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I. Introduction

The Kane Regional Centers

For over 50 years, the Kane Regional Centers have been providing care for the elderly and disabled of Allegheny County. The Kane Regional Centers strive to provide quality nursing and rehabilitation services to enhance the lives of their residents, families, and community.

There are currently four Kane Regional Centers located in Allegheny County: Glen Hazel, McKeesport, Ross, and Scott. The Glen Hazel Center located in the hills between Squirrel Hill and the Monongahela River with 240 licensed beds in 2016 is the smallest of the Kane Regional Centers, and houses the administrative offices for all four of the Centers. The McKeesport Center located along the Youghiogheny River with 360 licensed beds in 2016 is the largest of the Kane Regional Centers. The Scott Center located between Mt. Lebanon and Scott Township with 314 licensed beds in 2016 is the second largest of the Kane Regional Centers. The Ross Center situated in the North Hills near Ross Park Mall and McKnight Road with 240 licensed beds in 2016 is the second smallest of the Kane Regional Centers.

All four Kane Regional Centers provide short-term skilled care and long-term care for seniors. The Glen Hazel and Ross Centers also offer independent living. The Glen Hazel and Scott Centers offer Alzheimer's, dementia, and memory loss care as well. There are various options available to the resident and/or family to pay for Kane services, such as Medicare, Medigap, Medical Assistance, private health insurance, and out-of-pocket.

Contract #133415 for Pharmacy Management Services

Allegheny County entered into contract #133415 with Rx Partners Inc. for the provision of pharmacy management services at the Kane Regional Centers. The contract had an initial term of one year, from November 1, 2011 through October 31, 2012. The contract was extended three times, each extension for an additional one-year period. However, the agreement was modified prior to the expiration of the last approved one-year extension (which would have expired on October 31, 2015) to include the provision of pharmacy management services at the Allegheny County Jail. The modification covered a four-year period beginning September 1, 2015, and ending August 31, 2019. The County's pharmacy management services costs under contract #133415 for the period from January 1, 2016 through December 31, 2016 were \$1,364,820. Of that amount, \$885,000 pertained to pharmacy management services provided for dispensing to the Kane Regional Centers and \$479,820 pertained to pharmacy management services provided for dispensing to the Allegheny County Jail. Allegheny County also paid Rx Partners \$243,821 for emergency, intravenous, and compounded medications dispensed by Rx Partners' retail pharmacy to Kane Regional Centers' residents and \$41,554 for such medications dispensed to inmates at the Allegheny County Jail in 2016 (accrual basis).

I. Introduction

Entities Referred to in This Report

Kane Regional Centers Pharmacy – The institutional pharmacy housed at the Glen Hazel facility that was initially established to dispense needed medications to Kane Regional Centers’ residents, and now also dispenses needed medications to Allegheny County Jail inmates.

Rx Partners – A pharmacy management services provider that has been contracted by Allegheny County to provide pharmacy management services to the Kane Regional Centers Pharmacy.

Rx Partners Pharmacy – A retail pharmacy operated by Rx Partners that dispenses emergency drugs, IV medications, and compounded medications directly to Kane Regional Centers’ residents under contract #133415. (The Rx Partners pharmacy also has other customers.)

Intalere (formerly Amerinet Central) – A Group Purchasing Organization (GPO) that the Kane Regional Centers utilize to obtain discounted pricing on some of the pharmaceuticals it purchases from McKesson.

McKesson – A large pharmaceutical wholesaler that the Kane Regional Centers have selected as the primary supplier to the Kane Regional Centers Pharmacy of all prescription and over-the-counter medications other than emergency drugs, IV medications, and compounded medications.

Key Terms Defined

Wholesale Acquisition Cost (WAC) – This is the list price that a drug manufacturer would charge a wholesaler for a drug before any discounts are applied.

Average Wholesale Price (AWP) – This was initially intended to represent the average price at which a wholesaler would sell a medication to a provider (pharmacy, physician, or other customer). A markup is typically applied to the wholesale acquisition cost of a drug (often 20%) to arrive at the average wholesale price.

Sources of Drugs Dispensed to KRC Residents

Kane Regional Centers Pharmacy

The Kane Regional Centers Pharmacy utilizes a group purchasing organization, Intalere, to obtain a discount off of the Wholesale Acquisition Cost (WAC) of medication purchased for residents (WAC – 1.73%). WAC is the manufacturer's list price of the drug when sold to the wholesaler.

The Kane Regional Centers Pharmacy also directly purchases some medication from McKesson, at the regular wholesaler price, that it cannot receive a discount on through the Intalere agreement but that is necessary for residents.

The majority of the orders are with McKesson. McKesson delivers the orders to the Kane Regional Centers Pharmacy, who then dispenses the medication to the residents.

Residents

Rx Partners Retail Pharmacy

The Rx Partners Retail Pharmacy dispenses emergency drugs, IVs, and compounded medications directly to the Kane Regional Center residents, and is reimbursed at the Average Wholesale Price (AWP) less 14% plus a \$4 dispensing fee. A markup of 20% is typically applied to the WAC to arrive at the AWP.

II. Objectives, Scope, and Methodology

Objective

Our objective was to evaluate the compliance of Rx Partners Inc. (“Rx Partners”) with the significant contract compliance requirements of contract #133415.

Scope

Our audit procedures covered the period from January 1, 2016 through December 31, 2016. We conducted the performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Methodologies used to accomplish our objectives included, but were not limited to the following:

- Reviewed contract #133415, the corresponding Request for Proposal for Kane Pharmacy Management Services (specification #6670), and Rx Partners proposal.
- Interviewed Rx Partners, Inc. and Kane Regional Centers personnel to gain an understanding of contract operation, including internal control we deemed significant to our audit objectives.
- Interviewed and obtained Kane Regional Centers Pharmacy drug purchase data from Intalere management.
- Identified payments made under the contract in JD Edwards, the County’s accounting software.
- Interviewed Kane Regional Centers and Rx Partners personnel regarding compliance with contract provisions.
- Reviewed selected Rx Partners policies, licenses, insurance certificates, invoices, and other documents relevant to compliance.
- Applied procedures to assess Rx Partners Inc’s compliance with the significant compliance requirements contained in contract #133415.

We provided a draft copy of this report to the Executive Director and Pharmacy Manager of Rx Partners Inc. and the Director of the Kane Regional Centers for response. Their responses begin on pages 14 and 17, respectively.

III. Findings and Recommendations

Finding #1

The Kane Regional Centers Need to Focus on Minimizing Drug Costs

Criteria:

Although the Allegheny County Administrative Code permits purchasing through cooperative purchasing plans without advertising or bidding, due diligence still needs to be exercised to ensure that such purchasing is in the best interest of Allegheny County (taxpayers). There are a wide variety of cooperative purchasing plans in which Allegheny County can participate, and the selection and use of a particular cooperative purchasing plan could result in the realization of greater savings or higher costs than other such plans. Consequently, it is necessary to carefully evaluate these plans and their potential impact on Allegheny County costs prior to selecting and utilizing a particular cooperative purchasing plan.

With respect to pharmaceuticals, there are a wide variety of group purchasing organizations (GPOs) that the Kane Regional Centers Pharmacy can work with. Each GPO may also have pricing agreements with a number of different pharmaceutical wholesalers and drug manufacturers that can be utilized by the Kane Regional Centers Pharmacy. A particular wholesaler working with a particular GPO may offer better pricing on some drugs, but higher prices on other drugs. A variety of factors can also cause the prices for particular drugs to increase or decrease from time to time. In addition, the taxpayers fund a significant portion of the costs of medications prescribed for inmates at the Allegheny County jail. Consequently, a comprehensive drug cost analysis should be performed periodically to help ensure that the lowest possible total cost for the quality drugs needed for Kane Regional Centers' residents and Allegheny County Jail inmates is being attained.

The contract between Allegheny County and Rx Partners requires Rx Partners to analyze vendor pricing and recommend options for obtaining drugs at lower prices.

Condition:

The Kane Regional Centers have not taken adequate measures to help minimize drug costs. There are a number of elements associated with this condition.

A Comprehensive Drug Cost Analysis Has Not Been Performed - Other GPOs and Pharmaceutical Wholesalers Have Not Been Evaluated

III. Findings and Recommendations

On an annual basis, the Kane Regional Centers' management has obtained an Executive Action which enables the purchasing of a variety of materials, supplies, and equipment through cooperative purchasing organizations. The Kane Regional Centers have used Intalere (formerly Amerinet Central), a particular GPO, to purchase a wide variety of products, including pharmaceuticals. Intalere has pricing agreements in place with approximately 233 pharmaceutical wholesalers and drug manufacturers. The Kane Regional Centers have exclusively used one of these pricing agreements for the purchase of pharmaceuticals, an agreement with McKesson.

Rx Partners management advised us that in late 2011 (close to the inception of the contract), it had obtained drug pricing information from one particular supplier, Managed Healthcare Associates, Inc. (MHA), for drugs that had recently been purchased by the Kane Regional Centers Pharmacy from its regular supplier, and that the drug pricing information was supplied to the Kane Regional Centers so that a drug cost analysis could be completed. While Kane Regional Centers' management advised us that this limited analysis had been completed, it could not provide documentary evidence of this. In 2016, a limited analysis was again performed. Drug pricing information was again obtained from MHA. The documentary evidence provided to us indicates that MHA did not supply a number of the drugs used by the Kane Regional Centers Pharmacy, and the analysis did not contemplate the purchase of clinically equivalent drugs in those circumstances.

We attempted to conduct our own drug cost analyses on behalf of the Kane Regional Centers. We attempted to compare the Kane Regional Centers Pharmacy's drug costs with the costs incurred by Westmoreland County for its nursing home facility. However, Westmoreland County does not have an in-house pharmacy and is purchasing its drugs from a retail pharmacy, so its drug costs should not be expected to be comparable. We also attempted to obtain drug pricing information from pharmaceutical wholesalers, but the wholesalers were reluctant to share drug pricing information with us given the sensitivity of the information to their businesses.

A Significant Portion of the Drugs Purchased are Actually Being Purchased at Regular Wholesale Prices

The pricing agreement being utilized enables the Kane Regional Centers Pharmacy to purchase some pharmaceuticals from

III. Findings and Recommendations

McKesson at a discount from wholesale acquisition cost (WAC, a drug manufacturer's wholesale list price before any discounts). However, in order for the Kane Regional Centers Pharmacy to be eligible for the discounts, it must purchase 95% or more of its pharmaceutical sales volume from McKesson. The Kane Regional Centers Pharmacy needs to purchase drugs other than those for which it receives discounted pricing via the Intalere pricing agreement, and because the Kane Regional Centers Pharmacy must purchase 95% or more of its pharmaceutical sales volume from McKesson in order to be eligible for the Intalere pricing agreement discounts, the Pharmacy is purchasing many drugs which are not covered by the Intalere pricing agreement at McKesson's regular wholesale prices. Data provided by Intalere indicates that for 2016, only \$3,647,298 (41%) of \$8,808,842 in drug purchases from McKesson made by the Kane Regional Centers Pharmacy (for both the Kane Regional Centers and the Allegheny County Jail) were discounted via the Intalere pricing agreement.

Other Opportunities to Minimize Drug Costs Have Not Been Exploited

Reallocation of Drug Purchase Volume for High Cost Drugs

Of the top 50 drugs dispensed by the Pharmacy in 2016 in terms of annual cost, 40 were purchased throughout the year at McKesson's regular wholesale prices. Even though the Pharmacy can purchase up to 5% of its pharmaceutical sales volume from another wholesaler and still obtain the Intalere pricing agreement discounts from McKesson, the Kane Regional Centers made no effort to find lower prices on drugs from other suppliers.

Discounts for Utilizing Electronic Funds Transfer to Pay for Drugs

We also observed that the Kane Regional Centers are not taking advantage of the cost savings that can be attained by paying for the drugs timelier via electronic funds transfer. A representative of Intalere advised us that paying via electronic funds transfer should result in a cost savings (related strictly to paperwork reduction) of 5 basis points (.05%). This savings would have been \$4,404 for 2016 based on the data provided by Intalere. We were also advised that the discount associated with adhering to faster payment terms could be as much as 100 basis points (1%) on pharmaceuticals purchased. Based on the data provided by Intalere, 1% of the Kane Regional Centers Pharmacy's 2016 drug

III. Findings and Recommendations

purchases (for both the Kane Regional Centers and the Allegheny County Jail) was \$88,088.

Cause: Kane Regional Centers' management has not perceived a need to conduct a comprehensive drug cost analysis, evaluate other GPOs or wholesalers, or reallocate a portion of its drug purchase volume because it believes that the pharmaceutical costs incurred by the Pharmacy have been reasonable. However, only conducting such a comprehensive drug cost analysis would provide a sound basis for assessing whether the Pharmacy's drug costs have been reasonable. The Kane Regional Centers have not approached the Controller's Office or Treasurer's Office about paying for pharmaceuticals via electronic funds transfer.

Effect: During 2016, drugs with an aggregate cost of approximately \$3.4 million were dispensed at the Allegheny County Jail. Only approximately \$1.6 million in drug cost reimbursements were received. This means that the unreimbursed cost of approximately \$1.8 million was funded by Allegheny County taxpayers. Allegheny County (taxpayers) may have paid substantially more for pharmaceuticals dispensed at the Allegheny County Jail than they would have if appropriate procurement measures had been taken.

Recommendations: We recommend that the Kane Regional Centers should utilize Rx Partners' assistance to conduct a comprehensive drug cost analysis at least every three years, and use the results of the analyses to redirect spending on pharmaceuticals if necessary to minimize the cost to County taxpayers.

The Kane Regional Centers should also establish payment for the pharmaceuticals via electronic funds transfer to obtain the additional discount associated with that form of payment.

Management's Response: See Kane Regional Center's Management response on page 14.

III. Findings and Recommendations

Finding #2

An Rx Partners Pharmacist Did Not Participate in a 2016 Mock Survey as Required

- Criteria: Item #2.5.2. of the Request for Proposals (RFP) associated with contract #133415 (incorporated into the contract by reference) requires an Rx Partners consultant pharmacist to participate in mock surveys at each Kane Regional Center. The mock surveys at the various Kane Regional Centers are typically conducted prior to the annual surveys conducted by the PA Department of Health (DOH). The purpose of the mock survey process is to identify any noncompliance and performance improvement opportunities that exist prior to the DOH visit so that action can be taken to remedy any noncompliance and implement measures to improve operations.
- Condition: We observed that an Rx Partners consulting pharmacist and the Rx Partners managing pharmacist participated in the mock survey process at three of the four Kane Regional Centers in 2016. However, neither of these two participated in the mock survey process at the Scott Township Kane Regional Center in 2016.
- Cause: The mock surveys conducted at the Kane Regional Centers are similar to the annual survey conducted by the Pennsylvania Department of Health, in that the surveys are comprehensive, not just limited to a single aspect of nursing home care. The mock surveys, typically conducted prior to the Pennsylvania Department of Health annual survey, are coordinated annually by the Directors of Nursing at each Kane Regional Center (including the date on which the mock survey is to occur). There was turnover in 2016 in two key positions, Scott Township Kane Regional Center Director of Nursing and Compliance Officer. It appears that an invitation to participate in the mock survey at the Scott Township Kane Regional Center in 2016 was not extended to the Rx Partners consultant and managing pharmacists due to the individuals who moved into those two key positions not being familiar with the need to involve pharmacy personnel in the mock survey process. Rx Partners' managing pharmacist advised us that he did not realize that an invitation to participate had not been received until he learned that the survey had already been conducted.
- Effect: Rx Partners did not fully comply with Item #2.5.2. of the RFP associated with contract #133415. Because pharmacy personnel did not participate in the Scott Township Kane Regional Center

III. Findings and Recommendations

mock survey in 2016, opportunities to identify noncompliance and performance improvement opportunities associated with pharmacy operations were missed. We noted that the Pennsylvania Department of Health found during its annual survey of the Scott Township Kane Regional Center that although the use of a particular medication had been discontinued, a bag with 5 vials of the medication was still in a medication cart in a resident unit. The medication was supposed to have been returned for credit or properly disposed of. Had the Rx Partners pharmacists participated in the mock survey process at the Scott Township Kane Regional Center in 2016, it is likely that the discontinued medication would have been identified and been returned for credit or properly disposed of.

Recommendations: We recommend that the management of the Kane Regional Centers take steps to ensure that all required personnel participate in the mock surveys at each Kane Regional Center every year.

We also recommend that Rx Partners communicate with the Director of Nursing at each of the Kane Regional Centers well in advance of the anticipated mock survey dates to help ensure that Rx Partners pharmacists have an opportunity to participate.

Management's
Response:

See Kane Regional Center's Management response on page 14.
See Rx Partner's Management response on page 17.

IV. Conclusion

Although we identified one instance of Rx Partners' noncompliance with the requirements of contract #133415 that we deemed to be reportable, for the most part Rx Partners appears to have complied with the contract terms during 2016. Rx Partners should implement our recommendations to help ensure future compliance with the contract terms. However, the item of most concern to us is the procurement process being utilized by Allegheny County to purchase the pharmaceuticals being dispensed by the Kane Regional Centers pharmacy. The Kane Regional Centers receive a fixed, daily rate for Medicaid residents and therefore pharmaceutical costs may or may not be covered for these residents. Reimbursements under private insurance will vary depending on the insurance. However, a significant portion of the costs of drugs dispensed at the Allegheny County Jail each year (approximately \$1.8 million in 2016) are not reimbursed and are borne by Allegheny County taxpayers. Therefore, it is critical for the Kane Regional Centers to institute appropriate procurement measures to minimize the burden on Allegheny County taxpayers. To achieve this, the Kane Regional Centers should implement our recommendations in this area, the most significant of which involves conducting a comprehensive drug cost analysis every three years.

COUNTY OF



ALLEGHENY

RICH FITZGERALD
COUNTY EXECUTIVE

February 16, 2018

Chelsa Wagner, Controller
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219

Re: Performance Audit Report on Contract Compliance
Contract #133415 - Rx Partners, Inc.
For the period January 1, 2016 through December 31, 2016

Dear Ms. Wagner,

Thank you for the time and effort spent by your staff on the recent contract compliance audit referred to above. Your staff was courteous and professional and their suggestions and recommendations are much appreciated. As you are aware, our goals and objectives mirror yours in that we strive to provide the best services to Allegheny County residents in the most efficient manner possible.

Please accept this letter as our response to the findings and recommendations noted in your draft report. Our response to each finding is set forth below.

Finding #1 – You have recommended that the Kane Regional Centers utilize Rx Partners’ assistance to conduct a comprehensive drug cost analysis at least every three years and use the results of the analyses to redirect spending on pharmaceuticals if necessary to minimize the cost. While we agree with your recommendation and will implement a schedule for conducting such an analysis, as noted in your report the most recent limited analysis of drug costs was completed in 2016 and that analysis showed that a switch to a different GPO/supplier would have been more costly and that supplier was unable to provide all of the necessary pharmaceuticals. Also, we know that Intalere uses a competitive bidding process to obtain the best pricing for drugs and any analysis will have to consider whether a different GPO uses a procurement process designed to obtain the best possible pricing.

Your report also indicates that only 41% of the drug purchases made by the Kane pharmacy were discounted via the Intalere pricing arrangement. Please note that all drug

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purchases are discounted through different agreements offered by the wholesaler. We have consulted with Rx Partners and confirmed that we are taking advantage of all discounts available from our wholesaler.

Your report further indicates that the Pharmacy could purchase up to 5% of its pharmaceutical sales volume from another wholesaler and still obtain the Intalere pricing agreement discounts. When we inquired about the possibility of doing so we were advised by our Intalere representative that the discounts that we receive from purchasing all of our pharmaceuticals through a single wholesaler would not be otherwise available from another wholesaler supplying only 5% of our needed drugs. We received that information informally from Intalere and reasonably relied on that information but will formalize our inquiry in that regard.

Additionally, your report suggests that we take advantage of cost savings available by paying for drugs via electronic funds transfer. We will pursue that recommendation but our understanding is that such a discount is available only if we establish and fund a separate account and **allow the supplier to withdraw money from that account** to pay invoices. In light of that requirement, we will assess the controls that would need to be in place before setting up a special account for that purpose and allowing the supplier to have access to that account.

Your report also suggests that the unreimbursed cost for drugs being supplied for the Jail might have been obtained at a lower cost if different procurement measures had been taken. For the reasons noted above, we believe that the Pharmacy is obtaining drugs at the lowest possible cost, whether reimbursed or not.

Finding #2 – You have recommended that we take steps to ensure that Rx Partners participates in the mock surveys at each Regional Center. We agree with your recommendation and will take appropriate steps to do so. We will notify Rx Partners of the scheduled mock surveys each year. Parenthetically, we note that over the previous five years and approximately 20 mock surveys, this is the only one that we are aware of where Rx Partners did not participate.

Additionally, when medication has been distributed to a Regional Center and placed in a medication cart it generally cannot be returned for credit and we believe that the medication mentioned in your report was properly disposed of.

Conclusion

We have reviewed your findings and recommendations with Rx Partners representatives and, as noted herein, we will strengthen our process for monitoring the contractor's compliance with the agreement. While we share your concern that the monitoring of our contract with Rx

Chelsa Wagner, Controller
February 16, 2018
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Partners should ensure the quality of service at the lowest cost, we believe that the contractor provided high quality services during the period of your audit and we expect that they will continue to do so throughout the remaining term of their contract. Should they fail to do so, we would not hesitate to take such corrective action as we find necessary and appropriate and your findings and recommendations will assist us as we monitor their performance in that regard.

Once again, on behalf of the John J. Kane Regional Centers, I want to thank your staff for their time, effort and attention to process improvement in this important area, and to assure you that your recommendations will be seriously considered and implemented as appropriate. If you have any questions or wish to further discuss any of the items in your report or this response please feel free to contact me.

Very truly yours,



Dennis R. Biondo
Executive Director

cc: Amy B. Weise, Deputy Controller
Lori A. Churilla, Assistant Deputy Controller, Auditing
William D. McKain, CPA, County Manager
David Polinak, Chief Financial Officer
Paula B. Carlock, RPh, Chief Operating Officer, Rx Partners, Inc.



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February 16, 2018

Chelsa Wagner, Controller
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219

Re: Performance Audit Report on Contract Compliance-Contract #133215
Rx Partners, Inc
For the period January 1, 2016 through December 31, 2016

Dear Ms. Wagner,

Thank you for your recommendations regarding the recent audit conducted by your office on the compliance of RX Partners, Inc with the Contract #133215 with Allegheny County provided at Kane Regional Centers Pharmacy. Your staff was very professional throughout the entire process. We appreciate the opportunity to evaluate our processes to ensure that the best interests of the Allegheny County residents are adhered to.

We were asked for a response to finding #2. Please accept this letter as our response to finding #2 and the recommendations noted in your draft report.

Finding #2: It was observed that Rx Partners staff did not participate in the June 1-2, 2016 Mock Survey at Kane Scott Township which resulted in a discontinued bag of medication remaining in the Medicine Cart through the Department of Health Survey conducted from June 27, 2016 through July 2, 2016. Rx Partners staff was not invited to attend the Mock Survey scheduled for June 1-2, 2016 by the Allegheny County Compliance Officer as there was a change in staff for that position and necessary communications were not received.

It is our intention to participate in Mock Surveys and to provide assistance to the Kane Regional Centers in preparation for DOH surveys. To that end, we have implemented a process of proactively requesting the dates of the annual Mock Surveys for the four Kane Facilities in January of each year so that our staff can be properly scheduled to participate.

Conclusion: We have reviewed your findings and recommendations with Kane Regional Administration. We will make efforts to implement the recommendations as described herein.



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Chelsa Wagner, Controller
February 16, 2018
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We wish to thank you and your staff for the professionalism exhibited throughout the audit and for their thorough evaluation of our processes. It is our wish to adhere to the contract requirements and continue to provide the level of care that the Kane Regional Centers and Allegheny County Jail have become accustomed to. If you have any questions or concerns regarding this response, please feel free to contact me.

Most respectfully,

A handwritten signature in black ink, appearing to read 'Matthew Arena'.

Matthew Arena, PharmD
Pharmacy Manager
Kane Regional Centers Pharmacy

Cc: Amy B. Weise, Deputy Controller
Lori A. Churilla, Assistant Deputy Controller, Auditing
William D. McKain, CPA, County Manager
Dennis Biondo, Executive Director, Kane Regional
David Polinak, Chief Financial Officer, Kane Regional
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