

Harbor City Ambulance Squad Audit

(With attachments as Exhibits A and B)

March 6, 1996

Board of County Commissioners
Brevard County, Florida
Post Office Box 1496
Titusville, Florida 32781-1496

Commissioners:

Section 440 of the Institute of Internal Auditors "Standards for the Professional Practice of Internal Auditing" states that "internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings." Accordingly, we conducted a follow-up of the Harbor City Volunteer Ambulance Squad, Inc. contract audit dated May 13, 1994, and acknowledged by the Board of County Commissioners (hereinafter referred to as the Board) on July 19, 1994. The findings related to this follow up are presented below (the italicized text). If you require detailed information, however, we recommend you refer to the original audit report.

SCOPE

We conducted a follow-up audit to determine if the Brevard County Public Safety Department (hereinafter referred to as the Department), which administers the contract, took effective corrective action on the findings presented in the audit report dated May 13, 1994.

BACKGROUND

On January 17, 1989, the Board entered an agreement with the Harbor City Volunteer Ambulance Squad, Inc. (hereinafter referred to as HCVAS) to furnish ambulance service for the central service area of Brevard County. A subsequent agreement (hereinafter referred to as the Contract) between the Board and HCVAS became effective December 1, 1994 for a term ending September 30, 1999. HCVAS is a not-for-profit Florida corporation whose principal office is in Melbourne, Florida. The County's funding of HCVAS comes from an annual special assessment levied on improved property within the service area.

FOLLOW-UP AND RECOMMENDATIONS

1. Finding No. 1 - The Department is not complying with its contractual obligation to dispatch all nonemergency calls.

We determined the Department has taken corrective action to resolve the finding. Section 10, Dispatching, of the Contract states that "At the request of the County, HCVAS shall provide for dispatching of all nonemergency transports."

2. Finding No. 2 - Contract provisions needed to review and monitor funding, expenses, certain transactions, and controls.

We recommended that contracts with HCVAS and Departmental written procedures include provisions to ensure that; 1) HCVAS demonstrates annually that a need exists for funding, 2) HCVAS expenses are for bona fide goods or services consistent with contract provisions, 3) HCVAS transactions are executed at arm's length, 4) HCVAS financial information and internal controls are adequate, and 5) HCVAS vehicle maintenance and fuel usage issues are addressed.

The Department has not taken effective corrective action with respect to part one of the recommendation. The Contract does not include a provision to require that HCVAS show a need for funding. Also, the Department has not promulgated written procedures outlining criteria for the review and evaluation of HCVAS annual budgets for the contract term. Financial statements of HCVAS as of September 30, 1994 indicated an unrestricted fund balance of \$2,683,160.

The Department has taken effective corrective action with respect to part two of the recommendation. Section 22(c) of the Contract states that HCVAS shall assure that all funds subject to Section 19 of this Agreement shall be expended for a valid purpose relating to the provision of Ambulance Services pursuant to this Agreement. HCVAS shall maintain documentation to demonstrate compliance with said provision . . . the failure to adhere to Sub-Sections 22 (b) and (c) herein may subject HCVAS to a requirement that it refund all improperly expended funds to Brevard County for rebate to assessment payors.

The Department has not taken effective corrective with respect to part three of the recommendation. A provision to ensure that HCVAS execute transactions at arm's length has not been added to the Contract. Also, the Department does not have any controls or procedures that would allow for the review of HCVAS transactions (before execution) with other entities to decide the impact on Brevard County. On September 1, 1989, HCVAS purchased property (land and building) for \$500,000 and transferred it to Harbor City Volunteer Ambulance Foundation, Inc. (hereinafter referred to as the Foundation) on the same date. HCVAS also entered an agreement with the Foundation to lease, for \$48,000 a year, the building that HCVAS never occupied. The Foundation sold the property (listed at \$750,000) for \$400,000 on May 26, 1995. From the proceeds, it disbursed \$217,500 to HCVAS. The two parties ended the lease agreement after HCVAS made payments totaling \$220,694 to the Foundation. Besides the \$330,000 HCVAS contributed to the Foundation as we reported in the original audit report, HCVAS also paid a total of \$119,136 of the Foundation's 1989 and 1990 expenses. In total, from 1988 through 1994, HCVAS transferred \$669,830 to the Foundation.

The Department has taken some corrective action with respect to part four of the recommendation. Section 22(a) of the Contract requires that

. . . within thirty (30) days of the completion of each fiscal year . . . HCVAS shall require that an audited financial statement of the organization's finances be prepared by a State of Florida licensed Certified Public Accountant for the previous fiscal year . . . Within thirty (30) days of the acceptance of the complete audit by the HCVAS Board of Directors, a copy of said audit shall be forwarded to the Brevard County Public Safety Department Director or said individual's designated representative.

However, the Contract does not include a provision requiring the timely resolution of any reportable conditions noted in the audit report. The Independent Auditor's Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, dated December 13, 1994, noted seven reportable conditions that were considered material weaknesses. These included the lack of purchase procedures, incomplete and inaccurate accounting information, and documentation of certain employee expenses. The current Contract does provide the Department the unqualified right to inspect, review, or audit HCVAS records, books and procedures. Section 12, Inspections, now states that

Provided that an inspection does not interfere with the provision of Ambulance Services, the Brevard County Director of the Public Safety Department or his designated representative shall have the right at any time to inspect all of the ambulances, medical equipment, EMS reports, and financial and personnel records of HCVAS Ambulance Service operation to insure compliance to legal and contractual requirements.

The Department has taken effective corrective action with respect to part five of the recommendation. Section 8, Title and Maintenance of Ambulances, of the Contract addresses HCVAS vehicle maintenance and fuel usage issues.

RECOMMENDATION

We again recommend that contracts with HCVAS and Departmental written procedures include provisions to ensure that: 1) HCVAS demonstrates annually that a need exists for funding, 2) HCVAS executes transactions at arm's length, and 3) HCVAS financial information and internal controls are adequate.

MANAGEMENT'S RESPONSE

In a letter (See Exhibit A) dated March 18, 1996, Chief Don E. Boykin, Director, Public Safety Department, indicated that the department's position "remains the same as when the original audit was issued." He also stated

The department pointed out at the exit conference held on March 6, 1996, that the auditors had failed to establish the premise (criterion) upon which their finding was based - a standard requirement of Internal Audit Reports.

In any event, the original Emergency Medical Services Ordinance 90-30 was revised in 1995 (Ordinance 95-54) to specify how the Central Benefit Unit EMS Special Assessment fee is to be calculated. The revised wording in Section 25, Rates, in our opinion, eliminates the requirement for HCVAS to "demonstrate annually that a need exists for funding" in the auditor's recommendation.

REBUTTAL

In the original audit report dated May 13, 1994, we stated the criteria to this finding as: "One objective of internal control is to ensure the safeguarding of assets. Also, resources should be

employed efficiently and economically." HCVAS, which derived significant levels of funding from Brevard County, was able to not only provide the service contracted with the County but to do it at substantially less cost as evidenced by accumulating an unrestricted fund balance of \$2,683,160 as of September 30, 1994. Further, they were able to use these funds to provide support, totalling \$669,830, to another entity which had no direct business relationship with the County. We contend that the Department has a responsibility to monitor the operations of HCVAS to ensure the efficient use of County/taxpayer funds.

As stated in Internal Control-Integrated Framework, a publication of the Committee of Sponsoring Organizations of the Treadway Commission (COSO):

Monitoring ensures that internal control continues to operate effectively. This process involves assessment by appropriate personnel of the design and operation of controls on a suitably timely basis, and the taking of necessary action. It applies to all activities within an organization, and sometimes to outside contractors as well.

3. Finding No. 3 - Department needs to ensure HCVAS compliance with Florida Administrative Code.

The Department has taken effective corrective action with respect to our recommendation. The Department will monitor HCVAS compliance with Chapter 10-D.66 of the Florida Administrative Code through semiannual inspections.

4. Finding No. 4 - HCVAS Contract has conflicting provisions.

The Department has taken effective corrective action with respect to our recommendation to request the Board to amend the HCVAS contract. The current Contract makes no reference to "vehicles suitable for non emergency medical transports."

SUMMARY

We held an exit conference on March 6, 1996, during which we discussed the audit follow-up report with Chief Donald Boykin, Director, Public Safety Department. We have attached the Department's formal reply to the audit follow-up report as Exhibit A. Internal Audit's rebuttal to the reply is attached as Exhibit B.

Respectfully submitted,

SANDY CRAWFORD
CLERK OF THE CIRCUIT COURT

J. Carl Smith, C.P.A., C.G.F.M.
Chief Internal Auditor

Conducted by:
Annette Clark, CPA, CIA
Senior Internal Auditor

EXHIBIT-A (formal reply to audit)

EXHIBIT-B (rebuttal to formal reply)

Exhibit A

TO: J. Carl Smith, C.P.A., Chief Internal Auditor
THROUGH: Tom N. Jenkins; County Manager
FROM: Chief Don E. Boykin, Director Public Safety Department

SUBJECT: Follow-Up on the HCVAS Internal Audit Report

DATE: March 18, 1996

This is in reply to the final draft of the follow-up audit on the contract with the Harbor City Volunteer Ambulance Squad, Inc. received by covering letter dated March 7, 1996.

We are pleased that the auditors have acknowledged that the department has taken effective corrective action on three of the four findings in the report.

The auditors' recommendation on the remaining finding reads:

"We again recommend that contracts with HCVAS and Departmental written procedures include provisions to ensure that: 1) HCVAS demonstrates annually that a need exists for funding, 2) HCVAS executes transactions at arm's length, and 3) HCVAS' financial information and internal controls are adequate."

The department's position remains the same as when the original audit was issued, namely:

"We strongly disagree with any recommendation which would place the department in a position to monitor or evaluate the internal financial business of HCVAS. It is our position that the County and HCVAS have negotiated in good faith and agreed upon an amount to pay HCVAS for a service. As with any contractor, they are paid the contracted amount for providing the service as outlined in the contract."

The department pointed out at the exit conference held on March 6, 1996, that the auditors had failed to establish the premise (criterion) upon which their finding was based - a standard requirement of Internal Audit Reports.

In any event, the original Emergency Medical Services Ordinance 99-30 was revised in 1995 (Ordinance 95-54) to specify how the Central Benefit Unit EMS Special Assessment fee is to be calculated. The revised wording in Section 25, Rates, in our opinion, eliminates the requirement for HCVAS to "demonstrate annually that a need exists for funding" in the auditor's recommendation.

Exhibit B

April 9, 1996

MEMORANDUM

TO: Brevard County Board of County Commissioners

FROM: J. Carl Smith, C.P.A., C.G.F.M., Chief Internal Auditor

SUBJECT: Internal Audit Rebuttal of Response to Audit of the Brevard County Contract with Harbor City Volunteer Ambulance Squad, Inc. (HCVAS)

Pursuant to Board of County Commissioners' Procedure BC-32 "Internal Audit," we are submitting the following rebuttal to the response (Exhibit A) of the Public Safety Department to the audit findings and recommendations.

FINDING 2:

REBUTTAL

In the original audit report dated May 13, 1994, we stated the criteria to this finding as: "One objective of internal control is to ensure the safeguarding of assets. Also, resources should be employed efficiently and economically." HCVAS, which derived significant levels of funding from Brevard County, was able to not only provide the service contracted with the County but to do it at substantially less cost as evidenced by accumulating an unrestricted fund balance of \$2,683,160 as of September 30, 1994. Further, they were able to use these funds to provide support, totalling \$669,830, to another entity which had no direct business relationship with the County. We contend that the Department has a responsibility to monitor the operations of HCVAS to ensure the efficient use of County/taxpayer funds.

As stated in Internal Control-Integrated Framework, a publication of the Committee of Sponsoring Organizations of the Treadway Commission (COSO):

Monitoring ensures that internal control continues to operate effectively. This process involves assessment by appropriate personnel of the design and operation of controls on a suitably timely basis, and the taking of necessary action. It applies to all activities within an organization, and sometimes to outside contractors as well.

We continue to advocate the recommendation as stated in the audit report dated May 31, 1994.