

OFFICE OF THE CITY CONTROLLER



**HEALTH AND HUMAN SERVICES DEPARTMENT
FOLLOW-UP OF THE PHARMACY WAREHOUSE
UNANNOUNCED INVENTORY AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

May 19, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Health and Human Services Department
Follow-Up of the Pharmacy Warehouse Unannounced Inventory Audit
Report No. 05-18

Dear Mayor White:

The City Controller's Office Audit Division has completed a Follow-Up of the Health and Human Services Department Unannounced Inventory Audit Report (No. 04-03) that was issued on March 2, 2004. The findings and recommendations that were presented at the time of the report were distributed to the Mayor and City Council Members. Our review was designed to determine the progress the department has made towards implementation of the recommendations made in the original report. According to the Health and Human Services Department (Department) management, the Pharmacy Warehouse will be closed and supplies will be procured on a just-in-time (as needed) basis.

The report, attached for your review, concluded that the auditors agreed with Department management that the closing of the Pharmacy Warehouse will alleviate concerns raised in the March 2004 audit report.

We appreciate the cooperation extended to our auditors by Department personnel during the course of their work and commend the Department for taking action to address the matters noted in the original audit report.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Stephen Williams, Director, Health and Human Services Department
Judy Gray Johnson, Director, Finance and Administration Department

901 BAGBY, 8TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 • FAX: 713-247-3181
e-mail: controllers@cityofhouston.net

CONTENTS

LETTER OF TRANSMITTAL i

SCOPE AND PURPOSE 1

CONCLUSION 1

FINDINGS, RECOMMENDATIONS & MANAGEMENT RESPONSES – EXHIBIT 1

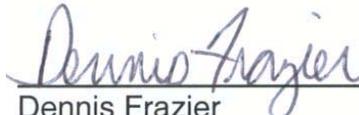
SCOPE AND PURPOSE

We have completed a follow-up review of the findings and recommendations that were presented in the Health and Human Services Department (HHSD) Unannounced Inventory Audit Report (No. 04-03) dated March 2, 2004. Our review was designed to determine the progress the department has made towards implementation of the recommendations made to the department in the original report.

The review consisted principally of conducting interviews with department personnel and creating a compliance matrix categorizing the status of action taken by management. The scope was limited to the recommendations from the report. The review normally includes examining HHSD responses in detail to determine whether management considered the recommendations and strategies for implementation as presented in the report and whether progress was made since its issuance, however, responses were not reviewed in detail because of the planned closing of the Pharmacy Warehouse.

CONCLUSION

Based on the results of our interviews with HHSD's management, we agree that the closing of the Pharmacy Warehouse will, when implemented, alleviate our concerns raised in the March 2, 2004 Inventory Audit report. We encourage HHSD management to expedite the closing of the Pharmacy Warehouse.



Dennis Frazier
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

HEALTH AND HUMAN SERVICES DEPARTMENT
PHARMACY WAREHOUSE UNANNOUNCED INVENTORY AUDIT
INTERNAL AUDIT FOLLOW-UP

FINDING	RECOMMENDATION	ACTION STATUS	WORK PERFORMED	MANAGEMENT RESPONSES
<p>1</p> <p><u>Slow Turnover of Inventory Items:</u> Our analysis of the inventory at warehouse 042 revealed that \$486,861 (97%) of the \$501,102 total inventory on hand, will be in inventory an average of 3 years. Of the \$486,861, \$67,195 of the commodities have a supply greater than 10 years and \$419,666 of the commodities have a supply greater than one but less than 10 years. The remainder, \$14,241 (3%) will be in inventory an average of approximately 2 months. The cost of acquiring, warehousing, and managing excessive quantities of inventory is an unnecessary commitment of the City resources and exposes the inventory to obsolescence and misappropriation.</p>	<p>We recommend that management dispose of excess and obsolete items and draft and adopt Standard Operating Procedures to include a schedule for a periodic review to remove obsolete items from stock.</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>The recommendation has not been implemented because HHSD Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis. The Pharmacy Warehouse will be closed in the near future.</p>
<p>2</p> <p><u>Unannounced Inventory Counts:</u> Our testing revealed significant differences between the perpetual records and the physical inventory counts as follows: - The "Quantity on Hand" per the Inventory Status Report did not agree to the auditor's physical inventory count for 95% (57 of 60) of the sample items reviewed.</p>	<p>A cycle count concentrates efforts on the inventory with the highest issue activity value and the highest risk of error. To identify differences between actual inventory quantities and the perpetual records, we recommend that management routinely perform inventory cycle counts. Management should then determine the cause of the differences and take appropriate corrective action.</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>The recommendation has not been implemented because HHSD Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis. The Pharmacy Warehouse will be closed in the near future.</p>
<p>3</p> <p><u>Absence of Written Policies and Procedures:</u></p>	<p>We recommend that the Central Pharmacy immediately develop</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>The recommendation has not been implemented because HHSD</p>

HEALTH AND HUMAN SERVICES DEPARTMENT
PHARMACY WAREHOUSE UNANNOUNCED INVENTORY AUDIT
INTERNAL AUDIT FOLLOW-UP

FINDING	RECOMMENDATION	ACTION STATUS	WORK PERFORMED	MANAGEMENT RESPONSES
<p>The Central Pharmacy does not have in place written policies and procedures detailing how to account for inventory. Absence of procedures may have caused some of the noted issues.</p> <p>Maximum/Minimum Reordering Points Not Established: Our review disclosed that the Central Pharmacy has not established the maximum or minimum amounts of medicines that should be on hand. Establishing a maximum is essential as it will minimize excessive inventory levels exposure to obsolescence and misappropriation. Establishing the minimum amounts to be on hand is critical as it ensures sufficient quantities are on hand to avoid a shortage of medicines.</p>	<p>written policies and procedures to account for inventory and that its staff become trained in record keeping.</p> <p>We recommend that the Central Pharmacy establish maximum or minimum reordering points to eliminate the excess or shortage of medicines.</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis. The Pharmacy Warehouse will be closed in the near future.</p> <p>The recommendation has not been implemented because HHSD Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis. The Pharmacy Warehouse will be closed in the near future.</p>
<p>No Bin Labels on the Warehouse Shelves: Bin labels help ensure that warehouses remain organized and make it easier to compare the actual inventory quantities to the perpetual records. An inventory bin label was not affixed to the bin location on the Central Pharmacy Warehouse shelves for 44 out of 60 (74%) items that were tested.</p>	<p>We recommend that the Central Pharmacy attach bin labels to bin locations that do not have a label. The labels should include the part description, commodity code number, unit of measure and bin and row numbers.</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>The recommendation has not been implemented because HHSD Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis. The Pharmacy Warehouse will be closed in the near future.</p>
<p>Commodity Codes Did Not Agree: The commodity codes at the bin location should correspond to the perpetual records to help maintain inventory control. The commodity</p>	<p>We recommend that the Central Pharmacy review and correct the differences between the commodity codes at the bin location and the commodity codes</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>The recommendation has not been implemented because HHSD Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis.</p>

HEALTH AND HUMAN SERVICES DEPARTMENT
PHARMACY WAREHOUSE UNANNOUNCED INVENTORY AUDIT
INTERNAL AUDIT FOLLOW-UP

FINDING	RECOMMENDATION	ACTION STATUS	WORK PERFORMED	MANAGEMENT RESPONSES
<p>codes at the bin location did not agree with the commodity codes of the Warehouse Status Report for 48 of 60 (80%) items that were tested.</p> <p>Inaccurate Order Form: Order forms used by the health centers help ensure accurate records. The commodity codes for 6 of 25 (24%) items we tested differed on the order forms from the Warehouse Status Report provided by the City's Strategic Purchasing Division and the Pharmacy's Catalog for 2003 Medication.</p>	<p>of the Warehouse Status Report.</p> <p>7</p> <p>We recommend that the Central Pharmacy revise the order form to reflect the category codes of the Pharmacy's Catalog for 2003 Medication.</p>	<p>Alternative to be Implemented</p>	<p>No Audit Work Considered Necessary</p>	<p>The Pharmacy Warehouse will be closed in the near future.</p> <p>The recommendation has not been implemented because HHSD Management decided to close all HHSD Warehouses and procure supplies on a just-in-time basis. The Pharmacy Warehouse will be closed in the near future.</p>