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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 21, 2011

Michael F. Hogan, Ph.D.
Commissioner
Office of Mental Health
44 Holland Avenue
Albany, New York 12229

Re: Report 2010-F-49

Dear Dr. Hogan:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Office of Mental Health to implement the recommendations contained in our audit report, *Controls Over Prescription Drugs* (Report # 2007-S-111).

Background, Scope and Objective

The New York State Office of Mental Health (OMH) operates 27 psychiatric centers (Centers) throughout the State that care for and treat persons with significant psychiatric disabilities. Each of the Centers operates a pharmacy to supply prescription drugs to its patients. Prescription drugs are categorized as "controlled," such as hallucinogens; or "non-controlled" (less harmful) drugs. Annual costs to procure the prescription drugs maintained at these pharmacies exceed \$60 million.

Our initial audit report, which was issued on December 17, 2009, examined whether OMH had implemented appropriate controls over the prescription drugs at selected Centers. We found that, while sufficient controls were in place to protect and account for their controlled drugs, the Centers we visited had not instituted sufficient controls over their non-controlled prescription drugs, which accounted for the majority of their drug costs. During our prior audit, we visited the three Centers that purchased the largest dollar amounts of prescription drugs (Bronx Psychiatric, Pilgrim Psychiatric [located on Long Island], and Rockland Psychiatric). The objective of our follow-up was to assess the extent of implementation as of March 30, 2011 of the five recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

OMH officials have made progress in correcting the problems we identified. Of the five prior audit recommendations, two recommendations have been implemented and three recommendations have been partially implemented.

Follow-up Observations

Recommendation 1

Provide guidance to Centers on how to properly control and account for their prescription drug inventory.

Status - Implemented

Agency Action - OMH officials have been making ongoing efforts to provide guidance to the Centers on how to properly control and account for their prescription drugs. This guidance has consisted of the issuance of a new Inventory Management policy, emails, phone calls, visits and meetings with pharmacy staff by staff from OMH Central. OMH officials are also in the process of implementing a new electronic inventory management system to account for both controlled and non-controlled prescription drugs. OMH began the procurement process for this new system in January 2010. The contract for this system is being finalized.

Recommendation 2

Ensure that each Center pharmacy implements and maintains an accurate, up-to-date, perpetual inventory record for its prescription drugs. These records should be complemented by periodic physical inventory counts.

Status - Partially Implemented

Agency Action - OMH already required and its Centers maintained perpetual inventory records and performed periodic physical inventory counts for their controlled prescription drugs. OMH has now started to require that its Centers perform manual periodic inventory counts of their most costly non-controlled prescription drugs, as well as institute perpetual inventory systems for the non-controlled drugs in their main stocks (drugs that are still in the pharmacy waiting to be dispensed to the patients). To date, three complete physical counts of the most expensive non-controlled drugs have been taken at the Centers and forwarded to the Central office for verification.

Recommendation 3

Ensure that each Center prepares its own listing of unusable drugs, differentiating between those that are discarded versus those that are given to their reverse distributors.

Status - Partially Implemented

Agency Action - OMH Centers send their unusable drugs (expired, contaminated, or returned to the pharmacy) to a reverse distributor who either obtains credit for the returned drugs on behalf of the Centers from the manufacturers, or properly disposes of the drugs. We had found that the Centers did not maintain any listings of the drugs they sent to the reverse distributor. During our follow-up, we found that the Centers have begun to maintain records of the number of boxes and their weights that are shipped to the reverse distributor. This process is an interim step until the new electronic inventory system is implemented, as OMH believes that it is not prudent to assign staff to the time-consuming process of listing and data-entering information on all of the drugs returned. OMH officials note that when the new electronic inventory system is implemented, it will have the capability to record the list of drugs being sent to the reverse distributor.

Recommendation 4

Reconcile the amount of credits and/or refunds received from manufacturers for returned drugs, as well as the bills received from reverse distributors, to the prepared listings noted in recommendation 3.

Status - Partially Implemented

Agency Action - OMH is not performing the reconciliation of amounts received for refunds or credits for returned drugs processed by the reverse distributor, as OMH has not prepared the lists discussed in recommendation 3. OMH only maintains shipping documents with tracking numbers and the number and weights of any boxes sent. However, OMH has arranged for the Centers to have online access to the reverse distributors and has provided guidance to them on how to determine what shipments have been received by the distributor and what credits (checks) have been received. Further, they have established that the reverse distributor has an adequate set of controls over the shipments received. Finally, OMH will be able to fully perform this reconciliation with available staffing resources once the new electronic inventory system is implemented.

Recommendation 5

Periodically evaluate the effectiveness of the controls in place at OMH Center pharmacies, and make revisions and improvements as appropriate.

Status - Implemented

Agency Action - OMH has been evaluating the effectiveness of the controls in place at its pharmacies and has implemented manual periodic inventory counts for the most costly non-controlled prescription drugs, as well as a perpetual inventory system for the non-controlled drugs in its main stock. As previously described, it is in the process of implementing a new electronic inventory system that will provide controls that cover all of its prescription drugs.

Major contributors to this report were Michael Solomon, Todd Seeberger, Peter Blanchett, and Kamal Elsayed.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Office of Mental Health for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Michael Solomon
Audit Manager

cc. Mr. James Russo, External Audit Liaison
Mr. Thomas Lukacs, Division of the Budget