

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

PHARMACY CONTROLS AUDIT

January 2005

Alex J. McLaughlin, Comptroller

January 12, 2005

Barbara J. Fiala, County Executive:

The Department of Audit and Control has audited the Willow Point Nursing Home's Pharmacy. The principle objective was to evaluate the effectiveness of the Nursing Home Management's physical and financial controls over the pharmacy.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, except for the instances noted herein, it is our opinion that the physical and financial controls over the pharmacy are effective.

Sincerely,

Alex J. McLaughlin
Comptroller

Cc: Daniel A. Schofield, Chairman of the Legislature
Members of the Legislature
Louis P. Augostini, Clerk of the Legislature
John F. Demske, Administrator of Willow Point Nursing Home

Background:

The objective of our audit was to evaluate the effectiveness of physical and financial controls over pharmaceutical drugs at the Willow Point Nursing Home.

For the calendar year ended 2003 the cost of pharmaceutical drugs for Willow Point Nursing Home exceeded \$1,300,000. Year to date expenditures for 2004 (thru September) are in excess of \$995,000.

We reviewed both the current and previous contracts between Broome County and Royal Care Pharmacy. We also reviewed contractual agreements for a Medical Director and a Consulting Pharmacist, minutes from quarterly pharmacy meetings, and various written procedures provided to us by Willow Point Nursing Home.

We contacted some similarly sized nursing homes and discussed their practices related to financial and physical controls over pharmaceuticals.

We also met with appropriate Willow Point staff and their consulting Pharmacist for the purpose of discussing procedures for purchasing, receiving, storing, dispensing and disposing of drugs.

Finally, we visited the Nursing Home for the purpose of physically observing the manner in which drugs are accounted for and physically secured.

Prior Audit:

No previous audit.

AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES

-WILLOW POINT NURSING HOME-

FINDING 1: CONTRACT DOES NOT SPECIFY PRICES OF DRUGS

During the course of our audit, we reviewed both the previous and current contract between Broome County and Royal Care Pharmacy Services.

The *previous* agreement was for the period August 1, 2000 thru July 31, 2001 and contained a four year renewal option for Broome County. Among other things, the contract specified that the total cost was not to exceed \$1,000,000 and also specified that the vendor was to provide drugs at a discount off Average Wholesale Price (AWP) (15% for brand name drugs and 25% for generic drugs).

The *current* contract is for the period August 1, 2004 thru July 31, 2005. Among other things, the contract requires that the total cost not exceed \$1,500,000. However, while there is an informal understanding to provide a discount off Average Wholesale Price (16% for brand name and 31% for generic drugs), it is not specified in the contract.

As a result, under the current contract, it is not clear that Royal Care Pharmacy Services is actually obligated to provide pharmaceuticals to Willow Point Nursing Home at the agreed upon discount off Average Wholesale Price (AWP).

All contracts should clearly outline each party's responsibilities and obligations.

Failure to specify the applicable range of prices per drug exposes the County to overcharging and limits our ability to verify that the vendor is complying with the terms of the agreement.

RECOMMENDATIONS:

We recommend that future agreements specify agreed upon discounts in the contract, and that the current contract be amended to include such a provision.

MANAGEMENT RESPONSE:

WPNH agrees that contracts, current and future, should contain language regarding agreed upon discounts. WPNH is in the process of drafting for review and approval, an addendum to the current contract for the purpose of recognizing the agreed upon discount from Average Wholesale Prices. Future contracts will be reviewed to assure that discounts are stated.

FINDING 2: THE NURSING HOME DOES NOT HAVE ADEQUATE POLICIES AND PROCEDURES TO ENSURE THAT PHARMACEUTICAL CONTRACT BILLING IS ACCURATE

The Nursing Home does not employ any processes to verify the relationship between drugs ordered to drugs received (except as pertains to narcotics, which are required by law to be more closely monitored) and drugs received to drugs billed.

Management is required to make a reasonable certification that County bills submitted for payment are appropriate and correct and that the goods were actually received.

Without reasonable verification procedures, there is no way to determine whether or not amounts billed to the Nursing Home for pharmaceuticals are correct.

RECOMMENDATION:

We recommend that the Nursing Home develop and implement procedures to verify that drugs ordered matches drugs received and that drugs received matches drugs billed.

MANAGEMENT RESPONSE:

Approximately 3,800 scripts are filled for WPNH residents on a monthly basis. Ideally, to verify that drugs ordered matches drugs received and that drugs received matches drugs billed on a regular and routine basis would require a dedicated full time employee. Since WPNH does not have the human resources to dedicate a FTE, Fiscal Services and Nursing Administration will develop a means by which to verify a test sample of orders on a monthly basis. Variations from what was ordered to what was received and what was received to what was billed may then trigger the need to conduct a more in-depth analysis.