



## Office of Internal Audit

**Audit of Pharmacy Operations**

**Report No. 16/17-10**

**March 28, 2017**

**Date:** March 28, 2017

**To:** John Rock, Dean, FIU Herbert Wertheim College of Medicine and  
Senior Vice President for Medical Affairs  
  
Eneida Roldan, Chief Executive Officer of the FIU Health Care Network

**From:** Allen Vann, Chief Audit Executive 

**Subject:** **Audit of Pharmacy Operations, Report No. 16/17-10**

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Pursuant to our approved annual plan, we have completed an audit of Pharmacy Operations. The primary objective of our audit was to determine whether financial and operational controls over pharmacy operations are adequate and effective. Specifically, we evaluated: 1) financial management, including billing and collections; 2) controls over inventory, safeguarding and dispensing of drugs; and 3) compliance with applicable laws, rules and regulations, and University policies and procedures.

Overall, our audit disclosed that controls over pharmacy operations are satisfactory. However, in order for the program to better align strategically with the University's mission and goals, management acknowledged the need to move the pharmacy operations closer to self-sustainability as is the case with most other auxiliary activities. During the fiscal year 2016, \$280,000 in the student health fee was applied towards an operating loss. Similarly, for the current fiscal year, \$331,000 in the student health fee has been set aside to support pharmacy operations. Our audit resulted in five recommendations which management agreed to implement.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: FIU Board of Trustees  
Mark B. Rosenberg, University President  
Kenneth G. Furton, Provost and Executive Vice President  
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Javier I. Marques, Chief of Staff, Office of the President  
Larry Lunsford, Vice President of Student Affairs  
Liane Martinez, Executive Associate Dean for HWCOM Finance & Administration  
Oscar Loynaz, Director, Student Health Services

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## **OBJECTIVES, SCOPE AND METHODOLOGY**

Pursuant to our approved annual plan, we have completed an audit of Pharmacy Operations. The primary objective of our audit was to determine whether financial and operational controls over pharmacy operations are adequate and effective. Specifically, we evaluated: 1) financial management, including billing and collections; 2) controls over inventory, safeguarding and dispensing of drugs; and 3) compliance with applicable laws, rules and regulations, and University policies and procedures.

Our audit included Pharmacy activities for the period from July 1, 2015 through June 30, 2016. The audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures, as we considered necessary under the circumstances. Audit fieldwork was conducted from August to October 2016.

During the audit, we:

- Reviewed University policies and procedures, and applicable State and Federal regulations;
- Reviewed Pharmacy operating procedures and guidelines;
- Observed and evaluated current practices and processing techniques;
- Interviewed responsible personnel; and
- Tested selected transactions.

Sample sizes and transactions selected for testing were determined on a judgmental basis.

As this was the first internal audit of Pharmacy Operations, there were no prior internal audit recommendations related to the scope and objectives of this audit requiring follow-up. Similarly, there were no other external audit reports issued during the last three years with any applicable recommendations related to the scope and objectives of this audit.

## **BACKGROUND**

FIU Student Health Services (SHS) provides affordable and accessible student-focused medical care and promotes healthy lifestyles through education, mentorship, and research activities, thus facilitating the academic success of students. Services are offered in the areas of Clinic and Pharmacy services. The majority of student health services are provided within the Student Health Center located at the Modesto A. Maidique Campus (MMC) and the Student Health Services building at the Biscayne Bay Campus (BBC).



(Student Health Center at MMC)



(Student Health Services at BBC)

SHS is mainly funded by the Student Health Fee, which is a mandatory fee that is charged to all students each semester, except those enrolled in a fully-online degree program, high school dual enrolled, employees using tuition waivers, and students enrolled in programs outside of the U.S. such as Tianjin, Jamaica, etc. Services covered by the Student Health Fee include primary health care, health education, limited specialty care, class presentations, health fairs, services for students with disabilities, counseling for issues such as anxiety or depression, and support services for victims of emotional or physical abuse. These services are provided for free or at a nominal fee.

During the academic year 2015-2016, students paid a health fee of \$93.69 per semester. The fee allows the University to fund various departments and programs that provide students with quality and affordable clinical, preventative care, and mental health services at convenient on-campus locations. These include:

- Student Health Clinics;
- Health Living Program;
- Counseling and Psychological Services;
- Victim Empowerment Program; and
- Disability Resource Center.

Effective July 1, 2015, all clinical services provided by SHS transitioned from being under the FIU Division of Student Affairs to being managed by the FIU Academic Health Center Health Care Network Faculty Group Practice, Inc. (HCN). These services included General Care (well care and preventive care), Behavioral Health and Psychiatry,

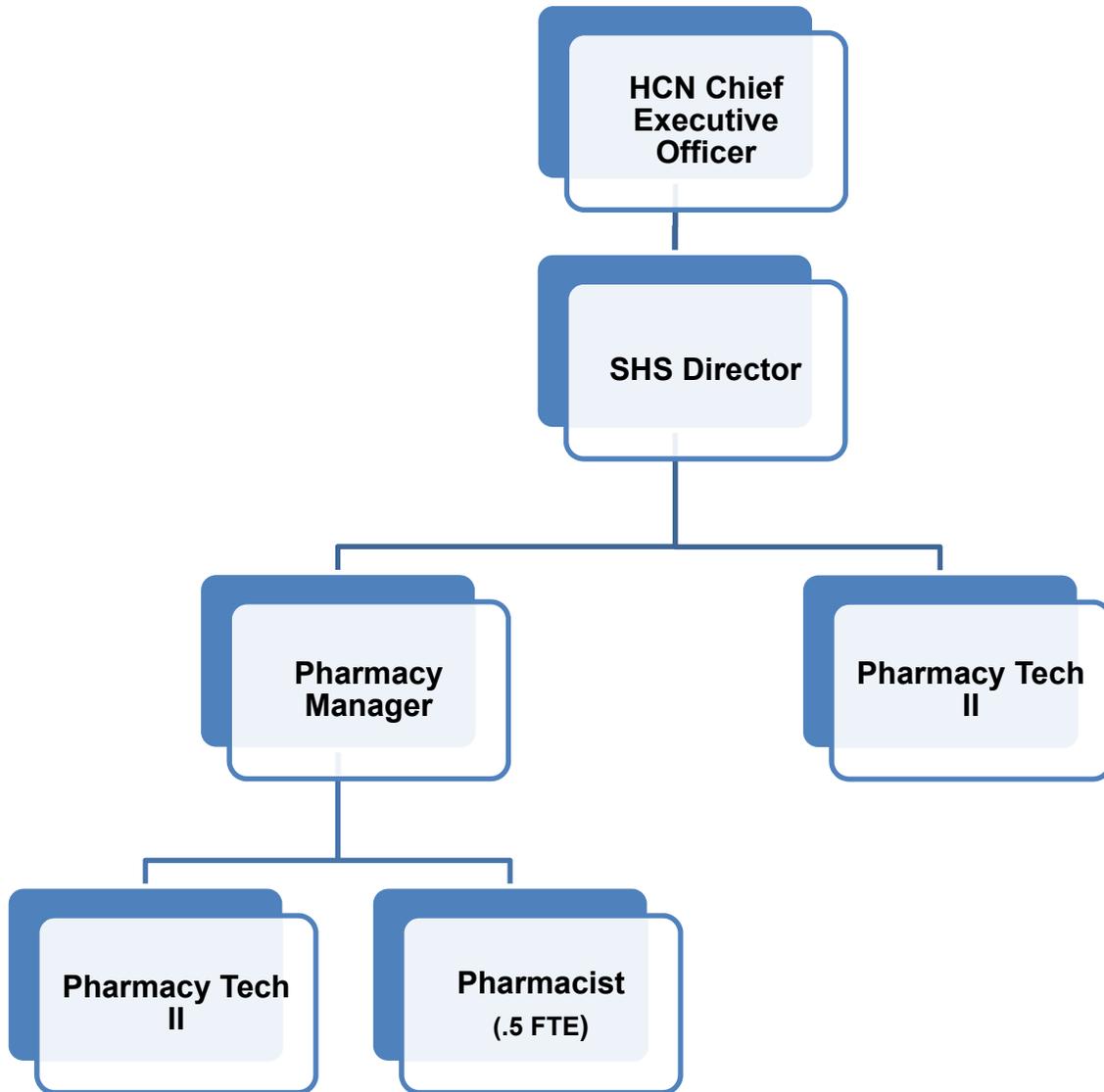
Women's Health, Laboratory services, Immunizations/Vaccinations, Sexually Transmitted Infection Testing and Treatment, and Pharmacy services. Counseling and Psychological Services, the Disability Resource Center, Victim Empowerment and other wellness services remained under the Division of Student Affairs.

The Pharmacy Department (Pharmacy) at MMC is a full-services pharmacy staffed by a licensed pharmacist. The Pharmacy accepts most major insurances including Medco and Express Scripts, and fills prescriptions from FIU medical staff as well as outside physicians. Over-the-counter medications, vitamins, hygiene products and other health and beauty items are also available at discounted prices. At BBC, there is no a full-service pharmacy, but medications are available for students when they are seen by SHS clinical staff.



## Organizational Structure and Personnel

As of December 31, 2016, the Pharmacy department had three full-time employees and one part-time employee. Salaries and benefits of other employees such as the HCN Chief Executive Officer and the SHS Director were not charged to the department. The organizational chart is depicted below.



## Financial Information

During the fiscal year 2015-2016, the Pharmacy generated a total revenue of \$522,790 from fee-for-services, while expending \$799,523, which resulted in deficit of \$276,733. Student Health Fee revenues were used to cover the deficit. Below is a summary of financial activities.

| Pharmacy Services<br>Financial Activities for fiscal year 2015-2016 |                     |                    |
|---|---------------------|--------------------|
| <b>Beginning Fund Balance, July 1, 2015</b>                         |                     | <b>\$ (3,183)</b>  |
| <b>Revenues:</b>  |                     |                    |
| <b>Fee-for-Services</b>   | \$ 522,790          |                    |
| <b>Total Revenues</b>   | <u>\$ 522,790</u>   |                    |
| <b>Expenses:</b>  |                     |                    |
| <b>Salaries &amp; Benefits</b>                                      | \$ 329,876          |                    |
| <b>Pharmaceutical Products</b>                                      | 425,508             |                    |
| <b>Other Operating Expenses</b>                                     | <u>44,139</u>       |                    |
| <b>Total Expenditures</b>   | <u>\$ (799,523)</u> |                    |
|   |                     |                    |
| <b>Net Loss</b>   |                     | <b>(276,733)</b>   |
| <b>Transferred from Student Health Fee</b>                          |                     | <u>279,916</u>     |
| <b>Ending Fund Balance, June 30, 2016</b>                           |                     | <u><u>\$ 0</u></u> |

## FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that financial and operational controls over pharmacy operations were adequate and appropriately aligned with the University policies and procedures, applicable laws, rules and regulations. However, there were areas that need improvement, particularly related to financial sustainability and revenue controls.

Our overall evaluation of internal controls is summarized below.

| <b>INTERNAL CONTROLS RATING</b> |   |  |   |
|---------------------------------|---|--|---|
| <b>CRITERIA</b>                 | <b>SATISFACTORY</b>                                 | <b>FAIR</b>  | <b>INADEQUATE</b>   |
| Process Controls                |   | X  |   |
| Policy & Procedures Compliance  | X   |  |   |
| Effect                          |   | X  |   |
| Information Risk                | X   |  |   |
| External Risk                   | X   |  |   |
| <b>INTERNAL CONTROLS LEGEND</b> |   |  |   |
| <b>CRITERIA</b>                 | <b>SATISFACTORY</b>                                 | <b>FAIR</b>  | <b>INADEQUATE</b>   |
| Process Controls                | Effective   | Opportunities exist to improve effectiveness         | Do not exist or are not reliable  |
| Policy & Procedures Compliance  | Non-compliance issues are minor                     | Non-Compliance Issues may be systemic                | Non-compliance issues are pervasive, significant, or have severe consequences                                   |
| Effect                          | Not likely to impact operations or program outcomes | Impact on outcomes contained                         | Negative impact on outcomes   |
| Information Risk                | Information systems are reliable                    | Data systems are mostly accurate but can be improved | Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions |
| External Risk                   | None or low   | Medium   | High  |

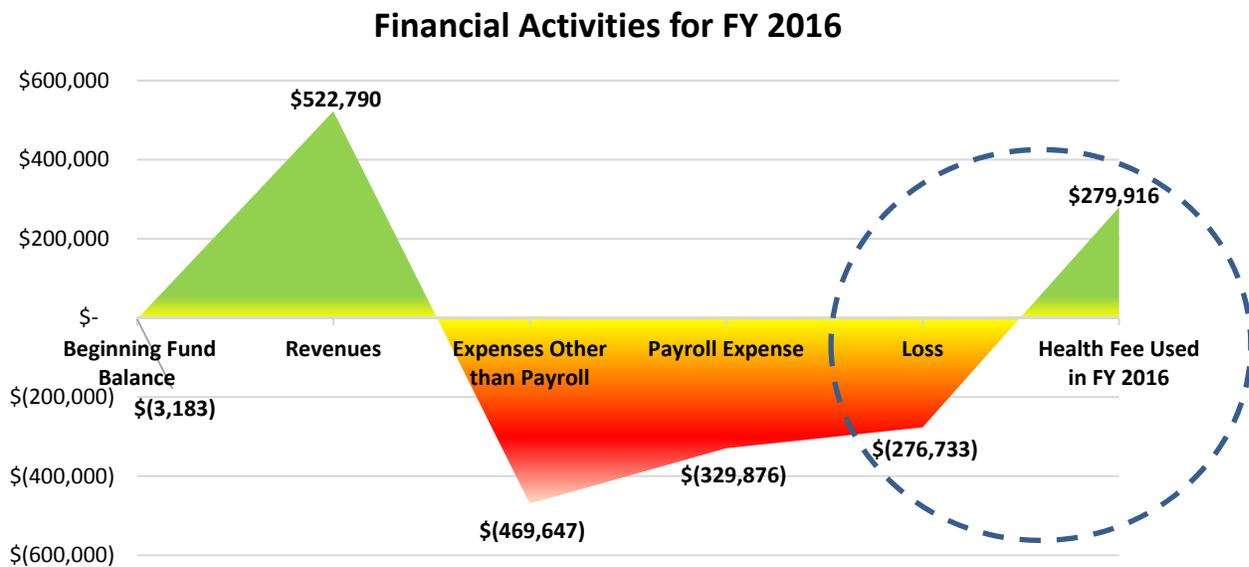
The areas of our observations during the audit are detailed below.

## 1. Financial Management

The Pharmacy is operated as an Auxiliary Enterprise Operation for students, faculty and staff and is a stand-alone unit under the management of HCN. Thus, its revenues and expenditures are recorded under a single activity number, which provides financial results of operations, as required by BOG Regulation 9.013, *Auxiliary Operations*.

### a) Sustainability of Pharmacy Operations

Our review of the Pharmacy’s financial activities disclosed that its operations are not fully sustainable on its own, although it is an auxiliary operation and managed as a self-supporting activity through the fees charged to students and others. For the fiscal year 2015-16, approximately \$280,000 of the health fee collected from students was used to cover an operating loss of \$276,733 and a negative fund balance of \$3,183 in the Pharmacy’s operations, as illustrated below.



For the fiscal year 2016-17, approximately \$331,000 was also budgeted from the student health fee to support the Pharmacy’s operations, mainly for employees’ salaries and benefits. The health fee, however, does not cover students’ medication (prescription, injection, and over-the-counter) or other items sold by the Pharmacy.

BOG Regulation 9.013(3) states, “Each institution may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for athletics, which shall be a self-supporting entity.” Accordingly, the University established its Auxiliary Enterprises Operating Guidelines, which require auxiliary operations to be managed as self-supporting activities through the fees they charge their customers for products or services rendered. Since the Pharmacy is operated as a fee-for-service entity

and managed as a self-supporting auxiliary activity, it is necessary to working towards eliminating its operating deficit.

## **b) Revenue Controls**

During the audit period, the Pharmacy generated revenues totaling \$522,790 from filling prescriptions and selling health and wellness products. There are opportunities for revenue control improvements in the following areas:

1. The price charged to the FIU Center for Children and Families for clinical drugs was unsupported.

The Pharmacy charges the FIU Center for Children and Families (CCF) a \$35 fee per hour, 10 minutes per prescription for services involved to assist in the implementation and completion of clinical drug studies. These services include ordering and storing medication, filling prescriptions and dispensing. According to the Pharmacy Manager, the \$35 fee was said to be the amount allocated in CCF's budget at the time of the initial study in 2010. However, no written documentation existed to support this amount and no further negotiations have been held to determine if the fee is still a feasible amount for the services provided. For the fiscal year 2015-16, the Pharmacy generated approximately \$17,000 for the services provided to CCF.

2. The daily collection report did not accurately reflect the daily payments received by the Pharmacy.

A SHS Finance Representative posts daily payments to student accounts in the Student Health System (PyraMED5), which produces the "Breakdown of Payments by Division" report. However, we noted that the report did not accurately break down the daily payments received by each area of operations, as the Clinic and Pharmacy payments were combined. The actual amounts received by the Pharmacy were not accurately reflected on the report, thus making it difficult to determine if all payments received were properly deposited into its account.

3. Unpaid insurance claims were not reported in the account receivable system in a timely manner.

Although the Pharmacy had an adequate process in place to identify unpaid claims (revenue due) and for applying payments (revenue received) for insurance claims submitted in ProPharm, we noted that this information was not being communicated to or evaluated by the Patient Account Representative Specialist. The Patient Account Representative Specialist's involvement only included depositing the checks received from the various insurance companies, therefore, she had no knowledge of outstanding accounts receivable from insurance claims. For example, she had no information as of September 2, 2016; there were \$3,105 outstanding revenues from 36 insurance claims submitted in February 2016, seven months ago.

Having firsthand knowledge of unpaid insurance claims would provide an accurate account receivable aging report and better collection efforts.

4. Reconciliations were not being performed.

The Patient Accounts Representative Specialist was behind on performing reconciliations, as well as posting payments received because other duties took precedence and were more of a priority. For example, we noted two cases totaling \$73,234 in which a smart bill (internal billing between departments within the University) sent to the Center for Children and Families was outstanding for over 90 days, was denied and had to be re-submitted for payment. Performing reconciliations between billings, collections, depositing, and recording a more frequent basis could identify and resolve these type of issues in a timely manner.

**Recommendations**

|                     |  |
|---------------------|--|
| The HCN/SHS should: |  |
| 1.1                 | Reevaluate its pharmacy operations for possibility of generating more revenues and/or reducing its expenses to be a fully self-supporting activity.  |
| 1.2                 | Reassess the price charged to the Center for Children and Families for clinical drugs, maintain supporting documents for the price development, and renegotiate the price with them, if necessary. |
| 1.3                 | Segregate and post payments received by each area of operations, such as Pharmacy and Clinic in the Student Health System (PyraMED5).  |
| 1.4                 | Ensure that unpaid insurance claims are provided to the Patient Account Representative Specialist and reported in the account receivable system in a timely manner.                                |
| 1.5                 | Perform reconciliations to ensure that all Pharmacy revenues are collected, deposited, and recorded.   |

## **Management Response/Action Plan:**

- 1.1 The pharmacy began operating as a unit within the Student Health Services (SHS) department in March of 2004. (Prior to that date, medication was dispensed at MMC in the same manner as is currently being done at BBC). The Pharmacy operation (personnel and other indirect costs) have historically been fully funded by the student health fee. However, student health fee dollars are not used to purchase items for re-sale). SHS leadership has never received a directive to operate the pharmacy without the use of student health fee dollars. When the HCN assumed management responsibility for the pharmacy, a separate department ID was created for the operation in order to more accurately assess revenues and expenditures for the unit. It has always been a goal of the HCN to assess the operation for efficiency and propose cost-saving measures along with opportunities for increasing revenues. In order to move forward in an appropriate manner, it must be clear how much (if any) health fee funding can be used to support the pharmacy operation (based on institutional policies and industry standards).

Implementation date: Ongoing - First report by December 2017

- 1.2 The HCN leadership will meet with the appropriate individuals within the Office of Research and Economic Development to determine the feasibility of renegotiating the current arrangement with SHS and develop a memorandum of understanding that delineates process and price structure.

Implementation date: December 2017

- 1.3 Implementation of a new end of day closing process began on December 5, 2016. A Daily Reconciliation worksheet was created that segregated each site as well as standardized the closing process across the three sites (BBC, MMC and Pharmacy).

Implementation date: Immediately

- 1.4 After the integration with HCN, it was determined that Pharmacy Insurance payments would only be recorded in Propharm, eliminating the duplication between both internal systems (PyraMED and Propharm). Student Affairs IT along with SHS Administration are collaborating to centralize all pharmacy activity to be recorded in Propharm. Kalos (the Propharm software vendor) has been contacted to advise on how best to utilize their system to accomplish this task and be able report from the system. Currently, roles are being reviewed to clearly delineate responsibilities to ensure timely accountability of record keeping and documentation.

Implementation date: June 2017

- 1.5 The new Daily Reconciliation worksheet allows for clear identification of the form of payment, amount and assists with the daily reconciliation of payments received. The new form requires up to three reviews to ensure accurate record keeping (front desk, second reviewer if cash collected, Site manager review and ultimately SHS Finance review). Along with this change Student Affairs IT has created an additional report that segregates the payments received between the three sites. Furthermore, it was

decided that the pharmacy will no longer collect payments on behalf of the clinic nor will the clinic collect on behalf of the pharmacy. This change will allow a clear picture of what was collected by individual, per site.

Implementation date: April 2017

## **2. Controls Over Inventory, Safeguarding and Dispensing of Drugs**

Since 2013, the Pharmacy has used an outside company, Capital Inventory, to perform quarterly inventory to ensure accountability of prescription and over-the-counter medications. The most recent inventory was performed for the second quarter of 2016 (October – December 2016) on January 3, 2017 with an ending inventory balance of \$86,501. No discrepancies were noted.

As part of testing, we selected three drug purchases totaling \$3,100, and verified that they were actually received and correctly recorded in the inventory records (ProPharm). Five prescription and five over the counter drugs with various quantities, ranging from 6 to 56 each on hand were also selected and traced to the inventory records without any differences. In addition, we noted that the Pharmacy had an adequate process for returns, recalls and expired medicines. We reviewed a “Drug Adj Lookup” and “Returns to Stock” reports generated by ProPharm, urgent product recall notices kept by the Pharmacy and “Inventory Report by Vendor”, which showed prescriptions returns to a company called Guaranteed Returns. There were no expired medications for the items tested and we found no other exceptions.

Our review also disclosed that the Pharmacy had an adequate process to ensure all medication dispensed including controlled substances was properly accounted for, received and stored. Control substances purchased for the Pharmacy and the Center for Children and Families were kept separate in locked cabinets, with access only by the Pharmacist.



## **3. Compliance**

As part of compliance tests, we verified that the Pharmacy has an active and valid license and permit from the State of Florida Department of Health and has a current Controlled Substance Registration Certification from the U.S. Department of Justice Drug Enforcement Administration. In addition, the Pharmacy Manager, a Pharmacist, and two Pharmacy Technicians all have their respective licenses and other requirements needed to practice at the Pharmacy. Our audit did not disclose any compliance issues, relating to applicable laws, rules and regulations, and University policies and procedures in this area.

In addition, we selected and tested three purchases of controlled substances for the CCF, and determined that all of them were properly authorized by the Pharmacist, with the completed Drug Enforcement Agency forms (DEA 222), as required by law.

During the audit, we found that sensitive patient data, including the patient's full name, address, prescription and health insurance information, stored locally at the Student Health Center's prescription database was not encrypted. According to University Procedure No. 1930.020a, *Data Stewardship*, highly sensitive data stored in all local and shared drives must be encrypted. After discussion with the SHS Senior System Administrator, he immediately contacted the vendor. According to the Senior Systems Administrator, data encryption was implemented on the prescription database on November 20, 2016. We are pleased with their responsiveness as encryption decreases the risk of unauthorized access to sensitive data.