Office of Internal Audit

Performance Audit 13-07: Pharmacy Cash Collections

December 2013

City Auditor
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Internal Auditor
Lisa Culver, CFE

OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 24, 2013

To: Mayor Andy Berke
        City Council Members

Subject: Pharmacy Cash Collections (Report #13-07)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Pharmacy Cash Collection process. Our audit found that the pharmacy collections were not deposited to the Treasurer's Office in the time required, and a management review has not been performed to verify the City is receiving all the pharmacy sales. In order to address the noted areas for improvement, we recommended actions for Human Resources management to ensure pharmacy collections are reviewed adequately to feel confident all funds are received and can be supported. The funds should be deposited daily when possible.

We thank the management and staff of the Human Resource Department and On-Site Rx for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Travis McDonough, Chief of Staff
        Audit Committee Members
        Jeff Cannon, Chief Operating Officer
        Todd Dockery, Human Resource Administrator

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2013 Audit Agenda. The objective of this audit was to determine if:

- The City's pharmacy has proper internal controls to safeguard funds collected.

BACKGROUND

The City opened a clinic and pharmacy in December 2008 offering services to any City employee, employee's dependent, or retiree who is covered through the City's medical plan. In April 2012, the city built the WellAdvantage Health Center. The center provides primary care, occupational health and a full service pharmacy. The center includes 14 exams rooms, lab, drug testing room, x-ray facility, and on-site physical therapy. It also includes a state of the art fitness center with a large variety of machines, fitness classes and a cycling room.

The new pharmacy has an expanded area for over-the-counter medications and a convenient drive thru. The City has a management agreement with Benefit Advocate/On-Site Rx who operates and manages the pharmacy. On-Site Rx employs a Pharmacist and six additional staff. The pharmacy staff process daily transactions into their point-of- sale system and remit funds directly to Department of Human Resource (HR) staff, who deposit the funds with the City Treasurer's Office.

The prescription insurance reimbursements are processed in a separate system, and they are monitored and reconciled by On-Site Rx. The City receives weekly electronic deposits for these reimbursements. Reimbursements are deposited to the Treasurer's Office by HR personnel.

Financial Information

Total Cashier Collections in Oracle*			
Fiscal Year 2011 to 2013			
Type	2011	2012	2013
Prescriptions	679,501.36	724,913.72	665,907.12
OTC	64,170.03	80,971.56	96,150.81
	$ 743,671.39	$805,885.28	$762,057.93

*Totals do not include insurance or coupon reimbursements.

FINDINGS AND RECOMMENDATIONS

Review of pharmacy collections is needed by Human Resources staff.

Daily pharmacy collections, collection reports, and supporting documentation are prepared by pharmacy staff. Pharmacy staff also sign the daily collection report. HR staff retrieves each day's collections from the pharmacy in a sealed bag and transports it to the Treasurer's Office. The daily reports, along with the funds, are sealed inside the bag. HR management has not performed a review of the supporting documentation with the collection report because it is sealed inside the bag prior to their arrival.

HR Management Should Review Collections

City policies and procedures require such management review of collections: *Finance Policies and Procedures Collections* require a supervisor separate from the person preparing the collection report to sign it. The supervisor should review the collection report to ensure it accurately reflects the day's business and is properly supported.

If HR management had been able to review the daily reports sealed in the bag, they should have found the void totals do not match on the reports. Included with the pharmacy daily supporting documentation are three different reports (Daily Void Report, Operations Reconciliation Report, and Operational Information Overview*),* which provide void totals for the day. The Pharmacist has relied on these reports as a review tool. However, we found during the audit, these reports are not capturing all the voids processed in the system. Further, the pharmacy staff is allowed to void transactions without management approval.

The Daily Void Report is supposed to show all the voids performed during the day with detailed information. A product void **total** is shown on both the Operations Reconciliation Report and the Operational Information Overview. The product void totals from these two reports matched in all collection reports reviewed. However, when reviewing the detail on the Daily Void Report, it was found only 7 out of 43 Daily Void Report totals matched the other two report product void totals.

On-Site Rx is aware of this issue and has contacted the software vendor for technical support. Based on their understanding, they are not confident the Daily Void report captures all the voids processed during the day. They are going to institute a policy of having management approve all void and refund transactions. This will require a password requirement by management limiting user access.

Additionally, HR management maintains a file of each daily collection report to verify all collections are remitted. They are provided a monthly Utilization Report by On-Site Rx. This report could be used to compare the amount posted in Oracle for pharmacy sales to the total cash from pharmacy sales listed on the Utilization Report as a monthly review tool.

HR Management Should Investigate Overages/Shortages

Once the HR staff reaches the Treasurer's Office with the daily collection, the sealed bag is opened in the presence of two individuals. If the funds match the amount on the collection report and supporting documentation, the funds are deposited and the information is posted to the accounting system.

If the funds do not match, then the report must be changed with either an overage or shortage reported. When this occurs, HR management has not always followed up to ensure the shortage is replenished or investigated the issue. Sometimes notes are made on the collection report explaining the discrepancy, but rarely was there a supervisor's signature.

Finance Policies and Procedures Collections requires justification be provided for instances where the collection report total does not equal the daily receipt total or supporting documentation totals.   Such discrepancies should be signed off by the division manager.

Recommendation 1:

We recommend Human Resources management perform a review of each day's pharmacy sales. The review would include noting the amount listed on the sealed bag for cash and matching it to the totals listed on the collection report and the amount listed on the Bank Deposit Reconciliation. The review should include ensuring all daily report totals match with the collection report details. This should be performed prior to transporting the collection to the Treasurer's Office. Once verified, HR management personnel should sign the collection report.

Auditee Response: We concur and have already started a process of reviewing the collection report detail and signing the report.

Recommendation 2:

We recommend Human Resources management make a note when any collection report has a discrepancy. The note should be signed by HR management and initialed by the Treasurer's Office staff. Follow-up

should be made with the pharmacy staff about this discrepancy and documented.

Auditee Response: *We concur.*

Recommendation 3:

We recommend Human Resources management perform a monthly review of pharmacy sales posted in Oracle to the amount listed on the On-Site Rx Utilization Report for pharmacy sales.

Auditee Response: *We concur.*

Recommendation 4:

We recommend Human Resources management perform an annual review of pharmacy sales verses Cost of Goods Sold which could possibly identify any major or systematic misappropriations.

Auditee Response: *We concur.*

Recommendation 5:

We recommend Human Resource management require On-Site Rx pharmacy staff have a manager approve all voids and refunds in the system before they are processed. HR management should follow-up with On-Site Rx management until they can ensure all void transactions are captured on all end of day reports and match.

Auditee Response: *We concur.*

Pharmacy collections should be submitted to Treasurer's office within the time required.

After reviewing a sample of collection reports during the audit period, we discovered 31 (72%) of the 43 sample collection reports were turned in within 3 days as required and 12 (28%) were turned in after 3 days of their receipt. Holding these receipts for longer than the required period makes it easier for them to be misplaced or lost.

T.C.A 6-56-111 states every municipal official handling public funds shall be required to as soon as practical but no later than 3 working days after the receipt by such municipal official of any public funds to deposit the funds to the credit of such municipalities official bank account. *City Finance Policy and Procedures Section I* states all funds collected by municipal officials be submitted to the Treasurer's Office within 3 days of the initial receipt.

Recommendation 6:

We recommend Human Resources management ensure pharmacy collections are deposited to the Treasurer's Office on a daily basis. If that is not possible, then within 3 days of the initial receipt.

Auditee Response: *We concur and have incorporated an extra person in the process to ensure the collection is submitted within three days.*

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers pharmacy collections from September 1, 2012 to August 31, 2013. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from Human Resources and Finance departments as well as On-Site Rx. Original records as well as copies were used as evidence and verified through physical examination.

A review was made of a random sample of collection reports obtained from the Accounting records and reviewed for the following:

- To see if proper supporting documentation was attached;

- If the supporting documentation totals matched the amount posted to City accounts for each day's collections;

- If the Daily Void Report total matched the void total on the Operations Reconciliation Report in the supporting documentation;

- Who signed the collection report; and

- If the funds were turned into the City Treasurer within three days of receipt.

All collection reports were reviewed with overage and shortage amounts reported during the audit period. The supporting documentation was reviewed to note if any explanation was provided for the overage/shortage and if any supervisor signed the explanation as required by *Finance Collection Policies*.

A comparison was made of the total pharmacy collections posted to Oracle to the monthly pharmacy cash sales reported on the On-Site Rx Utilization report to see if these two figures matched.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed upon data from the City's Oracle Accounting system. On-Site Rx data was used in comparison with Oracle accounting records for verification purposes.

Interviews were conducted with On-Site Rx pharmacy staff and Human Resource staff to gain an understanding of the cash collection process of the pharmacy and deposits made to the Treasurer's Office.

State laws, *Internal Compliance Manual for Tennessee Municipalities*, and the *City Finance Cash Collection Procedures Manual* were reviewed as necessary.

We conducted this performance audit from August to December 2013 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.

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