



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**09-06 – MEMORIAL HEALTH SYSTEM
PHARMACY INVENTORY**

PUBLIC REPORT

MARCH 12, 2009

Jeff Litchfield
City Auditor

Denny Nester, CPA CIA CGFM
Assistant City Auditor





City of Colorado Springs



Colorado Springs Utilities
It's how we're all connected



Memorial Health System



Office of the City Auditor

Public Report

Date: March 12, 2009

To: Honorable Mayor and Members of City Council
Members of Memorial Health System Audit Committee
Members of the Memorial Health System Board of Trustees

Re: 09-06 – Memorial Health System Pharmacy Inventory

We performed an audit of Memorial Health System (MHS) receiving and inventory functions of the Pharmacy for the period January 1, 2007 to December 31, 2007. The purpose of our audit was to evaluate the functions of MHS Central Pharmacy, North Pharmacy, and Outpatient Pharmacy. We also determined whether the assets associated with the Pharmacies were being adequately safeguarded.

We conclude that overall in the areas of receiving and inventory, the Pharmacy was operating in an efficient manner, assets were adequately safeguarded, and the policies and procedures established for acquiring and safeguarding of resources were being followed.

As always, feel free to contact me if you have any questions.

Sincerely,

Jeff Litchfield
City Auditor

cc: Larry McEvoy, Chief Executive Officer
Jason Fahrlander, Chief Operating Officer
Mike Scialdone, Chief Financial Officer
Tracy Narvet, Controller
Michael Heinrichs, Associate Administrator of Clinical Support Services
John Ives, Director of Inpatient Pharmacy
John Foss, Director of Outpatient Pharmacy
John Wyckoff, Compliance Officer

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

TEL 719-385-5991 • FAX 719-385-5699 • FRAUD HOTLINE 719-385-2387 • REPORT WEBSITE WWW.CITYAUDITOR.ORG
30 South Nevada Avenue, Suite 604 • P.O. Box 1575, Mail Code 640 • Colorado Springs, CO 80901-1575

Table of Contents

09-06 – Memorial Health System Pharmacy Inventory

PUBLIC REPORT

	Page
Introduction	
Authorization	2
Organizational Placement.....	3
Scope and Methodology	3
Background.....	3
Overall Opinion	3

Abbreviations and Acronyms used in this Report

MHS Memorial Health System

Introduction

AUTHORIZATION

We performed an audit of Memorial Health System (MHS) Pharmacy operations in relation to receiving and inventories for the period January 1, 2007 to December 31, 2007. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705, 706, and Part 709 (B) and (C) of the Code, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Utilities Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

The City Auditor shall make periodic reports to Council which shall include the following:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Introduction

ORGANIZATIONAL PLACEMENT

The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to City Council. The audited entity in this audit, MHS, an Enterprise of the City of Colorado Springs, is governed by a Board of Trustees (a 15-member board also appointed by City Council.)

SCOPE AND METHODOLOGY

We performed an audit of MHS receiving and inventory functions of the Pharmacy for the period January 1, 2007 to December 31, 2007. The purpose of our audit was to evaluate the functions of MHS Central Pharmacy, North Pharmacy, and Outpatient Pharmacy. We also determined whether the assets associated with the Pharmacies were being adequately safeguarded. We evaluated compliance with internal rules and regulations such as the Pharmacy Department Policy & Procedure Manual. In addition, we also examined compliance with external rules and regulations such as the State of Colorado Department of Regulatory Agencies – Pharmacy Rules and Regulations.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and recomputed inventory values. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

This audit was the first audit of the Pharmacy function since the implementation of the Cerner Pharmacy System. During this audit, we observed various inventories being conducted as well as the receiving of stock. During our audit period, MHS opened the new MHS North Hospital, and completed a significant expansion to the MHS Central Hospital. This required significant involvement from Pharmacy personnel.

OVERALL OPINION

We conclude that overall in the areas of receiving and inventory, the Pharmacy was operating in an efficient manner, assets were adequately safeguarded, and the policies and procedures established for acquiring and safeguarding of resources were being followed.