



OFFICE OF THE INSPECTOR GENERAL
City of Chicago



REPORT OF THE INSPECTOR GENERAL'S OFFICE:

CHICAGO DEPARTMENT OF PUBLIC HEALTH

***CENTRAL PHARMACY WAREHOUSE
AUDIT
FOLLOW-UP***

MARCH 2011

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OFFICE OF THE INSPECTOR GENERAL *City of Chicago*

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March 31, 2011

To the Mayor, Members of the City Council, the City Clerk, the City Treasurer, and the residents of the City of Chicago:

In February 2009, the Inspector General's Office ("IGO") publicly reported audit findings of significant deficiencies in the Chicago Department of Public Health's internal controls respecting the management of department inventory through the operation of its pharmacy warehouse. Today we are reporting the results of an IGO follow-up assessing whether the deficiencies noted in the February 2009 audit report were effectively remedied. Our follow-up inquiry has revealed they were not.

The purpose of the audit, which covered the 2007 calendar year, was twofold. First, the audit sought to determine whether CDPH's procedures and internal controls were effective in preventing theft, loss, waste, and the potential for misconduct. Second, the audit looked into whether there were inefficiencies in the warehouse's operations through which the department managed its pharmaceutical and clinical supply inventory. The pharmacy warehouse annually obtained and stored millions of dollars in goods, which CDPH paid for principally with money from federal grants and the City's Corporate Fund. Goods stored at the warehouse included vaccines (including hepatitis A and B, measles, mumps, rubella and influenza), drugs (including antibiotics, TB drugs and anesthetics), and clinical supplies. During the audit period, the warehouse received orders for these goods from CDPH health clinics and other health sites associated with the CDPH, and then distributed the goods to these locations.

The 2007 audit determined that CDPH procedures for keeping track of inventory were highly defective. The lack of effective procedures hindered, among other things: i) the determination of efficient reorder points, ii) the ability to minimize waste due to expired goods, iii) the reliability of inventory, and iv) the maintenance of up-to-date documentation. The procedures did not require the warehouse or fiscal administration section to reconcile inventory records. Additionally, warehouse practices failed to segregate incompatible duties which could allow for errors or irregularities to occur and go unnoticed. As a result, the items received and distributed by the warehouse were not properly safeguarded against theft and loss. In fact, a full and complete audit of the warehouse inventory was impossible because adequate records were not available for significant portions of the inventory.

In a February 2, 2009 press conference addressing the IGO audit report, Dr. Terry Mason, then-Commissioner of CDPH, said that "since December 2008, these problems have been fixed because the warehouse operations have ceased." However, our follow-up inquiry has revealed Dr. Mason's statement to be inaccurate. Current CDPH staff have reported that while the

warehouse was used in more limited fashion, it not was not closed until December 31, 2010, fully two years later than publicly claimed. Moreover, although the warehouse is now closed, and CDPH implemented just-in-time ordering under which clinics now individually order and store their own inventory, the department has failed to implement 10 of the 11 IGO recommendations the department had agreed to address. Compliance with these recommendations is necessary to ensure proper inventory management and control.

We recognize that there was turnover in CDPH administrative leadership nearly a year after the February 2009 publication of the audit. In the transfer of leadership, the scope of operational deficiencies found by the IGO audit and how to address remedying those deficiencies appears to have been given inadequate attention and oversight by the Administration. We therefore again recommend that CDPH management implement all recommendations as soon as possible. In closing, we note that in response to our follow-up inquiry, current department leadership was fully cooperative and, more importantly, has taken immediate steps to fashion a comprehensive department-wide control system. However, that initiative is still in its formative stages. The IGO therefore will conduct a second follow-up in the coming months.

Respectfully,

A handwritten signature in black ink, appearing to be 'J. Ferguson', written in a cursive style.

Joseph M. Ferguson
Inspector General
City of Chicago

In February 2009, the Inspector General's Office ("IGO") issued an audit report on the operations of the Chicago Department of Public Health's ("CDPH") pharmacy warehouse for the calendar year 2007. During the time period covered by the audit, CDPH obtained and stored approximately \$3 million in goods, including vaccines for a variety of diseases (including hepatitis A and B, measles, mumps, rubella and influenza), a variety of drugs (including antibiotics, TB drugs, anesthetics, and cough and cold medicine), and clinical supplies. The warehouse, as the department's central repository, would receive orders for these goods from CDPH health clinics and other health sites associated with CDPH and was then supposed to distribute these goods to these locations. The purpose of the audit was to determine whether CDPH's procedures and internal controls were effective in preventing theft, loss, waste and potential for misconduct, and whether there were inefficiencies in the warehouse's operations.

Based upon the results of our audit, we determined that the CDPH's application of internal controls *was not* adequate to ensure efficient and effective management of the warehouse. We found significant deficiencies in almost all of CDPH's internal controls relating to the inventory, including its procedures for keeping track of its inventory, and its record keeping system. We further reported that a full and complete audit of the warehouse inventory was impossible because records were not available for significant portions of the inventory.

In this follow-up report, we summarize the current status of the department's corrective actions responsive to the findings, recommendations and prior management responses as set forth in the February 2009 audit report. In response to a request from the IGO, CDPH provided a status of the corrective actions as of January 27, 2011. The response reflected that CDPH has only implemented one of the 11 original IGO audit recommendations, when in fact they initially agreed to address all recommendations.

At the time the initial audit report was issued on February 2, 2009, then-Commissioner Terry Mason¹ had informed the IGO and further stated in his press conference that "since December 2008, these problems have been fixed because the warehouse operations have ceased." However, during this follow-up, we were told that the warehouse was not closed until December 31, 2010—two years later than Dr. Mason had publicly represented. The clinics that were supplied with medications and other supplies from the warehouse are now ordering all supplies online, with delivery made directly to the clinics. This ordering system was in existence during the audit, but was used only when the warehouse did not have the items available. Although the warehouse was using an antiquated mainframe system, it was able to at least track remaining inventory. The online ordering system is not capable of doing so. It appears therefore that the CDPH has taken a step backward in its inventory management process.

¹ Dr. Mason stepped down from his position as Commissioner of CDPH on December 4, 2009.

Below is the response we received from the current CDPH management:

“The department is now developing a policy that fully addresses the ordering; inventory management; distribution; recall and disposal of all medications. Additionally, the policy will address record keeping of purchases and receipts for pharmaceutical purchases. The policies and procedures to be developed will incorporate the Standard Inventory Management Policies that are issued by the City Comptroller’s Office. The policy will also address roles and responsibilities for the proper management of the full medication inventory process. The inventory policies and procedures will address the controls needed to safeguard the inventory from theft. As noted in the audit, the policies will incorporate procedures for escorting guests; locking cages and refrigerators; and monitoring surveillance cameras.

Fiscal administration will be an integral part of the policies and procedures. They will address product ordering from start to finish and will identify the specific fiscal activities (tracking of receipts; tracking of credit; and tracking of vendor payments; reconciliation of year end balances) that must be incorporated into the full process.”

Since the audit report was published, there has been a complete turnover of upper management at the CDPH, including but not limited to, the commissioner and several deputy commissioners. However, this does not excuse the City’s failure to have addressed the findings noted in the audit report issued two years ago. We will, again, in approximately six months’ time, revisit the follow-up of the CDPH warehouse audit findings.

Finding 07-1: Failure to Track Vaccines, Controlled Substances, and Other Goods Received by the Warehouse***Finding 07-1a: Items Obtained through Federal Grants or State Donations***

In 2007, the warehouse obtained goods worth at least \$912,141 from federal grants or donations from the State (\$639,150 of vaccines, \$257,406 of condoms, and \$15,585 of baby formula). This constitutes approximately 31% of the total \$3M of goods obtained by the warehouse in 2007. None of these goods were entered into or tracked in the warehouse inventory system.

As a result, the audit showed that approximately \$912,000 of inventory was not tracked throughout the year and therefore, the remaining items left on hand worth at least \$643,000 were not included in the year-end balance.

Recommendation(s):

We recommend that all inventory that is in the possession of the CDPH be counted and included in the inventory balance reported to the City Comptroller, to ensure complete and accurate reporting and tracking of CDPH inventory. Additionally, the CFO should initiate procedures to have the fiscal administration section i) track financial activity by the warehouse, and ii) reconcile financial records maintained by the fiscal administration section with the physical inventory records obtained from the Director of Administration. The CFO should submit the year-end inventory records to the City Comptroller as the official CDPH inventory record after such reconciliation and review has occurred.

Initial Department Response:

Vaccines are tracked in a federally provided automated system: Vacman. This system records vaccines ordered and received by the CDPH Immunization program. The program tracks those vaccines distributed to private physicians participating in the vaccine program. Vacman tracks vaccines shipped to the warehouse but not the final distribution point from the warehouse to the City clinics. The auditors noted that the distribution and receipt of those vaccines by City clinics is manually recorded and not entered into Vacman for reconciliation. Effective January 2009 there is no intention to have vaccines distributed from the warehouse. The vaccine program intends to have all vaccine shipped directly from the federal warehouse to the sites of use, concurrent with the federal initiative.

Bulk order condoms received by the warehouse are entered into the City mainframe. Distribution was monitored by the program manually. Effective January 1, 2009 all condoms distributed will be entered into the mainframe and distribution locations will also be entered for reconciliation.

The State of Illinois ceased providing infant formula to all WIC providers midyear 2007. This formula was not tracked in the City mainframe. It is not anticipated that the State will renew this program.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address this issue at the clinic level.

Finding 07-1b: Controlled Substances Led to Violation of DEA Regulations

During the audit period, the CDPH warehouse was registered with the DEA and the State of Illinois as a "Controlled Substance Distributor." At the IGO audit entrance conference with CDPH management on November 26, 2007, both the Deputy Commissioner and the Director of Administration stated that the CDPH did not have controlled substances at the warehouse. However, the IGO later learned that during a subsequent DEA audit on April 4, 2008, the Director of Administration informed DEA investigators that controlled substances (Lorazepam and Diazepam)² had been purchased, received, and dispensed by the warehouse during 2007.

The registration held by the warehouse only allows for distribution. However, the DEA audit revealed that the Director of Administration actually dispensed the controlled substances in violation of the Controlled Substances Act, 21 C.F.R. § 1304.11.

Recommendation(s):

We recommend that the warehouse no longer order or handle any controlled substances. There is no need for the warehouse to order, receive, or distribute these drugs. All prescriptions written by clinics can be filled at all CVS Pharmacy locations, including 24-hour stores. The CDPH's written policies should address the restriction on ordering controlled substances. Additionally, other City entities, such as the Police and Fire Departments, have current DEA registrations, and could obtain controlled substances in case of an emergency.

² Diazepam is the generic version of Valium. It is used to treat anxiety, acute alcohol withdrawal, and seizures. It is also used to relieve muscle spasms and provide sedation prior to medical procedures. This drug can be habit forming. Lorazepam is the generic version of Ativan. It is used to treat anxiety. It may also be used to treat symptoms of alcohol withdrawal, or prevent nausea and vomiting due to chemotherapy, and for insomnia. This medication may cause dependence, and can be habit forming.

Initial Department Response:

The Department's Pharmacist did not comply with DEA regulations. The license was surrendered April 2008. The Department no longer maintains controlled substances. The pharmacist in charge has retired. The warehouse pharmacy distribution license lapsed December 31, 2008, and the Department does not intend to reapply.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address this issue at the clinic level. As noted in the initial response, CDPH does not anticipate the need to obtain controlled substances. However, it could not be certain that the need would never arise in the future, and told the IGO that it would be developing a policy and procedure to address this issue.

Finding 07-2: Failure to Follow Basic Inventory Procedures Caused a Loss of At Least \$365,000, and Created an Increased Risk of Theft and/or Loss***Finding 07-2a: Proper Reorder Points Were Not Maintained***

As a result of not maintaining proper reorder points, we determined that there was over \$529,000 worth of expired goods resulting in an approximate net loss of \$365,000.

Recommendation(s):

We recommend that warehouse management establish proper reorder points and procedures to monitor expirations both at the warehouse and at clinics to ensure that the amount of expired goods is nominal. These processes should be included in the revised policies and procedures manual.

Initial Department Response:

The department did not specifically address this finding.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address this issue at the clinic level.

Finding 07-2b: Inventory Procedures Did Not Follow Inventory Best Practices

The warehouse's inventory management procedures failed to follow standard inventory best practices in a variety of significant respects, including:

- (a) Item expiration dates were not tracked.
- (b) Inventory count sheets, catalog order forms, and material requisition forms were inconsistent. Items that were available were not included on all forms.
- (c) Independent recounts were not performed during annual physical inventory.
- (d) Item descriptions in the system, on the packaging, and on order forms were not consistent.
- (e) Differently-packaged items (*e.g.*, by quantity per case, flavor) were counted the same, causing a discrepancy in the quantities included in the count and the system.
- (f) Different items were stored together on the same pallets.
- (g) Items were stored on shelves that are not labeled with a location code.
- (h) Random warehouse layout caused disorganization.
- (i) Dental supplies were unorganized and not properly tracked.
- (j) Daily route sheets were often incomplete or modified.

- (k) The filing of material requisition forms and purchase orders was unorganized. The filing system consisted of stacks of paper stored in bankers boxes with vertical sheets of paper dividing horizontal sheets of paper.

Recommendation(s):

We recommend that warehouse management strengthen inventory processes and train employees to ensure: 1) physical counts are performed accurately; 2) a location coding system is implemented; and 3) documentation is kept current.

We also recommend that dental inventory be counted and recorded in the inventory system to ensure proper tracking and accurate reporting of balances, and that the same strengthened procedures implemented for the rest of the inventory be applied to dental inventory.

Initial Department Response:

Inventory remaining at the warehouse will be managed in the City’s mainframe system. Reconciliation will be completed routinely, reviewed by the First Deputy Commissioner and signed by the Commissioner. Medication expiration dates will be tracked by the Public Health Emergency Response personnel in a manual system until their customized system is acquired.

Daily route sheets are now reviewed by the Foreman of the Motor Pool for variances. A policy and procedure is in place and monitored by the Foreman. Route sheets will be maintained by the Foreman for one year.

Department’s Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address these issues at the clinic level.

Finding 07-2c: Inventory Reconciliation Was Not Performed

The warehouse’s inventory reconciliation procedures had the following problems:

- (a) No overall reconciliation of inventory occurred.
- (b) Adjustments to the mainframe were processed by individuals without oversight, investigation, or review by management.
- (c) Inventory counts were conducted during the last week of November and the first two weeks of December but year-end balances were not updated from the day of the actual count to December 31, 2007.

Recommendation(s):

We recommend that independent reconciliation of inventory records and review of discrepancies be performed during the annual inventory process.

If there are any discrepancies noted when performing a physical count, reconciliation must be performed before adjustments are made to the system. Additionally, a process of review and approval should be put in place for any adjustments entered into the system at any point in time.

When shipments are made or received after the count but prior to December 31, the year-end inventory balance must be updated so as to accurately report the year-end balance to the City Comptroller. Additionally, we recommend that physical inventory counts be performed as close to year-end as possible, preferably when the warehouse is closed to limit the amount of adjustments required.

Finally, while *quantities* should be counted and reconciled by warehouse staff, *dollar values* of items should be reviewed and reconciled by the fiscal administration section staff. The two reconciliations should agree prior to submission to the City Comptroller.

Initial Department Response:

The department did not specifically address this finding.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address this issue at the clinic level.

Finding 07-2d: Failure to Properly Segregate Duties

Warehouse personnel performed incompatible duties and failed to properly segregate duties. Specifically:

- (a) As to the general and clinical supplies, one warehouse employee (the AAI) controlled the ordering of the items, the receiving of the items, the distribution of the items to the clinics, and the posting of the inventory activity to the mainframe.
- (b) As to the pharmacy supplies, one warehouse employee (the Director of Administration) controlled the ordering of the items without another level of approval or review, and also controlled the distribution of the items at times.

Recommendation(s):

We recommend the warehouse reassign duties so that no one individual handles incompatible functions. In instances where duties cannot be fully segregated, mitigating or compensating controls (additional procedures designed to reduce the risk or errors or irregularities) should be established, such as review and approval of non-segregated functions by a different individual. For example, if one person receives a shipment of goods and posts it to the system, another individual should review the shipping documentation and verify that it was properly posted.

Initial Department Response:

The department did not specifically address this finding.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address these issues at the clinic level.

Finding 07-3: Poor Physical Controls over Safeguarding of Inventory from Risk of Theft and/or Loss

The warehouse failed to provide proper physical safeguards for its assets. Specifically:

- Unescorted guests were allowed to access the warehouse.
- Cages and refrigerators containing valuable or restricted inventory were unlocked.
- Surveillance cameras were not monitored.
- A large hole in the ceiling of the warehouse caused water leakage.

Recommendation(s):

We recommend that guests always be escorted while on the premises of the warehouse.

The cages and refrigerators should remain locked at all times unless in use. Periodic review of the security camera digital footage should be performed by the DGS or CDPH management to maximize theft discovery and deterrence.

When property damage occurs, especially damage that threatens the integrity of the inventory, CDPH management should inform the landlord in a timely fashion to ensure that the landlord fixes the damage promptly pursuant to the terms of the lease.

Initial Department Response:

The facility will remain locked. Access is controlled by key and electronic alarm code; the latter creates a paper trail at the monitoring center at the Department of General Services. The building has no history of any loss due to roof leaks; any leaks or building maintenance has been quickly resolved by the owner.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address these issues at the clinic level.

Finding 07-4: Lack of Fiscal Administration Section Oversight Caused Poor Tracking of Goods, Financial Records, and Refunds

In reviewing CDPH's oversight of the warehouse's financial activities, as well as CDPH's fiscal processes related to the warehouse inventory records, we found the following problems:

- (a) The CDPH CFO could not provide a complete and accurate list of purchase orders submitted by the warehouse when requested for audit testing. This impacted testing as there was not a complete population available to select samples from, and therefore we could not ensure that every item in the population had a chance to be randomly selected. Consequently, the SA was forced to make the selections from purchase order files at the warehouse. Testing in this manner gives less assurance that all purchase orders have an equal chance to be selected for testing and that all have been accounted for by the CDPH.
- (b) The fiscal administration section did not have a process in place to monitor credit memos received on behalf of the warehouse. Therefore, there is no assurance that credits received for expired or returned goods are used to offset expenditures. Additionally, credit memo information was usually sent to the Director of Administration at the warehouse rather than directly to the CDPH fiscal administration or revenue sections for review.
- (c) Checks from outside vendors were sent directly to the Director of Administration at the warehouse before being forwarded to the fiscal administration section for deposit.

Year-end inventory balances were submitted directly to the City Comptroller's Office by the Director of Administration without any other review or approval. These balances were not submitted to the fiscal administration section for their review and reconciliation.

Recommendation(s):

We recommend the CFO immediately initiate procedures to have the fiscal administration section track the financial activity of the warehouse. The CFO should be able to provide a complete and accurate list of all CDPH financial transactions, such as payments made on the department's behalf, deposits, and credits.

Any financial reports sent to the City Comptroller should be reviewed and reconciled by the fiscal administration section, prior to submission.

In order to trace past credit memos and checks, we recommend that the fiscal administration section contact all vendors and request a list of all checks or credits issued to the CDPH in 2007 and 2008, and then determine whether they accounted for these in their books and records. The department should follow up on any missing checks to

determine who cashed the checks and when they were cashed. If they went un-cashed, the CDPH should request re-issuance from the vendors. Any suspicion of wrongdoing or misappropriation of checks should be reported immediately to the Inspector General's Office. Credit memos should also be traced to ensure proper credit was received, and if any credit memos were not redeemed, they should be used to offset expenditures as soon as is practical.

Additionally, all CDPH vendors should be notified that in the future, all checks and credit memos must be sent directly to the fiscal administration section of the CDPH.

A process should be put in place by the fiscal administration section to ensure that all credits received are monitored and used to offset expenditures.

Finally, as a part of future processes, the warehouse Director of Administration or his staff should conduct any reviews necessary to ensure appropriate amounts are received by comparing records with copies of checks (rather than originals) and associated reports received from vendors.

Initial Department Response:

Product ordering for medication and medical supplies is now completed in a web-based online ordering system. Authorized users are the only ones with access to the ordering system. Product receipt is signed for at the receiving location by one other than the person ordering, typically the stock handler. Onsite reconciliation of supplies will be completed typically by the nursing supervisor. Packing slips are forwarded to Fiscal for reconciliation with the respective order and invoice.

All vendors have been notified in writing to submit invoices and credit memos to the Department's Fiscal unit and never to the receiving location.

Department's Corrective Action:

Not implemented.

CDPH advised:

“Product ordering for medication and medical supplies is now completed through a web-based online ordering system. This system, however, is not utilized by all divisions that order medications. As mentioned for other findings, the department is now developing a policy that full addresses the ordering; inventory management; distribution; recall and dispose of all medication. Additionally the policy will address record keeping of purchases and receipts for pharmaceutical purchases. The policies and procedures to be developed will incorporate the Standard Inventory Management Policies that are issued by the City Comptroller's Office. The policy will also address roles and responsibilities for the proper

management of the full medication inventory process. Once developed, the procedures for the return of expired medications will be implemented department wide.

Fiscal administration will be an integral part of the policies and procedures. They will address product ordering from start to finish and will identify the specific fiscal activities (tracking of receipts; tracking of credit; and tracking of vendor payments; reconciliation of year end balances) that must be incorporate into the full process.”

IGO response to the department’s corrective action:

Based on the department’s corrective action status noted above it has done nothing to implement our recommendation.

Finding 07-5: Written Policies and Procedures Were Not Complete, Current, or Reflective of City Inventory Policies

CDPH's written inventory policies and procedures regarding the warehouse had multiple deficiencies:

- (a) Policies and procedures for the warehouse did not include all warehouse functions and were outdated.
- (b) The warehouse did not comply with the Standard Inventory Management Policies issued by the City Comptroller's Office. (See Exhibit B attached).
- (c) There was no list of authorized approvers for clinic, the Westside CDC, or community-based organization order forms.

Recommendation(s):

We recommend that the document describing the current policies and procedures be reviewed and updated to i) include improved processes that address proper inventory controls as discussed in this report, and ii) incorporate all City Standard Inventory Management Policies issued by the City Comptroller's Office, as appropriate.

A list of authorized approvers' signatures for each clinic or ordering location should be prepared and maintained by CDPH personnel other than the warehouse staff. Then the signatures on the MRFs should be verified by the warehouse staff against the approved list before any shipments are sent from the warehouse.

Initial Department's Response:

The City of Chicago Standardized Inventory Management Policies will be used as a framework for completion of the Departmental implementation of these policies to our particular circumstances, including:

1. Long term storage of emergency preparedness material;
2. Any stored items, such as traveling exhibits that enter/exit the warehouse approximately four times a year;
3. The exhaustion of existing routine medical supplies and the management of any remaining supplies, such as bulk condom orders; and,
4. Departmental online ordering, receiving and reconciliation of just in time pharmaceutical and medical supplies by each authorized clinic location.

These policies will be part of the respective managers' responsibility and incorporated into their performance evaluation.

Department's Corrective Action:

Not implemented

Although the warehouse is closed, policies and procedures have not yet been developed to address this issue at the clinic level.

Finding 07-6: Inadequate and Underutilized Computerized Inventory System

The computerized inventory system currently in use is an antiquated mainframe system implemented in 1981 with very limited capabilities (which in themselves are not being utilized) and poor reporting and control mechanisms. The warehouse currently has two users with full access to read and write to the system. The Director of Administration cannot currently access the system because the Department of Innovation and Technology cannot provide him with “view only” access.

Recommendation(s):

We recommend that the CDPH continue its plan to implement a new system in the near future.

It is imperative that the implementation process include assessment of system requirements, inclusion of good internal controls, determination of useful management reports, and complete audit trails to track activity by user. Additionally the system should allow for “view only” capability for those users who do not input data.

All users should be trained on proper use of the system before the system is implemented.

Initial Department Response:

There is no known plan to upgrade/replace the City’s mainframe inventory software. The Department’s Public Health Emergency Response team will secure their own software to manage the inventory of product necessary under Homeland Security guidance. The City’s mainframe will be utilized for any continuing inventory by the Department, such as bulk order condoms.

Department’s Corrective Action:

Not implemented.

CDPH advised:

“The computerized inventory system that had been utilized did not allow for inventory records; inventory balances; inventory adjustments, purchases and shipments; and inventory transactions. The department has developed a web-based online ordering system that does not fully address these issues. The department is now looking to develop a system that will address and allow for tracking and developing reports.”

IGO response to the department’s corrective action:

Although the antiquated mainframe system had numerous weaknesses, it did allow for the tracking of inventory balances, adjustments, purchases and shipments. However,

with the CDPH only utilizing the online ordering system it has resulted in a step backward regarding the issue of developing a newer inventory tracking system as the online ordering system does not allow for the aforementioned tracking mechanisms.

Finding 07-7: No Written Contract with Vendor

There is no written contract in place with the expired goods retrieval company, Guaranteed Returns.

Recommendation(s):

We recommend that the CDPH work with the Department of Procurement Services to initiate a competitive bidding process in order to obtain a contract with an expired-goods-retrieval company, as well as contracts for any other services that CDPH currently uses that should be under contract.

Initial Department Response:

The Department purchases medications via the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP, contract MMS220867). Under this Alliance, the Department can also take advantage of the vendor Guaranteed Returns, a licensed vendor who can accept expired medications for disposal and frequently obtain some remuneration from the pharmaceutical manufacturers. CDPH has requested assistance from the Office of Procurement to include Guaranteed Returns as a city vendor.

IGO Response to Department Response:

The contract mentioned in the Department Response above was not obtained until August 31, 2008, which was after the IGO auditors met with the Department to inform them of the lack of contract.

Department's Corrective Action:

Implemented

The contract with Guaranteed Returns (PO#21513) is now executed and is a valid contract. As of December 31, 2010, the department has stopped using Guaranteed Returns and is currently researching other methods to dispose of expired medications.