Mt. Vernon DC DEA Review – 7/28/08

Attachment A

Summary of Findings

	Issue	Risk	Recommendation	Management's Response
Pseudoephedrine (PSE) Reporting Requirements				
1.	Based on past DEA reviews and discussions with DC Management, Internal Audit (IA) has noted several instances of inconsistent and unknown PSE reporting requirements, where: 1. Each DC has their own reports to generate receiving and shipping records. At times, only a few individuals, company-wide, can generate these reports. In addition, our review of a PSE Receiving Report for WIC: 689451 did not have the Vendor's DEA number present. 2. Unclear direction to identify and report concealed shortages, overages or other losses of PSE products. 3. The query used to generate a listing of on-hand PSE WICs, commonly requested by the DEA, can differ and can not substantiate if all PSE WICs are being captured due to a PSE Ops Study Change in the system. Note: Discussions with several	DCs, company-wide, may not know what reporting is required for PSE items. Consequently, the DCs may be unable to produce necessary information at the time of DEA inspections.	We recommend the following: 1. Corporate and Regulatory Law should perform a detailed review for PSE Reporting, which should be communicated to the Logistics, Loss Prevention and IA Departments. Once Recommendation 1 has been completed: 2. The Corporate Information Systems Engineer (ISE) Department should provide all DCs with the same PSE data retrieval and presentation as controlled substances (i.e. historical on-hand counts and DEA required information). 3. ISE should perform a DC-wide review of all queries to produce on-hand PSE records to ensure completeness of information, in light of the recent PSE Ops Study Change. 4. The PSE instructions found in the compliance manual to produce Receiving and Shipping Records	**Gary Peters, Senior Attorney** Corporate and Regulatory Law has performed the requested review and the results have been communicated to the Logistics, Loss Prevention and IA Departments. See Attachment B for details. **Estimated Completion Date:** Complete. **Dan Coughlin, Regional VP Distribution Centers and Logistics** 2. Agreed. ISE will modify the PSE data retrieval process and presentation to emulate the current process and presentation for controlled substances. 3. Agreed. ISE – Outbound will perform the requested review. The new query will be streamlined for all DCs to use. 4. Agreed. The instructions are in the process of being reviewed by DC Management to ensure they are accurate. An updated

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	DC Managers have highlighted the need for clear communication regarding PSE reporting requirements.		should be forwarded to all DCs to ensure the instructions are accurate and properly communicated. 5. Moving forward, when DCs perform their weekly inventories on five randomly selected PSE items, any discrepancies found should be investigated and reported in accordance with the guidelines set forth in Code of Federal Regulations: 1314.15. See Attachment C for Code of Federal Regulations: 1314.15 details and reporting format.	email will be sent to all DC Management with the instructions to produce PSE reports. 5. Agreed. The compliance manual will be updated to reflect the reporting requirements with the proper form. **Estimated Completion Date:** 2, 3, 4 & 5 – October 31, 2008
2.	An inventory performed on a PSE item, WIC: 689451, indicated an unidentified find of 6 SKUs (in addition to 101 SKUs in Item Count Reserve) where the DC might have under shipped a store or the vendor inadvertently shipped more than ordered. In addition, the DC has multiple PSE items with unidentified book to physical inventory variances. Note: The DC performs daily inventories on all split case PSE items and a weekly inventory for all full case PSE locations. The PSE variances are trending down,	Unknown inventory variances may be an indication of shrink or inadvertent vendor overages. Ineffective record keeping and monitoring of PSE items could lead to non-compliance with DEA regulations regarding PSE security.	We recommend the following: 1. Reconcile all PSE items with differences between book and physical inventories, as noted in the Unresolved PSE Discrepancies Report. As mentioned above, any discrepancies found should be investigated and reported in accordance with the guidelines set forth in Code of Federal Regulations: 1314.15. See Attachment C for Code of Federal Regulations: 1314.15 details and reporting format. If suspicion of theft exists, the	**1. Chris L. Johnson, Distribution Center Manager** Agreed. **Estimated Completion Date:** September 30, 2008 **2. Matt Linden, Corporate Asset Protection Manager** We agree the High-Val section needs a camera for the PSE items. A meeting with the Regional Vice President will be held to make a final determination to install the camera due to the significant

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	indicating the DC is making progress to align book to physical inventory.		Asset Protection Office should be alerted for their assistance (i.e. hidden camera coverage). 2. A camera should be installed in the High-Val section, where PSE items are stored.	cost associated with the security system expansion needed for this installation. **Estimated Completion Date for Regional VP Decision:** October 31, 2008
Controlled Substance Reporting				
3.	Walgreens is required to have a process to disclose to the DEA any suspicious orders of controlled substances that deviate from the normal size, pattern, and frequency. Any orders that are deemed to be suspicious are required to be reported to the DEA upon discovery. Walgreens produces a suspicious controlled drug orders report monthly. This report is voluminous which makes it difficult for DCs to analyze the data and decipher suspicious from those orders that may have been filled outside the ordinary course of business, but would not be considered suspicious. In addition, there is no monitoring	Walgreens is filling orders that have been deemed suspicious without performing any research to ascertain the legitimacy of the order, which could lead to the fulfillment of an illicit order.	We recommend discussions continue with the cross-functional team consisting of the Logistics, Corporate and Regulatory Law and Loss Prevention Departments to assess what is considered a suspicious controlled drug order and revisit the report parameters to reduce the report size to a manageable level. Discussions should also include how to effectively train DC employees to monitor and manage the report.	**Dwayne Pinon, Senior Attorney** We will coordinate another meeting in Q1 to continue discussions on reporting suspicious controlled substance orders. **Estimated Completion Date for Updated Suspicious Controlled Drug Order Identification Methodology:** November 30, 2008 **Estimated Completion Date for New Reporting:** June 30, 2009

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	process in place to prevent the fulfillment of an order if it has been deemed suspicious. **Audit Note:** During Fiscal Year 2008, a cross-functional team consisting of representatives from Legal, Distribution, Loss Prevention, and Internal Audit was formed in order to define the methodology to be used in identifying and reporting suspicious controlled drug orders under the premise that suspicious orders would be easily flagged and consequently prevented from being filled.			
4.	In order to provide a complete record of the origin of controlled substances, the DEA requires specific information, such as vendor name and address, to be recorded on the receiving records. The results of our controlled substance inventory test identified the vendor's shipping address was missing on one of three CIII-V Receiving Reports (REPB309).	The DC may not be able to substantiate where receipts originated from, which could lead to non-compliance with DEA regulation Section 1304.22 (b).	We recommend the following: 1. The Marketing Services Department should refresh all addresses for controlled substance vendors which are uploaded for the Receiving Reports. 2. In addition, controlled substance vendors should certify their data on an annual basis. 3. Logistics and Planning should revisit this issue to validate the	**1 & 2. Michael Papierniak, Manager, Vendor/Item Services, Merchandise Disposition, and Deal Systems** Short-term: We have identified all controlled substance vendors and requested each of them to update/verify their profile through SupplierNet to ensure their DEA number, Vendor Shipping Point Address and NDC numbers are correct.

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			report integrity to ensure all controlled substance WICs will show the correct vendor shipping address.	**Estimated Completion Date:** Complete. Long-Term: The Vendor Profile Certification is currently a Fiscal Year 2009 project. Vendors will be required to certify their data on an annual basis, via SupplierNet communication. **Estimated Completion Date:** August 31, 2009 **3. Jason Elliot, Manager, Flow, EDA, Inbound, Vendor Compliance** The Receiving Report (REPB309) will be systematically re-developed to ensure all DEA required information is populated on the report in a two phase project. Short-Term: The current report will be updated to ensure there are no missing/blank vendor address fields by updating the program logic pulling from Marketing

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				Service's Vendor Profile File. The program logic will now pull the vendor's shipping address by matching the Vendor number, Vendor DEA number and the Vendor Zip Code from the Freight Screen in AS/400. **Estimated Completion Date:** September 30, 2008 Long-Term: Logistics and Planning will create a new history file tracking the address on file at time of receipt, Controlled Item Receipt Shipping Point, to capture the address and license information on file for the Vendor Shipping Point. The new Receiving Report will now pull its information from the new history file, ensuring all DEA information is captured. **Estimated Completion Date:** December 30, 2008

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5.	Our review of a controlled substance return to the Windsor Rx Return Center found the Windsor Rx Return Form did not include Windsor's address, which is DEA required information.	The DC may not be able to substantiate the destination for controlled substance returns, which could lead to non-compliance with DEA regulation Section 1304.22 (b).	Ensure the correct Windsor Rx Return Form is being used for controlled substance returns, which has the correct Windsor ship to address. A copy can be obtained from the compliance manual.	**Chris L. Johnson, Distribution Center Manager** Agreed. The updated form will be used moving forward. **Estimated Completion Date:** Complete.
6.	DCs are required to track all incidents regarding controlled substance shipments to the stores via the S.A.I.L. Report. The report attributes are documented in the compliance manual. Our review of the S.A.I.L. Report Worksheet identified the report used by the Mt. Vernon DC does not track all of the required attributes involved with each theft or loss incident. Note: The Mt. Vernon S.A.I.L. process is robust and effective for documenting issues with controlled substance totes, where a Control Rx Tote Discrepancy Form is utilized, which has all the required S.A.I.L. attributes.	There is less assurance that trends relating to controlled substance diversion are identified and monitored in a timely manner if the required reporting attributes are not being tracked.	The S.A.I.L. Report Worksheet should be updated to ensure Company required attributes are being tracked.	**Chris L. Johnson, Distribution Center Manager** We agree with the recommendation and will update the S.A.I.L. Report Worksheet. **Estimated Completion Date:** September 30, 2008

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Controlled Substance Security				
7.	IA noted the controlled drug cage sliding door (#11) may not properly close and lock due to the breakage of a large metal guide. The guide ensures proper closing and locking.	A damaged sliding door, inhibiting proper closing and locking, may leave the controlled drug cage susceptible to controlled substance theft or diversion.	Work with DC Maintenance to have the controlled drug cage sliding door fixed.	**Chris L. Johnson, Distribution Center Manager** Agreed. The DC has fixed the issue with the sliding door, ensuring proper closing and locking. **Estimated Completion Date:** Complete.
8.	IA noted the ability to identify non-controlled from controlled totes by the difference in the tote seal used for each.	Controlled substance shipments with different tote seals from non-controlled can be easily identified and may be susceptible to theft or diversion.	Utilize the same tote seal for both controlled and non-controlled shipments.	**Chris L. Johnson, Distribution Center Manager** Agreed. The DC has made the transition to one seal for both. **Estimated Completion Date:** Complete.
9.	Our tests of controlled substance cage security cameras and motion detectors disclosed significant blind spots. Note: The DC was able to produce an accurate cage layout, documenting the cameras and alarm points, in a timely fashion.	Inadequate security camera coverage and/or inoperable motion detectors limit the ability to monitor activity within the controlled substance cages and the ability to observe or record the occurrence of theft.	We recommend the following: 1. The DC should work with Corporate Asset Protection to ensure camera positions provide adequate coverage to every area within the controlled substance cages. 2. An additional camera should be installed to provide coverage for the middle lane.	**1. Chris L. Johnson, Distribution Center Manager** The DC has worked with Corporate Asset Protection to make the necessary modifications to provide adequate camera coverage. **Estimated Completion Date:** Complete.

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				2. Matt Linden, Corporate Asset Protection Manager We agree an additional camera would enhance camera coverage for the middle land. A meeting with the Regional Vice President will be held to make a final determination to install the camera due to the significant cost associated with the security system expansion needed for this installation. **Estimated Completion Date for Regional VP Decision:** October 31, 2008
10.	DCs are required to post the DC Manager's Controlled Drug Cage Access Listing on the controlled drug cage door and in the Asset Protection Office. The listing provides all concerned with employees that have permanent card access approved by the DC Manager, or their designate. Our review noted the DC was not utilizing the DC Manager's Controlled Drug Cage Access Listing.	Unauthorized personnel may have access to the controlled drug cage.	We recommend the following: 1. The DC should utilize the DC Manager's Controlled Drug Cage Access Listing (An example from Jupiter was provided), which should be posted in the Asset Protection Office and on the controlled cage door. Only the DC Manager or Operations Manager should approve access to cage. 2. A monthly review should be performed against the DC	**Chris L. Johnson, Distribution Center Manager** 1. Agreed. The DC will make the transition to utilize the DC Manager's Controlled Drug Cage Access Listing, which will be posted in the Asset Protection Office. 2. Agreed. The monthly review will be part of the monthly Asset Protection Security and Alarm Audit.

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			Manager's Controlled Drug Cage Access Listing and Threshold Access System to ensure no unauthorized access has been granted.	**Estimated Completion Date:** 1. & 2. September 30, 2008
11.	To ensure appropriate action is taken, Asset Protection Incident Reports should document the final results of the investigation. Our review of a sample of Asset Protection Incident Reports indicated the reports are not tracked to completion.	Incomplete Asset Protection Incident Reports may indicate issues are not fully resolved or handled appropriately (i.e. noting a spillage, but not filing a DEA Form 41). In addition, there is less assurance trends can be identified regarding controlled substance incidents without the incident being documented completely.	We recommend the following: 1. Ensure all Asset Protection Incident Reports are tracked to completion and reviewed/approved by the Asset Protection Function Manager. 2. The Asset Protection Function Manager should evidence their approval by entering their name to the database.	**Chris L. Johnson, Distribution Center Manager** 1. Agreed. The DC will start tracking the Asset Protection Incidents Reports to completion. 2. The Asset Protection Function Manager will start approving Incident Reports by signing their name in the database. **Estimated Completion Date:** 1. & 2. Complete.
12.	During our controlled substance receiving walk-through, IA noted the DC has a procedure where the Unloader will leave the controlled substance receipts unattended for a short timeframe while the ARCOS Transport Form is obtained from the Receiving Office.	Unattended controlled substances may be susceptible to diversion and against company policy.	The receiving procedures should be improved, utilizing a folder approach for each Receiving Dock, where pre-numbered ARCOS Transport Forms are prepared by the Receiving Department for the controlled receipts each day. Note: This process is used at the Orlando DC and is highly effective.	**Chris L. Johnson, Distribution Center Manager** Agreed. The DC will work with the Receiving Department to utilize the folder approach to prepare the ARCOS Transport Forms before the freight is received. **Estimated Completion Date:** September 30, 2008

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Documentation of Employment Screening Tests and Criminal Background Checks				
13.	Our review of the required background checks and screening tests for twenty-two employees disclosed employee records lacked the following documentation: • Six (27%) missing National Criminal Records Check • Five (23%) missing Local Criminal Records Check	Failure to perform the required background checks and screening tests may result in the hire of individuals that may be considered unemployable had the checks been performed. In addition, Walgreens could be found in non-compliance with Section 1301.93 regarding employee background checks.	We recommend the following: 1. Take the necessary actions to update the employee personnel files for the missing documentation. 2. During the Quarterly DEA Mini Audit Process, review and update the files of all employees having regular access to controlled substances to ensure that all screening tests have been executed. 3. Audit Note: Recent DEA reviews performed by Internal Audit at various DCs noted a common issue with not having proper documentation of screening tests and background checks for employees having regular access to the controlled substance areas. To address the concern with missing documentation, DC Management will modify the current quarterly HR Audit performed by the HR department in each DC to include a review of documentation concerning background checks and screening tests. Any exceptions noted on the audit will be reported to management and corrected immediately.	**Chris L. Johnson, Distribution Center Manager** 1. The Mt. Vernon DC has updated the employee personnel files for the missing documentation. 2. The Mt. Vernon DC will review the files for all employees having regular access to controlled substances to ensure that all required documentation is obtained during the Quarterly DEA Mini Audit Process. **Estimated Completion Dates:** 1. Complete. 2. December 30, 2008 3. Update of HR Quarterly Audit - November 30, 2008.

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