

DEPARTMENT OF HEALTH

**CENTRAL PHARMACY,
SELECTED ADMINISTRATIVE ACTIVITIES,
AND PRIOR AUDIT FOLLOW-UP**

Operational Audit



STATE SURGEON GENERAL AND STATE HEALTH OFFICER

The Department of Health is created by Section 20.43, Florida Statutes. The head of the Department is the State Surgeon General and State Health Officer who is appointed by the Governor subject to confirmation by the Senate. During the period of our audit the following individuals served as the State Surgeon General and State Health Officer:

Dr. John H. Armstrong	From May 23, 2012
Dr. Steven Harris, Interim	From March 13, 2012, Through May 22, 2012
Dr. Harry Frank Farmer, Jr.	From April 4, 2011, Through March 9, 2012
Dr. Shairi Turner and Kim Berfield, Interim	From January 4, 2011, Through April 3, 2011
Dr. Ana M. Viamonte Ros	Through January 3, 2011

The audit team leader was Nick Pappas, CPA, and the audit was supervised by Haesun Back, CPA. Please address inquiries regarding this report to Jane Flowers, CPA, Audit Manager, by e-mail at janeflowers@aud.state.fl.us or by telephone at (850) 412-2757.

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DEPARTMENT OF HEALTHCentral Pharmacy, Selected Administrative Activities,
and Prior Audit Follow-up**SUMMARY**

This operational audit of the Department of Health (Department) focused on the central pharmacy services program (Central Pharmacy) and included a follow-up on findings in our report Nos. 2011-178 and 2011-191. Our audit disclosed the following:

CENTRAL PHARMACY

Finding No. 1: The Central Pharmacy did not ensure that all drug formularies were reviewed, certified, or approved.

Finding No. 2: Opportunities for improvement of the Department's pharmaceutical inventory management controls were identified.

Finding No. 3: The county health departments (CHDs) did not consistently use the Department's Pharmaceutical Forms System when returning damaged and expired drugs to the Central Pharmacy.

Finding No. 4: Additional analyses of overstocked and expired drug supplies may assist the Department in reducing losses incurred upon disposition.

Finding No. 5: The Central Pharmacy did not maintain documentation to evidence the Department's determination of insurable values for pharmaceuticals.

Finding No. 6: Medicaid billing procedures did not ensure that all eligible claims were submitted and reimbursed.

Finding No. 7: To lower the State's pharmaceutical costs, the Department should study the feasibility of the expanded use of the Section 340B Pricing Program.

Finding No. 8: The Department's pharmaceutical budget and expenditure allocation procedures for the CHDs did not ensure that CHD pharmaceutical budgets and expenditures were reasonably allocated and properly monitored.

SELECTED ADMINISTRATIVE ACTIVITIES

Finding No. 9: Information technology access to Department applications was sometimes not timely revoked upon employee termination or transfer.

Finding No. 10: The Department did not timely remove FLAIR access privileges of former employees.

Finding No. 11: The Department did not always timely cancel purchasing cards upon the cardholder's separation from Department employment.

Finding No. 12: As similarly noted in our report No. 2011-178, approved Dual Employment and Compensation Requests were not available for Department employees who had a vendor relationship with the Department.

Finding No. 13: As similarly noted in our report No. 2011-178, CHD staff did not always conduct appropriate leave balance audits for employees separating from Department employment.

Finding No. 14: Department procedures for noncompetitive contract procurement required the use of three forms to document contracting decisions: a Memorandum of Negotiation, Documentation for Noncompetitive Procurement, and a Cost/Price Analysis. While we noted that completed forms were generally present in the contract files tested, the explanations and information contained therein were not reflective of concerted staff efforts to procure the necessary services at an appropriate price. A similar finding was noted in our report No. 2011-191.

BACKGROUND

The Department of Health (Department) is responsible for promoting and protecting the health of all visitors and residents of the State through organized State and community efforts, including cooperative agreements with counties. With respect to Florida’s counties, the Department provides administrative support and oversight of various health programs primarily delivered in partnership with the 67 county health departments (CHDs).

The Department’s divisions included the Divisions of Administration, Environmental Health, Disease Control, Family Health Services, Children’s Medical Services Network, Emergency Medical Operations, Medical Quality Assurance, Children’s Medical Services Prevention and Intervention, Information Technology, Health Access and Tobacco, and Disability Determinations.¹

Our audit focused on the Department’s Central Pharmacy, a determination of the status of the corrective actions taken with respect to the findings in our report Nos. 2011-178 and 2011-191, and selected functions performed by the Department’s Division of Administration.

FINDINGS AND RECOMMENDATIONS

Central Pharmacy

Pursuant to Section 381.0203(2), Florida Statutes, the Department has established a central pharmacy services program (Central Pharmacy) in the Bureau of Statewide Pharmaceutical Services (BSPS), under the Department’s Deputy Secretary for Health.² The Central Pharmacy is to support the CHDs by providing services, including the purchase and distribution of prescription drugs, immunizations, and other pharmaceuticals. The Central Pharmacy also serves as a drug warehouse, a depository for the State’s rabies vaccine, a distributor of vaccines, a licensed pharmaceutical repackager for the Department of Corrections, and a mail order pharmacy for eligible CHD clients.

During the period July 2010 through February 2012, BSPS expenditures totaled \$170,213,129, which included costs of \$2,558,530 for personnel and \$162,665,319 for prescription drug purchases.

Finding No. 1: Drug Formularies

To promote the selection of clinically safe, effective, and economic medications for its clients, the Department created the Pharmacy and Therapeutics Committee (P&T Committee). The P&T Committee Charter, dated September 2006, provides that the P&T Committee’s scope of work includes formulary development, maintenance, and compliance; evaluation of new medications for potential formulary inclusion; maintenance of documentation regarding formulary decisions; and review of the existing formularies. The Charter also required the P&T Committee, comprised of 13 voting members³ and nonvoting supporting staff, to meet face-to-face at a minimum of three times each year.

¹ Effective July 1, 2012, pursuant to Chapter 2012-184, Laws of Florida, the Department was reorganized into nine Divisions, including Divisions of Administration, Emergency Preparedness and Community Support, Disease Control and Health Protection, Community Health Promotion, Children’s Medical Services Network, Public Health Statistics and Performance Management, Medical Quality Assurance, Disability Determinations, and Information Technology.

² Effective July 1, 2012, the BSPS became the Bureau of Public Health Pharmacy within the Division of Emergency Preparedness and Community Support.

³ The P&T Committee was to include a chairperson appointed by the Department’s Deputy Secretary for Health, the BSPS Pharmacy Manager, the Director of CHD Statewide Services Administrator, two CHD physicians, four Department Division representatives, a CHD Nursing Director, a CHD advanced registered nurse practitioner or physician assistant, and two CHD Managers.

The Department maintained formularies, including the Central Pharmacy Drug List, the Department Program Drug List, the Nurse Issuance Formulary, and the Department Formulary, which BSPS staff indicated incorporated drugs from all of the formularies used by Department. Department policy and procedures required that all CHD formularies be submitted to the Central Pharmacy and reviewed by the P&T Committee, and the P&T Committee was to review and certify CHD formularies on a monthly or as required basis.

Our review of the Department’s management of the drug formularies disclosed:

- Although Department staff indicated that there were regular reviews of the formularies, no documentation was provided to demonstrate that the formularies were reviewed and certified on a regular basis. Only one P&T Committee meeting took place during the period July 2010 through February 2012, and only three meetings were held during the period January 22, 2008, to March 7, 2012.
- With respect to the Nurse Issuance Formulary, Florida laws and rules⁴ required a review at least annually and Department-established policy and procedures⁵ required that this formulary be developed and reviewed annually and approved by the State Surgeon General. The State Surgeon General’s approval was to serve as final approval by the Department. Documentation of an annual review and approval of the Nurse Issuance Formulary was not made available for our review.

Without proper reviews of the drug formularies and documentation of the reviews, the Department cannot demonstrate that the included drugs were clinically safe, effective, and economical for the Department’s clients.

Recommendation: We recommend that the drug formularies be reviewed no less than once each year and that the reviews and approvals are made a matter of record.

Finding No. 2: Pharmaceutical Inventory Records and Related Controls

The BSPS Warehouse Unit is responsible for receiving all drug products purchased by the Central Pharmacy and shipped to the Central Pharmacy warehouse. The BSPS utilized the QS1, a pharmacy dispensing and inventory control software/hardware system purchased from a vendor, for maintaining its perpetual drug inventory. In accordance with BSPS Internal Operating Procedures, for just-in-time ordering of pharmaceuticals for Central Pharmacy, BSPS staff was to run from the QS1 perpetual inventory system a daily report that listed the drugs dispensed for the day, and based on the report, place orders to replenish the stock daily. Orders could also be placed on the basis of average monthly usage (e.g., order extra for fast-moving items) or on a pharmacist’s observation of a low stock level of a drug.

Once the drugs were received, they were to be moved to designated staging areas within the warehouse. The Warehouse Manager and staff were to un-box the drug product, verify product receipt by barcode or manual identification against the enclosed invoice, and inspect the drugs for damage. Then, the Warehouse Manager was to segregate the product into individual bins by drug and add the drug product to the QS1 perpetual inventory system by recording the quantity received and receipt date, the National Drug Code, lot number, drug manufacturer, and expiration date. For discrepancies (or damages) noted during the verification (or inspection) of the product received, the Warehouse Manager was to note the discrepancy or damage on the enclosed invoice and contact the vendor for applicable credit or return authorization.

⁴ Section 154.04(1)(c), Florida Statutes, and Department of Health Rule 64F-14.002(2), Florida Administrative Code.
⁵ Department-established policy and procedures required that the Nurse Issuance Formulary be developed and reviewed annually by the Pharmacy Advisory Committee, an interdisciplinary group appointed by the State Surgeon General. Department staff indicated that the functions of the Pharmacy Advisory Committee, with respect to the development and annual review of the Nurse Issuance Formulary, were transferred to the P&T Committee.

Pursuant to BSPS Internal Operating Procedures, the Central Pharmacy was to conduct a physical inventory count on the last workday of each month and reconcile any discrepancies between the QS1 inventory record and the physical inventory count. Department personnel who performed the physical inventory count were to sign a physical inventory count sheet and keep a hard copy and a digital copy on file. In January 2011, the Central Pharmacy implemented use of the Inventory Adjustment/Expired Product form to document reasons for adjustments to the QS1 inventory records. The form also was to be used to document expired, damaged, spoiled and misbranded, and disposed drugs that were removed from inventory. Prior to the implementation of this form, the Central Pharmacy did not document reasons for adjustments made to the inventory records.

Our audit included tests of the recording of pharmaceutical inventory purchases and distributions, as well as the Department's administration of inventory management and perpetual inventory procedures. Our audit tests disclosed:

- An inadequate separation of duties existed for the Nurse Issuance Program drugs at the Central Pharmacy and it contributed to conditions under which errors could occur and not be detected and corrected. Specifically, for all Nurse Issuance Program drugs, one employee (a Pharmacy Technician) was solely responsible for approving drug purchases, handling drugs received and distributed, recording drugs received and distributed in QS1 and maintaining the QS1 perpetual inventory records, performing monthly physical inventory counts, investigating discrepancies between physical counts and inventory records, and making adjustments to the inventory records. BSPS staff indicated that there were no compensating controls, such as, for example, a supervisor's periodic comparison of the quantities on hand for selected inventory items to the quantities shown by the applicable perpetual inventory records.
- Tests of 20 pharmaceutical purchases made during the period July 2010 through February 2012, disclosed that three drug purchases were not properly added to the QS1 perpetual inventory system and errors in the administration of the month-end inventories of two drugs. Specifically:
 - Two purchases made in July 2010, consisting of a total of 450 pills of a controlled substance with costs totaling \$561, were not added to the QS1 perpetual inventory system. Although BSPS staff indicated that they had made the daily receipt entries in QS1, documentation was not provided to evidence that the entries had been made. Additionally, a physical inventory count of the drug, performed at the end of the month of the purchases, did not agree with the QS1 inventory amount or the amount shown on the Controlled Substance Log, which was to be separately maintained for controlled substances. The documented physical inventory count was 820 pills, while the QS1 inventory amount and the amounts shown on the Controlled Substance Inventory Logs were 640 pills and 990 pills, respectively. We also noted that BSPS staff had adjusted the QS1 and the Controlled Substance Log inventories to the physical inventory count without recording an explanation for the differences.
 - One purchase made in February 2012 for the Nurse Issuance Program, of 19,200 vitamin pills (192 bottles of 100 pills each) with costs totaling \$234, was incorrectly entered into the QS1 perpetual inventory system as 20,120 pills. During our inspection of the inventory records for the purchase, we also noted the following additional input errors made for the same drug in the same month:
 - The QS1 record showed a distribution of 2,400 pills when, based on our review of Department records, 4,800 pills were dispensed.
 - The QS1 record contained duplicate entries for a distribution of 3,000 pills.

For this drug, the physical inventory count, which was performed for the month, disagreed with the QS1 inventory balance. However, no adjustments or reconciliation to QS1 inventory was made in the applicable QS1 inventory records.

As part of our audit, we also reviewed Central Pharmacy's inventory records for 10 of the 487 drug items for which a physical inventory count was performed after the January 2011 implementation of the Inventory Adjustment/Expired Product form. As shown by **EXHIBIT A**, our audit disclosed the following:

- For 6 drugs, the inventory records indicated that the Central Pharmacy had experienced out-of-stock conditions. We noted the following procedural issues, which at least contributed to the out-of-stock conditions:
 - The Central Pharmacy had not established reorder points for drugs. BSPS staff used visual inspection of the inventory on shelves or inspection of the QS1 inventory record for each drug to determine when drugs should be ordered.
 - The Central Pharmacy did not periodically analyze or review inventory levels and usage to identify, prevent, or minimize shortages.
 - The Central Pharmacy did not utilize available QS1 features that could forecast reorder points by establishing in the system maximum and minimum inventory levels and automatic reordering when an item inventory level reached the predetermined reorder point.
- For 3 drugs, we noted that expired drugs, in quantities ranging from 90 to 4,080 pills, had been removed from inventory records. Based on our analysis of the QS1 inventory records, the loss caused by expired drugs may have been avoided or reduced by improved management of drug orders (i.e., timely drug orders in adequate quantity). For example, for one drug, the BSPS purchased 4,200 pills on November 15, 2010, and removed 4,080 expired pills from the inventory on June 16, 2011. During that time, the Central Pharmacy had dispensed only 510 pills to fill seven prescriptions.
- For 3 drugs, physical inventory count sheets could not be provided to evidence the physical inventory count for the months of February, November, and December 2011, although QS1 inventory records indicated that adjustments (ranging from an inventory reduction of 240 pills to an inventory increase of 284 pills) had been made based on a physical inventory count.
- For 8 of 8 applicable drugs that had discrepancies between the monthly physical count and the inventory records or that included expired drugs, BSPS staff did not complete an Inventory Adjustment/Expired Product form. For one drug, a notation was made on the Controlled Substance Log to document the reason for an adjustment to the Log.

Absent establishment and implementation of adequate pharmaceutical inventory management controls, the risk is increased that waste, loss, theft, or unauthorized use of drugs may occur and not be detected in a timely manner.

Recommendation: We recommend that the Department enhance its pharmaceutical inventory management controls to better ensure accountability for pharmaceutical inventories. Additionally, the Department should enforce its physical inventory procedures and clearly document the physical inventory count performed, the comparison of the physical inventory counts and the related inventory records, and the investigation and resolution of differences.

Finding No. 3: Pharmaceuticals Returned to the Central Pharmacy

Pursuant to Section 499.0121(5)(d), Florida Statutes, the Department is required to comply with the recordkeeping requirements in Section 499.0121(6), Florida Statutes, for all outdated, damaged, deteriorated, misbranded, or adulterated prescription drugs. Section 499.0121(6), Florida Statutes, requires that records provide a complete audit trail from receipt to sale or other disposition, be readily retrievable for inspection, and include, at a minimum, the source of the drugs; the name, principal address, and State license permit or registration number of a person who purchased prescription drugs; the name, strength, dosage form, and quantity of the drugs distributed or disposed of; the dates of distribution or other disposition of the drugs; and any financial documentation supporting transactions.

In order to meet the statutory recordkeeping requirements, the Department established applicable BSPS Internal Operating Procedures, which relied upon CHDs to electronically complete a Return Authorization Form (RAF) from the Pharmaceutical Forms System (PFS) when shipping any drugs to the Central Pharmacy warehouse (i.e., reverse

distributions). The PFS was to facilitate the maintenance of an historical, accessible, and auditable record containing the information required by law. A hard-copy of the completed RAF was to be placed in the package of returned drugs and an electronic copy was to be maintained within the PFS.

Our test of reverse distributions from July 1, 2010 through February 29, 2012, disclosed that the Central Pharmacy had continued to accept returned drug shipments from CHDs without requiring the use of the RAF, and for two of three tested items, the CHDs used miscellaneous hard-copy forms, such as a supply requisition form. The forms used did not include all of the information required by Florida Statutes; for example, the hard-copy forms submitted with returned drugs did not contain the principal address from which the drugs were shipped, the strength of the drug, the dosage form, or financial documentation.

As a consequence of not using the PFS, there was no record of the returned drugs which could serve as a complete audit trail from receipt to sale or other disposition and be readily retrievable for inspection. BSPS staff indicated that Florida Statutes authorized the Central Pharmacy to provide consultation to CHDs in connection with the Nurse Issuance Program and to support pharmaceutical services provided by CHDs, but the Central Pharmacy lacked the organizational authority to require CHD use of the PFS.

Recommendation: We recommend that the Bureau of Public Health Pharmacy (as BSPS successor) continue to encourage the CHDs to use the PFS to properly document the shipment of all returned prescription drugs to the Central Pharmacy. We also recommend that the Department consider incorporating provisions in its contracts with the CHDs requiring the utilization of the PFS.

Finding No. 4: Accountability for Drugs Returned to the Reverse Drug Distributor

Department policy and procedures required CHDs to return unusable or unserviceable drugs, which were purchased or distributed by the Central Pharmacy, to the Central Pharmacy. During the period July 2010 through February 2012, according to the quarantine logs⁶ and the QS1 inventory records, the drugs returned to the Central Pharmacy totaled approximately 2 million pills or 8.2 percent of the approximately 24.2 million pills distributed to CHDs by the Central Pharmacy during that period. Department records indicated that, of those returned drugs, approximately 1.8 million pills, or 89.1 percent of the total returned pills, were expired drugs.

In June 2006, the Department began to use a contracted reverse drug distributor, pursuant to the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP) group purchasing organization (GPO) Agreement,⁷ to facilitate the return or disposal of drugs that were expired or damaged, including those drugs returned by the CHDs. The reverse drug distributor provided on-site service to the Central Pharmacy every two months, which included preparation of prepaid shipping labels and inventory forms, completion of DEA Form 222⁸ while at the Central Pharmacy, and packaging of returned drugs for shipping to the reverse drug distributor's facilities. The service fee for on-site service, was 7.2 percent of the estimated returnable value (ERV) (10.5 percent for drugs purchased at Section 340B prices,⁹ effective December 15, 2010). The ERV was to be calculated by the reverse drug distributor based on distributor's historical data and other factors.

⁶ A product arriving on the loading dock which does not originate from the pharmaceutical wholesaler Cardinal Health or directly from a pharmaceutical manufacturer is considered a quarantine product until such time that the product can be inspected and processed. Quarantine products were recorded in the quarantine log.

⁷ Finding No. 7 includes additional information relating to the MMCAP agreement.

⁸ Pursuant to Title 21, Section 1305.03, Code of Federal Regulations, Drug Enforcement Administration (DEA) Form 222 is required for each distribution of a Schedule I or II controlled substance.

⁹ Finding No. 7 includes a discussion of Section 340B pricing of pharmaceuticals.

The reverse drug distributor was responsible for receiving the drugs shipped from the Central Pharmacy, sorting the returnable drugs by manufacturer and shipping them to applicable manufacturers for credit, legally destroying and documenting the nonreturnable drugs, and completion of credit processing of returned drugs. Reverse drug distributor personnel indicated that depending on the quantity of returnable drugs to be sent to individual manufacturers, two to six months were required for the reverse drug distributor to return the drugs to the manufacturer. Reverse drug distributor personnel also indicated that the credit amount provided by the manufacturer was nonnegotiable and proprietary, meaning that manufacturers would not explain how the credit amount was determined, if there was any. For the drugs returned to the manufacturer, the manufacturer was to issue a credit memorandum to Cardinal Health, Inc.,¹⁰ which paid the credit amounts, less its administration fees, to the reverse drug distributor, upon the reverse drug distributor’s verification of the credit memorandum. For each cycle, the reverse drug distributor was to verify the credit memorandum by submitting to Cardinal Health, Inc., a reconciliation of the credit memorandum to the reverse drug distributor’s records of account. The reverse drug distributor then was to send a check to the Central Pharmacy after deducting the reverse drug distributor’s service fees. We found that as much as 18 months elapsed between the date the returned drugs were provided to the reverse drug distributor and the date the Department received reimbursements for the returned drugs.

During the period July 2010 through February 2012, according to the reverse drug distributor’s records, the Central Pharmacy returned drugs with ERVs totaling approximately \$7.4 million, paid service fees totaling \$680,753, and received actual reimbursements totaling approximately \$5.6 million from manufacturers.

As shown by Table 1, we compared the actual reimbursement received to the ERV during the period September 2009 through December 2010 (i.e., at least 18 months past from the return of drugs to the reverse drug distributor as of July 2012) and noted that the actual reimbursement was 94.6 percent of the ERV, effectively increasing the service fees from 7.7 percent to 8.2 percent of the ERV.

Table 1
Analysis of the Estimated Returnable Value and Actual Reimbursement Received

Cycle Started Date	ERV	Actual Reimbursement Received	Difference	Percent of Actual Reimbursement to ERV	Service Fees Paid	Percent of Fees Paid to ERV ^a	Percent of Fees Paid to Actual ^b
9/1/2009	\$1,231,786	\$1,198,050	\$ (33,736)	97.3	\$ 86,506	7.0	7.2
11/1/2009	507,862	438,829	(69,033)	86.4	36,560	7.2	8.3
1/1/2010	518,047	353,882	(164,165)	68.3	37,288	7.2	10.5
3/1/2010	797,553	679,850	(117,703)	85.2	57,377	7.2	8.4
5/1/2010	335,160	246,583	(88,577)	73.6	24,081	7.2	9.8
7/1/2010	1,101,222	1,079,749	(21,473)	98.1	79,288	7.2	7.3
9/1/2010	867,507	799,126	(68,381)	92.1	62,333	7.2	7.8
11/1/2010	1,142,640	1,352,763	210,123	118.4	118,391	10.4	8.8
Total	\$6,501,777	\$6,148,832	\$(352,945)	94.6	\$501,824	7.7	8.2

Source: Reverse drug distributor’s records.

^a The percentage was calculated by dividing the service fees paid by the ERV.

^b The percentage was calculated by dividing the service fees paid by the actual reimbursement received.

¹⁰ State’s designated MMCAP supplier. See Finding No. 7 for more details.

BSPS staff indicated that a quarterly review was completed to determine if the reimbursements were credited to the correct accounts from which the returned drugs were originally paid. However, the Central Pharmacy had not established procedures for the following:

- Establishing a value for the costs of returned drugs that were shipped to the reverse drug distributor. Due to the lack of available information, the Department could not estimate the dollar value of the losses incurred for the returned drugs (i.e., the difference between the reimbursements received and the purchase costs of the drugs).
- Periodically analyzing the drugs returned to identify means by which the Department and the CHDs could minimize the losses.
- Periodically reviewing the ERV, actual reimbursements received, and fees paid to determine whether the reverse drug distributor provided reasonable amounts for the types and quantities of the drugs returned and whether the distributor applied rates for service fees in accordance with the contract terms and provisions. BSPS staff indicated that the Central Pharmacy relied solely on the reverse drug distributor for the determination of the ERV, the credit amounts received, and the service fees paid, due to the time lapse (between the return of drugs and the receipt of credits) and the high number of returned items and the number of manufacturers involved.

Additional analyses of the returned drugs may allow the Department to reduce the quantity of expired or overstocked drugs and to better evaluate the reasonableness of the actual reimbursements received and the service fees paid.

Recommendation: We recommend that the Department establish procedures to estimate the costs of drugs returned and calculate the related losses incurred. Analyses of the types and quantities of returned drugs should also be made to assist the Department in minimizing future losses. The Department should also implement procedures to verify that the amounts received are reasonable in relation to the types and quantities of the drugs returned and that the fees paid are consistent with contract requirements.

Finding No. 5: Insurance Coverage

The Division of Risk Management within the Department of Financial Services provides a self-insurance program to cover risks of loss relating to State buildings and personal property. The program is financed through State agency payments of assessments to the State Risk Management Trust Fund, created pursuant to Section 284.30, Florida Statutes. The self-insurance covers losses such as those caused by fire, lightning, explosion, windstorm or hail, sinkhole collapse, and flood.

Our review of the reasonableness of the coverage purchased for the Central Pharmacy disclosed:

- In March 2011, BSPS staff submitted a Department of Health Insurance Coverage Request Form to the Department of Health, Division of Administration, to secure self-insurance coverage of \$25 million for pharmaceuticals (\$20 million for the Central Pharmacy warehouse and \$5 million for the Central Pharmacy) for the 2011-12 fiscal year. Our review of the Florida Property Insurance Trust Fund Certificate disclosed that for the 2011-12 and 2012-13 fiscal years, the resulting insurance Certificate did not reflect coverage of Central Pharmacy inventories and showed coverage for only \$20 million for the pharmaceuticals in the Central Pharmacy warehouse. Division of Administration staff indicated that the \$5 million in requested coverage for the pharmaceuticals in the Central Pharmacy was inadvertently omitted for both fiscal years.
- BSPS staff submitted to the Division of Administration inventory forms which showed the pharmaceuticals in the Central Pharmacy and its warehouse at historical costs totaling approximately \$14.8 million as of June 30, 2011. Although BSPS staff indicated that the self-insurance coverage amount was an estimated value of pharmaceuticals on hand at any given time, no supporting documentation could be provided to explain how the Department arrived at the 2011-12 fiscal year coverage level of \$25 million for the pharmaceuticals in the Central Pharmacy and its warehouse.

- In addition to the self-insurance, the State had purchased a Boiler and Machinery policy for the period October 1, 2011, through October 1, 2012, that covered approximately \$10.1 billion in State assets, of which approximately \$15.5 million was attributable to the Central Pharmacy. This policy covered any kind of loss, and was to pay up to \$200 million per breakdown. For the Central Pharmacy, this policy covered machinery and equipment valued at approximately \$1.5 million and the pharmaceuticals valued at \$7 million which were stored in the refrigerators. The policy also included an additional coverage of \$7 million for spoilage of pharmaceuticals solely in storage while under refrigeration. Although BSPS staff were able to provide documentation to support the value of the equipment and machinery, no documentation could be provided to support how the Department arrived at the \$7 million estimated value for the pharmaceuticals stored in refrigerators.

Due to the lack of supporting documentation, the Department could not demonstrate the reasonableness of the insurance coverage provided for pharmaceuticals in the Central Pharmacy and its warehouse. Periodic valuation of the pharmaceuticals on hand would help ensure that reasonable levels of coverage are maintained.

Recommendation: We recommend that the Central Pharmacy periodically determine the value of its pharmaceuticals on hand and maintain documentation to evidence the Department’s determination of the amount of insurance coverage needed for pharmaceuticals in the Central Pharmacy and its warehouse.

Finding No. 6: Medicaid Reimbursement Process for Prescriptions

The Department’s core contract with the CHDs requires the CHDs to follow financial procedures specified in the Department’s Accounting Procedures Manuals. Department Finance and Accounting Policy, DOHP 56-66-08, requires CHDs to bill Medicaid for Medicaid reimbursable services provided to any CHD client who is eligible for and enrolled in the Medicaid program. The Policy also provides that when Medicaid covered services are provided to Medicaid enrolled clients, the services may be billed to Medicaid, even when these same public health services are provided to non-Medicaid recipients for free.

The Central Pharmacy was responsible for billing Medicaid for reimbursement of the cost of prescribed drugs distributed to Medicaid eligible clients of CHDs without pharmacies, which included drugs purchased at Section 340B prices and those repackaged for the Nurse Issuance Program. The Central Pharmacy was also responsible for Medicaid billing for certain pharmaceutical products and devices distributed from the Central Pharmacy for all CHDs, such as rabies vaccines.

To initiate Medicaid billing for reimbursement of the cost of prescribed drugs, CHDs without pharmacies were to electronically submit the claims to the Central Pharmacy through the PFS. Based on the submitted information printed from the PFS and other information (i.e., drug price and dispensing fee), BSPS staff were to submit claims by manually entering required information into the Electronic Claims Submission System. Pursuant to Federal regulations and State laws and rules,¹¹ a claim was not to exceed the lower of the estimated acquisition cost¹² or the State Maximum Allowable Cost, plus a dispensing fee of \$3.73. For drugs purchased at Section 340B prices, a claim must be submitted at the actual acquisition cost of the drug, plus a dispensing fee of \$7.50. Department staff indicated that the reimbursed amount depended on a number of different factors including, but not limited to, the Medicaid plan in which client was enrolled and the Federal funding that the county received. Our review of the Medicaid claim submission processes disclosed:

¹¹ Title 42, Sections 447.512-447.516, Code of Federal Regulations, Section 409.908(14), Florida Statutes, and Agency for Health Care Administration Rule 59G-4.251, Florida Administrative Code.

¹² Defined as the lower of (1) the Average Wholesale Price minus 16.4%, or Wholesale Acquisition Cost plus 1.5%, plus a dispensing fee of \$3.73, or (2) the Federal Upper Limit established by the Centers for Medicare and Medicaid Services, plus a dispensing fee of \$3.73.

- The manual processes utilized by the Department contributed to the denial of many of the Department’s initial claim submissions. Our analysis of Medicaid claims submitted during the period July 2010 through February 2012 disclosed that 12,180 claims were initially denied. Reasons a claim may have been denied included the claim duplicated another claim, the claimed amount exceeded the client’s coverage amount, or the claim was covered by a health maintenance organization. According to BSPS staff, most initial rejections for reimbursement were due to data input errors (e.g. a transposed Medicaid ID number, incorrect birth date, or misspelled name). BSPS staff were responsible for manually resolving these errors and re-submitting the claim with corrected information.
- During the period July 2010 through February 2012, the Central Pharmacy received \$320,067 for 17,089 accepted Medicaid claims. In reviewing these claims, we found that the claims submitted to the Central Pharmacy by CHDs related only to prescribed drugs purchased at Section 340B prices. Department staff indicated that none of the CHDs submitted to the Central Pharmacy claims for drugs prescribed for Medicaid clients in relation to public health issues (for example, communicable disease control services such as epidemiology, sexually transmissible disease detection and control, immunizations, and tuberculosis control), not eligible for the Section 340B Drug Pricing Program. Department staff indicated that CHDs were under the false impression that claims for Medicaid reimbursements could not be made for those drugs, since the CHDs had not been invoiced by the Department for drugs related to these public health issues. We found no evidence that the Department had clarified that claims should be submitted for such prescriptions.

Efficient and effective procedures to submit and process the Medicaid billings for all eligible drugs would minimize the errors and better ensure that all reimbursements due are pursued and received. The Department may achieve more efficient and effective claims submission through the automation of procedures and the monitoring of CHD claim submissions by periodically comparing the Medicaid claims submitted by the CHDs to the prescribed drugs sent to the CHDs by the Central Pharmacy.

Recommendation: We recommend that the Central Pharmacy work with CHDs to enhance the Department’s Medicaid billing procedures for prescribed drugs to improve the effectiveness and efficiency of the procedures and to ensure all eligible claims are submitted for reimbursement. Consideration should be given to clarifying in the Department’s financial procedures, the responsibilities of the Department and the CHDs for submitting claims for Medicaid reimbursements.

Finding No. 7: Expansion of the Federal Section 340B Drug Pricing Program

Section 381.0203, Florida Statutes, authorizes the Department to contract on a Statewide basis for the purchase of drugs to be used by State agencies and political subdivisions. Pursuant to Section 381.0203(1), Florida Statutes, the Department entered into an agreement, effective September 15, 2003, on behalf of the State of Florida with MMCAP for the purchase of pharmaceuticals and other healthcare products and services. MMCAP, a voluntary group purchasing organization (GPO) for government healthcare facilities, is operated by the State of Minnesota’s Department of Administration. In order to receive the best prices available for the products and services, MMCAP is to combine the purchasing power of its members¹³ through contracts with pharmaceutical manufacturers and distributors.

The BSPS manages the State’s participation in MMCAP for State agencies through Cardinal Health, Inc., Cardinal Health, as the State’s pharmaceutical wholesaler, was responsible for selection of commodities or services, development of a procurement plan, including specifications and the preliminary solicitation and contract document, contract award determination and issuance of contract amendments or cancellations, and maintenance of vendor

¹³ MMCAP (Minnesota Multi-State Contracting Alliance for Pharmacy) provides pharmacy and healthcare services to members. As of June 2012, MMCAP members included 46 states and the Cities of Chicago and Los Angeles.

performance records. The Department’s policy and procedures required that CHDs and other eligible entities procure pharmaceuticals through MMCAP.¹⁴

As shown by Table 2, five State agencies purchased prescription drugs for their clients totaling approximately \$206 million during the 2010-11 fiscal year. Of those purchases, 95.4 percent was purchased through MMCAP, and 63.5 percent was purchased by the Department and 30.1 percent was purchased by the Department of Corrections (DOC).

Table 2
Prescription Drug Purchases by State Agencies during Fiscal Year 2010-2011

State Agency	MMCAP Purchases	Non-MMCAP Purchases	Total Purchases	Percent MMCAP	Percent Total Purchases
Department of Health	\$124,410,785 ^a	\$6,638,341 ^b	\$131,049,126	94.9	63.5
Department of Children and Families	11,210,343	474,852 ^b	11,685,195	95.9	5.7
Department of Juvenile Justice	-	283,388 ^c	283,388	0.0	0.1
Department of Corrections	60,844,944	1,281,990 ^b	62,126,934	97.9	30.1
Agency for Persons with Disabilities	307,711 ^d	847,527 ^c	1,155,238	26.6	0.6
Total	\$196,773,783	\$9,526,098	\$206,299,881	95.4	100

Source: FLAIR and State agencies’ records.

- ^a This amount includes \$105,525,927 purchased at Section 340B prices.
- ^b Non-MMCAP purchases were made when no negotiated MMCAP pricing existed for the product or the product was available at a lower price from a non-MMCAP vendor.
- ^c Purchased by private vendors through contractual agreements.
- ^d Included \$275,365 purchased for the Mentally Retarded Defendant Program through the Department of Children and Families, Florida State Hospital.

For cost savings in addition to those offered through MMCAP agreement, the Department may purchase pharmaceuticals through the Federal Section 340B Drug Pricing Program (Program), established pursuant to Section 340B of U.S. Public Law 102-585, the Veterans Health Care Act of 1992. Section 340B limits the price that drug manufacturers can charge for covered “outpatient” drugs provided by eligible entities, such as Federally-qualified health centers, to “uninsured and underinsured” patients who are eligible to participate in certain Federal programs. The Program is administered by the Health Resources and Services Administration, Office of Pharmacy Affairs, of the United States Department of Health and Human Services. According to BSPS records,¹⁵ the Program offers significant savings on the cost of pharmaceuticals to entities that participate in the Program. As of August 2012, the Department was the only State agency that could purchase pharmaceuticals at Section 340B prices, as the Department received qualifying Federal awards and administered Federally-qualified health centers. The Department received Section 340B pricing for clients who met patient requirements for eligible programs, including the Aids Drug Assistance Program, the Ryan White Care Act Program, and the Tuberculosis, Family Planning Title X, and Sexually Transmitted Diseases (STDs) Programs.

To expand the cost savings offered by the Section 340B Drug Pricing Program, the Department and the DOC collaborated on a pilot STD care project for the DOC’s inmates as follows:

¹⁴ Department staff indicated that the Department of Management Services (DMS) executed an invitation to negotiate (ITN) pursuant to Chapter 287, Florida Statutes, for a pharmaceutical purchasing arrangement as a State term contract in accordance with Chapter 2011-47, Laws of Florida. The DMS issued an intent to award the GPO contract to MMCAP in January 2013. As of August 8, 2013, a final award of the contract had not been made, pending final resolution of a bid protest. The DMS is to issue an ITN for a pharmaceutical wholesaler and, upon awarding both contracts (GPO and wholesaler contracts), the Department shall terminate its current MMCAP agreement and the two new contracts are to take effect simultaneously.

¹⁵ The Department maintained a record, which summarized monthly drug cost savings realized by comparing the actual Section 340B prices paid with the estimated MMCAP prices for drugs purchased for and distributed to the DOC’s inmates.

- The STD Specialty Care Pilot Project, began in December 2008, when Alachua and Jackson CHDs began providing to inmates in ten correctional institutions STD screening upon intake and STD medical services, including HIV medications.
- In January 2011, the DOC entered into an interagency agreement with the Department that allowed the expansion of the use of the Section 340B Pricing Program.¹⁶ The agreement implemented a process whereby the Department and the DOC contracted with individual CHDs to treat the DOC’s inmates with STDs. Under the agreement, the Department prescribed, purchased, repackaged, dispensed, and delivered medications applicable to the Program, and the DOC reimbursed the Department for the costs.

Based on Department and DOC records, as shown in Table 3, during the period July 2010 through February 2012, the Department purchased for the DOC’s inmates pharmaceuticals totaling \$16,837,414 at Section 340B prices, resulting in approximately \$16,600,000 in cost savings compared to the estimated MMCAP prices.

Table 3
Section 340B Drug Pricing Program
Potential Cost Savings Realized

	July 2010 - June 2011 (12 Months)	July 2011 - February 2012 (8 Months)	Total
Estimated MMCAP Prices	\$16,350,933	\$17,125,906	\$33,476,839
Actual Section 340B Prices Paid	\$ 8,623,253	\$ 8,214,161	\$16,837,414
Actual Cost Savings (v. MMCAP Prices)	\$ 7,727,680	\$ 8,911,745	\$16,639,425

Source: Information reported by the Department of Health and the Department of Corrections.

We found that additional cost savings may be available through additional expansion of the use of Section 340B pricing. Specifically:

- As of July 2012, the Department and the DOC had expanded the STD Specialty Care Project to five CHDs (Alachua, Jackson, Jefferson, Volusia, and Miami-Dade), which provided services to inmates in 24 correctional institutions. DOC staff indicated that the Project served approximately 2,250 inmates, which represented approximately 80 percent of the DOC’s HIV-infected inmate population. While further expansion of the Project could require additional staffing, equipment, and related Department costs, further expansion to cover the remaining eligible inmates would likely produce additional savings.
- Expanding Section 340B drug pricing to other State agencies serving clients eligible for Section 340B pricing could produce additional savings on prescription drug purchases. For example, Department staff indicated that the medications provided to individuals participating in certain programs of other State agencies (e.g., the DOC’s Hepatitis C treatment medications and the Department of Juvenile Justice’s psychotropic medications) may be eligible for Section 340B pricing should the Department be authorized to provide pharmaceutical services to these agencies through the amendment of Section 381.0203, Florida Statutes.

Recommendation: To take advantage of potential cost savings through the Section 340B Drug Pricing Program, the Department and the DOC should consider expanding, to the extent practical, the STD Specialty Care Project to serve all of the DOC’s HIV-infected inmate population. The Department should also determine the feasibility and potential cost savings to the State of entering into similar agreements with other State agencies and seek Legislative authority as needed.

¹⁶ On October 1, 2010, the Health Resources and Services Administration, Office of Pharmacy Affairs, of the United States Department of Health and Human Services informed the State that the Program no longer had to be considered a pilot project and could be expanded on behalf of the DOC’s inmates.

Finding No. 8: CHD Drug Budget Allocation and Expenditure Reconciliation

For the 2011-12 fiscal year, the Legislature appropriated \$118,755,079 for the procurement of public health drugs and vaccines. The drugs and vaccines were to be used in ten program areas, including human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS), Epilepsy (EPI), Family Planning (FP), General Clinic/Rabies (GCR), Insulin (INS), Family Planning/Rhogam (RHO), Sexually Transmitted Diseases (STD), Tuberculosis (TB), Phenylketonuria, and Immunizations. The Department's Drug Budget Review Committee, consisting of representatives from the program areas and the BSPS, was responsible for providing to the Deputy Secretary for Health for approval, a recommended drug budget that allocated the Legislative appropriation to each of the program areas and the BSPS. Once the allocation to the program areas was approved, staff within the BSPS was responsible for directly allocating to the 67 CHDs drug budgets, totaling \$9,987,280 of the \$118,755,079 for the 2011-12 fiscal year, for seven program areas, including the EPI, FP, GCR, RHO, STD, TB and INS programs. These drug budgets of \$9,987,280 reflected in-kind (drugs) State funding provided to the CHDs and were included in the CHD's core contracts with the Department. The balance of the drug budgets (Federal and State funding of \$96,777,799 and \$11,990,000, respectively) were managed by program (i.e., HIV/AIDS, Phenylketonuria, and Immunizations) staff.

For effective use of limited drug budgets, the Central Pharmacy should allocate the drug budgets to meet the pharmaceutical needs at the program and CHD level and then monitor the use of the allocated budgets.

CHD Drug Budget Allocation

In determining the drug budget (in-kind State funding) to be allocated to each CHD for the seven program areas, BSPS staff used spreadsheets that included, as the basis for the 2011-12 budget allocation, the drug expenditures of each CHD during the 2010-11 fiscal year. Our review of the procedures used by the BSPS to allocate the 2011-12 fiscal year drug budgets to the CHDs identified errors in the methodologies used and instances in which the methodologies were not consistently applied. Specifically:

- For five program areas (TB, STD, EPI, FP, and INS), the formulas used to compute the allocated amounts included a factor by which the amount of prior year expenditures was reduced or increased. However, BSPS staff was not able to explain or provide any documentation to show how the factors were derived. Additionally, we noted that the formulas did not take into account drug credits for drugs returned to the Central Pharmacy by the respective CHDs.
- For three program areas (EPI, FP, and TB), BSPS staff used only 11 months of 2010-11 fiscal year expenditure data rather than the entire fiscal year's data when calculating the budget allocation. According to BSPS staff, this may have been caused by a spreadsheet recalculation error.
- For one program area (STD), although a correct formula was recorded in the spreadsheet, the formula was not applied and the actual allocated amount was equal to the amount of the 2010-11 fiscal year expenditures.
- For two program areas (RHO and GCR), BSPS staff did not apply a factor by which the amount of prior year expenditures was reduced or increased. Instead BSPS staff allocated the same amount to each CHD. BSPS staff was not able to provide an explanation as to why this methodology was used for these two programs.

Our computation, in using the BSPS' methodology for all program areas (i.e., applying the budget allocation formulas using 12 months of 2010-11 fiscal year expenditures and including the impact of drug credits as shown by the spreadsheet), disclosed that 50 of the 67 CHDs would have been allocated \$718 to \$22,095 (or 0.7 to 73.2 percent) less budget and 17 of the 67 CHDs would have been allocated \$1,280 to \$74,604 (or 0.7 to 38.7 percent) in additional budget.

Budget and Expenditure Allocation Process

To monitor CHD pharmaceutical expenditures and available budget (in-kind State funding), BSPS staff prepared monthly In-kind Allocation reports for each of the seven program areas. The reports included for each CHD the beginning budget allocation, the expenditures for the current month, the year-to-date expenditures, Medicaid reimbursements, drug credits, and remaining available budget. To determine the expenditures shown in the reports and associated with the drugs dispensed to each CHD, BSPS staff downloaded into spreadsheets drug order and price data from Department drug inventory systems, online vendor systems, and other data sources. Due to the variety of data sources, BSPS staff had to supplement the downloaded data (e.g., add per-pill prices, compute total prescription cost, and summarize by CHD) and break out the results into the program areas for reporting. To compute current month expenditures, Medicaid reimbursements, and drug credits for each CHD, BSPS staff obtained the cost information from the summarized downloaded data and manually input the data into formulas within the In-kind Allocation report spreadsheets.

The process used by the BSPS to determine the expenditure amounts and develop the In-kind Allocation reports was complicated and labor intensive, and therefore, subject to risks of error. Additionally, no supervisory reviews were required or performed. According to BSPS staff, enhancements in existing BSPS systems could streamline the budget and expenditure allocation process and provide a means to reconcile CHD allocated expenditures to the BSPS expenditures recorded in FLAIR. The absence of such reconciliations limits assurance as to the accuracy of expenditure amounts charged to the CHDs and inhibits the Department’s ability to effectively monitor CHD budgets.

Recommendation: We recommend the Bureau of Public Health Pharmacy (as BSPS successor) implement procedures, such as independent review, to ensure that budget allocation formulas are accurate and contain all relevant data and that a consistent methodology is used. Documentation should also be maintained to explain reasons for any changes in allocation formulas and methodologies. Additionally, we recommend the Bureau consider enhancements to existing systems and procedures to streamline the CHD budget and expenditure allocation process and to provide for reconciliation of expenditures charged to the CHDs to expenditures recorded in FLAIR.

Selected Administrative Activities

Finding No. 9: Timely Deactivation of Access Privileges

Access controls involve the use of computer hardware and software to prevent or detect unauthorized access by requiring users to input user identifications, passwords, or other forms of identification and authentication that are linked to predetermined access privileges. Such controls help protect against unauthorized modification, loss, and disclosure of data. Effective controls also include the timely removal of access privileges for employees who no longer require access or terminate employment with the Department.

Our testing disclosed that former employees’ access privileges to the Active Directory, Customer Oriented Medical Practitioner Administration System (COMPAS), Environmental Health Database (EHD), and Health Management System (HMS) were not timely deactivated upon termination of employment. In addition, the Automated Receipts System (ARS) access privileges of two employees, who were transferred within the Department to positions that did not require ARS access, were not timely deactivated. More specifically:

- The Active Directory is a single sign-on system used to control network access and access to Department applications. A user must have an active account in Active Directory for network access. To access the ARS, COMPAS, EHD, and HMS, a user must also have a user profile and permissions. Department policy and procedures (DOHP 50-10n-10) required accounts be deleted within 60 days after employee termination.

However, when an account was deleted from Active Directory, there was no historical record maintained of the removal date. Without a recorded removal date, the Department could not demonstrate that accounts were removed within 60 days after employee termination. We obtained active user lists for the four tested applications, and compared them to the list of 107 former employees with termination effective dates occurring during the period July 2010 through February 2012, and to the list of active accounts in Active Directory. Six of the 107 terminated employees had an active user account in COMPAS or EHD and an active account in Active Directory. After their terminations, as of March 13, 2012, these six employees continued to have access privileges for periods ranging from 42 to 237 days.

- The ARS is an Access database used to record checks received by the Division of Administration, Bureau of Revenue Management, and allows tracking and expedited research of checks deposited and recorded in FLAIR. Two employees were transferred from the Bureau of Revenue Management, Cash Receipts Unit, to the Bureau of Budget Management, to positions which did not require ARS access. As of February 8, 2012, the two employees continued to have ARS access privileges 61 and 140 days after their transfers, respectively.
- The COMPAS is used by the Division of Medical Quality Assurance in connection with the licensure and regulation of health care practitioners (e.g., medical doctors, nurses, and pharmacists). COMPAS includes receipt and deposit information for fees paid by health care professionals, along with licensure and enforcement information. We identified 26 former employees who continued to have active COMPAS user accounts for periods ranging from 26 to 478 days after termination of employment with Department (five of these 26 former employees also had active accounts in Active Directory). The Division's policy required supervisors to submit an access request form to System Support Services within five days of the employee's termination effective date to remove access privileges to the COMPAS.
- The EHD System maintains a Statewide database of environmental health information, which includes location of service facilities, permits, contracts, financial information, complaints, and Geographic Information System maps. We identified 75 former employees for whom EHD user accounts remained active for periods ranging from 51 to 629 days after termination of employment (one of these 75 former employees also had an active account in Active Directory). For removal of EHD access privileges, supervisors were to send a message through SharePoint to System Support Services when the employee terminated.
- The HMS provides CHD operational support much like applications used by private medical offices. HMS provides patient registration, scheduling, eligibility, service fee collection and history, accounts receivable, care coordination tracking, electronic laboratory test ordering, and test result functions. The HMS is a distributed system (i.e., each CHD operates HMS as a stand-alone system), and each CHD controls its user profiles, access, and permissions. Our review of active user lists from a sample of seven CHDs disclosed that, out of 3,721 active users in the seven CHDs, the access privileges of six former employees remained active for periods ranging from 161 to 703 days after termination of employment (none of these had active accounts in Active Directory). In the seven selected CHDs, System Administrators required supervisors to request removal of access privileges as part of the employee out-processing checklist.

Access privileges were not always timely removed because supervisors did not notify System Support Services staff of the employee's termination, or in some instances System Support Services staff did not remove access privileges upon supervisor's notification. Absent timely removal of access privileges, there is an increased risk that unauthorized System activity may occur and not be timely detected.

Recommendation: We recommend that the Department strengthen controls to better ensure the timely removal of access privileges of former employees and employees no longer requiring access. We also recommend that a record be maintained to demonstrate timely deactivation of access privileges for terminated employees.

Finding No. 10: FLAIR Access

The Department established policy and procedures for the deletion of Florida Accounting Information Resource Subsystem (FLAIR) access for terminated employees. Department supervisors were to notify the Department’s FLAIR Access Control Custodians when an employee terminated and the applicable Access Control Custodian was to remove the employee’s FLAIR access privileges. Also, on a quarterly basis, each Access Control Custodian was responsible for reviewing authorized FLAIR user names to ensure that the authorized access was still appropriate. Additionally, the Department’s Office of Policy and Systems within the Bureau of Finance and Accounting was to perform monthly audits involving an electronic matching of active FLAIR access control records to Department personnel data in People First. Active FLAIR access control records that were identified for employees who had terminated Department employment were to be manually verified and the employee’s FLAIR access control record placed in a delete or revoked status, as appropriate.

We reviewed the FLAIR access records for 51 employees with significant FLAIR update capabilities who had separated from the Department during the period July 2010 through November 2011. As shown by Table 4, our tests disclosed that the Department’s procedures were not operating effectively, as we found 47 instances in which the FLAIR access privileges of former employees had not been timely removed.

**Table 4
FLAIR Access Deactivation**

Days Elapsing from Termination to Access Deactivation	Number of Employees
2 to 7 days	6
8 to 47 days	27
48 to 606 days	14

In response to our audit inquiry, the Department indicated that a flaw in its electronic matching process resulted in the failure to detect the active accounts of the terminated employees. Absent timely deletion of unnecessary access privileges, the risk is increased that unauthorized FLAIR use may occur.

Recommendation: We recommend the Department strengthen controls to ensure that FLAIR access privileges are timely removed when no longer needed.

Finding No. 11: Cancellation of Purchasing Cards

The Department takes part in the State’s Purchasing Card Program (Program), which allows authorized personnel to charge expenses to a purchasing card account. The Department had 2,478 active purchasing cards as of February 2012, and used the cards to charge approximately \$70 million in expenditures during the period July 2010 through February 2012.

As a condition of participation in the Program, the Department is responsible for the implementation of key controls, including procedures providing for the timely cancellation of purchasing cards upon a cardholder’s separation from Department employment. According to the Department’s Purchasing Card Guidelines, supervisors were responsible for ensuring that cardholders stopped using the purchasing card immediately upon notification of termination, collecting and destroying the cards, notifying the Purchasing Card Program Administrator (PCPA) of changes in the cardholders’ status, and reconciling all outstanding purchasing card transactions prior to termination. The PCPA was

responsible for prompt cancellation of purchasing card accounts. Additionally, the Department had implemented biweekly and monthly electronic matches to assist Supervisors in identifying terminated employees for whom purchasing cards had not been deactivated in the FLAIR Purchasing Card module.

Our audit tests identified 1,866 cardholders who had separated from Department employment during the period July 1, 2010, through January 3, 2012. We noted that in 226 instances, the cardholder’s purchasing card was not timely canceled in the FLAIR Purchasing Card module. As shown by Table 5, the purchasing cards had remained active for periods ranging from 3 to 202 days after the cardholder’s date of separation from the Department.

**Table 5
Purchasing Card Deactivation**

Days Elapsing from Termination to Card Deactivation	Number of Purchasing Cards
3 to 30 days	158
31 to 60 days	39
61 to 90 days	13
91 to 202 days	16

Additionally, our tests disclosed seven instances in which charges totaling \$5,830 were made subsequent to the employee’s termination date. Specifically,

- Charges totaling \$3,588 were made through the use of the purchasing cards of three CHD employees subsequent to the employees’ termination. Department personnel indicated the merchant continued to charge the terminated employee’s purchasing card listed in its file when Department employees, other than the cardholder, placed orders. The charges were for legitimate business purposes such as dental and office supplies.
- For one CHD employee, Department-related travel expenses totaling \$2,242 were charged to the former employee’s purchasing card up to 3 months after the employee’s separation from the Department. We found that while the former employee worked as a contracted employee, the purchasing card remained active for 101 days after the cardholder had terminated employment. The charges were for legitimate business purposes. However, in accordance with the Department policy and procedures, contracted employees were not eligible for purchasing cards and travel costs for the contracted employee should not have been charged to a Department purchasing card.

As similarly noted in finding No. 10, ineffective electronic matches may have lessened the Department’s ability to more timely identify those terminated employees whose purchasing cards remained active after their separation from the Department. Absent timely cancellation of purchasing cards upon a cardholder’s separation from the Department, the risk is increased that unauthorized purchases may occur or not be timely detected.

Recommendation: We recommend that the Department continue its efforts to enhance procedures for identification of terminated employees to ensure the timely cancellation or deactivation of purchasing cards upon a cardholder’s separation from the Department.

Finding No. 12: Additional Employment

State law prohibits employees of State agencies from receiving compensation simultaneously from any appropriation source other than salaries, unless approved by the Department of Management Services (DMS), or as delegated to the

agency head.¹⁷ In order to document compliance with this requirement, the DMS has established a Dual Employment and Compensation Request (Request) form, that agencies are required to complete annually for each employee who simultaneously fills more than one State position (either full or part time), or who simultaneously fills a State position and receives compensation from an expense category. An example of the latter would be an individual who is either a full or part-time employee of an agency and also receives compensation through a vendor relationship with the Department. In addition to documenting the agency head’s approval for the dual employment, the Request also serves to document that the additional employment does not constitute a conflict of interest for the employee.

As part of our audit, we compared Department payroll records to vendor payment records and identified employees who, during the period July 2010 through February 2012, also had a vendor relationship with the Department and, thus, should have completed a Request. For 10 employees out of the 673 identified, with vendor payments totaling \$332,490 for various types of services, we reviewed Department records to determine whether the required Requests had been submitted and reviewed. As similarly noted in our report No. 2011-178, our audit tests disclosed that Requests were not available for nine employees and the Request for the tenth employee was not properly completed.

The Bureau of Human Resources communicated the requirement for submission of Requests to supervisors and employees through written procedures and periodic email bulletins. Additionally, Department personnel implemented computer matches to identify and report instances of dual employment. However, our review of the results of the Department’s computer matches disclosed that the matching process did not effectively identify employees who simultaneously received both salary and vendor compensation. Absent employee submission of the completed Requests and supervisory review of the additional employment activities, the Department has reduced assurance that the additional employment does not constitute a conflict of interest or interfere with the employee’s ability and availability to perform his or her job duties.

Recommendation: We recommend that the Department obtain and process properly completed Requests for the ten employees identified by our audit tests. We also recommend that the Department continue to communicate the need to adhere to established policies regarding additional employment. Further, we recommend that the Department review and make appropriate changes to its computer matching process to better identify any employees who may also have a vendor relationship with the Department. For any employees identified, the Department should ensure that the additional employment resulting from the vendor relationship has been reported to and appropriately reviewed by the employees’ supervisors and that such additional employment does not constitute a prohibited conflict of interest.

Finding No. 13: Leave Balance Audits

Accurate and complete records of employee leave balances are necessary to precisely track leave availability and usage, calculate amounts due to employees upon termination, and accurately report the State’s liability for compensated absences. Department Human Resource Management written policies (DOHP 60-3-10) require that when an employee separates from the Department, the servicing human resource office must conduct a manual leave and attendance audit to verify the accuracy of the employee’s electronic leave balances. The Department has issued the *Desk Manual for Conducting a Leave Audit* that provides instructions for leave balance audits.

We tested the leave balance records of 25 of the 3,394 employees who had separated from Department employment during the period July 2010 through February 2012. As similarly noted in report Nos. 2011-178, 2009-018, and 2007-087, our audit tests disclosed deficiencies in the conduct of leave balance audits. Specifically, we noted:

¹⁷ Section 216.262(1)(e), Florida Statutes.

- Leave balance audit documentation was not available for two employees, each located at a different CHD.
- The leave balance audit documentation for six CHD employees was dated subsequent to our audit request, 158 to 424 days subsequent to the employee's date of separation. For one additional CHD employee, the leave audit documentation was not dated and the Department was not able to provide the date the audit was completed. The leave balance audit documentation for these seven employees indicated that the leave balances were correct.

Absent the performance of leave balance audits, Department assurance related to the accuracy of employee leave balances is reduced, and leave balance payments made upon employee separation may not be properly calculated.

Recommendation: We recommend that the Department more closely monitor the performance of leave balance audits of the records of terminating employees.

Finding No. 14: Contract Documentation

Florida law requires State agencies to use a competitive solicitation process for procurement of contractual services in excess of \$35,000.¹⁸ The law provides exemptions to this requirement and allows noncompetitive procurement for various services, such as health services and services provided by governmental agencies, including State universities and colleges, as well as services provided by certain independent, nonprofit colleges and universities.¹⁹ The Department's procedures for noncompetitive contract procurement required the use of three forms to document contracting decisions: a Memorandum of Negotiation, Documentation for Noncompetitive Procurement, and a Cost/Price Analysis. We reviewed nine Children's Medical Services (CMS) contracts that were executed during the period July 2010 through February 2012. A Memorandum of Negotiation and a Documentation for Noncompetitive Procurement were applicable for six of the nine contracts that were not competitively procured and a Cost/Price Analysis was applicable for all nine contracts reviewed. As similarly noted in report No. 2011-191, while completed forms were generally present in the contract files, the explanations and information contained therein were not reflective of concerted staff efforts to procure the necessary services at an appropriate price. Specifically:

- The Memorandum of Negotiation form was to be used to document Department and provider staff meetings and discussions regarding contract terms and conditions and outcome measures. The form contained spaces to record information related to the negotiation, including the date and time of the meeting; the names, positions, and signatures of the parties representing the Department and the contractor; and a description of the contract services to be provided. The form also contained the sentences: "Contract terms and conditions were reviewed," and "Outcome measures were reviewed," with boxes to be checked by the CMS employee who completed the form. The completed forms that we reviewed for four contracts totaling \$9,940,426, of the six applicable contracts, did not document specifically what was discussed during the negotiation, or otherwise contain sufficient detail to demonstrate the degree to which the Department had attempted to negotiate terms more advantageous to the State, including lower prices and greater outcomes.
- The Documentation for Noncompetitive Procurement form was to be used to explain, for each procurement, why competitive purchasing was not practical or in the best interest of the Department, why the selection of the provider was the most advantageous for the State, and, if the provider was the only one available, how that was determined. For five of the six applicable contracts, the explanations on the forms were identical to each other and, in some cases, were not relevant to the specific contract or did not adequately describe why the selection of the provider was the most advantageous for the State and how that was determined. For example, each of the contracts we reviewed were for widely varied services (one contract was for medical services to eligible children; one was for services for children with hematological or oncological disorders; one contract was for care coordination and professional health care services; one contract was for newborn

¹⁸ Section 287.057(1), Florida Statutes.

¹⁹ Section 287.057(3)(f), Florida Statutes, and Section 287.057(21), Florida Statutes.

screening and long-term genetics evaluation and diagnostic services; and one contract was for medical foster care services). However, the form for each of these contracts contained the same generalized explanations. Specifically, the following explanations were provided in response to the form requirements:

- “Explain why formal competitive purchasing practices (i.e., request for proposals, invitation to bid, and invitation to negotiate) were not practical and/or in the best interest of the Department. State the situation necessitating the use of noncompetitive procedures: *The services that are required can only be provided by health care professionals who meet certain credentialing requirements and have access to facilities and support that meet quality of care criteria and are able to serve children with complex medical problems. For example, very few facilities or providers are credentialed to provide liver transplantation. The nature of the services is such that there is no or few competitors for the service(s). Services are also selected based on access and quality of care standards that are to be used for the non-Medicaid component of this program and therefore selects providers based on these standards.*”
 - “Explain the reasons for selection and why this selection represents the most advantageous decision for the state in terms of service and price. If this is the only provider willing or able to provide these services, state how this was determined: *Services are selected based on provider and facility standards which include national standards. CMS is mandated by statute to pay Medicaid rates, so price is not an issue. However, the qualifications of the facility or provider is an issue for the services that are required.*”
- The Cost/Price Analysis form was to be used to document how a contract price was determined, the methodology used in the determination, and a comparison to previous prices. Correctly completing the form in sufficient detail would help demonstrate how the Department determined the reasonableness of the contract price. However, for two of the nine applicable contracts, the proposed contract prices were shown incorrectly on the form. For one contract, the Cost/Price Analysis indicated a contract price of \$25,322,499, but the actual contract amount was \$27,352,494. For the other contract the Cost/Price Analysis indicated the contract price for the first year of the contract would be \$501,638, but the actual contract price for the first year was \$353,319. It appeared that these forms were prepared early in the contract development process and were not updated for subsequent price changes that occurred prior to execution of the contract.

Recommendation: The Department should improve its contracting procurement process to ensure that contracting decisions are based on concerted efforts to procure services at an appropriate price. The Department should also ensure that contracting documentation contains evidence of concerted staff efforts to comply with the intent of the Department procurement policy and procedures.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report Nos. 2011-178 and 2011-191.

OBJECTIVES, SCOPE, AND METHODOLOGY

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 from December 2011 to August 2012 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.

This operational audit focused on Central Pharmacy. The overall objectives of the audit were:

- To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report Nos. 2011-178 and 2011-191.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 1, 2010, through February 29, 2012, and selected actions through June 2012. For analyses requiring the use of complete fiscal year-end data, we used information for the 2010-11 fiscal year, which was the most recent fiscal year for which complete information was available as of the date of audit work. In conducting our audit we:

- Reviewed applicable laws, rules, regulations, and Department policies and procedures, and interviewed Department personnel to gain an understanding of the Department's Central Pharmacy operations.

- Obtained an understanding of internal controls and evaluated the effectiveness of key processes and procedures related to the Department's Central Pharmacy
- Obtained an understanding of IT controls, assessed the risks of those controls, evaluated whether selected general and application IT controls were in place, and tested the effectiveness of the controls during the period July 2010 through February 2012.
- Examined access privileges to the Active Directory, COMPAS, EHD, HMS, and ARS to determine whether the Department timely removed access privileges of former employees and employees no longer requiring access.
- Analyzed returned drug products in comparison to total drug distributions made during the period July 2010 through February 2012 to evaluate how efficiently drug inventory was managed.
- Analyzed the estimated value of returned expired and damaged drug products in comparison to actual amounts received and the service costs to return expired and damaged drug products during the period July 2010 through February 2012.
- Inquired with the Department of Children and Families, Agency for Persons with Disabilities, Department of Corrections, and Department of Juvenile Justice regarding their pharmaceutical uses and needs and the feasibility of expanding Section 340B Drug Price Program and consolidating pharmaceutical services under the Department of Health Central Pharmacy.
- Reviewed the Central Pharmacy's budget allocation process for the 2011-12 fiscal year to determine whether Department had adequately designed and implemented controls to comply with laws, rules, and other guidelines, and to promote budgetary control of the funds available for pharmaceuticals.
- Tested the June 2011 and July 2011 In-kind Allocation reports for the accuracy of the amounts used for in-kind allocations for the Epilepsy and Family Planning Programs.
- Examined support for 60 expenditure transactions made during the period July 2010 through February 2012 to determine whether the transactions were in accordance with laws, rules, and other guidelines, reasonable and necessary, authorized, properly recorded, and adequately supported.
- Examined 54 drug distributions and 8 reverse drug distributions made during the period July 2010 through February 2012 including mail-orders, distributions of prepackaged and repackaged drugs to CHDs, and returns, to determine whether the transactions were in accordance with laws, rules, and other guidelines, properly authorized and recorded, and processed in a timely and accurate manner.
- Reviewed internal policies and inspected records and reports to determine whether selected controls were adequately designed and implemented to effectively and efficiently manage drug inventories during the period July 2010 through February 2012.
- Observed internal controls over drug inventory and equipment management and reviewed related documents and records to determine whether the Department had adequately designed and implemented controls to efficiently manage drug inventories during the period July 2010 through February 2012.
- Analyzed distribution data and quarantine logs for the period July 2010 through February 2012 to determine the quantity of drugs returned through the reverse drug distributor in comparison to the total quantity of drugs dispensed and distributed through the Central Pharmacy.
- Analyzed reverse drug distributor data and compared the Estimated Returnable Value of the returned drugs, actual reimbursements received, and service fees paid to determine the actual rates of the service fees paid by the Department for the period September 2009 through June 2012.
- Observed the Central Pharmacy's Medicaid reimbursement process and tested Medicaid claims submission and collections data for the period July 2010 through February 2012.
- Inspected records to determine whether a consultant pharmacist within the BPS in meeting the requirements of Section 154.04, Florida Statutes, had conducted the required inspections of all 67 CHDs during the period July 2010 through December 2011.

- Reviewed the FLAIR access records for 51 employees with significant FLAIR update capabilities who had separated from the Department during the period July 2010 through November 2011.
- Reviewed the FLAIR and Department records for 1,866 cardholders who had separated from Department employment during the period July 1, 2010, through January 3, 2012, to determine whether the cardholder’s purchasing card was timely cancelled and whether charges were made subsequent to the employee’s termination.
- Evaluated Department actions taken to correct the deficiencies noted in our report Nos. 2011-178 and 2011-191. Specifically, we:
 - Identified employees who also had a vendor relationship with the Department during the period July 2010 through February 2012. For 10 of the identified employees, we reviewed Department records to determine whether the required Dual Employment and Compensation Request form had been submitted and reviewed.
 - Tested leave balance records for 25 of the 3,394 employees who had separated from Department employment during the period July 2010 through February 2012, to determine whether leave balance audits were performed prior to the payout of any unused leave.
 - Reviewed nine Children’s Medical Services contracts that were executed during the period July 2010 through February 2012, to determine whether contract documentation demonstrated that a concerted effort was made to obtain necessary services at the appropriate price and that Department staff had complied with established documentation procedures.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Communicated on an interim basis with applicable Department officials to ensure the timely resolution of issues involving controls and noncompliance.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe those matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. 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

In a response letter dated September 16, 2013, the State Surgeon General of the Department provided responses to our audit findings and recommendations. The letter is included at the end of this report as **EXHIBIT B**.

EXHIBIT A
RECAP OF INVENTORY MANAGEMENT CONTROL TEST RESULTS
FINDING NO. 2

Drug Item Number	Drug Name	Out-of-stock conditions existed	Expirations of drug product could have been avoided or reduced	Physical inventory count sheet could not be provided to evidence the physical inventory count	No completed Inventory Adjustment/Expired Product form to document reasons for discrepancy or expired drug product
1	Trileptal 300mg, Tablet	X			X
2	Cyproheptadine Hydrochloride 4mg, Tablet	X	X		X
3	Daraprim 25mg, Tablet	X		X	X
4	Didanosine 400mg, Capsule			X	X
5	Epivir 10mg/ml, Solution	X		X	X
6	Phenobarbital 15mg, Tablet		X		X
7	Phenobarbital 100mg, Tablet	X			
8	Lyrica 200mg, Capsule		X		X ^a
9	Lyrica 50mg, Capsule	X			
10	Morphine Sulfate 10mg/ml, Vial				X
Total		<u>6</u>	<u>3</u>	<u>3</u>	<u>8</u>

^a Did not complete an Inventory Adjustment/Expired Product Form, but a notation was made on the Controlled Substance Log to document the reason for the difference between the monthly physical count and the inventory records.

Source: Department records.

**EXHIBIT B
MANAGEMENT'S RESPONSE**

Mission:

To protect, promote & improve the health of all people in Florida through integrated state, county & community efforts.



Vision: To be the Healthiest State in the Nation

Rick Scott
Governor

John H. Armstrong, MD, FACS
State Surgeon General & Secretary

September 16, 2013

Mr. David W. Martin, CPA
Auditor General
Room G74, Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

We are pleased to respond to the preliminary and tentative audit findings and recommendations concerning the Auditor General's audit: Department of Health Central Pharmacy, Selected Administrative Activities, and Prior Audit Follow-Up. Our response, to the findings, is enclosed as required by section 11.45(4)(d), *Florida Statutes*.

We appreciate the effort of you and your staff in assisting to improve our operations. If you have any questions, please contact our Director of Auditing, Michael J. Bennett by calling (850) 245-4444 extension 2150.

Sincerely,

John H. Armstrong, MD, FACS
State Surgeon General

JHA/kir
Attachment

cc: James D. Boyd, CPA, MBA
Inspector General
Michael J. Bennett, CIA
Director of Auditing

**EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE**



Preliminary and Tentative Findings

Report # TBD
Report Title: Department of Health Central Pharmacy, Selected Administrative Activities, and Prior Audit Follow-Up a
Report Date: TBD

Number	Finding	Recommendation	Management Response	Corrective Action Plan
1	The Central Pharmacy did not ensure that all drug formularies were reviewed, certified, or approved.	We recommend that the drug formularies be reviewed no less than once each year and that the reviews and approvals are made a matter of record.	Concur. Bureau of Public Health Pharmacy (BPHP) will utilize the Department of Health (DOH) Pharmaceutical and Therapeutic (P&T) Committee to review and approve all drug formularies on a periodic basis. 2013 approved Charter specifies quarterly meetings. Voting and non-voting members will be appointed and meeting scheduled.	BPHP will perform the following actions to address this finding: 1. Developed a new Charter containing the responsibilities for formulary review under the Scope of Work paragraph, and included a paragraph explaining the procedure for Formulary Consideration; 2. Quarterly meetings have been established by the approved charter. First meeting date is to be determined; 3. Amendment to the Charter will be developed to include "Formulary Review" in the master agenda as stated in the Charter.
2	Opportunities for improvement of the Department's pharmaceutical inventory management controls were identified.	We recommend that the Department enhance its pharmaceutical inventory management controls to better ensure accountability for pharmaceutical inventories. Additionally, the Department should enforce its physical inventory procedures and clearly document the physical inventory count performed, the comparison of the physical inventory counts and the related inventory records, and the investigation and resolution of differences.	Concur. The following Internal Operating Procedures (IOP) are in place relative to inventory control: IOP 22-13, Central Pharmacy Ordering Inventory IOP 38-13, Pharmacy DOC Drug Ordering and Inventory Reconciliation IOP 53-13, Reporting Discrepancies on Received Goods	BPHP will perform the following actions to address this finding: 1. Review and revise the existing IOPs relative to inventory controls to ensure the procedures reflect actual process; 2. Enhance the supporting inventory systems to ensure optimum utilization for inventory control; 3. Ensure staff is properly and completely trained in inventory management procedures including the proper use of the supporting documentation; 4. Develop measurements to determine and monitor errors and interventions and aid in corrective actions; 5. Establish periodic inventory counts to determine variance from supporting inventory records.

**EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE**



Preliminary and Tentative Findings

Report # TBD
Report Title: Department of Health Central Pharmacy, Selected Administrative Activities, and Prior Audit Follow-Up a
Report Date: TBD

Number	Finding	Recommendation	Management Response	Corrective Action Plan
3	The county health departments (CHDs) did not consistently use the Department's Pharmaceutical Forms System (PFS) when returning damaged and expired drugs to the Central Pharmacy.	We recommend that the Bureau of Public Health Pharmacy (as Bureau of Statewide Pharmaceutical Services' successor) continue to encourage the CHDs to use the PFS to properly document the shipment of all returned prescription drugs to the Central Pharmacy. We also recommend that the Department consider incorporating provisions in its contracts with the CHDs requiring the utilization of the PFS.	Concur. BPH-P will continue to work with the CHDs as our strategic partners utilize the PFS system as standard practice when returning drugs to Central Pharmacy to be redistributed and/or destroyed.	Although BPH-P currently has no purview over the CHDs to enforce compliance, the following actions will be performed to continue the CHDs to follow proper procedures when returning prescription drugs: 1. The issue will be included as a recurring agenda item on the monthly Statewide Pharmacist conference call; 2. A review and revision of current external procedures (DOHP 359-1-12) and IOPs relative to the return of product to ensure the clarity and comprehensiveness of procedures; 3. Ensure staff is properly and completely trained in returned product procedures including the proper use of the supporting documentation; 4. A memorandum will be developed for dissemination to CHDs detailing the proper procedure for returning product emphasizing the exclusive use of the PFS Returned Goods form; 5. A bulletin will be developed to be placed on the PFS Bulletin page to remind PFS users of the proper return procedure; 6. The Bureau of Public Health Pharmacy will work with Department leadership to explore the feasibility of requiring all CHDs to use PFS. BPH-P will perform the following actions to address this finding: 1. Implement a "True-Cost" method of analysis based on the actual cost of the product returned compared to the credit received to determine a loss rate; 2. Enhancements to the PFS to allow for expanded reporting on returned product; 3. Verify the contract requirements and deliverables with prime vendor Guaranteed Returns to ensure proper credit is applied consistently.
4	Additional analyses of overstocked and expired drug supplies may assist the Department in reducing losses incurred upon disposition.	We recommend that the Department establish procedures to estimate the costs of drugs returned and calculate the related losses incurred. Analyses of the types and quantities of returned drugs should also be made to assist the Department in minimizing future losses. The Department should also implement procedures to verify that the amounts received are reasonable in relation to the types and quantities of the drugs returned and that the fees paid are consistent with contract requirements.	Concur. The BPH-P will encourage the use of the PFS Perpetual Inventory Barcode procedures to track CHD inventories for potential excess/returned product.	BPH-P will perform the following actions to address this finding: 1. Implement a "True-Cost" method of analysis based on the actual cost of the product returned compared to the credit received to determine a loss rate; 2. Enhancements to the PFS to allow for expanded reporting on returned product; 3. Verify the contract requirements and deliverables with prime vendor Guaranteed Returns to ensure proper credit is applied consistently.

**EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE**



Preliminary and Tentative Findings

Report # TBD
Report Title: Department of Health Central Pharmacy, Selected Administrative Activities, and Prior Audit Follow-Up a
Report Date: TBD

Number	Finding	Recommendation	Management Response	Corrective Action Plan
5	The Central Pharmacy did not maintain documentation to evidence the Department's determination of insurable values for pharmaceuticals.	We recommend that the Central Pharmacy periodically determine the value of its pharmaceuticals on hand and maintain documentation to evidence the Department's determination of the amount of insurance coverage needed for pharmaceuticals in the Central Pharmacy and its warehouse.	Concur.	<p>BPHP will perform the following actions to address this finding:</p> <ol style="list-style-type: none"> 1. Implement a monthly inventory reporting of current On-Hand amounts to be conducted and submitted on the last business day of the month to develop a baseline for an average to determine inventory coverage; 2. Develop and implement internal operating procedures for reporting On-Hand amounts.
6	Medicaid billing procedures did not ensure that all eligible claims were submitted and reimbursed.	We recommend that the Central Pharmacy work with CHDs to enhance the Department's Medicaid billing procedures for prescribed drugs to improve the effectiveness and efficiency of the procedures and to ensure all eligible claims are submitted for reimbursement. Consideration should be given to clarifying in the Department's financial procedures, the responsibilities of the Department and the CHDs for submitting claims for Medicaid reimbursements.	<p>Concur.</p> <p>Refer to DOHP 395-1-12, Public Health Pharmacy Policies and Procedures for County Health Departments and DOHP 58-58-13, DOH Accounting Procedures Manual. In addition, BPHP will implement periodic and recurring discussions with the department's Medicaid Office to address CHD concerns and changes to Medicaid protocols to alert responsible statewide staff.</p>	<p>BPHP will perform the following actions to address this finding:</p> <ol style="list-style-type: none"> 1. A review and revision of current external procedures (DOHP 395-1-12) and IOPs relative to the Medicaid Billing procedures to ensure the clarity and comprehensiveness of procedures; 2. Ensure staff is properly and completely trained in the correct method of applying for Medicaid reimbursement to reduce the number of denied claims; 3. Develop and implement procedures for the reconciliation of denied claims; 4. Expand the ability of the Business Operations Office to allow more staff to make application for Medicaid reimbursement.
7	To lower the State's pharmaceutical costs, the Department should study the feasibility of the expanded use of the Section 340B Pricing Program.	To take advantage of potential cost savings through the Section 340B Drug Pricing Program, the Department and the Department of Corrections (DOC) should consider expanding, to the extent practical, the Sexually Transmitted Disease (STD) Specialty Care Project to serve all of the DOC's HIV-infected inmate population. The Department should also determine the feasibility and potential cost savings to the State of entering into similar agreements with other State agencies and seek Legislative authority as needed.	Concur.	<p>BPHP will perform the following actions to address this finding:</p> <ol style="list-style-type: none"> 1. BPHP will work in partnership with DOC to expand the STD Specialty Care Project. 2. BPHP will research the feasibility and possibility of expanding to other state agencies.

**EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE**



Preliminary and Tentative Findings

Report # TBD
Report Title: Department of Health Central Pharmacy, Selected Administrative Activities, and Prior Audit Follow-Up a
Report Date: TBD

Number	Finding	Recommendation	Management Response	Corrective Action Plan
8	The Department's pharmaceutical budget and expenditure allocation procedures for the CHDs did not ensure that CHD pharmaceutical budgets and expenditures were reasonably allocated and properly monitored.	We recommend the Bureau of Public Health Pharmacy (as BSFS successor) implement procedures, such as independent review, to ensure that budget allocation formulas are accurate and contain all relevant data and that a consistent methodology is used. Documentation should also be maintained to explain reasons for any changes in allocation formulas and methodologies. Additionally, we recommend the Bureau consider enhancements to existing systems and procedures to streamline the CHD budget and expenditure allocation process and to provide for reconciliation of expenditures charged to the CHDs to expenditures recorded in Florida Accounting Information Resource Subsystem (FLAIR).	Concur with the findings at the time of the audit; however, budgetary procedures relative to pharmaceutical procurement centralizing the budget management from the CHD allocation level to the Drug Budget Committee level were implemented after the audit period. The budget relative to the procurement of pharmaceutical product is no longer allocated to the CHDs. All budgets are allocated by the Drug Budget Review Committee by program office and managed at the BP-HP level by the Business Operations Office.	No Corrective Action Required.
9	Information technology access to Department applications was sometimes not timely revoked upon employee termination or transfer.	We recommend that the Department strengthen controls to better ensure the timely removal of access privileges of former employees and employees no longer requiring access. We also recommend that a record be maintained to demonstrate timely deactivation of access privileges for terminated employees.	Concur.	Bureau of General Services will provide staffing terminations or transfers to all impacted systems using an alerting notification email.
10	The Department did not timely remove FLAIR access privileges of former employees.	We recommend the Department strengthen controls to ensure that FLAIR access privileges are timely removed when no longer needed.	The Division of Administration, Bureau of Budget/Revenue Management concurs with the finding and will strengthen and improve the monitoring process to ensure timely removal of FLAIR access privileges of former employees.	1. A distribution list has been developed that enables the personnel office to send out a notice to the Flair Administrator and his staff at the time employees leave the agency. This will enable a timely deactivation of FLAIR access. 2. In addition, the FLAIR Administrator will complete a monthly manual reconciliation of FLAIR access to active PeopleFirst employees.
11	The Department did not always timely cancel purchasing cards upon the cardholder's separation from Department employment.	We recommend that the Department continue its efforts to enhance procedures for identification of terminated employees to ensure the timely cancellation or deactivation of purchasing cards upon a cardholder's separation from the Department.	The Division of Administration, Bureau of Finance and Accounting concurs with the findings. DOH will update monitoring procedures to ensure timely cancellation and deactivation of purchasing cards upon a card holder's separation from the department.	1. A distribution list has been developed that enables the Personnel office to send out a notice to the Purchasing Card Administrator at the time employees leave the agency. This will enable a timely cancellation of purchasing cards. 2. In addition, the Purchasing Card Administrator will perform monthly manual audits to ensure all departed employees purchasing cards have been cancelled.

**EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE**



Preliminary and Tentative Findings

Report # TBD
Report Title: Department of Health Central Pharmacy, Selected Administrative Activities, and Prior Audit Follow-Up a
Report Date: TBD

Number	Finding	Recommendation	Management Response	Corrective Action Plan
12	Approved Dual Employment Compensation Requests were not available for Department employees who had a vendor relationship with the Department.	We recommend that the Department obtain and process properly completed Requests for the ten employees identified by our audit tests. We also recommend that the Department continue to communicate the need to adhere to established policies regarding additional employment. Further, we recommend that the Department review and make appropriate changes to its computer matching process to better identify any employees who may also have a vendor relationship with the Department. For any employees identified, the Department should ensure that the additional employment resulting from the vendor relationship has been reported to and appropriately reviewed by the employees' supervisors and that such additional employment does not constitute a prohibited conflict of interest.	Concur.	The computer matching process will be changed to better identify employees with a vendor relationship with the Department.
13	CHD staff did not always conduct appropriate leave balance audits for employees separating from Department employment.	We recommend that the Department more closely monitor the performance of leave balance audits of the records of terminating employees.	Concur. The requirement to conduct terminal leave audits is stated in DOHP 60-3-13. In addition, our liaisons are reminded of this requirement periodically on the Bureau of Human Resources (HR) conference calls.	HR will randomly select a percentage of separation transactions for all CHDs on a bi-annual basis for completed leave audits.
14	The Department procedures for noncompetitive contract procurement required the use of three forms to document contracting decisions: a Memorandum of Negotiation, Documentation for Noncompetitive Procurement, and a Cost/Price Analysis. While we noted that completed forms were generally present in the contract files tested, the explanations and information contained therein were not reflective of concerned staff efforts to procure the necessary services at an appropriate price.	The Department should improve its contracting procurement process to ensure that contracting decisions are based on concerted efforts to procure services at an appropriate price. The Department should also ensure that contracting documentation contains evidence of concerted staff efforts to comply with the intent of the Department procurement policy and procedures.	Concur. The Children's Medical Services (CMS) program will work with legal and DOH contract administration unit to ensure better review of contract memorandum of negotiation, documentation for non-competitive procurement, and cost/price analysis is correctly adhered to in each contract.	CMS has already provided direction to its contract managers on how to better document non-competitive procurement. CMS also expects to identify a lead worker for contracts, so that all contract manager staff have a point person within the program to ask questions and ensure improved performance.