

Pharmacy Inventory Management

1. Introduction

Lower Mainland Pharmacy Services ("the Pharmacy") performs a range of services for Providence Health Care (PHC), including: clinical pharmacy services, drug information and evaluation, teaching, medication distribution, and medication purchasing, receiving, and storage.

PHC is a publicly funded health care organization committed to the values of integrity, excellence, and stewardship. PHC aims to ensure that judicious use is made of taxpayers' money in achieving patient care objectives.

1.1. Purpose

The purpose of this policy is to outline PHC's requirements in respect to pharmacy inventory management performed by the Pharmacy department.

1.2. Scope

This Policy applies to:

- 1) Staff (including medical staff), privileged health care providers, students, residents, contractors and their employees, subcontractors and their employees, vendors and their employees, and agents of the Pharmacy.
- 2) Staff (including medical staff), privileged health care providers, students, residents, contractors and their employees, subcontractors and their employees, vendors and their employees, and agents of PHC.
- 3) Staff of Provincial Health Services Authority (PHSA) providing services to the Pharmacy and / or PHC in connection with pharmacy services at PHC sites.

2. Policy

The Pharmacy is responsible for the management of PHC's pharmacy inventory including the following:

2.1. Medication Policies and Procedures

Policies and procedures regarding medications used or distributed from PHC sites will be set by the Pharmacy based on recommendations from the PHC Pharmacy and Therapeutics Committee.

2.2. Regulatory and Legal Compliance

The Pharmacy must ensure that medication purchases, handling, and reporting meet legal and regulatory standards, including the Food and Drugs Act and Regulations, the Controlled Drugs and Substances Act and Narcotic Control Regulations.

2.3. Inventory Levels

In order to minimize drug costs while achieving patient care objectives, the Pharmacy must maintain appropriate inventory levels considering the following.

- Safety stock level, including potential impact of a shortage on patient care
- Order lead time
- Bulk discounts and cash rebates
- Expiry period
- Potential refunds on expired drugs
- Availability and cost of substitutes

2.4. Storage

All drug inventories must be stored in secure locations. An approved stock list must be developed and maintained for each drug inventory storage location.

Pharmacy follows the LMPS Controlled Substances Storage and Security policy, which is based on the Controlled Drugs and Substances Act and Narcotic Control Regulations (already referenced).

Storage areas will be tidy with clear and fully informative labelling. In order to minimize inventory loss due to drug expiration, drug expiry dates will be reviewed frequently, and where practicable, drugs will be stored in a manner that facilitates first-in-first-out distribution.

Access to drug storage areas will be unobstructed. Drug inventory will not be stored or transported in a manner that is a risk to staff safety.

Non-inventory items including staff belongings must not be placed in medication storage areas. Staff belongings must be stored in a separate location and away from medications and pharmacy supplies.

2.5. Inventory Counts

The Pharmacy must develop and maintain written procedures for inventory counts and develop and maintain local inventory count forms. The written procedures will include the following:

- Organization of the physical inventory before the count
- Physical Inventory Count Memos for the count team that outline the detailed instructions and controls around movement of physical inventory and segregation of duties

- Cut-off Procedures to ensure that physical inventory is included in the correct period
- Reports to be generated before and after the physical count to ensure proper value of the inventory
- A formal process to review, investigate, and authorize count variances

Staff participating in inventory counts will receive adequate training.

Full inventory counts must take place at least annually. PHC Finance Department will be notified in advance of full inventory counts and invited to attend. In addition, inventory counts (cycle counts) will be performed at higher frequencies for:

- Controlled Substances
- Restricted drugs
- Drugs showing negative inventory or similar anomalous values in the electronic database system, or having a recent history of such
- High unit cost and high dollar value items

Exemptions from the fiscal year end physical inventory count can be granted by PHC Finance at their discretion based on performing a risk assessment.

2.6. Revenue Management

The Pharmacy will maximize refunds and reimbursements by flagging shipments and orders with potential eligibility for refund or reimbursement early, and where applicable, storing inventory in a manner that facilitates physical returns. The Pharmacy must ensure that refunds and reimbursements are maximized and that requests are submitted in a timely manner.

To support this process, the Pharmacy must develop and maintain written procedures and communicate them to relevant staff. Expected refunds and reimbursements will be logged and jointly monitored by the Pharmacy and PHC Finance Department.

2.7. Security of Inventory

The Pharmacy will research and employ reasonable industry best practices to protect and secure drug inventory, including ensuring that drug inventory is used for its intended purpose. Operating and administrative procedures will be reviewed periodically by the Pharmacy management with regard to their potential for inventory losses.

Where practicable, operating and administrative procedures to protect and secure inventory will include the following measures:

- Segregation of duties: Duties should be segregated to ensure proper controls e.g., purchasing and receiving functions should be segregated
- Proper approval should be in place for the following:
 - Transfers of inventory to and from storage locations

- Receipt of shipments, verification of contents, and access to storage and inventory management system
- Returns of shipments, partial shipments, and inventory to vendors
- Frequent review and updating of electronic system access privileges (see policies Access Management and Role Based Access Control). Users of electronic systems must be provided with the User Identification and Passwords Policy and abide by it.
- Logging and authorization of drug wastage by supervisory staff. Management of the Pharmacy must monitor drug wastage and investigate unexpected results and unusual trends.
- Random independent checks and physical verification

Staff, students, and residents of the Pharmacy must be provided with the Theft, Fraud, and Corruption Awareness and Safe Reporting policies and encouraged to report any concerns about real or suspected wrongdoing, including theft or misuse of inventory. Any concerns about real or suspected theft or misuse of inventory communicated to the Pharmacy management must be documented and communicated promptly in confidence to PHC Finance Department.

2.8. Record Keeping

The Pharmacy must keep records of inventory counts and activity involving inventory. The system of inventory record keeping must be capable of:

- Accounting for all inventory received, stored, transformed, destroyed, or withdrawn. The records must provide an audit trail either by specific identification or by another appropriate method. Records must be kept in sufficient detail to allow efficient determination by PHC of compliance with this Policy and the correctness of periodic reports and reconciliations.
- Producing accurate and timely periodic reports and reconciliations.
- Identifying shortages and overages of inventory in sufficient detail to permit analysis and investigation.

Furthermore, in order to support audits and financial analysis, the electronic inventory system must be capable of exporting record level transactional data on request by PHC Finance Department.

The electronic inventory system and other records must be updated promptly to reflect changes and adjustments.

2.9. Reporting

The Pharmacy must submit timely periodic reports and reconciliations to PHC Finance Department to support fiscal period and year end accounting processes. The formats of the various reports and reconciliations will be determined jointly by the Pharmacy and PHC Finance Department.

The standard for inventory cost valuation in submissions from the Pharmacy to PHC Finance Department must be weighted average.

3. Responsibilities

The Pharmacy has an overall responsibility for maintaining and safeguarding the pharmacy assets in accordance with this policy. PHC Finance Department is responsible for monitoring of compliance and review of this policy.

4. Compliance

Failure to comply with this policy may result in disciplinary action up to and including termination of employment, services, or privileges.

5. Supporting Documents

5.1. Related Policies

[Access Management](#)

[Conflict of Interest](#)

[Fair and Competitive Procurement](#)

[Narcotic and Controlled Drugs](#)

[Procurement, Storage, Distribution, and Destruction of Drugs](#)

[Controlled Substances - Procurement and Inventory Control - LMPS](#)

[Controlled Substances - Storage and Security - LMPS Role Based Access Control](#)

[Safe Reporting](#)

[Standards of Conduct](#)

[Theft, Fraud, and Corruption Awareness](#)

[Vendor Incentives and Financial Considerations](#)

[User Identification and Passwords](#)

6. Definitions

"High Dollar unit cost" means items with unit cost of \$500 and more.

"High Dollar value" are items with overall inventory value of \$5,000 and more.

7. References

1. Food and Drugs Act and Regulations
2. Controlled Drugs and Substances Act
3. Narcotic Control Regulations
4. Providence Health Care Formulary Drug Listing
5. College of BC Pharmacists

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