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The University of Texas at Austin
Office of Internal Audits

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This report has been distributed to Internal Audit Committee members, the Legislative Budget Board, the State Auditor’s Office, the Sunset Advisory Commission, the Governor’s Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

Forty Acres Pharmacy
Project Number: 16.017
July 1, 2016

President Gregory L. Fenves  
The University of Texas at Austin  
Office of the President  
P.O. Box T  
Austin, Texas 78713

Dear President Fenves,

We have completed our audit of Forty Acres Pharmacy. Our scope included reviewing Forty Acres Pharmacy’s licensing and training, cash handling controls, and drug security for compliance with UT Austin policies and state and federal laws from July 1, 2015 – January 31, 2016.

Based on the audit procedures performed, we conclude that Forty Acres Pharmacy is generally in compliance with UT Austin policies and state and federal guidelines. However, opportunities for improvement were noted regarding cash handling, procurement procedures, and pharmacy security. Our audit report provides detailed observations for each area under review. Suggestions are offered throughout the report for improvement in the existing control structure.

We appreciate the cooperation and assistance of Forty Acres Pharmacy Management throughout the audit and hope that the information presented herein is beneficial.

Sincerely,

[Signature]  
Michael W. Vandervort, CPA  
Chief Audit Executive

cc: Institutional Audit Committee Members  
Ms. Nancy Brazzil, Deputy to the President and Chief of Staff  
Dr. Maurie McInnis, Executive Vice-President and Provost  
Dr. Judith Langlois, Professor, Department of Psychology, College of Natural Sciences  
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TABLE OF CONTENTS

Executive Summary ................................................................. 1

Background ....................................................................................... 2

Scope, Objectives, and Procedures .................................................. 2

Audit Results ..................................................................................... 3

Conclusion ......................................................................................... 8

Appendix ......................................................................................... 9
EXE C U T I V E  S U M M A R Y

Conclusion
Based on procedures performed, it appears that Forty Acres Pharmacy (Pharmacy) is generally in compliance with UT Austin policies and state and federal guidelines. Strengths identified during the audit include controls over inventory and controlled substances. However, opportunities for improvement were noted in the areas of cash handling, procurement procedures, and pharmacy security. Seven recommendations were made to improve compliance with UT Austin policies and procedures.

Summary of Recommendations
Each issue has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions.

Internal Audits identified seven issues which led to the following recommendations:

- Cash Handling Procedures (Audit Issue Ranking: High)
- Cash Handling - Verifying Deposits (Audit Issue Ranking: High)
- Cash and Asset Security - Safe (Audit Issue Ranking: High)
- Cash Handling - Separation of Duties (Audit Issue Ranking: High)
- Procurement Procedures - Separation of Duties (Audit Issue Ranking: High)
- Security - Pharmacy Keys (Audit Issue Ranking: High)
- Security - Pharmacy Door (Audit Issue Ranking: Medium)

Audit Scope and Objective
The scope of this audit included reviewing the Pharmacy’s licensing and training, cash handling controls, and drug security from July 1, 2015 – January 31, 2016. The audit objectives were to determine whether the Pharmacy was in compliance with UT Austin polices and state and federal guidelines.

Background Summary
The Pharmacy website states, “Forty Acres Pharmacy serves The University of Texas at Austin community as a source for prescription and non-prescription medications. The pharmacy can fill most prescriptions from health care providers licensed to practice anywhere in the United States, including those issued from University Health Services. The Forty Acres Pharmacy offers speed and convenience in fulfilling most prescription needs for UT Students, faculty, and staff.”

The Pharmacy has been under the direction of the College of Pharmacy administration since fiscal year 2012 and currently employs four Pharmacists and three Pharmacy Technicians. At the end of fiscal year 2015, the Pharmacy brought in $2.8 million.

1 Forty Acres Pharmacy: http://www.fortyacrespharmacy.com/
BACKGROUND

The Forty Acres Pharmacy (Pharmacy) website states, “Forty Acres Pharmacy serves The University of Texas at Austin community as a source for prescription and non-prescription medications. The pharmacy can fill most prescriptions from health care providers licensed to practice anywhere in the United States, including those issued from University Health Services. The Forty Acres Pharmacy offers speed and convenience in fulfilling most prescription needs for UT Students, faculty, and staff.”

The Pharmacy has been under the direction of the College of Pharmacy administration since fiscal year 2012 and currently employs four Pharmacists and three Pharmacy Technicians. At the end of fiscal year 2015, the Pharmacy brought in $2.8 million.

In fiscal year 2015, the Pharmacy reported a suspected funds misappropriation to The Office of Internal Audits (Internal Audits). Internal Audits investigated the allegation, but was unable to determine its validity. During the investigation, four recommendations were made to strengthen controls over the Point-of-Sale System and Safe policy.

The results from the investigation increased the risk profile for the Pharmacy and thus created a need for an audit. Therefore, this audit was conducted as part of our Fiscal Year 2016 Audit Plan.

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this audit included reviewing the Pharmacy’s licensing and training, cash handling controls, and drug security from July 1, 2015 – January 31, 2016. The audit objectives were to determine whether the Pharmacy was in compliance with The University of Texas at Austin (UT Austin) polices and state and federal guidelines.

To achieve these objectives, Internal Audits:

- Reviewed applicable policies and procedures;
- Corresponded with relevant staff;
- Reviewed employee records;
- Observed an end-of-day cash count; and
- Conducted surprise inventory count of medications.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and with Government Auditing Standards.

2 Forty Acres Pharmacy: http://www.fortyacrespharmacy.com/
AUDIT RESULTS

Internal Audits found reasonable to strong controls regarding drug inventory documentation and management, as well as improved controls over the Point-of-Sale system from the 2015 investigation. However, there are additional recommended controls over cash handling and general security as detailed in this report.

The following seven recommendations were made to improve compliance with UT Austin policies and procedures. Each issue has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see the Appendix for ranking definitions.

Cash Handling Procedures
Audit Issue Ranking: High
The Pharmacy’s current operating procedures do not adequately address controls to provide reasonable assurance that cash handling improprieties are prevented and detected. The department was not aware of all aspects required for cash handling procedures. Cash handling procedures should include processes for receiving funds, safekeeping of funds, depositing funds, reconciling funds, and a separation of duties for each process. If proper cash handling procedures are not established, then there is an increased risk for fraud or misappropriation of assets.

Section 6.1.D of UT Austin’s Handbook of Business Procedures states, “Each department accepting cash shall maintain a documentation file. The file shall include Departmental cash handling procedures.” Additionally, Section 4 of UT System Policy 118 states, “Management shall establish and maintain a system of internal control that provides reasonable assurance that improprieties are prevented and detected.”

Recommendation #1: Management should ensure all aspects of cash handling are documented in the Pharmacy’s current procedures. These procedures should include internal controls that will provide reasonable assurance that improprieties are prevented and detected.

Management's Response and Corrective Action Plan: Cash handling procedures have been revised and formalized in “P&P 2075 FORTY ACRES POLICY AND PROCEDURE ON CASH HANDLING.”

In addition, current pharmacy staff are required to review UT Austin’s Handbook of Business Procedures, Section 6 “Cash Handling” and document understanding. This will be required training for new staff hires going forward.

Responsible Person: Chief, Pharmacy Services

Planned Implementation Date: Immediately (6/7/16)
**Post Audit Review:** Internal Audits will follow-up in the first quarter of FY17.

**Cash Handling - Verifying Deposits**  
**Audit Issue Ranking:** High  
Pharmacy cashiers place deposits into the safe without a second employee to verify the count. The department’s current cash handling procedures do not require at least two employees to verify a deposit. If there are not at least two individuals verifying deposits, then there is an increased risk of fraud or misappropriation of assets.

Section 6.1.B of UT Austin’s *Handbook of Business Procedures* states, “It is the specific responsibility of supervisory personnel to review cash handling documents that are prepared by personnel reporting to them.” Additionally, Section 7.2(p) of *UT System Policy 166* states, “All deposits shall be verified twice preferably by two individuals.”

**Recommendation #2:** Management should ensure at least two Pharmacy employees are verifying daily deposits and signing documentation acknowledging the amount to be deposited.

**Management’s Response and Corrective Action Plan:** The Cashier Daily Balance Sheet has been revised to provide documentation for two employees to verify daily deposit amounts for each register batch.

**Responsible Person:** Chief, Pharmacy Services  
**Planned Implementation Date:** Implemented April 2016

**Post Audit Review:** Internal Audits will follow-up in the first quarter of FY17.

**Cash and Asset Security - Safe**  
**Audit Issue Ranking:** High  
During the observation, Internal Audits noted that the safe was located in a small room with no door securing the room and was located near an entrance to the waiting room. In addition, an employee was able to jostle the safe with minimal effort. The department’s current procedures do not address keeping the safe bolted in place or locked in a secure area. If the safe is not secured, then there is an increased risk of loss of funds.

Section 7.2(e) of *UT System Policy 166* states, “Safes and drop safes should be bolted in place and smaller receptacles secured in locked areas.”

**Recommendation #3:** Management should ensure the safe is bolted in place and locked in a secure area.

**Management’s Response and Corrective Action Plan:** The safe has been relocated to an internal room with a locking door (SSB 1.110AB). The University Locks and Keys Department has been consulted and is in the process of preparing
new locks for installation. Once completed, new keys will be issued for appropriate staff members.

University Facilities Services has been consulted and is in the process of devising a plan to secure the safe in place.

**Responsible Person:** Chief, Pharmacy Services in collaboration with College of Pharmacy’s Assistant Dean for Administration and Administrative Affairs Manager

**Planned Implementation Date:** Consultation with Locks and Keys and Facilities occurred on 6/7/16, installation pending.

**Post Audit Review:** Internal Audits will follow-up in the first quarter of FY17.

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**Cash Handling - Separation of Duties**

**Audit Issue Ranking:** High

One Pharmacy employee is sometimes responsible for both cash handling (collecting funds) and record-keeping (preparing a deposit) functions within the department. The department’s current cash handling procedures do not address separation of duties. If these functions are not separate, there is an increased risk of mishandling or misappropriation of funds.

Section 6.1.B of UT Austin’s *Handbook of Business Procedures* states, “The cash handling and record-keeping functions should be separated. If the office is small, and separation of duties is impracticable, the supervisory personnel who do not handle cash should perform specific verification that provides for reasonable and sound internal controls.”

**Recommendation #4:** Management should ensure that the cash handling (collecting funds) and record-keeping (preparing the deposit) functions are kept separate.

**Management’s Response and Corrective Action Plan:** Cash handling procedures have been revised and formalized in “P&P 2075 FORTY ACRES POLICY AND PROCEDURE ON CASH HANDLING” in Section V: Separation of Duties.

**Responsible Person:** Chief, Pharmacy Services

**Planned Implementation Date:** Implemented May 2016

**Post Audit Review:** Internal Audits will follow-up in the first quarter of FY17.
Procurement - Separation of Duties
Audit Issue Ranking: High
Pharmacy personnel can order, receive, and process vendor payments. As the number of pharmacy personnel has decreased, remaining personnel are taking on more responsibilities. If separation of duties is not maintained, then there is an increased risk of loss of funds.

Section 7.4.4 of UT Austin’s Handbook of Business Procedures states, “Per the Office of Accounting’s Inventory Best Practices and Payment Vouchers handout: The individual (receiver) receiving the shipment must be different than the buyer.”

**Recommendation #5:** Pharmacy management should ensure there are written and implemented procedures pertaining to separation of duties for ordering, receiving, and processing vendor payments.

**Management’s Response and Corrective Action Plan:** Department policy has been revised and formalized in “P&P 2045 FORTY ACRES PHARMACY POLICY AND PROCEDURE REGARDING SEPARATION OF DUTIES FOR ORDERING AND RECEIVING PRODUCTS AND PROCESSING VENDOR PAYMENTS.”

**Responsible Person:** Chief, Pharmacy Services

**Planned Implementation Date:** Immediately (6/6/16)

**Post Audit Review:** Internal Audits will follow-up in the first quarter of FY17.

Security - Pharmacy Keys
Audit Issue Ranking: High
Although the Pharmacy has an alarm system with individual access codes, three of ten Medeco keys created for the exterior door locks of the Pharmacy cannot be located. One key was recorded as lost in 2002 and the location of two keys that were assigned to an individual within The University of Texas at Austin’s Police Department (UTPD) in 2001 is unknown. When the individual from UTPD who was assigned the two Medeco keys left UT Austin, this individual did not return the keys to Lock & Key Services or UTPD. If keys to the Pharmacy are unaccounted for, then the Pharmacy has an increased risk of being compromised and thus a potential loss of UT Austin funds or inventory and possible reputational damage.

Section 4-1020-PM of UT Austin’s Handbook of Operating Procedures states, “Keys must be turned in at termination of employment.” Additionally, Rule 291.33(b)(2)(B) of the Texas Administrative Code states “The prescription department shall be locked by key, combination or other mechanical or electronic means to prohibit unauthorized access when a pharmacist is not on-site.”

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3 Texas Administrative Code 291.33(b)(2)(B)
**Recommendation #6:** Pharmacy management should change the exterior locks to the pharmacy.

**Management’s Response and Corrective Action Plan:** University Locks and Keys department has been consulted and is in the process of preparing new locks for installation. Once completed, new keys will be issued for appropriate staff members.

**Responsible Person:** Chief, Pharmacy Services in collaboration with College of Pharmacy’s Assistant Dean for Administration and Administrative Affairs Manager

**Planned Implementation Date:** Consultation with Locks and Keys on 6/7/16, installation pending.

**Post Audit Review:** Internal Audits will follow-up in the first quarter of FY17.

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**Security - Pharmacy Door**

**Audit Issues Ranking: Medium**

The door which separates the waiting room from the cash handling and prescription area is left unlocked during business hours. The door has been locked in the past, but it was determined to be an inconvenience to staff. If the waiting room door is not locked, then non-pharmacy personnel may have access to the cash handling and prescription areas.

Section 6.2 D of UT Austin’s *Handbook of Business Procedures* states “Cash processing areas should be secure from entry by unauthorized people.” Additionally, Rule 291.33(b)(2)(A) of the *Texas Administrative Code* states, “Each pharmacist while on duty shall be responsible for the security of the prescription department, including provisions for effective control against theft or diversion of prescription drugs, and records for such drugs.”

**Recommendation #7:** Pharmacy management should secure the waiting room door by using BACS, keypad, or key lock so only authorized personnel can access the cash handling and prescription areas.

**Management’s Response and Corrective Action Plan:** University Locks and Keys department has been consulted and is in the process of preparing new locks for installation. Once completed, new keys will be issued for appropriate staff members.

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4 *Texas Administrative Code 291.33(b)(2)(A)*
**Conclusion**

Based on procedures performed, it appears that the Pharmacy is generally in compliance with UT Austin policies and state and federal guidelines. Strengths identified during the audit include controls over inventory and controlled substances. However, opportunities for improvement were noted in the areas of cash handling, procurement procedures, and pharmacy security. Seven recommendations were made to improve compliance with UT Austin policies and procedures.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.
APPENDIX

Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, UT Austin, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Austin or the UT System as a whole.

- **High** – An issue that is considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.

- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

- **Low** – An issue that is considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.