not followed. Stockroom personnel said that whenever they notice that an inventory balance does not match the inventory on hand, they adjust the inventory balance accordingly. They do not investigate the discrepancies or determine the cause.

Our review of the inventory cards for our sample of 309 noncontrolled drugs found that the inventory balances for 229 noncontrolled drugs were adjusted from one to 72 times within the 15-month period for a total of 1,393 adjustments. For example, the inventory card for Milk of Magnesia valued at \$15.96 per box was adjusted 28 times during the 15-month period, resulting in a total negative adjustment of \$28,090. The inventory card for vials of Rituximab, a drug valued at \$1,465.25 per vial, was adjusted once resulting in a reduction of 23 vials and a total negative dollar adjustment of \$33,701.

Table I shows the breakdown of the number of times the balances on the inventory cards were adjusted and the value of the adjustments.

**TABLE I**

Breakdown of the Number of Times Sampled Cards Were Adjusted  
And the Value of the Adjustments

Number of Adjustments Per Item	Number of Items With Adjustments	Percent of Adjusted Items	Value of Positive Adjustments	Value of Negative Adjustments	Gross Value of Adjustments *
1	62	27 %	\$ 2,801	\$( 39,636)	\$ 42,437
2	31	14 %	\$ 10,835	\$( 3,529)	\$ 14,364
3	25	11 %	\$ 7,802	\$( 26,929)	\$ 34,731
4	15	7 %		\$( 9,000)	\$ 9,000
5-10	56	24 %	\$ 34,410	\$( 42,908)	\$ 77,318
11-20	28	12 %	\$ 32,484	\$( 37,197)	\$ 69,681
21 and up	12	5 %		\$( 68,099)	\$ 68,099
Total	229	100 %	\$ 88,332	\$(227,298)	\$ 315,630

\* The absolute values of the positive and negative adjustments

Based on our discussions with the Pharmacy officials, we determined that the correction of discrepancies without investigation is a common and accepted practice and done to ensure that the inventory cards accurately identifies the actual inventory on hand.

However, making adjustments to inventory records without proper investigation and adequate justification removes a key control in safeguarding assets. With this practice in effect, discrepancies are never accounted for. Pharmacy officials would have to analyze each individual inventory card for every noncontrolled drug to know the extent of discrepancies and adjustments made to the inventory records. Considering the number of adjustments we found, as well as the number of times the balances for specific drugs were adjusted, we believe that, at a minimum, the Pharmacy Department should maintain a comprehensive record of adjustments. In this way Pharmacy officials would have a better understanding of the scope of discrepancies. More important, the Pharmacy's practice of routinely adjusting inventory balances reveals a serious weakness in its controls over its noncontrolled drugs.

The Pharmacy Department has created an environment in its stockroom that has made the inventory of noncontrolled drugs vulnerable to theft and misappropriation. Moreover, the inadequacy of the record-keeping, the practice of making adjustments without investigation and other internal controls deficiencies, has made it almost impossible to detect the theft and loss of noncontrolled drugs.

**Noncontrolled Drugs Not Purchased Properly**

Pharmacy officials did not purchase noncontrolled drugs properly. According to the Pharmacy Department's *Policy for Purchasing of Pharmaceuticals Under HHC Guidelines*, "Pharmaceuticals are obtained by issuance of a purchase order, generated by a requisition, directly to a vendor with whom a price, shipping time and related conditions have been

previously established.” However, we found that purchase orders were often prepared after the noncontrolled drugs had been ordered; the purchase orders did not include required information; and, at times, drugs were ordered and received in exchange for credit memos without the use of purchase orders. By not purchasing noncontrolled drugs properly and as required, the Pharmacy Department has bypassed the controls put in place to properly account for all drugs purchased.

When Pharmacy officials determine that drugs should be purchased, the quantity and description of the drugs should be entered into the OTPS system so that a purchase order can be prepared. OTPS creates the purchase order, automatically assigning the next available purchase order number. The purchase order should then be approved and authorized by appropriate Pharmacy officials before the drugs are ordered from the vendor. When drugs are received from vendors, the receipts should be recorded in the OTPS inventory system.

Upon our review, we found that the Pharmacy orders its drugs on-line from its primary vendor, Cardinal, or by telephone from other vendors. When placing an order with Cardinal, Pharmacy personnel always place the order on-line and then generate a confirmation for those drugs that Cardinal can supply. Pharmacy personnel then generate an invoice from the vendor’s computer system and prepare the purchase order using the OTPS system. Pharmacy officials then approve the purchase orders at the end of the process.

We requested a list of all purchase orders for goods purchased in the first quarter of Fiscal Year 2004—July 1 through September 30. HHC gave us a list generated from OTPS of 222 purchase order numbers, totaling \$4,039,810. However, we found that the list of purchase order numbers had many gaps, and many numbers did not appear to be used at all even though the OTPS system generates the purchase orders sequentially. The Pharmacy employee in charge of purchasing informed us that she manually assigns a purchase order number, bypassing the automatic OTPS generated purchase order number. She stated that the Pharmacy maintains a logbook with a list of purchase order numbers. It appears that she chooses a purchase order number without any particular rationale or system when making a purchase. She could not offer a reason for this procedure and simply stated that this was the usual practice.<sup>5</sup> After bringing this matter to the attention of the Director of Pharmacy, the Pharmacy began using the purchase order numbers automatically generated by the OTPS system.

We reviewed a random sample of 42 purchase orders, totaling \$326,868, of the 222 prepared in the first quarter of Fiscal Year 2004. We found that 19 (45%) purchase orders, totaling \$259,019, of the 42 did not include required information. These purchase orders did not include a list of the drugs being purchased. The information on the purchase order was limited to one generic catalog number with a line description called “adjustment.” For example, if 15 different drugs were ordered with a total price of \$8,000, the purchase order would show “one” under “quantity” and “\$8,000” under “price.” While there is a detailed listing of drugs in the Cardinal system, there is no detailed listing on the purchase orders; therefore there is no record of the drugs purchased on OTPS.

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<sup>5</sup> A review of the logbook showed that there were 243 purchase order numbers for purchase orders prepared for the first quarter of the fiscal year; however, 21 of the purchase order numbers were not used for purchases actually made during the first quarter of the fiscal year.

Discussions with the Director of the Pharmacy and the personnel assigned to perform purchasing confirmed that this is the usual practice. They stated that this process was justified since it expedited purchasing and eliminated the need to type all the drugs ordered on the purchase orders.

In addition, there were instances in which noncontrolled drugs were ordered and received in exchange for credit memos and for which no purchase order was created at all. When the Pharmacy returns drugs to Cardinal, it receives credit memos to be used against future purchases. However, we found that the Pharmacy “purchased” drugs using the credit memos but did not prepare purchase orders for them, nor was there evidence that the “purchases” were authorized. We reviewed all 94 credit memos, totaling \$232,777, that were used to acquire drugs during the period June 30, 2003, to December 31, 2003.<sup>6</sup> We found no evidence of approval or authorization by the Director or Assistant Director indicating that these drugs should be acquired.

When we communicated our concerns to the Pharmacy Director, she told us that they would correct the problem by using the credit memos to pay for items purchased via purchase orders that are prepared through OTPS. We subsequently reviewed a purchase order that the Director provided, which indicated that a credit was used against the purchase price. However, the purchase order itself still lacked detail. As mentioned earlier, this purchase order did not describe the drugs being purchased, but used the same one line “adjustment” format, except in this case the credit amount was deducted from the purchase price.

By allowing drugs to be ordered before a purchase order is prepared, and by allowing drugs to be acquired in exchange for credit memos without using a purchase order, the Pharmacy is circumventing the controls put in place to ensure that only drugs that have been approved and authorized will be ordered and purchased. Moreover, by not preparing the purchase order properly or not using one at all, there is no record of what drugs were purchased on the OTPS system nor can the drugs be accounted for. Again, this allows for the misappropriation of drugs to occur without detection.

### **Unrestricted Access to the Pharmacy Stockroom**

In addition to the weaknesses in the Pharmacy Department’s record-keeping, the Pharmacy has inadequate controls to safeguard the inventory of noncontrolled drugs. It appears that Pharmacy personnel not assigned to the stockroom have easy access to the stockroom and, in fact, they very often filled their own orders and took noncontrolled drugs from the stockroom shelves.

The Director of the Pharmacy Department provided us the names of eight stockroom employees who were allowed access to the Pharmacy stockroom and were assigned to receive,

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<sup>6</sup> Although we requested all the credit memos used to acquire drugs during this time period, we cannot be assured that we received all of them since these purchases were not processed through OTPS and were not listed in any logbook.

issue, and record the activities for noncontrolled drugs.<sup>7</sup> The Pharmacy's Procedure #78-71 states:

“When an order for an item(s) is received from a distribution center (e.g., satellite), the supervisor shall assign a storekeeper (other than the person receiving the drug, . . . to fill [the] order.”

We conducted observations of stockroom operations for five days in March and April 2004<sup>8</sup>; we observed and documented 29 Pharmacy staff, who were not stockroom employees, enter the stockroom. Moreover, we specifically observed and documented 12 of the 29 unauthorized persons take noncontrolled drugs from the shelves 20 different times during the five day period. Further, these non-stockroom personnel did not submit issue sheets indicating the authorization for the drug issuance and where the drugs were going.

According to HHC's Operating Procedure No.140-1, Requisitioning Drugs and Pharmaceuticals: “Supplies shall not be removed from the bulk stock or storage room under any circumstances without a written request.” To determine whether issue sheets were submitted after our observations, we reviewed all the issue sheets submitted for the days we conducted observations. We could not find any issue sheets from those non-stockroom personnel who removed noncontrolled drugs from the shelves during our observations.

The situation was made worse by the Pharmacy Department's allowing stockroom security to be compromised. On seven occasions, we noted security lapses that would allow unauthorized personnel to enter the Pharmacy stockroom.

- On two occasions, the Pharmacy stockroom door was kept open by rolls of paper that was put in the doorjamb.
- On three occasions, the stockroom key was left unattended in the stockroom door.
- On two occasions, the Pharmacy stockroom receiving door, which is in the hospital corridor, was left open and unattended. This door is adjacent to the Bellevue Hospital public elevators.

The lack of properly restricted access to the Pharmacy stockroom and the poor stockroom record-keeping result in an increased potential for thefts and misappropriations of noncontrolled drugs to occur and go undetected. It is Bellevue Hospital's responsibility to institute controls to ensure that only authorized personnel have access to the stockroom; that only authorized stockroom personnel remove drugs from stockroom shelves; and that authorized personnel issue drugs from the stockroom only after receiving an approved issue sheet.

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<sup>7</sup> This does not include one volunteer assigned to the Pharmacy stockroom.

<sup>8</sup> The five days of observation were March 3, March 4, April 22, April 26, and April 29.

## **Recommendations**

Bellevue Hospital Pharmacy officials should:

1. Institute and enforce proper internal controls over its inventory of noncontrolled drugs maintained in the stockroom. The Pharmacy should: maintain its inventory of noncontrolled drugs separate from the related inventory records; assign different personnel to handle the drugs and to update the inventory records; and ensure that only designated personnel have access to the stockroom.

**HHC Response:** “Bellevue has instituted internal controls over the inventory system. A database was created to include all drugs and their respective costs. Bellevue will use the OTPS system for its pharmacy perpetual inventory system, and staff assignments have been segregated so that staff that handle the drugs are not involved in the update of the computerized inventory records and vice versa. . . . Bellevue has implemented a card access system to the 14<sup>th</sup> floor Pharmacy Store Room that controls key doors in the area. The card system records each entry and exit and that record is reviewed regularly by the Pharmacy Director for any signs of inappropriate access. Access is also monitored by newly installed close circuit cameras, with remote monitors located in both the Pharmacy Director’s and Hospital Police offices. . . .”

2. Ensure that the Pharmacy Department maintains a computerized perpetual inventory system for its inventory of noncontrolled drugs kept in the stockroom. The perpetual inventory records should be kept separate from the physical inventory.

**HHC Response:** “As indicated in recommendation #1, Bellevue will use the OTPS system as its perpetual inventory system in the Pharmacy. The records are stored in the OTPS system, and as such, are kept separate from the physical inventory.”

3. Ensure that all receipts and issuances of drugs are appropriately recorded on the inventory records.

**HHC Response:** “Bellevue has identified two Pharmacy Techs that are dedicated to recording all receipts and issues of drugs in the OTPS perpetual inventory system. On[e] Tech handles receipts and the other Tech handles issues consistent with the separation of duties and responsibilities.”

4. Ensure that drugs are only issued by authorized personnel after submission of an authorized issue sheet.

**HHC Response:** “A written policy has been issued to clarify how drugs are to be issued. The staff that can authorize issue sheets and those who can issue drugs have been identified and designated in the policy. The policy states that drugs cannot be issued without the receipt of an authorized issue sheet.”

5. Investigate and document all discrepancies between the amount of inventory on hand and the amount recorded.

**HHC Response:** “We intend to conduct monthly audits of sample drugs to compare the amount on hand with the recorded amount in the inventory system. Any discrepancy noted will be assigned to a supervisor for investigation, and entered into a logbook, set aside for this purpose. . . . The results of the investigation will be reported to the Director or her designee, and any adjustment must be approved at that time. All records of the discrepancy, investigation and adjustments will be stored and will be reviewed regularly for any trends. . . .”

6. Ensure that adjustments to inventory records are documented, reviewed, and approved by appropriate Pharmacy officials.

**HHC Response:** “Any adjustments will be documented and appropriately reviewed and approved by the Pharmacy Director or her designee.”

7. Consider maintaining a log listing discrepancies and adjustments made to inventory records. In this way, Pharmacy officials would have a better understanding of the scope of discrepancies.

**HHC Response:** “A logbook of discrepancies and adjustments will be maintained.”

8. Ensure that drugs are purchased properly. Purchase orders should be prepared, approved, and authorized before the drugs are ordered from the vendors; all ordered drugs should be listed on the purchase order; and, credit memos should be properly applied against purchases.

**HHC Response:** “We agree and have implemented recommendation #8. All purchased orders are now prepared through the OTPS system by designated staff trained in the process. The purchase orders, sequentially generated by the OTPS system, are reviewed by a supervisor to insure that they have been prepared correctly, that all drugs ordered are properly itemized, and that any available credit memo is applied to the order as warranted.”

9. Restrict access to the Pharmacy stockroom to authorized stockroom personnel.

**HHC Response:** “The Pharmacy Director reviewed all staff functions, and determined who should have access to what areas during what days and times of the day. Only seven (7) staff members were given card access to the stockroom, inclusive of three (3) managers.”

10. Prohibit the removal of drugs from the stockroom shelves by any unauthorized person.

**HHC Response:** “A written policy has been issued to clarify how drugs are to be issued. The staff that can authorize issue sheets and those who can issue drugs have been identified and designated in the policy. In addition, a pharmacy supervisor randomly checks the carts of personnel leaving the stockroom.”

**Total Dollar Value of Noncontrolled Drugs Reported by Bellevue Hospital May Be Misstated**

HHC compiles the values of its facilities’ inventories so the total value can be accurately reported in its financial statements. Based on our review, we estimate that the valuation of the inventory of noncontrolled drugs as reported by Bellevue Hospital may have been misstated by \$1.6 million.

Bellevue Hospital is required to report to HHC the value of its drugs in stock at the end of each fiscal year. To determine the value of the drugs, Bellevue Hospital staff conduct an inventory count of all drugs stored in the Pharmacy stockroom and the Out Patient Pharmacy Department at the end of the fiscal year. To assist in conducting the inventory count, the HHC Office of Internal Audits distributed the *Inventory Procedure Manual* to Bellevue Hospital’s Finance Department. This manual describes in detail the preparation and the procedures to follow when conducting an inventory count.

The manual requires that either preprinted two-part tags or preprinted inventory lists (count sheets) be used for the inventory count. The manual also requires that these tags and count sheets “must be retained in the inventory area after the count has been completed and until cleared by the [HHC] auditors.” Moreover, the inventory records must be sealed and should not be accessible during the inventory count.

We observed the inventory count conducted in the Pharmacy stockroom on June 21, 2003. We found that Bellevue Hospital did not follow the procedures set forth in the manual. First, the inventory records (inventory cards) were not sealed and removed from the Pharmacy stockroom. In fact, the inventory records were inappropriately updated as part of the inventory count process; second, the count sheets prepared for the inventory count were incomplete and did not include many of the drugs in stock; and finally, the count sheets were removed from the stockroom prior to HHC’s auditors’ verification of the inventory.

Bellevue Hospital had 12 teams counting the inventory. Each team used preprinted count sheets to record the quantity on hand. While conducting the count, the teams inappropriately updated the Pharmacy inventory cards. In addition, many of the drugs were not listed on the count sheets and had to be manually recorded. As the count progressed, the teams found the count sheets to be so deficient that the Assistant Director of Pharmacy distributed preprinted issue sheets that listed many of the drugs stored in the stockroom. After the inventory count was concluded these numerous sets of “count sheets” were submitted to the hospital’s Finance Department. The Finance Department used all these count sheets and the price list from the Pharmacy to prepare the Fiscal Year 2003 Inventory Report, which is a detailed list of drugs in inventory, their quantity, and their cost. The Fiscal Year 2003 Inventory Report is summarized.



This summary report is referred to as Exhibit H and includes the value of each of the hospital's inventories by category. Exhibit H is submitted to HHC to be used for its financial statements. According to the Fiscal Year 2003 Inventory Report, the total value of noncontrolled drugs in the stockroom was \$940,275.

To test the accuracy of the Fiscal Year 2003 Inventory Report, we attempted to match the drugs listed on the count sheets that we obtained from the Finance Department to the Fiscal Year 2003 Inventory Report. We found that the Finance Department did not accurately compile the information from the count sheets to enter in the Fiscal Year 2003 Inventory Report. Of the first 35 drugs we reviewed on the count sheets, 17 were not listed on the Fiscal Year 2003 Inventory Report; the other 18 drugs were listed with a zero quantity even though the count sheets showed that there was a specific quantity in stock. We therefore determined that the Fiscal Year 2003 Inventory Report did not contain all of the noncontrolled drugs in the stockroom and that many of the values shown were incorrect.

To determine the actual inventory and value of noncontrolled drugs in the stockroom, we analyzed all the inventory cards for noncontrolled drugs and determined the balances as of June 21, 2003, the date of the Bellevue Hospital inventory count. Based on our review of the balances recorded on the inventory cards and the price of the drugs that we obtained from the Pharmacy, we determined that the value of the noncontrolled drugs was \$2,578,917 on June 21, 2003. This is \$1,638,642 greater than the amount reported on the Fiscal Year 2003 Inventory Report. Specifically we found that:

- 285 of the drugs recorded on the inventory cards and valued at \$634,185 were not on the Fiscal Year 2003 Inventory Report;
- 333 of the drugs recorded on the inventory cards and valued at \$699,371 were recorded on the Fiscal Year 2003 Inventory Report with a zero quantity even though the drugs were in stock;
- 949 of the drugs recorded on the inventory cards were listed on the Fiscal Year 2003 Inventory Report with either an incorrect quantity or price: 567 were understated by a total of \$591,063, and 382 were overstated by \$264,924; and
- 14 of the drugs listed on the Fiscal Year 2003 Inventory Report with a value of \$2,300 could not be verified because the inventory cards for the drugs as of June 21, 2003, could not be found.

There were 75 additional entries on the Fiscal Year 2003 Inventory Report that had quantities and values totaling \$18,752; however, there were no matching inventory cards for these items. According to Pharmacy officials, these 75 entries were incorrect and could have been caused by duplicate or incorrect entries. There was no documentation to determine why these errors occurred.

Based on our observations of Bellevue Hospital's inventory count of the Pharmacy stockroom, the inaccuracies of the Fiscal Year 2003 Inventory Report compiled by the Finance

Department using deficient count sheets, and the Pharmacy's inadequate record-keeping, it is apparent that Bellevue Hospital disregarded the *Inventory Procedures Manual* and has allowed erroneous financial information to be included in HHC financial statements.

Bellevue Hospital reported to HHC on Exhibit H the total value of inventory of \$4,186,827. Based on our review of the inventory cards, which Bellevue officials told us have the most accurate inventory quantities, we estimate that the figures was incorrectly understated by 39 percent. Based on the figures shown on the cards, Bellevue Hospital may not have included approximately \$1.6 million in inventory of noncontrolled drugs in its valuation of inventory. As a result, we estimate that HHC's financial statements for Fiscal Year 2003 may also be understated by \$1.6 million.

### **Recommendations**

Bellevue Hospital officials should:

11. Ensure that when preparing and conducting the physical inventory count of drugs in the Pharmacy, its staff follows the inventory count procedures outlined in the *Inventory Procedures Manual*.

**HHC Response:** "We agree with recommendation #11, and implemented it for the FY 2004 year-end inventory valuation. The Pharmacy developed a list of all drugs with accurate unit of measure and pricing that was used in the FY 2004 valuation."

12. Ensure that all noncontrolled drugs stored in the Pharmacy stockroom are correctly counted, and their total quantity and value correctly reported.

**HHC Response:** "A database was created and it ensured that all non-controlled drugs stored in the Pharmacy stockroom were correctly counted, and their total quantity and value were reported correctly."

### **No Perpetual Inventory Records Maintained In Central Supply Stores Stockrooms**

Central Supply Stores does not maintain a perpetual inventory system for its medical and surgical supplies; it does not keep perpetual records or even inventory cards as required by the *HHC Materials Management Inventory Procedures Manual*. Therefore, Bellevue Hospital cannot have an accurate account of the availability of the inventory, nor can it ensure that theft or misappropriation of items would be detected.

Central Supply Stores maintains its medical and surgical supplies in two locations: the 14<sup>th</sup> floor storeroom and the basement warehouse. The items and quantities are counted and the values determined once a year when the staff conduct a physical inventory count. These amounts are maintained as the inventory record until the next physical count the following year. Any

items purchased during the year are not added, nor are issued items deducted. Therefore, between one fiscal year-end count to another, Bellevue Hospital does not know the actual amount of inventory on hand or the value of that inventory. In Fiscal Year 2003, Bellevue Hospital spent \$8 million on medical and surgical supplies.

The HHC *Material Management Inventory Procedures Manual* requires either a manual or an automated inventory system be used to maintain the inventory records. However, it recommends the use of the automated system. If using a manual system, it states that each department should maintain a stock card system that is updated daily. This updating requirement also applies to the automated OTPS inventory system. The manual goes on to describe the benefits of using an automated system, as follows:

- “the automated system is capable of providing a facility with up-to-date on-hand balance and usage history information on all its inventory items simultaneously. The same information can be compiled using the manual system; however, this method is more time consuming and prone to error.
- “the automated system calculates on-hand balances as inventory transactions are entered into the computer. These calculations are performed instantaneously and with a higher degree of accuracy than if derived manually. Additionally, the automated system calculates and stores the extension once an internal order is filled.
- “the automated system provides a variety of reports which allows a facility to review expeditiously its purchasing, inventory management and payment process.”

However, Central Supply Stores does not use **any** inventory system to maintain inventory records. The Director of Central Supply Stores could not state why the OTPS perpetual inventory system or any other inventory system was not used. However, he stated that Bellevue Hospital was actively looking for a new computer system to keep track of the inventory. The need for an effective inventory management system was made clear after we observed the large amounts of medical and surgical supplies stored in the basement hallways (as discussed below). Such a system would assist management by providing information on issuance volume and inventory turnover, enabling management to determine whether goods are needed.

Since Central Supply Stores had no perpetual inventory records, we could not test the accuracy of the inventory on hand. We tried to determine whether items that leave the stockroom are properly recorded on issue sheets. We selected a random sample of 226 medical and surgical items from a population of 1,045 (as listed in the Fiscal Year 2003 Inventory Report) and conducted an inventory count between August 7 and August 12, 2003. Using the balances from the Central Stores physical count in June 2003, we attempted to deduct quantities issued and add quantities received between the dates of the hospital’s physical count and our physical count. We copied all the manual and Omnicell issue sheets from July 2, 2003, to August 12, 2003. However, we were not able to complete this test because the handwritten issue sheets did not include the HHC catalog numbers, were incomplete, and in many cases illegible. Therefore, we were not able to identify the inventory items accurately.

After the completion of our audit fieldwork, hospital and Central Supply Stores staff informed us that a new computerized inventory system had been installed for tracking medical and surgical supplies. We did not test the accuracy of the inventory records using this system.

### **Medical and Surgical Supplies Not Secured Properly**

During our visits to Bellevue Hospital's basement warehouse, we observed that not all the medical and surgical supplies were adequately safeguarded. Large quantities of medical and surgical supplies were stored in the basement hallways at various distances from the stockroom, near the public elevators and receiving docks. (See photographs one through five below.) Moreover, many cases were broken open with items apparently missing or taken. Examples of items stored in the hallway were face masks, surgical gloves, patient admission kits, and canes.

Bellevue Hospital officials stated that items are stored in the hallway because there was not enough storage area in the locked storerooms. Improper safeguard for the medical and surgical supplies and the absence of any inventory records cause the potential for theft and misappropriation of items to occur and go undetected. It is Bellevue Hospital's responsibility to ensure that medical and surgical supplies are properly stored and safeguarded.

### **Photograph 1**



Large quantities of medical and surgical supplies stored in the passageway between the main elevators and the receiving docks. (Photo taken on October 16, 2003).

### Photograph 2



Boxes of medical and surgical supplies stored in the basement hallways. Many boxes are broken, displaying the contents (Photo taken on October 16, 2003).

### Photograph 3



Medical and Surgical supplies stored in the basement hallways next to the service elevator (Photo taken on October 16, 2003).

**Photograph 4**



Non-Central Stores employees have access to the medical and surgical supplies, via the freight elevator, that are stored in the basement hallways (Photo taken on October 16, 2003).

**Photograph 5**



Broken boxes of medical and surgical supplies are stored in the basement hallways (Photo taken on October 16, 2003).

## **Recommendations**

Bellevue Hospital should ensure that Central Supply Stores:

13. Maintains perpetual inventory records, preferably on a computerized inventory system. Central Supply Stores should ensure that the persons updating the inventory records are different from the persons handling the inventory; and access to the inventory records should be restricted to designated personnel.

**HHC Response:** “A computerized perpetual inventory system is now in place. Staff duties regarding inventory handling and record keeping have been segregated, and access to the perpetual inventory records is restricted to designated personnel.”

14. Completes issue sheets properly. The issue sheets should include accurate catalog numbers and description, so that they can be used to properly identify inventory items removed from the storeroom.

**HHC Response:** “Issue sheets have been redesigned to include the catalog numbers and product descriptions, and a space for the signature of an authorized official.”

15. Maintains all medical and surgical supplies in a locked and restricted area so that they are properly safeguarded.

**HHC Response:** “Supplies are now kept in two areas, all of which have restricted access. . . . Access to these two locations is restricted to a total of five (5) Materials Management staff members. . . .”

## **Other Related Matters**

HHC auditors from the Office of Internal Audits did not adequately perform the inventory count verification at Bellevue Hospital’s Pharmacy and Central Supply Stores. They did not verify the accuracy of the count sheets in the Pharmacy that were subsequently used to prepare the Fiscal Year 2003 Inventory Report, Exhibit H, and HHC’s financial statements. Instead, they inappropriately relied on the Pharmacy inventory cards kept next to the drugs. In Central Supply Stores, the auditors inappropriately used the tags attached to the medical and surgical supplies to verify the inventory. By not using the proper documents to verify the inventory, the auditors did not uncover the inaccuracies, which allowed the value of noncontrolled drugs to be understated and reportable conditions to remain unaddressed.

HHC Office of Internal Audits conducts a “limited scope review of the Corporation’s annual physical inventory of pharmaceutical and medical/surgical supplies.” As stated in its “letter report” on this review, the HHC auditors “assist the Corporation’s independent auditors with the audit of HHC’s financial statements” by performing specific procedures “on a limited test basis at each facility.” The procedures include assessing compliance with the *Inventory Procedures Manual*, verifying the controls over inventory documents, reviewing inventory cut-

off procedures, determining whether inventory is safeguarded, and conducting physical test counts of 10 or more items in the Pharmacy and medical and surgical supply storage areas. The auditors compare their test count results to the facility's count sheets and perpetual inventory records for accuracy and completeness. If the HHC auditors' count matches the facility's count, then the verification of inventory is complete, and HHC relies on this information in preparing its financial statements. If there are differences between the auditors' count and the hospital's records, additional items are selected to be counted.

As discussed previously in this report, the *Inventory Procedures Manual* requires that the Pharmacy inventory records be sealed and not be accessible during the inventory count process. In addition, count sheets "must be retained in the inventory area after the count has been completed and until cleared by the [HHC] auditors." Bellevue Hospital did not seal and remove the inventory records from the Pharmacy stockroom. In fact, the inventory records were inappropriately updated during the inventory count. Moreover, the count sheets were removed from the stockroom before the HHC auditors' verification of the inventory.

HHC auditors failed to comment on Bellevue Hospital's obvious disregard to follow the proper inventory procedures. They not only failed to acknowledge that the Pharmacy inventory records were not sealed or removed from the stockroom as required, but the auditors also inappropriately relied on these same inventory records to verify their physical count of 10 items. HHC auditors should have been aware that the count sheets, not the inventory cards, should be used to verify their physical count and that the count sheets should have remained in the inventory area until cleared by them. Since the HHC auditors did not use the count sheets, as required, they were unaware of the discrepancies on the count sheets and that not all inventory items were listed on the Fiscal Year 2003 Inventory Report, which was subsequently used to prepare HHC's financial statements.

The Central Supply Stores, which has no perpetual inventory records, had its staff record the count results on preprinted count sheets and on inventory tags placed on each item. The HHC *Inventory Procedures Manual* states: "Two-part tags should be used for tagging the inventory" and that the two-part tags should list the item's location, description, number, unit description, and the unit price. Bellevue Hospital failed to properly tag the inventory. One-part tags were used, and the tags did not indicate item location and unit price; and many tags did not include the item number. HHC auditors failed to comment on Central Supply Stores' inadequate inventory count procedures. Moreover, instead of using the count sheets to verify their physical count of chosen items, the auditors used the quantity noted on the tags.

At the exit conference, HHC auditors stated that the Central Supply Stores had properly used count sheets to record the physical inventory count and that the tags were just used to indicate that the item had been counted. Although this may be the case, HHC auditors incorrectly used these tags, not the count sheets, to verify the physical inventory. After discovering an error in the count of one of the 10 items chosen from the medical and surgical supplies, the auditors correctly chose an additional five items to count. They corrected the error on the tag, not on the count sheet. Therefore, an incorrect count was used to prepare the Fiscal Year 2003 Inventory Report, which is then used to support HHC financial statements.



**HHC Response:** In his letter, the Assistant Vice President of the HHC Office of Internal Audits stated: “The fact that Central Supply Stores utilized a one part tag rather than a two part tag is insignificant. The tag totals were transcribed on to pre-printed count sheets that included a description of the item, item number and unit price. The count sheets were then utilized to value the year-end inventory. Therefore, verifying our inventory count against the tag was an acceptable method because the count totals from our sample were reconciled to Exhibit H subsequently submitted by the facility.”

**Auditor Comments:** As stated in this report and at the exit conference, the count team recorded the results of the counts simultaneously on the one part tag and the count sheet. After all items were counted, and before the HHC auditors performed their verification, the count sheets were removed from the area. The count sheets, not the one part tag, were used to prepare Exhibit H. Therefore, the count sheets should have been used by HHC auditors for the verification. In fact, as we previously stated, on the day of the verification, a correction to a count was made on the tag but not on the count sheet; and since Exhibit H was prepared from the count sheets, it had the incorrect number. Even though HHC auditors may have reconciled their sample to Exhibit H, as they stated, a correction was not made to Exhibit H. Therefore, Exhibit H continued to show an incorrect figure that was never resolved.

The verification process is an important step in the valuation of HHC’s inventories at its different facilities. It is the outcome of this process that HHC relies upon when preparing its financial statements. Because of its significance to the accuracy of the financial statements, HHC auditors should have been more diligent and followed all HHC procedures when performing the verification of inventory counts and values.

**HHC Response:** In his letter, the Assistant Vice President of the HHC Office of Internal Audits stated: “Our testing is not designed to provide absolute verification of a facility’s inventory, or to serve as a substitute for a comprehensive audit. Rather, within a two-week period, our testing seeks to provide assurance that a physical inventory was taken in accordance with corporate policies at 21 corporate locations. . . . Lastly, your report concludes that our limited non-statistically valid testing is what HHC relies upon in preparing the inventory portion of the financial statements. However, this is not accurate. In addition to our limited testing, HHC external auditors perform other reviews and analyses to determine the reasonableness of the inventory valuations. Facilities also have a series of checks and balances in place as part of their year end inventory process. It is not the role of this office to value HHC’s inventory but to participate as part of a larger operation to ensure reasonable inventory valuations.”

**Auditor Comments:** Although the verification of the inventory count performed by the HHC auditors is not an “absolute verification,” when it is performed properly and according to the HHC *Inventory Procedure Manual*, it is an important step in providing reasonable assurance of the accuracy of the inventory count and its valuation. This audit found that the verification was not conducted according to the HHC *Inventory Procedures Manual*. By failing to follow proper procedures, the HHC auditors may have allowed the noncontrolled drugs to be grossly undervalued. Further, the series of

reviews, analyses, and checks and balances referred to by the Assistant Vice President, did not succeed in detecting an error rate exceeding 150 percent. While, according to the response letter, the Office of Internal Audit is not responsible for conducting the inventory count but performs limited tests and operates as part of a larger operation, HHC auditors are nevertheless responsible for performing their tasks properly and in accordance with HHC procedures so as to provide reasonable assurance of the accuracy of the inventory count and valuation.

### **Recommendations**

Bellevue Hospital officials should:

16. Ensure that when preparing and conducting the physical inventory count of the medical and surgical supplies, its staff follow the inventory count procedures outlined in the *Inventory Procedures Manual*.

**HHC Response:** “Copies of the corporate Policy & Procedure that governs the conduct of fiscal year-end inventory taking have been provided to the appropriate Bellevue staff. The Accounting Director reviews the corporate Policy & Procedure annually with staff that participate in the year-end inventory taking and valuation.”

HHC should:

17. Ensure that the HHC auditors comply with the *Inventory Procedures Manual* when performing the annual inventory verification at the HHC facilities.

**HHC Response:** “We have retrained the staff in year-end inventory valuation procedures. A questionnaire has also been developed for the auditors to utilize during field visits to ensure that required procedures have been performed in accordance with the *Inventory Procedures Manual*. . . . Also, on an on-going basis we hold yearly workshops before the start of the fieldwork to review our procedures and to ensure the auditors are made aware of any changes to the inventory valuation process. We also hold a yearly workshop session with senior facility management to discuss their role in the year end inventory process.”



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Alan D. Aviles  
Acting President

March 17, 2005

Mr. Gregg Brooks  
Deputy Comptroller  
Policy, Audits, Accountancy & Contracts  
The City of New York  
Office of the Comptroller  
1 Centre Street  
New York, NY 10007-2341

Re: Audit Report on the Inventory Controls of Bellevue Hospital Center Over Noncontrolled Drugs and Medical and Surgical Supplies MG03-179-A

Dear Mr. Brooks:

Thank you for the opportunity to review and respond to the draft audit report. Attached are the detailed responses from Bellevue Hospital and the Office of Internal Audits regarding the above-mentioned audit. Also attached are the Audit Implementation Plans addressing the recommendations made in the report.

If you have any questions please contact Mr. Alex Scoufaras at 646-458-5601.

Sincerely,

Alan Aviles

- c: F. Cirillo, Senior Vice President, Operations
- C. Perez, Senior Vice President, South Manhattan Network
- A. Scoufaras, Assistant Vice President, Office of Internal Audits
- D. Cates, Chief of Staff, Office of the President/Board of Directors

**South Manhattan Healthcare Network**

First Ave &amp; 27th St, ME 8, New York, NY 10016 tel 212.562.4132 fax 212.562.4036 perezc@nychhc.org

**Carlos F. Perez** Senior Vice President  
Executive Director, Bellevue Hospital Center

March 10, 2005

Mr. Gregg Brooks  
Deputy Comptroller  
Policy, Audits, Accountancy & Contracts  
The City of New York  
Office of the Comptroller  
1 Centre Street  
New York, N.Y. 10007-2341**RE: Audit Report on the Inventory Controls of Bellevue Hospital Center over Non-  
Controlled Drugs and Medical and Surgical Supplies. Audit Number: MG03-179A**

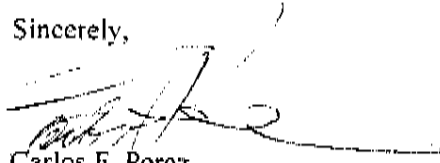
Dear Mr. Brooks:

We recognize and appreciate the time and energy that your staff put into preparing the audit report referenced above and welcome the opportunity to respond to the findings, commentary and related recommendations. While we agree with certain findings and disagree with the severity of others, we recognize the need for improvement cited in the audit and implemented the majority of the recommendations, as noted in the attached report.

It should be noted that, during the period of the audit, the Accounting Department elected to use a new database developed by finance staff to compile the year-end inventory valuation instead of using spreadsheets as had been done in years past. The accounting staff were given training on how to use the database but had difficulty in updating the master inventory list table in part due to the design of the database itself and in part due to their lack of experience with database programs. This resulted in the findings in the audit that certain drugs were included without quantities and that many drugs had incorrect quantities or prices.

However, as a result of the audit and the extensive corrective action plans implemented a year ago and described on the following pages, the process for the year-end inventory in fiscal year 2004 was greatly improved. We will continue to build upon these improvements and monitor the internal controls put in place over non-controlled drugs and medical/surgical supplies going forward.

Sincerely,

  
Carlos F. Perez
**Attachment**

cc: Alan Aviles, Esq., Acting President  
Frank Cirillo, Senior Vice President, Operations  
Alex Scoufaras, Assistant Vice President, OIA  
Mary Thompson, Chief Operating Officer, Bellevue  
Aaron J. Cohen, Chief Financial Officer, Bellevue  
Ernesto Marrero, Assoc. Exec. Director, Bellevue

Kate Hogerton, Assoc. Exec. Dir., Finance, Bellevue  
Pierre DuBose, Comptroller, Bellevue  
Marcelle Levy-Santoro, Pharmacy Director, Bellevue  
Richard Ross, Director of Materials Mgt., Purchasing, Bellevue  
Walter Otero, Corporate Assistant Director, OIA

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## Pharmacy – Non-Controlled Drugs Recommendations and Responses

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The following four (4) recommendations deal with the management of the inventory and access to the stockroom. We agree with the recommendations and have implemented recommendations number 1, 9, and 10. Recommendation number 2 is in the final stages of implementation.

Specifically, the draft report recommended that we:<sup>1</sup>

1. Institute and enforce proper internal controls over inventory of non-controlled drugs maintained in the stockroom.
  - Maintain inventory separate from related records
  - Assign different personnel to handle drugs and update records
  - Restrict access to the stock room to designated personnel
2. Maintain a computerized inventory separate from actual inventory
9. Restrict access to stockroom to authorized personnel
10. Prohibit the removal of drugs by unauthorized persons

As discussed with the auditors during the audit, the Pharmacy Department has begun using the OTPS system to manage its inventory. Computer hardware dedicated for the system was installed and two staff members were specifically assigned the tasks of inputting data. A new inventory was conducted, and starting balances were entered in the system. Once staff have completed updating the pharmaceutical catalogue information, i.e., description, unit of measure, and unit price for each drug, they will update the inventory for each drug to reflect the receipts and issuances made since the starting balances were established. Pharmacy expects to complete this process by the end of this fiscal year (June 2005). Since the OTPS system stores a computerized inventory, the inventory record is separate and apart from all other related inventory records. Assignments of staff have been segregated, so that staff that handles the drugs are not involved in the update of the computerized inventory records, and vice versa.

Access to the stock room was analyzed and restricted to necessary personnel. Only seven (7) staff members have access to the stock room, inclusive of three (3) managers. The restricted access is enforced by a newly installed card access system that controls key doors in the area, including the stockroom. The system requires a programmable chip, issued only by Hospital Police, to enter and exit a room or area protected by the system. The Pharmacy Director reviewed all staff functions, and determined who should have access to what areas during what days and times of the day. That information was relayed to Hospital Police, which then programmed each individual chip accordingly. The card access system records each entry and exit, including those into and out of the stockroom, and that record is reviewed regularly by the Pharmacy Director for any signs of inappropriate access. Access is also monitored by newly installed close circuit cameras, with monitors both in the Pharmacy Director's office and the offices of Hospital Police. Finally, a pharmacy supervisor randomly checks the carts of personnel leaving the stockroom to insure that the amount in the cart matches the amount on the issuance sheet.

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<sup>1</sup> Recommendation numbers correspond to numbering in the audit report.

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Pharmacy – Non-Controlled Drugs Recommendations and Responses

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The following two (2) recommendations deal with receipt and issuance of drugs. Specifically, the report recommends that:

3. all receipts and issuances be appropriately recorded on the inventory records
4. drugs are issued by authorized personnel after submission of an authorized issuance sheet.

We agree with the recommendation and have begun to implement corrective action. A written policy has been issued to clarify how drugs are to be issued. The policy states that drugs cannot be issued without the receipt of an authorized issue sheet. The staff who can authorize issue sheets and those who can issue drugs have been identified and designated in the policy.

The recording of receipts of drugs will be segregated from the recording of the issuance of drugs, and two (2) new staff members were assigned the tasks of inputting that data into the OTPS system.

The report then makes three (3) recommendations designed to address the handling of discrepancies. Specifically, the report recommends that:

5. all discrepancies between the amount of inventory on hand and the amount recorded be investigated
6. adjustments are documented, reviewed and approved by Pharmacy officials
7. a log of discrepancies and adjustments be maintained.

We agree with the recommendations, and are confident that the new computerized perpetual inventory, coupled with tighter controls on the receipt and issuance of drugs and the segregation of key functions, will minimize discrepancies. Nevertheless, we intend on conducting monthly audits of sample drugs to compare the amount on hand with the recorded amount. Any discrepancy noted will be assigned to a supervisor for investigation. In investigating the discrepancy, the supervisor will review all receipts and issuances, interview staff, and review any other relevant data, such as card access or video information. The results of the investigation will be reported to the Director or her designee, and any adjustment must be approved at that time. All records of the discrepancy, investigation and adjustments will be logged and will be reviewed regularly for any trends. We will continue the monthly audits until we deem that the occurrences for discrepancies have been minimized for six (6) consecutive months, at which time we will move to quarterly audits.

Recommendation eight (8) stated that:

- purchase orders be prepared, approved and authorized before drugs are ordered
- all drugs should be listed on the purchase order
- credit memos should be properly applied against purchases

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Pharmacy – Non-Controlled Drugs Recommendations and Responses

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This recommendation is based on concerns about the way some drugs were purchased previously. The concerns were based on procedures followed by staff when dealing with Bellevue's prime vendor, Cardinal. When Bellevue entered into a prime vendor contract with Cardinal, Cardinal provided Bellevue a dedicated computer with a modem to enter purchases using the vendor's automated procurement system. As using the vendor's system expedited purchases, staff used this "offline" system (i.e., a system with no interface with the OTPS system) to enter drug requests on a weekly basis. When Cardinal received a request, the system checked for availability and sent back to Bellevue a detailed confirmation list containing drug-specific information. After receiving the detailed confirmation, staff entered a purchase order with a single line item for the aggregate dollar value of the purchase in the OTPS system to record the transaction on Bellevue's books.

We agree with the recommendations, and have implemented them. All purchased orders are now prepared through the OTPS system by designated staff trained in the process. The purchase orders, sequentially generated by the OTPS system, are reviewed by a supervisor to insure that they have been prepared correctly, that all drugs ordered are properly itemized, and that any available credit memo is applied to the order as warranted.

In the near future, Bellevue will be implementing Oracle iProcurement, an eCommerce procurement system that will be interfaced to the corporation's OTPS system. In addition, Cardinal's on-line procurement system will be interfaced to the Oracle iProcurement application enabling orders placed on Cardinal.com to be recorded in the OTPS system automatically. Bellevue staff will be trained on the new Cardinal Mobile Solutions technology and will be able to enter orders using a handheld Personal Digital Assistant (PDA) that reads bar code labels for pharmaceuticals. When all the labels for the order have been read, and the order is ready to be transmitted, the staff person will "dock" the PDA so that the order can be transmitted to Cardinal.com and in turn to Oracle iProcurement. Once the requisition is approved in Oracle iProcurement, a purchase order will be generated in Oracle iProcurement and mirrored in the OTPS system. The new process will eliminate the need to make double entries to record the purchase order in the OTPS system.

The report also recommended that:

10. staff follow the *Inventory Procedures Manual* when preparing and conducting the physical inventory, and that
12. staff ensure that all drugs are correctly counted and their total quantity and value reported.

We agree with recommendations, and they were implemented for the FY '04 inventory. The Pharmacy developed a complete list of all drugs with accurate unit of measure and accurate pricing that was used in the FY 04 inventory.

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## Central Supply Stores Recommendations and Responses

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The report, in Recommendation 13, recommends that Central Supply Stores:

- Maintain computerized perpetual inventory records
- Segregate staff updating records from staff handling inventory
- Restrict access to inventory records

We agree with these recommendations and have implemented them. A computerized perpetual inventory system is now in place. Staff duties regarding inventory handling and record keeping have been segregated, and access to the perpetual inventory records is restricted to designated personnel.

In Recommendation 14, the Report recommends that issue sheets should be completed properly, including accurate catalog numbers and descriptions.

We agree with this recommendation and have implemented it. Issue sheets have been redesigned to include the catalog numbers and product descriptions, and a signature of an authorized official.

The Report recommends in Recommendation 15 that we safeguard supplies in locked and restricted areas.

We agree with this recommendation and have implemented it. Supplies are now kept in just two areas, all of which have very restricted access. This includes inventory supplies on the 14<sup>th</sup> floor, which are now kept in a newly constructed metal enclosure with locks keyed to a proprietary system. Access to these areas is restricted to the Assistant Coordinating Manager in charge of the warehouses, the Director of Central Stores, Materials Management Division Administrators, and one back-up supervisor, a total of only five (5) staff members.

The protocol in place for off-hour access to these areas require the Administrator-on-Duty to intervene, escort staff into the area, retrieve supplies and record activities on the issue sheets and on the Administrator-on-Duty report.

The Report recommends in Recommendation 16 when preparing and conducting the physical inventory count of the medical/surgical supplies, staff follow the inventory count procedures outlined in the Inventory Procedures Manual.

Copies of the corporate Policy & Procedure that governs the conduct of fiscal year-end inventory taking have been provided to the appropriate Bellevue staff. The Accounting Director reviews the corporate Policy & Procedure annually with staff that participate in the year-end inventory taking and valuation.



MAYOR'S OFFICE OF OPERATIONS  
AUDIT COORDINATION AND REVIEW  
AUDIT IMPLEMENTATION PLAN

ATTACHMENT I  
PART A

Audit Title: Audit Report on the Inventory Controls of Bellevue Hospital Center over Noncontrolled Drugs and Medical and Surgical Supplies

Date: March 8, 2005

Audit Agency: Office of the Comptroller  
Bureau of Management Audit

Agency: NYCHHC (OLA 03-81)

Audit Date: \_\_\_\_\_

Audit No: MC03-179A

OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENT/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
<p><b>Recommendation # 1</b> Bellevue Hospital Pharmacy officials should institute and enforce proper internal controls over its inventory of noncontrolled drugs maintained in the stockroom. The Pharmacy should maintain its inventory of noncontrolled drugs separate from the related inventory records; assign different personnel to handle the drugs and to update the inventory records; and ensure that only designated personnel have access to the stockroom. Pg. 19</p>	<p>Bellevue has instituted internal controls over the inventory system. A database was created to include all drugs and their respective costs.</p> <p>Bellevue will use the GTPS system for its pharmacy perpetual inventory system, and staff assignments have been segregated so that staff that handle the drugs are not involved in the update of the computerized inventory records; and vice versa. Since the GTPS system stores a computerized inventory, the inventory record is separate and apart from all other related inventory records.</p> <p>Bellevue has implemented a card access system to the 14<sup>th</sup> floor Pharmacy Store Room that controls key doors in the area. The card access system records each entry and exit and that record is reviewed regularly by the Pharmacy Director for any signs of inappropriate access. Access is also monitored by newly installed close circuit cameras, with remote monitors located in both the Pharmacy Director's and Hospital Police offices. The Pharmacy Director reviewed all staff functions, and determined who should have access to what areas during what days and times of the day. Hospital Police have programmed individual staff member access to the Pharmacy Store Room, accordingly.</p>	<p>June 30, 2004</p> <p>June 30, 2005</p> <p>February 28, 2005</p>	

MAJOR'S OFFICE OF OPERATIONS  
 AUDIT COORDINATION AND REVIEW  
 AUDIT IMPLEMENTATION PLAN

ATTACHMENT I  
 PART A

Audit Title: Audit Report on the Inventory Controls of Bellevue Hospital Center over Noncontrolled Drugs and Medical and Surgical Supplies

Date: March 8, 2005

Audit Agency: Office of the Comptroller  
 Bureau of Management Audit

Agency: NYCHHC/OIA 03-8D

Audit Date: \_\_\_\_\_

Audit No: MG03-179A

OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
<p><b>Recommendation # 2</b>                      Bellevue Hospital Pharmacy officials should ensure that the Pharmacy Department maintains a computerized perpetual inventory system for its inventory of noncontrolled drugs kept in the stockroom. The perpetual inventory records should be kept separate from the physical inventory. Pg. 19</p>	<p>As indicated in recommendation #1, Bellevue will use the OTPS system as its perpetual inventory system in the Pharmacy. The records are stored in the OTPS system, and as such, are kept separate from the physical inventory.</p>	<p>June 30, 2005</p>	
<p><b>Recommendation # 3</b>                      Bellevue Hospital Pharmacy officials should ensure that all receipts and issuances of drugs are appropriately recorded on the inventory records. Pg. 19</p>	<p>Bellevue has identified two Pharmacy Techs that are dedicated to recording all receipts and issues of drugs in the OTPS perpetual inventory system. On Tech handles receipts and the other Tech handles issues consistent with the separation of duties and responsibilities.</p>	<p>February 28, 2005</p>	
<p><b>Recommendation # 4</b>                      Bellevue Hospital Pharmacy officials should ensure that drugs are only issued by authorized personnel after submission of an authorized issue sheet. Pg. 19</p>	<p>A written policy has been issued to clarify how drugs are to be issued. The staff that can authorize issue sheets and those who can issue drugs have been identified and designated in the policy. The policy states that drugs cannot be issued without the receipt of an authorized issue sheet.</p>	<p>February 28, 2005</p>	

MAJOR'S OFFICE OF OPERATIONS  
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Audit Title: Audit Report on the Inventory Controls of Bellevue Hospital Center over Noncontrolled Drugs and Medical and Surgical Supplies Date: March 8, 2005 Audit Agency: Office of the Comptroller Bureau of Management Audit

Agency: NYC/HHC (OLA 03-81) Audit Date: \_\_\_\_\_ Audit No: MG03-179A OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
<p><b>Recommendation # 5</b> Bellevue Hospital Pharmacy officials should investigate and document all discrepancies between the amount of inventory on hand and the amount recorded. Pg. 19</p>	<p>We intend to conduct monthly audits of sample drugs to compare the amount on hand with the recorded amount in the inventory system. Any discrepancy noted will be assigned to a supervisor for investigation, and entered into a logbook, set aside for this purpose. In investigating the discrepancy, the supervisor will review all receipts and issuances, interview staff, and review any other relevant data, such as card access or video information. The results of the investigation will be reported to the Director or her designee, and any adjustment must be approved at that time. All records of the discrepancy, investigation and adjustments will be stored and will be reviewed regularly for any trends. We will continue the monthly audits until no discrepancies are found for six (6) consecutive months, at which time we will conduct quarterly audits.</p>	<p>August 09, 2004</p>	
<p><b>Recommendation # 6</b> Bellevue Hospital Pharmacy officials should ensure that adjustments to inventory records are documented, reviewed and approved by appropriate Pharmacy officials. Pg. 19</p>	<p>Any adjustments will be documented and appropriately reviewed and approved by the Pharmacy Director or her designee.</p>	<p>February 28, 2005</p>	
<p><b>Recommendation # 7</b> Bellevue Hospital Pharmacy officials should consider maintaining a log listing discrepancies and adjustments made to inventory records. In this way, Pharmacy officials would have a better understanding of the scope of discrepancies. Pg. 19</p>	<p>A logbook of discrepancies and adjustments will be maintained.</p>	<p>February 28, 2005</p>	

MAJOR'S OFFICE OF OPERATIONS  
 AUDIT COORDINATION AND REVIEW  
 AUDIT IMPLEMENTATION PLAN

ATTACHMENT I

PART A

Audit Title: Audit Report on the Inventory Controls of Bellevue Hospital Center over Noncontrolled Drugs and Medical and Surgical Supplies Date: March 8, 2005 Audit Agency: Office of the Comptroller Bureau of Management Audit

Agency: NYCHHC FOIA 03-80 Audit Date: \_\_\_\_\_ Audit No: MG03-179A OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
<p><b>Recommendation # 8</b>                      Bellevue Hospital Pharmacy officials should ensure that drugs are purchased properly. Purchase orders should be prepared, approved, and authorized before the drugs are ordered from the vendors; all ordered drugs should be listed on the purchase order and credit memos should be properly applied against purchases. Pg. 19</p>	<p>We agree and have implemented recommendation #8. All purchased orders are now prepared through the OTPS system by designated staff trained in the process. The purchase orders, sequentially generated by the OTPS system, are reviewed by a supervisor to insure that they have been prepared correctly; that all drugs ordered are properly itemized, and that any available credit memo is applied to the order as warranted.</p>	<p>February 28, 2005</p>	
<p><b>Recommendation # 9</b>                      Bellevue Hospital Pharmacy officials should restrict access to the Pharmacy stockroom to authorized personnel. Pg. 19</p>	<p>The Pharmacy Director reviewed all staff functions, and determined who should have access to what areas during what days and times of the day. Only seven (7) staff members were given card access to the stockroom, inclusive of three (3) managers.</p>	<p>December 30, 2004</p>	
<p><b>Recommendation # 10</b>                      Bellevue Hospital Pharmacy officials should prohibit the removal of drugs from the stockroom shelves by any unauthorized person. Pg. 19</p>	<p>A written policy has been issued to clarify how issue sheets and those who can issue drugs have been identified and designated in the policy. In addition, a pharmacy supervisor randomly checks the carts of personnel leaving the stockroom.</p>	<p>July 31, 2004</p>	
<p><b>Recommendation # 11</b>                      Bellevue Hospital officials should ensure that when preparing and conducting the physical inventory count of drugs in the Pharmacy, its staff follows the inventory count procedures outlined in the <i>Inventory Procedures Manual</i>. Pg. 22</p>	<p>We agree with recommendation #11, and implemented it for the FY 2004 year-end inventory valuation. The Pharmacy developed a list of all drugs with accurate unit of measure and pricing that was used in the FY 2004 valuation.</p>	<p>June 30, 2004</p>	

MAJOR'S OFFICE OF OPERATIONS  
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Audit Title: Audit Report on the Inventory Controls of Bellevue Hospital Center over Noncontrolled Drugs and Medical and Surgical Supplies Date: March 8, 2005 Audit Agency: Office of the Comptroller Bureau of Management Audit

Agency: NYCHHC (01A-03-81) Audit Date: \_\_\_\_\_ Audit No: MGDS-179A OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
<p><b>Recommendation # 12</b>                      Bellevue Hospital officials should ensure that all noncontrolled drugs stored in the Pharmacy stockroom are correctly counted, and their total quantity and value correctly reported. Pg. 22</p>	<p>A database was created and it ensured that all non-controlled drugs stored in the Pharmacy stockroom were correctly counted, and their total quantity and value were reported correctly.</p>	<p>June 30, 2004</p>	
<p><b>Recommendation # 13</b>                      Bellevue Hospital should ensure that Central Supply Stores maintains perpetual inventory records, preferably on a computerized inventory system. Central Supply Stores should ensure that the persons updating the inventory records are different from the persons handling the inventory; and access to the inventory records should be restricted to designated personnel. Pg. 26</p>	<p>A computerized perpetual inventory system is now in place. Staff duties regarding inventory handling and record keeping have been segregated, and access to the perpetual inventory records is restricted to designated personnel.</p>	<p>February 28, 2005</p>	

MAYOR'S OFFICE OF OPERATIONS  
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 PART A

Audit Title: Audit Report on the Inventory Controls of Bellevue Hospital Center over Noncontrolled Drugs and Medical and Surgical Supplies Date: March 8, 2005 Audit Agency: Office of the Comptroller Bureau of Management Audit

Agency: NYCHHC (OIA 03-81) Audit Date: \_\_\_\_\_ Audit No: MG03-179A OMB Control No: \_\_\_\_\_

RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT	METHODS/PROCEDURES	IMPLEMENTATION TARGET DATE	PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE
<p><b>Recommendation # 14</b>                      Bellevue Hospital should ensure that Central Supply Stores completes issue sheets properly. The issue sheets should include accurate catalog numbers and description, so that they can be used to properly identify inventory items removed from the storeroom. Pg. 26</p>	<p>Issue sheets have been redesigned to include the catalog numbers and product descriptions, and a space for the signature of an authorized official.</p>	<p>February 28, 2005</p>	
<p><b>Recommendation # 15</b>                      Bellevue Hospital should ensure that Central Supply Stores maintains all medical and surgical supplies in a locked and restricted area so that they are properly safeguarded. Pg. 26</p>	<p>Supplies are now kept in two areas, all of which have restricted access. This includes inventory supplies on the 14<sup>th</sup> floor and the basement in CNT. On the 14<sup>th</sup> floor, supplies are now kept in a newly constructed metal enclosure with locks keyed to a proprietary system. Access to these two locations is restricted to a total of five (5) Materials Management staff members. The protocol in place for off-hour access to these areas requires the Administrator On Duty to intervene, escort staff into the area, and retrieve supplies and record activities on the issue sheets and in the Administrative On Duty report.</p>	<p>February 28, 2005</p>	
<p><b>Recommendation # 16</b>                      Bellevue Hospital officials should ensure that when preparing and conducting the physical inventory count of the medical and surgical supplies, its staff follow the inventory count procedures outlined in the <i>Inventory Procedures Manual</i>, Pg. 28</p>	<p>Copies of the corporate Policy &amp; Procedure that governs the conduct of fiscal year-end inventory taking have been provided to the appropriate Bellevue staff. The Accounting Director reviews the corporate Policy &amp; Procedure annually with staff that participate in the year-end inventory taking and valuation.</p>	<p>June 30, 2005</p>	



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March 17, 2005

Mr. Gregg Brooks  
Deputy Comptroller  
Policy, Audits, Accountancy & Contracts  
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Office of the Comptroller  
1 Centre Street  
New York, NY 10007-2341

Re: Audit Report on the Inventory Controls of Bellevue Hospital Center Over Noncontrolled Drugs and Medical and Surgical Supplies MG03-179-A

Dear Mr. Brooks:

Thank you for the opportunity to respond to the above-mentioned audit.

Your report states that the auditors from the Office of Internal Audits did not adequately perform the inventory count verification at Bellevue's Pharmacy and Central Supply Stores and did not verify the accuracy of the count sheets in the Pharmacy that were subsequently used to prepare the Fiscal Year 2003 Inventory Report, Exhibit H.

In addition, the report also states the auditors inappropriately utilized one part tags attached to the medical and surgical supplies to verify the inventory in Central Supply Stores. By not using the proper documents to verify the inventory, the auditors did not uncover the inaccuracies, which allowed the value of noncontrolled drugs to be understated and reportable conditions to remain unaddressed.

As you know, each year together with HHC's Finance Division, OIA issues a year-end inventory manual (previously provided) describing the requirements and procedures for each facility to follow. During the year-end inventory process, OIA provides a supporting role to the Corporation's independent auditors. To this end, OIA performs limited testing for pharmacy and medical surgical supplies as follows:

- assess compliance with Corporate Inventory Procedures;
- survey the inventory storage areas for the safeguarding of inventory, determine if normal inventory activities have ceased in preparation for the count, perpetual

inventory records were removed from the count area and properly secured and inventories were properly tagged and identified as counted;

- verify the controls over inventory documents;
- review inventory cut-off procedures at all Corporate facilities to ascertain that additions to and disbursements from inventory subsequent to the facility's physical inventory count were properly accounted for, reported and controlled; and,
- conduct physical test counts of at least ten (10) items in the pharmacy and medical/surgical supply storage areas; comparing the test count results to the facility's counts and perpetual inventory records for accuracy and completeness; and,
- verify the accuracy of unit prices and arithmetic extensions.

Our testing is not designed to provide absolute verification of a facility's inventory, or to serve as a substitute for a comprehensive audit. Rather, within a two week period, our testing seeks to provide assurance that a physical inventory was taken in accordance with corporate policies at 21 corporate locations.

The year-end process is in sharp contrast to the work performed by your auditors which entailed eight months of field work at one facility, including a 100% review of that facility's pharmaceutical inventory.

We do however, agree in this one instance the auditor assigned to Bellevue's pharmacy inventory did not comply with our policies and procedures, and erred in judgment by performing his test counts when advised by a pharmacist that count sheets were not utilized and when he discovered the perpetual inventory records were not removed from the area and properly secured. It should be noted the auditor did follow through on his test items to verify their accuracy on Exhibit H, and quantity errors were noted and reported to the facility.

OIA has taken immediate steps to reinforce our inventory guidelines and conducted instructional workshops for our staff. Moreover, we developed a check list with the elements the auditor must identify before proceeding with the test count. Staff were instructed to postpone any testing if all the check list requirements were not met by the facility.

The fact that Central Supply Stores utilized a one part tag rather than a two part tag is insignificant. The tag totals were transcribed on to pre-printed count sheets that included a description of the item, item number and unit price. The count sheets were then utilized to value the year-end inventory. Therefore, verifying our inventory count against the tag was an acceptable method because the count totals from our sample were reconciled to Exhibit H subsequently submitted by the facility.

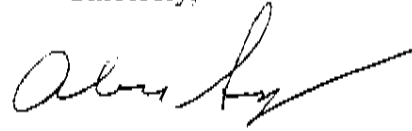
Lastly, your report concludes that our limited non-statistically valid testing is what HHC relies upon in preparing the inventory portion of the financial statements. However, this is not accurate. In addition to our limited testing, HHC external auditors perform other reviews and analyses to determine the reasonableness of the inventory valuations. Facilities also have a series of checks and balances in place as part of their year end inventory process. It is not the role of



of checks and balances in place as part of their year end inventory process. It is not the role of this office to value HHC's inventory but to participate as part of a larger operation to ensure reasonable inventory valuations.

Attached please find OIA's Audit Implementation Plan (**Attachment II**) addressing the recommendations in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Scoufaras", with a long, sweeping horizontal stroke extending to the right.

Alex Scoufaras

c. F. J. Cirillo, Sr. Vice President, Operations

MAYOR'S OFFICE OF OPERATIONS  
 AUDIT COORDINATION AND REVIEW  
 AUDIT IMPLEMENTATION PLAN

ATTACHMENT 11

PART A

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RECOMMENDATION WHICH THE FACILITY/DIVISION INTENDED TO IMPLEMENT	CORRECTIVE ACTION PLAN -SPECIFIC ITEMS-	IMPLEMENTATION TARGET DATE(S)
<p><b>Recommendation # 17</b></p> <p>HHC should ensure that the HHC auditors comply with the <i>Inventory Procedures Manual</i> when performing the annual inventory verification at the HHC facilities. Pg. 28</p>	<p>We have retrained the staff in year-end inventory valuation procedures. A questionnaire has also been developed for the auditors to utilize during field visits to ensure the required procedures have been performed in accordance with the <i>Inventory Procedures Manual</i>.</p> <p>For example, upon arriving at the facility, the auditor must determine if normal inventory activities have ceased in preparation for the count, perpetual records were removed from the count area and placed in a secured location, appropriate count documents are presented and the inventory counted was distinctly labeled before we proceed with our inventory test counts. If any of these conditions are not met, the auditors were instructed not to proceed with the test count. The Facilities are instructed to resolve any deficient conditions and notify OIA when conditions are corrected.</p> <p>Also, on an on-going basis we hold yearly workshops before the start of the fieldwork to review our procedures and to ensure the auditors are made aware of any changes to the inventory valuation process. We also hold a yearly workshop session with senior facility management to discuss their role in the year end inventory process.</p>	<p>Completed March-May 2004</p>