



Greg Fischer
Mayor

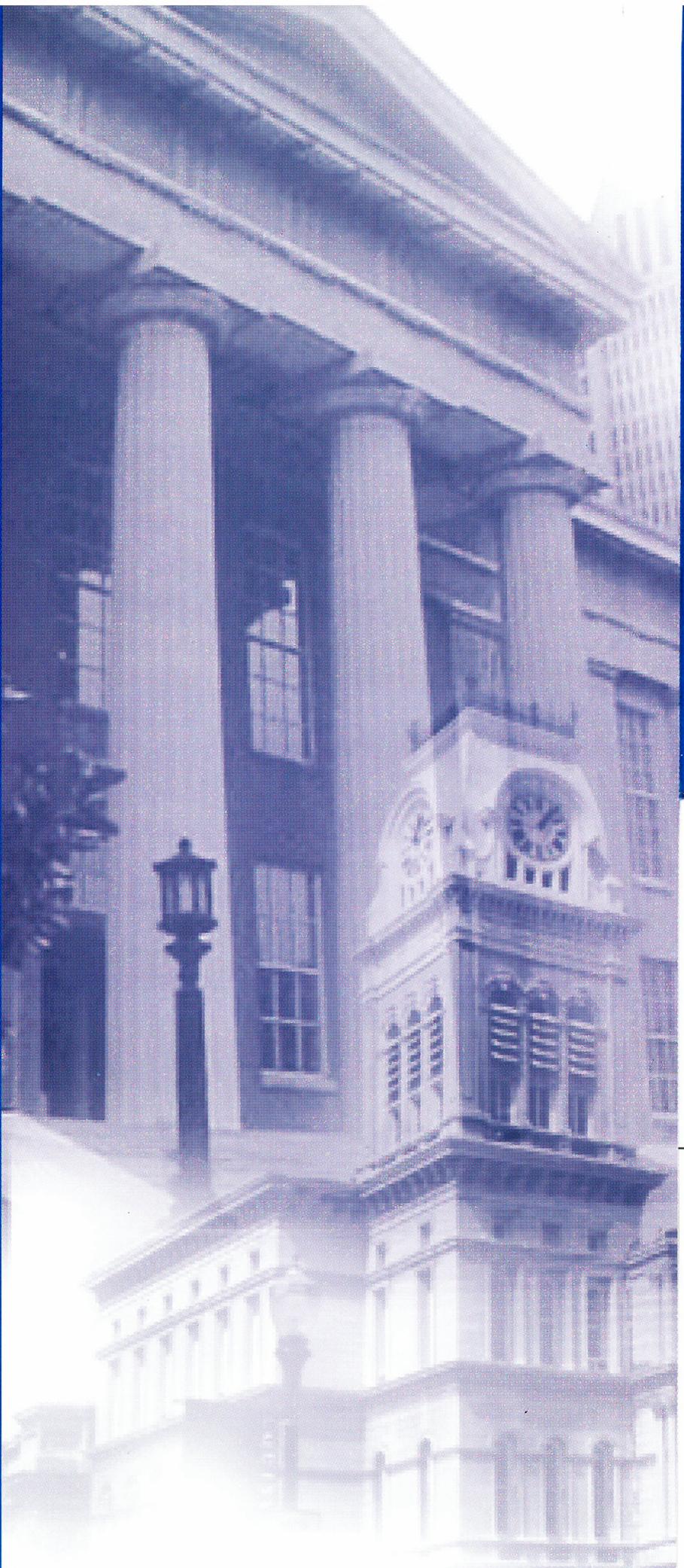
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.

Office of Internal Audit

Emergency Medical Services

Financial Operations and Inventory





Audit Report

Emergency Medical Services

Financial Operations and Inventory

July 2015

Table of Contents

Executive Summary 2

Transmittal Letter 3

 Introduction..... 3

 Scope..... 4

 Opinion 4

 Corrective Action Plan..... 5

 Internal Control Rating 6

 Background..... 7

 Summary of Audit Results..... 7

Observations and Recommendations 9

 1) Financial Operations..... 9

 2) CPR Training Center 12

Executive Summary

PROJECT TITLE

Louisville Metro Emergency Medical Services – Financial Operations and Inventory

OBJECTIVE AND SCOPE

The objective was to perform an Assurance – Operational review of the Louisville Metro Emergency Medical Services' (LMEMS) financial operations. The operating policies, procedures, and records for the procurement and payroll activity were reviewed. This included how activity was processed, recorded, monitored, and reported. The primary focus was compliance with Louisville Metro Government policies and applicable statutory requirements. The objective was to obtain assurance that the risks were adequately mitigated through the internal control structure. The operational and fiscal administration of the LMEMS CPR Training Center was also reviewed.

Additionally, an assessment of the inventory and internal controls related to the narcotics at LMEMS was performed as part of the review. The operating policies, procedures, and records related to this activity were reviewed.

This review was the result of a special request from the Chief of Public Protection due to the recent change of command within the agency. The review included activity related to financial activity during fiscal year 2014 (July 1, 2013 to June 30, 2014) and the first quarters of fiscal year 2015 (July 1, 2014 to December 31, 2014). The details of the scope and methodology of the review are addressed in the Observations and Recommendations.

INTERNAL CONTROL ASSESSMENT

Section

Needs Improvement

Financial Operations

Needs Improvement

CPR Training Center

Satisfactory

Inventory

RESULTS

LMEMS' inventory of narcotics was properly accounted for. LMEMS should be commended for having adequate internal controls related to the recordkeeping and monitoring of narcotics to safeguard against fraud, waste, and abuse. Opportunities exist for improving the internal control structure for the LMEMS' financial operations and the CPR Training Center. Examples include the following.

- **Financial Operations.** While there were no issues related to LMEMS' payroll activity, there were issues noted regarding LMEMS' procurement activity. These issues were related to contractual compliance, supporting documentation, and payment timeliness.
- **CPR Training Center.** There were issues noted regarding the general administration of LMEMS CPR Training Center activities. These issues were related to the appropriateness and accuracy of fees charged and the lack of policies and procedures to guide personnel in the administration of activity.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

DAVID TANDY
PRESIDENT METRO COUNCIL

Transmittal Letter

July 24, 2015

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of the Louisville Metro Emergency Medical Services' – Financial Operations and Inventory

Introduction

An audit of the Louisville Metro Emergency Medical Services (LMEMS) – Financial Operations and Inventory was performed. The operating policies, procedures and records related to the activity were reviewed. The primary focus was compliance with Louisville Metro Government policies and applicable statutory requirements. The operational and fiscal administration of the CPR Training Center was also reviewed. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

Additionally, an assessment of the inventory and internal controls related to the narcotics at LMEMS was performed as part of the audit. The operating policies, procedures, and records related to inventory were reviewed.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the audit, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

Financial Operations:

An understanding of LMEMS' procurement and payroll procedures was obtained in order to evaluate the internal control structure. The understanding was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting of activity. Testing of activity was also performed to determine the effectiveness of the controls in ensuring compliance with Louisville Metro Government policies and applicable statutory requirements.

The following areas were included in the review of the financial operations:

- Procurement
- Payroll
- CPR Training Center

Inventory Controls:

An assessment of the current inventory of narcotics was performed. The assessment consisted of a count of all inventory items to verify/ensure that the inventory is properly accounted for. Additionally, an understanding of LMEMS' inventory procedures related to narcotics was obtained in order to evaluate the effectiveness of the internal control structure. The understanding was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for inventory activity for narcotics.

Opinion

It is our opinion that the internal control structure for the inventory of LMEMS' narcotics is satisfactory. LMEMS' inventory of narcotics was properly accounted for. LMEMS should be commended for having adequate internal controls related to the recordkeeping and monitoring of narcotics to safeguard against fraud, waste, and abuse. The internal control rating is on page 6 of this report.

It is our opinion that the internal control structure for the LMEMS' procurement and CPR Training Center activity needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

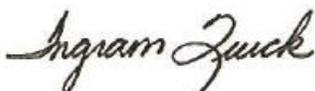
- **Financial Operations.** While there were no issues related to LMEMS' payroll activity, there were issues noted regarding procurement activity. These issues were related to noncompliance with contractual terms and supplier payment timeliness.
 - **Contractual Compliance.** There were instances in which LMEMS was charged a price that was not in agreement with the price or pricing parameters noted within the provisions of the contract.

- There was one instance where LMEMS procured pharmaceuticals from a vendor who was not the primary contracted vendor. This resulted in LMEMS not receiving the most advantageous price which could have saved the agency \$4,010.
- **Supporting Documentation.** There was an issue noted in determining the expenditures' compliance with the contractual terms due to inadequate supporting documentation. Inadequate supporting documentation impairs the ability to verify that goods and services were procured in accordance to the contractual terms and price agreement.
- **CPR Training Center.** There were issues noted regarding the general administration of LMEMS CPR Training Center activities.
 - **Accuracy of Fees.** There were issues noted regarding the appropriateness and accuracy of fees charged.
 - **Policies and Procedures.** There is a lack of policies and procedures to guide personnel in the administration and management of CPR Training Center activity.
 - **Contractual Agreement.** There were two instances where services were procured without a contract. Louisville Metro Government Purchasing Policy states, "**all** purchases of services, regardless of dollar amount, must be made using a contract."

Corrective Action Plan

Representatives from LMEMS have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with LMEMS to ensure the actions taken are effective to address the issues noted.

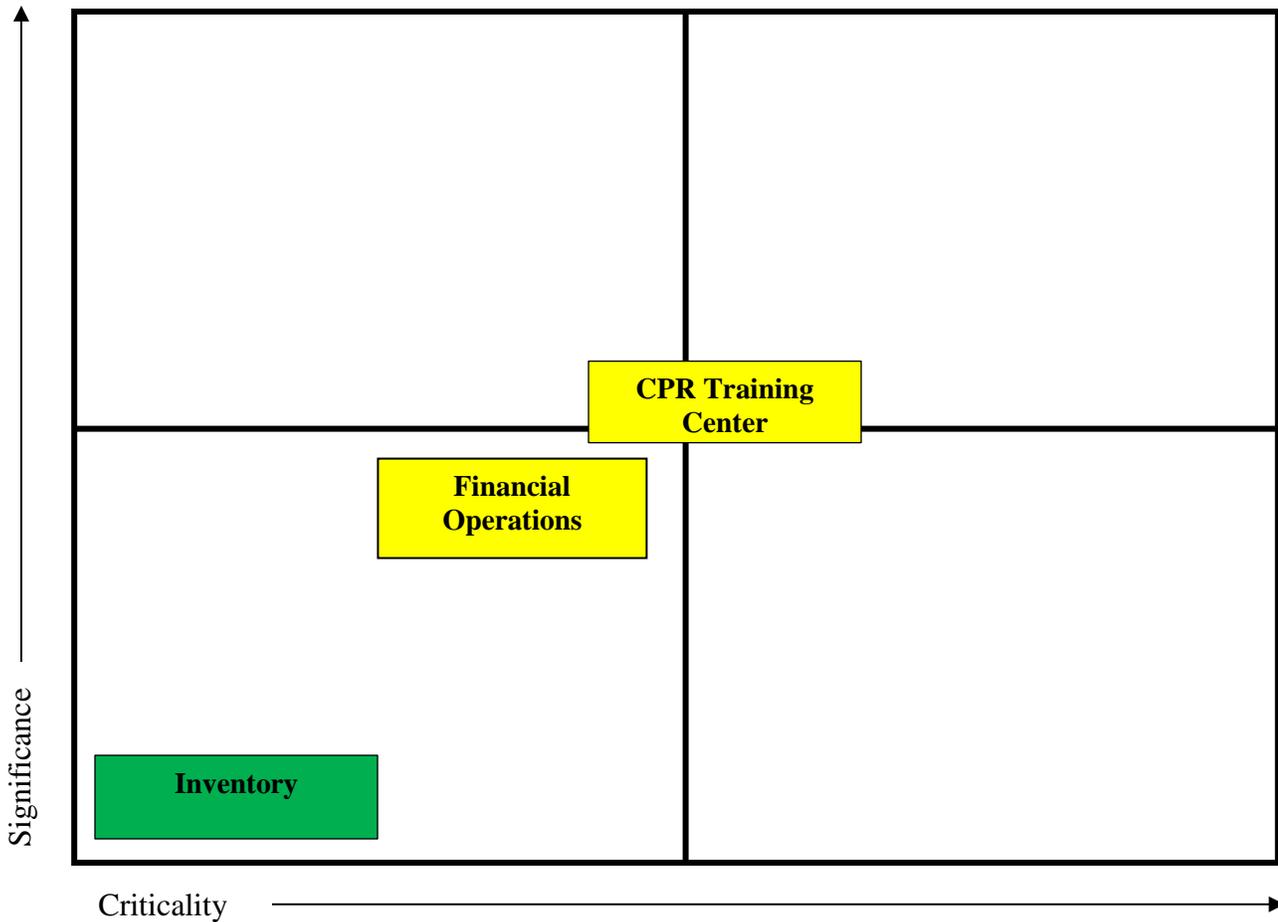
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Emergency Services
Chief of Public Protection
Louisville Metro External Auditors
Louisville Metro Council President

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	Satisfactory Not likely to impact operations.	Needs Improvement Impact on operations likely contained.	Inadequate Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

Background

Louisville Metro Emergency Medical Services (LMEMS) provides 24-hours-a-day, 911 emergency medical care throughout the Louisville Metro area. Medically focused and data-driven, LMEMS is committed to the development of the latest advances in basic and advanced life support patient care. Utilizing a comprehensive approach to education, training, technology, and research, the goal of LMEMS is to provide a best-practices model for emergency medical services to those who visit, reside, and work in Louisville Metro.

During fiscal year 2014, LMEMS' supplier payments were approximately \$2,767,000 and \$1,623,000 during the first half of fiscal year 2015. During fiscal year 2014, LMEMS' payroll related expenditures were approximately \$20,633,000 and \$10,266,000 during the first half of fiscal year 2015. The CPR Training Center generated revenue of approximately \$183,000 during fiscal year 2014 and \$91,000 during the first half of fiscal year 2015.

This review was the result of a special request from the Chief of Public Protection due to a recent change of command within the agency. This project was not included in the Office of Internal Audit's plan for Fiscal Year 2015.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of LMEMS' Financial Operations and Inventory.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to LMEMS on June 29, 2015. An exit conference was held at the MetroSafe on July 23, 2015. Attending were Debbie Fox and Tonya Sangester representing LMEMS and Ingram Quick, Glen Reed, and Jason Byrd representing Internal Audit. Final audit results were discussed.

The views of LMEMS' officials were received on July 21, 2015 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The LMEMS' response was provided within this required timeframe.

Observations and Recommendations

1) Financial Operations

Scope and Methodology

A review Louisville Metro Emergency Medical Services' (LMEMS) procurement and payroll activity was performed.

- **Procurement:** The primary focus of the review was the operational and fiscal administration of the activity. Examinations were performed to determine whether fiscal activity was complete, accurate, and in compliance with the Louisville Metro Government Purchasing Policy and State regulations. This included how activity is processed, recorded, monitored, and reported. Documentation reviewed included invoices, contracts, and other supporting documentation. Out of town travel expenditures were excluded from the review.
- **Payroll:** The primary focus of the review was the operational and fiscal administration of LMEMS' payroll activity. Examinations were performed to determine whether payroll activity was complete, accurate, and in compliance with Louisville Metro Government Payroll and Timekeeping Policies. This included how activity was processed, recorded, monitored, and reported. Documentation reviewed included payroll documents, official forms, Louisville Metro Government Personnel Policies, and PeopleSoft records.

Testing of actual activity was from Fiscal Year 2014 (July 1, 2013 to June 30, 2014) and the first two quarters of Fiscal Year 2015 (July 1, 2014 to December 31, 2014).

- A sample of 60 expenditures from the operating cost centers included in the population was judgmentally selected for review to determine compliance with the Louisville Metro Government Purchasing Policy and State regulations.
- A sample of two pay periods was judgmentally selected to review the validity and accuracy of the payroll.
- Bank account numbers of LMEMS' personnel were examined to identify potential ghost employees by comparing employee bank account numbers and account holders.
- Employee addresses were compared to supplier addresses to identify potential phantom vendors for additional investigation by cross-referencing the home addresses of LMEMS' employees with the remit addresses of Louisville Metro Government vendors.

The examination will not reveal all noncompliance issues because it was based on a selective review of data.

Observations

Issues were noted with the LMEMS' financial operations. As a result, the effectiveness of the internal control structure needs improvement. Opportunities to strengthen the controls include the following.

1) Financial Operations

Details of these begin on the following page.

1) Financial Operations

While there were no issues related to LMEMS' payroll activity, there were issues noted regarding procurement activity. Examples include the following.

- **Contractual Compliance.** There were instances in which Louisville Metro Government was charged a price that was not in compliance with the contract price or pricing parameters noted within the contract with the vendor.
 - There was one instance where LMEMS procured pharmaceuticals from a vendor who was not the primary contracted vendor. This resulted in LMEMS not receiving the most advantageous price which could have saved the agency \$4,010.
 - There were three instances in which the price paid on the invoice was not in agreement with the contractual terms.
 - There were two instances in which it could not be determined if the invoice was in compliance with the contractual terms due to the inability to locate an extension and possible price increase.
- **Supporting Documentation.** There were issues noted in determining the expenditures compliance with the contractual terms due to inadequate supporting documentation. Inadequate supporting documentation impairs the ability to verify that goods and services were procured in accordance to the contractual terms and price agreement.
 - There were items on three invoices in which the contract states that the price of the goods / services will be a fixed percentage price reduction discounted from the catalog price. The catalog price at the time of purchase was not documented. This made it difficult to determine whether the price or the goods / services was in accordance with the contractual terms.
 - There was one instance in which it could not be determined if an expenditure was in compliance with the contractual terms due to the lack of detail on the invoice. Adequate supporting documentation was not obtained before processing payment for the good/services.
- **Payment Timeliness.** Kentucky Revised Statutes require that Louisville Metro Government pay suppliers within 30 working days of the receipt of the invoice unless there is written disapproval of improper performances or improper invoicing by the vendor.
 - There were two instances where the invoices were not paid in a timely manner as specified within the statute. Payment was delayed due to proper procurement methods not being followed which resulted in the delay of processing the invoice.
 - There was one instance in which the receipt date could not be verified, therefore, the invoice date was used as the date of receipt from the vendor. Based on this date, the invoice was paid in 41 days.

Recommendations

Appropriate personnel should consider the following recommendations concerning LMEMS' procurement activity.

- ✓ Consider establishing a process to verify the price for a good/service is in compliance with the contractual pricing prior to the purchase of any good/service.
 - Ensure the appropriate contract is used when purchasing goods / services.
 - Ensure a copy of the contract and any amendments are available to the persons responsible for verifying the purchased goods / services are in agreement with the contractual terms prior to indicating payment approval.
 - Ensure relevant copies of any price lists that are included within the terms of the contract are available to the appropriate personnel when purchasing goods / services.
- ✓ Appropriate personnel should have adequate supporting documentation to ensure the expenditure is in compliance with contractual terms prior to the approval of payment. The supporting documentation should:
 - Provide the catalog price at the time of purchase for instances when Louisville Metro Government is granted a discount based on the catalog price.
 - Provide enough support to allow a reasonable person to independently verify the expenditure agrees to the contractual terms. This should be able to be accomplished solely by reviewing the supporting documents; it should not require additional information from the department.
- ✓ Care should be taken to ensure proper procurement methods are followed as to ensure invoices are processed in a timely manner in compliance with State law. Any situations in which an invoice will not be paid within thirty working days, such as disputes with the supplier, should be properly documented. Also, appropriate personnel should consider time stamping invoices once they are received through the mail.

LMEMS' Corrective Action Plan

LMEMS concurs with the recommendations related to the Financial Operations with immediate implementation for issues related to Contractual Compliance and Supporting Documentation. And, implementation for Supplier Payment Timeliness targeted for November 2015. For the issue related to Supporting Documentation, LMEMS had the following comment: *“Emergency Services will make sure that we have the documentation on hand to support and validate the expenditures made.”*

2) CPR Training Center

Scope and Methodology

A review of LMEMS CPR Training Center's fiscal and operational activity was performed. A thorough understanding of the operating policies, procedures and records for CPR Training Center activity was obtained through interviews of key personnel and examination of supporting documentation. The primary focus was the operational and fiscal administration of the CPR Training Center's fees, cash management and inventory management. This included how activity was processed, recorded and monitored. The objective was to obtain assurance that the risks are adequately mitigated through the internal controls process.

Testing of actual activity was from Fiscal Year 2014 (July 1, 2013 to June 30, 2014) and the first two quarters of Fiscal Year 2015 (July 1, 2014 to December 31, 2014).

- A sample of five invoices was reviewed to determine whether customers were billed accurately and completely.
- A sample of seven CPR Training Center receipts was selected for review to determine receipts which posted to the general ledger were actual revenue generated by the CPR Training Center.
- A sample of seven expenditures from the CPR Training Center was judgmentally selected for review to determine compliance with the Louisville Metro Government Purchasing Policy and State regulations.

The examination will not reveal all noncompliance issues because it was based on a selective review of data.

Observations

Issues were noted with the LMEMS CPR Training Center. As a result, the effectiveness of the internal control structure needs improvement. Opportunities to strengthen the controls include the following.

2) CPR Training Center

Details of these begin on the following page.

2) CPR Training Center

- **Accuracy of Fees.** The LMEMS CPR Training Center provides training to internal and external customers at a fee based on their fee schedule. There were issues noted regarding the appropriateness and accuracy of fees charged.
 - There were two invoices where the amount charged for services was not in accordance with the fee schedule.
- **Policies and Procedures.** There is a lack of policies and procedures to guide personnel in the administration and management of CPR Training Center activity (i.e., payment processing, deposits, billing, and inventory). This increases the risk of noncompliance with intended policies and procedures. This can also lead to inconsistencies and inefficiencies with activity processing.
- **Contractual Agreement.** There were two instances where services were procured without a contract. Louisville Metro Government Purchasing Policy states, “**all** purchases of services, regardless of dollar amount, must be made using a contract.”
 - The CPR Training Center purchased software from a vendor to facilitate the administration of the training center activity. An annual fee is paid to cover support for the software. The maintenance of the software was not procured utilizing a contractual agreement.
 - The CPR Training Center uses a courier service to pick up and deliver cash and check receipts to the Office of Management and Budget for deposit. The CPR Training Center is not listed in the contractual agreement as a location for pick-up by the vendor. The terms of the contract state that any additions or changes to daily routes need to be communicated to the vendor. If it is an addition, the vendor will determine the cost and the contract will be amended accordingly.
 - Also, a fuel surcharge was included on the invoice. The terms of the contract only speak to fixed costs for pick-up and delivery and do not address a fuel surcharge.
- **Supporting Documentation.** There was an issue noted in determining the expenditures compliance with the contractual terms due to inadequate supporting documentation.
 - There were items on three invoices in which the contract states that the price of the goods / services will be a fixed percentage price reduction discounted from the catalog price. The catalog price at the time of purchase was not documented. This made it difficult to determine the price or the goods / services was in accordance with the contractual terms.
- **Accounts Receivable.** The process the CPR Training Center uses for the collection of unpaid bills is manual and inefficient. There is no aging process for unpaid invoices and follow-up on unpaid invoices consists of sporadic phone calls and emails to customers. There are no documented guidelines for the collection and monitoring of accounts receivables.

Recommendations

Appropriate personnel should consider the following recommendations concerning the LMEMS CPR Training Center.

- ✓ A written internal policies and procedures manual should be developed to guide CPR Training Center personnel in the administration of activity that includes a listing of discount and fee waiver criteria. The internal policies and procedures manual should:
 - include sufficient detail for each job duty performed, copies of forms used, and the policies followed in the processing of activity, and
 - reflect the most current information and be updated periodically, and
 - be distributed to all applicable personnel. In addition, key personnel should be trained to help ensure consistent adherence to the requirements.
- ✓ Appropriate personnel should ensure expenditures are procured in compliance with the Louisville Metro Government Purchasing Policy prior to making the purchase. Appropriate personnel should consult with the Purchasing Division of the Office of Management and Budget to discuss the following:
 - The need for a contractual agreement with the software vendor to cover the annual fee required for maintenance of the software.
 - An amendment to the current contractual agreement for courier services to include the CPR Training Center as a location for pick-up. Also, invoices related to these services need to be monitored to ensure Louisville Metro Government is charged in accordance with the terms of the contract.
- ✓ Appropriate personnel should have adequate supporting documentation to ensure the expenditure is in compliance with contractual terms prior to the approval of payment.
 - The supporting documentation should provide a clear understanding of the goods / services procured from the vendor. The supporting documentation should provide enough support that a reasonable person would be able to verify amounts with the contractual terms.
- ✓ CPR Training Center personnel should explore the possibility of using the Louisville Metro Government Accounts Receivable system for billing customers. If this is not possible, management should consider onsite training of the CPR Training Center staff in the use of their newly implemented training center software to determine its capabilities regarding accounts receivables.

LMEMS' Corrective Action Plan

LMEMS concurs with the recommendations related to the CPR Training Center with implementation targeted for November 2015. For the issue related to Accounts Receivable, LMEMS had the following comment: *“Emergency Services is considering options in software applications to support the operations for billing by both OMB AR and Emergency Services.”*



The purpose of this survey is to solicit your opinion concerning the quality of the Louisville Metro EMS – Financial Operations and Inventory Audit Report. Please feel free to expand on any areas that you wish to clarify in the comment area at the end. Please return the completed survey electronically to IAUDITIMB@Louisvilleky.gov or to ATTN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback.

Survey

1. The audit report thoroughly explained the scope, objectives, and timing of the audit.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

2. The audit report reflects knowledge of the departmental/governmental policies related to the area or process being audited.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

3. The audit report is accurate and clearly communicated the audit results.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

4. The audit recommendations were constructive, relevant, and actionable.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

5. **Was there anything about the audit report that you especially liked?

6. **Was there anything about the audit report that you especially disliked?

Office of Internal Audit

Phone: 502.574.3291

www.louisvilleky.gov/InternalAudit/