



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

February 1, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Pharmacy Inventory, Audit 11-01

Dear Mayor Littlefield and Council Members:

On May 27, 2011, the Internal Audit Division released an audit of the contract between the City and The Benefit Advocate to provide pharmacy services for City employees, retirees and their dependents. We performed certain procedures, as enumerated below, with respect to activities of the Personnel Department and The Benefit Advocate, in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel, along with review and examination of documentation. It was substantially less in scope than an audit conducted in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 11-01 were that:

1. Invoices from The Benefit Advocate to the City were passed on with no markup from the suppliers of The Benefit Advocate: Innoviant and McKesson Pharmaceuticals.
2. The City invoice approval process is not adequate to ensure proper amounts are paid to the supplier.
3. The Benefit Advocate does not have a perpetual inventory system in place as required by the contract terms.

The audit contained five (5) recommendations that addressed the audit's findings. Based on the review performed, we concluded three (3) have been partially implemented, and two (2) have not been implemented.

Recommendations Partially Implemented [3]

We recommended (**Recommendation 1**) the Personnel Department ensure items listed on daily packing slips are matched to the semi-monthly statements prior to approving the statement for payment.

The Personnel Department has drafted a Pharmacy Inventory Receipt and Payment Procedures Policy, and it is in the process of implementation. Included in the policy are proper steps to test each bill for correctness before approval.

We recommended (**Recommendation 2**) the Personnel Department ensure all confirmation procedures on drug statements are complete and the totals accurate prior to sending approval to pay to the Finance Department.

The Personnel Department has drafted a Pharmacy Inventory Receipt and Payment Procedures Policy, and it is in the process of implementation. Included in the policy are steps designed to ensure bills are not approved for payment prior to confirmation of statement amounts.

We recommended (**Recommendation 3**) that Personnel work with The Benefit Advocate to get a perpetual inventory system in place, as dictated by the contract.

The Personnel Department and representatives of The Benefit Advocate have agreed on a perpetual inventory system to be operational in May 2012.

Recommendations Not Implemented [2]

We recommended (**Recommendation 4**) the Personnel Department work with The Benefit Advocate personnel to receive proper reporting as agreed to in contract section 1.10(b).

To-date no actions have been undertaken to ensure required reporting is received from The Benefit Advocate.

We recommended (**Recommendation 5**) the Personnel Department work with The Benefit Advocate to request free, ad hoc reporting to further their understanding of usage patterns, cost comparisons, etc.

The Personnel Department has had internal discussions related to reporting needed, and are in the process of making final determination of reports to be requested from The Benefit Advocate.

We thank the staff of the Personnel Department for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,



Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Donna Kelley, Personnel Administrator
Daisy Madison, Chief Financial Officer
Audit Committee Members