

Cardinal tightens drug sales oversight

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Cardinal Health, the largest publicly traded company in Ohio, is spending \$30 million to boost oversight of its drug sales, an effort that comes as the company has agreed to pay a \$34 million federal fine.

Cardinal Health, one of the nation's largest distributors of pharmaceutical drugs, settled with the Department of Justice and the Drug Enforcement Administration earlier this month amid claims it had failed to report suspicious sales of controlled substances.

The DEA halted drug shipments out of three of the company's U.S. warehouses for nearly a year after it determined Cardinal hadn't reported the questionable orders from Internet pharmacies.

The company, which sold more than \$79 billion worth of pharmaceuticals last year, said it lost up to \$1 billion in business as a result. It agreed to the \$34 million payment without admitting wrongdoing.

Cardinal Health executives said it has added 10 corporate-level compliance employees and placed compliance workers at its 24 warehouses. It has also bolstered training on government regulations and hired a former United States attorney as its chief compliance officer.

"We strive to stay ahead of often complex and evolving regulatory standards, and our commitment to supply chain integrity and patient safety lies at the core of our mission," Cardinal CEO R. Kerry Clark said.

"As criminals have become increasingly sophisticated at trying to acquire controlled substances, the industry must do its part to help ensure that prescription drugs stay out of the wrong hands," he said.

The DEA began cracking down in 2005 on illegal Internet sites that were greatly increasing prescription painkiller sales. The online pharmacies didn't require patients to meet doctors in person to obtain prescriptions for painkillers and other addictive drugs.

Cardinal officials said they've added safeguards to prevent similar abuse. Executives also said they believe drug distributors were targeted by the DEA because only three companies, including Cardinal, account for 95 percent of the wholesale drug market.

"It's a broad societal issue, and this was about taking the narrowest part of the system," said George Barrett, the head of Cardinal's drug sales, who will take over as chief executive officer next year. "We accept that."

It's easy to see how Cardinal could have been tripped up by the online sales, said Matthew Coffina, a Morningstar analyst in Chicago who covers the drug distribution business.

"You might be concerned whether their internal controls are effective enough to prevent this type of thing," he said. "But their job is not easy. They have any number of drugs coming in from any number of manufacturers going out to thousands of pharmacies."

But Steve Worster, Cardinal's former director of compliance, said top executives were too busy making money to be diligent.

"The company failed, through indifference, to meet the regulatory requirements necessary to comply with the law," he said.

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