EXECUTIVE SUMMARY

Guam Memorial Hospital Authority's Inventory Control Over Controlled Substances
OPA Report No. 15-07, December 2015

Our audit found that the Guam Memorial Hospital Authority (GMHA):

- Did not establish adequate controls to account for and safeguard controlled substance inventory. Our findings included the following:
  - An estimated lost revenue of $10,000 was due to usage discrepancies of 2,906 units versus billings for 12 sampled controlled substances. Of the 2,906 discrepancies, CS5 had the largest discrepancy at 609 units and six other drugs had discrepancies ranging from 244 to 607 units.
  - GMHA's system limitations made it difficult to identify how much of the approximately $9.6 million (M) spent on pharmaceutical drugs between fiscal year (FY) 2012 and FY 2014 were for controlled substances versus non-controlled substances.
  - Lack of independent verification and proper separation of duties.
  - Expired and destroyed controlled substances did not always reconcile.
  - $3,164 of loaned and borrowed controlled substances were outstanding.
  - The Anesthesiologists' stock was excluded from the inventory list.
  - Non-systematic filing system of documents for controlled substance dispensation.
- Generally complied with federal and local requirements and controls over controlled substances, but certain requirements and controls were not adhered to. Specifically:
  - 12 physicians did not have the required Controlled Substance Registrations for GMHA with the Department of Public Health and Social Services (DPHSS).
  - The pharmacy keys were accessible to all persons in the Pharmacy instead of controlled by the GMHA Pharmacy Director or his/her designee.
  - Certain pharmacy inventory was not sufficiently maintained.
- Did not accurately and properly bill for controlled substances in accordance with GMHA's prescribed fee schedule. There were $2,147 in understated billings due to insufficient fee schedule updates for three controlled substances.

Our audit identified a total financial impact of approximately $15,000, due to lost revenue from understated billings, the need for a fee schedule update, and unpaid loaned controlled substances.

Lost Revenue Due to Usage Discrepancies

We found a net variance of 2,906 units when compared to the total quantities billed for the 12 selected drugs issued to GMHA Nursing Units and anesthesiologists. The discrepancies resulted in understated billings of approximately $10,000 as GMHA's Billing System is not linked to the Pharmacy's Controlled Substance Inventory Record and the pharmacy encoded charges. If the GMHA systems do not link, it is highly possible that the controlled substances issued by the Pharmacy Department to the nursing units may not be properly accounted for and result in lost revenue.

Lack of Independent Verification and Separation of Duties
For controlled substance deliveries, there is a lack of separation of duties because the pharmacist on duty handles all responsibilities from receipt, storage, recording, issuance, and periodic physical inventories. In addition, there is no independent verification, since the Pharmacy Director, who approves the controlled substance orders, performs the same functions as the Pharmacist on duty. The absence of proper separation of duties over controlled substance processes and independent verification renders weak controls for preventing and detecting loss, misuse, or abuse.

Loaned and Borrowed Controlled Substances Outstanding
For FY 2014, there were 530 controlled substances loaned to or borrowed from other local pharmacies. Of the total quantities, 350 units with a value of $3,164 remain unpaid. Certain documents supporting the loan or borrowing of 1,615 units, inclusive of substances loaned in prior periods, were not available for examination, because copies were either returned to the borrower or discarded since it is not a DEA requirement.

Noncompliance with Certain Laws, Requirements, and Internal Policies
GMHA generally complied with federal and local laws, requirements, and GMHA internal policies, such as registration with the local DEA office, use of the DEA Form 222 to order Schedule II controlled substances, use of DEA form 41 for destruction of expired controlled substances, and certain required security and storage features. However, certain requirements and internal policies were not adhered to, including 12 physicians without the required Controlled Substance Registration for GMHA with DPHSS and certain inventory controls were not sufficiently maintained.

Insufficient Fee Schedule Update
The latest invoice price plus freight charges for a certain controlled substance were not used as the basis for formulating fee rates charged to patients. For three drugs, we found understatements ranging from $0.05 to $9.88 per unit or a total of $2,147. GMHA's fee rate is formulated based on historical cost, plus markup of 2.756%, for pharmaceuticals. These fee rates are only increased when GMHA decides to increase its fees at a maximum of 5% without public hearing. Fees were recently increased in 2015, five years from the last fee increase in 2010.

Conclusion and Recommendations
To preclude revenue losses due to weak internal control, inventory discrepancies, and inaccurate billings, as well as prevent possible loss, abuse, and misuse, we recommend GMHA (1) designate officials to address the Pharmacy and Billing system linkage issues required to properly account for all controlled substances issued for patient dispensation, ensure accuracy of patient billings, and maintain an accurate automated inventory of controlled substances; (2) establish and implement controls to ensure compliance with laws, requirements, and policies; and (3) ensure that all expired controlled substances be recorded and accounted for in a master record, whether on the Expired Narcotics Log Sheet or another record book. While GMHA was in agreement with OPA's recommendations, the Administrator provided further explanations in response to 11 findings within the report.

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