

# THE FLORIDA SCHOOL FOR THE DEAF AND THE BLIND

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## Operational Audit

For the Fiscal Year Ended  
June 30, 2009



## BOARD MEMBERS AND PRESIDENT

Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

	<u>Residence</u>
<i>Mary Jane Dillon, Chair</i>	<i>St. Augustine</i>
<i>Herschel H. Parrish, Jr., Vice Chair</i>	<i>Winter Garden</i>
<i>Owen B. McCaul</i>	<i>Tallahassee</i>
<i>Maria Teresa Rojas</i>	<i>Coral Gables</i>
<i>Edgar M. Turner</i>	<i>Pensacola</i>
<i>Christopher D. Wagner</i>	<i>Bradenton</i>
<i>Gerald Weedon</i>	<i>Jacksonville</i>

*L. Daniel Hutto, President*

The audit team leader was Tracy S. Smith. The audit was coordinated by Randy R. Arend, CPA, and supervised by John P. Duffy, CPA. Please address inquiries regarding this report to Joseph L. Williams, CPA, Audit Manager, via e-mail at [joewilliams@aud.state.fl.us](mailto:joewilliams@aud.state.fl.us) or by telephone at (850) 414-9941.

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## THE FLORIDA SCHOOL FOR THE DEAF AND THE BLIND

### SUMMARY

Our operational audit for the fiscal year ended June 30, 2009, disclosed the following:

**Finding No. 1:** Our audit disclosed several deficiencies regarding a \$1 million contract for mechanical, plumbing, and carpentry repairs and installations.

**Finding No. 2:** The School needed to enhance its procedures to ensure that inactive and disposed tangible personal property items are properly removed from the active property records and approved by the Board of Trustees prior to disposal.

**Finding No. 3:** The School had not developed a policies and procedures manual governing the use of its purchasing cards. In addition, spending limits and the number of employees to whom purchasing cards were distributed appeared to be excessive.

**Finding No. 4:** The School needed to enhance its pharmacy controls.

### BACKGROUND

The Florida School for the Deaf and the Blind operates under the leadership and direction of its Board of Trustees, pursuant to Section 1002.36, Florida Statutes. The Board consists of seven members who are appointed by the Governor and confirmed by the Senate. One of its members is required to be a blind person, and one is required to be a deaf person. Each member is required to have been a Florida resident for at least ten years and the term of office for each member is four years.

The Board adopts rules, subject to the approval of the State Board of Education, as it considers necessary to operate the School in conjunction with the rules of the State Board of Education. The rules adopted by the Board are published in the Florida School for the Deaf and the Blind Rules, Chapter 6D, Florida Administrative Code. The Board exercises control of the School through a Board-appointed president, who is the chief administrative officer of the School and appoints and supervises all other School employees. The School's purchasing procedures are governed by Chapter 287, Florida Statutes, and rules of the Department of Management Services. Personnel matters are governed by Florida School for the Deaf and the Blind Rules, Chapter 6D-6, Florida Administrative Code, and Department of Management Services Rules, Chapter 60L, Florida Administrative Code, as appropriate for the position.

The School is part of the State system of public education and is funded through the Florida Department of Education. The Legislature appropriates fixed capital outlay moneys to the School on an annual basis from the Public Education Capital Outlay (PECO) and Debt Service Trust Fund, pursuant to Article XII, Section 9(a)(2) of the State Constitution, as amended.

Most of the School's students participate in the residential program and live in dormitories on campus during the week, while approximately 30 percent of the students are day-students from St. Augustine and surrounding counties. Students in the residential program are bused home on weekends and holidays. The School's authorized and filled employee positions, student enrollment, and total and per-student appropriations for the 2008-09 fiscal year are summarized in Table 1:

<b>Table 1</b>	
<b>Description</b>	<b>2008-09 Fiscal Year</b>
Authorized Positions <sup>1</sup>	718.75
Filled Positions <sup>1</sup>	684.75
Student Enrollment <sup>2</sup>	653
Operating Appropriations	\$ 45,368,787
PECO Appropriations	13,399,103
<b>Total State Appropriations</b>	<b>\$ 58,767,890</b>
Operating Funding Per Student <sup>2</sup>	\$ 69,477
PECO Funding Per Student <sup>2</sup>	20,519
<b>Total Funding Per Student <sup>2</sup></b>	<b>\$ 89,997</b>
<sup>1</sup> January 2009 School Records.	
<sup>2</sup> Based on peak student enrollment reported during the period.	

**FINDINGS AND RECOMMENDATIONS**

**Finding No. 1: Contract for Mechanical, Plumbing, and Carpentry Repairs and Installations**

Pursuant to Chapter 60D-5.0073, Florida Administrative Code, the School advertised for bids for mechanical and plumbing repair and installations. The scope of the work contemplated in the advertisement was subsequently verbally amended to include electrical and carpentry repairs and installations and was awarded to the sole bidder. The School entered into a written contract with the selected vendor for the period August 1, 2008, to July 31, 2009 (renewable for nine additional years). The contract provided that expenditures under the contract were not to exceed \$1 million in total or \$200,000 for any individual project for any single year. The School reported total expenditures under the contract of \$1 million for the initial contract period. The contract was not renewed after July 31, 2009, and the School is currently using four separate vendors to perform work within each vendor’s specialty area, as follows: (1) mechanical and plumbing; (2) electrical; (3) roofing; and (4) cabling.

Our review disclosed the following deficiencies involving this contract:

- The contract’s scope of work was not clearly established prior to the start of the bidding process. In the initial advertisement for bids, the work was described as mechanical and plumbing repairs and installations. In a pre-bid conference with interested vendors, the description was verbally amended to also include electrical and carpentry work. In the executed contract, the work is described as mechanical, plumbing, and carpentry repairs and installations, and electrical is not mentioned, although the actual work performed included electrical repairs and installations.

Five vendors initially responded to the School’s request for proposal and attended the pre-bid conference mentioned above during which the amended contractual work was discussed; however, after having heard the change of the contract’s scope, four of the five vendors subsequently withdrew from the bidding process and did not submit a bid. The School considered communication of the contract scope change at the pre-bid conference to be sufficient and did not consider re-advertising the contract. However, potential bidders other than the selected bidder may have excluded themselves based on the limited scope of the contract that had been advertised and could have been interested in bidding on the contract given its expanded scope. To

ensure fair and equal treatment, the School should have considered re-advertising the contract once the scope had been conclusively determined.

- The contract had a broad scope of work (repairs and installations) and monetary limits (\$1 million in total or \$200,000 for any individual project), and relatively undefined and high hourly rates (see further discussion below); consequently, the contract included many disparate projects and did not ensure that the work on these projects would be performed in the most efficient and economical manner.

We examined 35 disbursement vouchers totaling approximately \$794,000 that were related to the contract. Nineteen of these 35 vouchers were either for projects between \$10,000 and \$24,999 (ten projects) or for projects between \$25,000 and \$100,000 (nine projects). These 19 projects could have been separately negotiated or bid as Level Two contracts or Level Three contracts, respectively, under Chapter 60D-5.0073, Florida Administrative Code. The 19 projects included \$92,814 to repair the campus well system; \$89,904 for repair work connected to the renovation of the Related Services Building; \$54,835 to install a new air handler in Settles Gym; \$43,316 to install air conditioning units in the Walker Hall Deaf Library; \$25,882 to install safety signs campus-wide; and \$17,103 to relocate a zone valve on the football field.

- The proposed rate sheet submitted by the contracted vendor, and subsequently made part of and included in the contract, specified hourly rates only for mechanical and plumbing work. No rates were given for carpentry or electrical work. The School advised us that it understood the specified rates would apply to all work performed under the contract; however, there was no contract addendum or other written record documenting that understanding.
- Absent supporting, explanatory documentation, the specified hourly rates in the contract appeared to have been excessive. The hourly rate specified for the first year of the contract for one journeyman, one helper, one truck, and all tools and equipment required was \$109 per hour (\$138.10 for overtime) and \$54.50 per hour (\$74 for overtime) for one journeyman. According to the Bureau of Labor Statistics, the mean hourly wage in May 2008 for construction trades in the Jacksonville area was under \$20 per hour for journeymen and approximately \$12 per hour for helpers. Although requested, the School did not provide documentation supporting the basis for the specified hourly rates. Consequently, it was not evident that those rates were reasonable.
- Invoices for 15 contract activations contained subcontractor markups totaling \$492.28 for work performed by a business unit of the contracted vendor. It was not evident from the contract or other School records that the vendor was entitled to the markup when subcontracting with its own business unit.
- The contracted vendor submitted an invoice for electrical repair work performed by a subcontractor who was also working directly for the School under a separate agreement. The School paid the contracted vendor a markup of \$503.79 on the subcontractor's work. However, the work could have been performed by the subcontractor directly for the School (pursuant to the separate agreement) without that markup.

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**Recommendation:** The School should enhance its administration of bid solicitation and contracting to ensure that: (1) the scope of work is clearly established before advertising for bids; (2) contracted projects are performed in the most efficient and economical manner; (3) consideration is given to executing separate contracts for larger projects; (4) complete contract documentation is prepared and maintained to evidence that contracted hourly labor rates and other costs are specified for all trades and are reasonable; and (5) markups are paid only when appropriate and necessary.

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**Finding No. 2: Property Inventory**

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Section 273.055(1), Florida Statutes, provides that certified surplus property shall not be sold, transferred, cannibalized, scrapped, warehoused, or destroyed without prior written authority from the custodian (Board of Trustees). Our review of the School's active tangible personal property records disclosed 221 property items with acquisition costs of approximately \$995,000 that had been physically disposed and should have been removed from the active records. The 221 items included 5 buses and 3 automobiles with acquisition costs of approximately \$389,000 that were approved for disposal by the Florida Department of Management Services, but were disposed without the written authority of the Board of Trustees. Upon inquiry, we were advised that when property items were physically disposed, they were transferred to another location within the active property records rather than being transferred to the inactive property records. We were also advised that the School was not aware that Board of Trustees approval was necessary for disposal of vehicles.

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**Recommendation:** The School should enhance its procedures to ensure that inactive and disposed tangible personal property items are properly removed from the active records and approved by the Board of Trustees prior to disposal.

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**Finding No. 3: Administration of Purchasing Cards**

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The School's purchasing card program is administered pursuant to approval from the Florida Department of Financial Services and the Florida Department of Management Services under the purchasing card agreement between the Bank of America and the State of Florida.

The School's purchasing cards are issued to its employees by a Purchasing Card Administrator (Administrator), who is also the Director of Purchasing, pursuant to requests from department supervisors. The process of issuing a card begins with the creation of a cardholder profile by a supervisor that lists the name of the employee needing a card and the employee's position, department, credit limit, and any charge restrictions. The cardholder profile is forwarded to the Administrator who submits an automated request for card issuance through the State system and retains the profile in his files.

After the requested card is issued and received in the mail by the Administrator, he verifies that the cardholder information in the State system is correct and activates the card. He then meets with the employee concerned to: (1) have the employee sign a cardholder agreement; (2) give the employee a copy of the School's *Purchasing Card Rules* (a list of instructions and guidance on using purchasing cards); and (3) deliver the card to the employee. The cardholder agreements are maintained by the Administrator. Credit limits are established by the cardholder's supervisor and the Administrator. The Administrator also has the authority to cancel purchasing cards when employees leave the School or when deemed appropriate due to other circumstances. The canceled cards are collected and destroyed.

The School had issued purchasing cards to 112 employees for the 2008-09 fiscal year with purchasing card charges totaled approximately \$846,000. Our review disclosed that improvements were needed in the School's purchasing card administration, as follows:

- The spending limits for the School's purchasing cards appeared to be too high. We noted that the top four purchasing card users had per card monthly limits of \$20,000, \$50,000, \$50,000, and \$60,000, respectively, and per transaction limits of \$2,499, \$7,500, \$50,000, and \$60,000, respectively, but had average and

maximum transaction charges that were much lower: approximately \$100 to \$730 in average charges and approximately \$2,000 to \$8,000 in maximum charges.

- It appears that the School may have issued purchasing cards to many employees who do not have a need for a purchasing card. We noted that most of the 112 employees with purchasing cards during the 2008-09 fiscal year made only rare or infrequent use of their cards. The top four purchasing card users accounted for approximately 80 percent of the School's purchasing card usage and the next two highest users combined accounted for an additional 10 percent; consequently, approximately 90 percent of the School's purchasing card usage is attributable to 6 employees.
- The School did not have comprehensive policies and procedures governing the use of its purchasing cards, but relied instead on a one-page set of instructions entitled *Purchasing Card Rules*, which addressed purchasing card receipt submissions. However, comprehensive policies and procedures are needed to provide detailed procedures applicable to, but not limited to, such things as purchasing card administration, accounting, reconciliation, work flow, approval levels, user guidelines, and primary and delegate administrators.

Although our review disclosed no improper charges, under these conditions there is an increased risk of misuse or unauthorized charges occurring without timely detection. In addition, excess limits and distribution increase the risk that purchases may exceed budget constraints.

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**Recommendation: The School should consider reducing the spending limits and distribution of its purchasing cards, and should develop comprehensive policies and procedures to govern the use of those cards.**

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#### **Finding No. 4: Pharmacy Controls**

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The School operates a pharmacy and provides a consultant pharmacist in connection with its responsibility to provide health services to its students. The pharmacy maintains a small inventory of prescription drugs, none of which were classified as controlled substances. The School also maintains inventories of over-the-counter medications and, during the school year, medications provided by parents and guardians that are dispensed to students. The School dispenses about 10,000 doses of medications monthly during the school year when students are present. Perpetual inventory records are maintained for the School's prescription drug inventory, but not for over-the-counter medications. Records of medications provided by parents and guardians are maintained showing medications received and dispensed, although these records are not designed to be a perpetual inventory.

A new perpetual inventory record is prepared each year for each medication and a monthly log is maintained for medication disposals. The pharmacy maintained perpetual inventory records for 33 prescription medications, 26 of which were included in the year-end inventory with a reported value of \$672. During the 2008-09 fiscal year, the School made purchases of approximately \$2,400 from the State's contracted pharmaceutical provider.

Our review of the pharmacy's prescription drug perpetual inventory records in July and August 2009 disclosed that medications purchased were not always timely and accurately added to perpetual inventory records and perpetual inventory records did not always agree with the monthly disposal log regarding medication disposals. In addition, we noted some differences between the perpetual inventory records and the year-end physical counts. Our review also disclosed an inadequate separation of duties over the pharmaceutical inventory. The inventory was purchased and controlled by the Pharmacist, who was also responsible for maintaining the perpetual inventory records and monthly disposal log, conducting physical inventories, and investigating discrepancies. We recognize, given the amount of

prescription drug inventory, that it may not be cost effective to separate these duties. However, the lack of separation of duties could be mitigated to some extent by compensating controls, such as having someone other than the Pharmacist periodically compare perpetual inventory records to the monthly disposal log and to physical counts, and investigating and recording discrepancies noted. When duties are not adequately separated and compensating controls not implemented, errors or fraud could occur and not be timely detected.

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**Recommendation:** The School should implement the above-noted compensating controls to mitigate the lack of separation of duties and to provide additional assurance of accurate accountability for prescription medications.

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### PRIOR AUDIT FOLLOW-UP

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The School had taken corrective actions for the findings included in our prior report that were within this operational audit's objectives and scope (prior audit report No. 2009-212, finding Nos. 7 and 8).

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### OBJECTIVES, SCOPE, AND METHODOLOGY

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The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether the School's internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and agreements; the economic and efficient operation of the School; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the School had taken corrective actions for finding Nos. 7 and 8 included in report No. 2009-212. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2008-09 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing School personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the School's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

**AUTHORITY**

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

Management's response is included as Exhibit B.

**EXHIBIT A**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the School had provided individuals with a written statement of the purpose for collecting social security numbers.
Fraud policy and related procedures.	Inquired of School personnel and examined written policies, procedures, and supporting documentation relating to the School's fraud policy and related procedures.
Motor vehicles.	Reviewed School procedures and records for acquiring and disposing of motor vehicles. Compared inventory records to physical inventory. Reviewed the school's procedures for reporting acquisition and disposition information for its motor vehicle fleet to the Department of Management Services Equipment Management Information System (EMIS).
Tangible personal property.	Reviewed the School's procedures for acquiring and disposing of tangible personal property.
Pharmacy inventory.	Examined the School's procedures for pharmacy inventory record keeping, drug acquisition, and drug disposal pursuant to applicable laws, rules, and policies.
Procedures for student grades and grade changes.	Reviewed School procedures for entering and changing students' grades to determine their adequacy and appropriateness.
Procedures for issuance of diplomas and certificates of completion.	Reviewed School procedures for issuing diplomas and certificates of completion and evaluated for adequacy and appropriateness.
Out of State tuition.	Reviewed the School's procedures for invoicing, collecting, and accounting for out of State tuition.
Implementation of MyFloridaMarketPlace (MFMP).	Selected a sample of MFMP expenditures, made inquiry of key staff, and examined supporting documentation to determine the effectiveness of the School's MFMP implementation and whether the School had controls in place to ensure that MFMP transactions were properly authorized, adequately documented, timely and accurately recorded in FLAIR, and for a valid purpose.
Purchasing card procurement.	Selected a sample of purchasing card expense transactions to test for propriety and compliance with related laws, rules, and School policies and procedures.
Bid solicitation procedures.	Tested the bid process for a sample of expenditures to determine compliance with applicable laws, rules, and policies.
Capital outlay expenditures.	Tested capital outlay expenditures to determine compliance with contractual requirements and applicable laws, rules, and policies.

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Property insurance.	Reviewed the School's methodology and procedures for insuring the permanent and temporary structures on campus.
Qualifications of real estate appraiser.	Reviewed the qualifications of a real estate appraiser used to appraise two properties to establish Schoolwide values for insurance purposes.
Medicaid school match reimbursements.	Tested a sample of students to determine whether they were Medicaid eligible and whether health claims were submitted for reimbursement and reimbursements were received in the correct amount.

EXHIBIT B  
MANAGEMENT'S RESPONSE



March 18, 2010

**L. Daniel Hutto  
President**

Mr. David W. Martin, CPA  
Auditor General  
3974 Woodcock Drive, Suite 101A  
Jacksonville, FL 32207

**Subject: Operational Audit July 2, 2008 – June 30, 2009**

BOARD OF TRUSTEES

Dear Mr. Martin:

Owen McCaul  
Tallahassee

Attached is the Response to Findings and Recommendations for the above-mentioned audit.

Yolanda Rodriguez  
Plantation

Please contact our office if you have any questions.

Carol Ross  
Tallahassee

Sincerely,

Edgar Turner  
Pensacola

Christopher Wagner  
Bredenton

L. Daniel Hutto  
President

Gerald W. Weedon  
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Dr. Thomas M. Zavelson  
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Attachment

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**Operational Audit**  
**July 2, 2008 through June 30, 2009**  
**Findings, Recommendations and FSDB Responses**

**Finding No. 1: Contract for Mechanical, Plumbing, and Carpentry Repairs and Installations**

Our audit disclosed several deficiencies regarding a \$1 million contract for mechanical, plumbing, and carpentry repairs and installations.

**Recommendation:** The School should enhance its administration of bid solicitation and contracting to ensure that: (1) the scope of work is clearly established before advertising for bids; (2) contracted projects are performed in the most efficient and economical manner; (3) consideration is given to executing separate contracts for larger projects; (4) complete contract documentation is prepared and maintained to evidence that contracted hourly labor rates and other costs are specified for all trades and are reasonable; and (5) markups are paid only when appropriate and necessary.

**FSDB Response:** We concur with your findings, and have implemented your recommendations, except for the reasonableness portion of recommendation No. 4. Chapter 255.29, Florida Statutes, and Department of Management Services Rule 60D-5, Florida Administrative Code, govern the award of construction contracts. DMS Rule 60D-5.007, F.A.C., states, "Award of the contract will be made to the responsive bidder, determined to be qualified in accordance with the provisions herein and meeting the requirements of the bidding documents, that submits the lowest valid bid for the work." We see no provision in Rule 60D-5, F.A.C. that gives us authority to negotiate with the successful bidder a labor rate that we deem to be unreasonable. It seems our only option is to reject all bids and re-advertise. We would be reluctant to reject all bids and restart the bidding process absent some reason to believe that bid labor rates will be lower the second time around.

**Finding No. 2: Property Inventory**

The School needed to enhance its procedures to ensure that inactive and disposed tangible personal property items are properly removed from the active property records and approved by the Board of Trustees prior to disposal.

**Recommendation:** The School should enhance its procedures to ensure that inactive and disposed tangible personal property items are properly removed from the active records and approved by the Board of Trustees prior to disposal.

**FSDB Response:** The Department of Management Services disposed of the subject vehicles at public auction in accordance with DMS Rule 60B-3. Both discrepancies disclosed by your audit resulted from inadequate training of recently assigned personnel and not from inadequate procedures. Subsequent to your review, the training issues were corrected, and the Board of Trustees retroactively approved the disposal of the motor vehicles.

**Operational Audit****July 2, 2008 through June 30, 2009****Findings, Recommendations and FSDB Responses****Finding No. 3: Administration of Purchasing Cards**

The School had not developed a policies and procedures manual governing the use of its purchasing cards. In addition, spending limits and the number of employees to whom purchasing cards were distributed appeared to be excessive.

**Recommendation:** The School should consider reducing the spending limits and distribution of its purchasing cards, and should develop comprehensive policies and procedures to govern the use of those cards.

**FSDB Response:** We welcome constructive criticism intended to strengthen our internal control policies. Although no incidences of misuse or abuse of purchasing cards were found, we intend to implement your recommendations. We are in the process of reviewing our existing purchasing card guidelines and developing an operational policy and procedure for the use of the cards. Our list of purchasing card holders and their purchasing limits are under evaluation.

**Finding No. 4: Pharmacy Controls**

The School needed to enhance its pharmacy controls.

**Recommendation:** The School should implement the above-noted compensating controls to mitigate the lack of separation of duties and to provide additional assurance of accurate accountability for prescription medications.

**FSDB Response:** The following procedures will be implemented as a corrective plan of action by the FSDB Pharmacist and assigned HCC staff. Such controls in inventory management will provide oversight to prevent errors and fraud in a timely manner.

- A review of monthly inventory records will be completed on all HCC prescription stock medications. Such review will include manual inventory counts and an electronic inventory data system that we are in the process of developing.
- The perpetual inventory sheets, Cardinal Invoices, and Disposal Logs (expired meds) will be reviewed on a monthly basis. Any discrepancies will be noted on a medication incident report with follow-up in accordance with FSDB HCC/Pharmacy Policy and Procedures.