Audit Report

Maryland Institute for Emergency Medical Services Systems

November 2008



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.
- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410- 946-5400 or 301-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

November 10, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland Institute for Emergency Medical Services Systems (MIEMSS) for the period beginning November 8, 2005 and ending June 1, 2008. MIEMSS is responsible for coordinating the delivery of statewide emergency medical services, the training and certification of emergency medical service providers, providing emergency medical service research and education, maintaining a statewide communication system, and regulating and licensing commercial ambulances.

This audit report contains four findings, all of which were repeated from the preceding audit report, with several dating back to 1996. Specifically, our current audit disclosed that MIEMSS lacked adequate controls over ambulance licensing fee collections and certain equipment inventories. In addition, MIEMSS did not adhere to State law and budgetary requirements related to the reporting and disposition of year-end special fund balances. Finally, we noted that MIEMSS did not establish proper controls over its purchasing and disbursement transactions.

We wish to acknowledge the cooperation extended to us by MIEMSS personnel during the course of this audit.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Background Information 4

Agency Responsibilities 4
Status of Findings From Preceding Audit Report 4

Findings and Recommendations 5

Cash Receipts

* Finding 1 – Ambulance Licensing Fee Collections Were Not Adequately Controlled 5

Fiscal Year 2007 Budgetary Closeout

* Finding 2 – MIEMSS Did Not Adhere to State Law and Budgetary Requirements Applicable to Certain Special Funds 6

Purchases and Disbursements

* Finding 3 – Proper Internal Controls Were Not Established Over Purchasing and Disbursement Transactions 6

Equipment

* Finding 4 – Adequate Controls and Accountability Were Not Maintained 7

Audit Scope, Objectives, and Methodology 9

Agency Response Appendix

* **Denotes item repeated in full or part from preceding audit report**

Background Information

Agency Responsibilities

The Maryland Institute for Emergency Medical Services Systems (MIEMSS) is governed by the Emergency Medical Services Board whose members are appointed by the Governor. MIEMSS is responsible for coordinating the delivery of statewide emergency medical services, the training and certification of emergency medical service providers, providing emergency medical service research and education, maintaining a statewide communication system, and regulating and licensing commercial ambulances. According to the State's records, MIEMSS expenditures totaled approximately $12.6 million during fiscal year 2007.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated April 20, 2006. We determined that MIEMSS had satisfactorily addressed one of the findings. The remaining four findings are repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1
MIEMSS lacked effective controls over ambulance licensing fee collections.

Analysis
Ambulance licensing fee collections were not adequately controlled. Specifically, we noted the following conditions:

- Collections were not deposited timely. Our test of 62 receipts, totaling approximately $135,000, disclosed that 20 receipts, totaling approximately $91,000, were deposited from 6 to 16 business days after the dates of receipt. The Comptroller of the Treasury's *Accounting Procedures Manual* requires that State agencies deposit collections within one business day of receipt. This condition was commented upon in our preceding audit report.

- Reconciliations were not performed to ensure that fees were collected for all licenses issued. This condition has been commented upon in our four preceding audit reports dating back to 1996. In addition, prenumbered license decals were not periodically accounted for as to issued, voided, or on hand. This condition was also commented upon in our two preceding reports.

Individual license fees for fiscal year 2008 ranged from $235 (for a partial year basic life support ambulance license) to $1,090 (for a neonatal ambulance license), depending on the type of license. According to its records, collections deposited by MIEMSS totaled approximately $469,000 during fiscal year 2007, of which approximately $291,000 represented ambulance licensing fee collections.

Recommendation 1
We again recommend that MIEMSS deposit all fees collected timely in accordance with the aforementioned requirement of the Comptroller of the Treasury. In addition, we again recommend that an employee independent of the license issuance and cash receipts functions periodically reconcile the number of licenses issued with the related fee collections and account for all license decals as issued, voided, or on hand. We advised MIEMSS on accomplishing the recommended segregation of duties using existing personnel.

Fiscal Year 2007 Budgetary

Finding 2
MIEMSS did not adhere to State law and related budgetary requirements applicable to certain special funds.

Analysis
During the budgetary closeout for fiscal year 2007, MIEMSS did not transfer unspent special funds totaling $41,288 to the Maryland Emergency Medical System Operations Fund (MEMSOF) as required by State law.

Budgetary closeout requirements issued by the Comptroller of the Treasury – General Accounting Division (GAD) require State agencies to revert available special funds to the State General Fund unless there is a specific legal justification or authority for the amount to be forwarded to the next fiscal year. In this regard, Section 13-955 of the Transportation Article of the Annotated Code of Maryland specifically established MEMSOF as a nonlapsing fund that is not required to revert unspent balances to the General Fund. Since the law further states that the composition of MEMSOF is to include all funds generated by MIEMSS, all remaining special fund balances at year-end should ultimately be transferred to MEMSOF. A similar condition was commented upon in our preceding audit report.

Recommendation 2
We again recommend that MIEMSS comply with State budgetary law and GAD's year-end closeout requirements. Specifically, we again recommend that the aforementioned special funds be reverted to the MEMSOF.

Purchases and Disbursements

Finding 3
Proper internal controls were not established over purchasing and disbursement transactions.

Analysis
MIEMSS did not fully use the security features available on the State's Financial Management Information System (FMIS) to establish proper internal controls over certain purchasing and disbursement transactions. As a result, unauthorized transactions could be processed which may not be readily detected. According to

the State's accounting records, during fiscal year 2007, MIEMSS used FMIS to process disbursements totaling approximately $4.6 million.

Specifically, two employees could both initiate and approve certain procurement and disbursement transactions without being subject to independent online review and approval. A similar condition has been commented upon in our four preceding audit reports dating back to 1996.

Recommendation 3
We again recommend that MIEMSS fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions. Specifically, employees who initiate purchasing and disbursement transactions should not also have the capability to approve them.

Equipment

Finding 4
Adequate controls and accountability were not maintained over equipment.

Analysis
MIEMSS did not comply with the requirements of the Department of General Services' (DGS) *Inventory Control Manual*. According to its records, the value of MIEMSS capital equipment at June 18, 2008 totaled approximately $10.8 million. For example, we noted the following conditions:

- Physical inventories of equipment were not conducted as required by the *Manual*. Specifically, as of June 18, 2008, sensitive equipment totaling approximately $332,000 had not been located during physical inventories for periods ranging from 18 months to more than 9 years. Similarly, non-sensitive equipment items totaling approximately $262,000 were not located during physical inventories for 3 to 8 years ago. A similar condition was commented upon in our three preceding audit reports. The *Manual* requires that sensitive and non-sensitive equipment be inventoried each year and once every three years, respectively, and that differences between physical counts and the detail records be investigated, approved, and used to update the equipment records. We were advised by MIEMSS management that it is actively searching for these items and it may take several inventory cycles before concluding that the items will not be found.

- As of June 30, 2007, the equipment balance reported to DGS ($11.7 million) exceeded the amount recorded in MIEMSS detail equipment records ($10.8 million) by $900,000. As of July 2, 2008, MIEMSS had not explained or resolved the difference. Annual reporting of equipment balances is required by the *Manual*.

- An equipment control account was not maintained to help ensure that all transactions were recorded in the related detail records. The *Manual* requires that a control account be maintained and that the account balance be periodically reconciled with the aggregate value of the detail equipment records. This condition has been commented upon in our four preceding audit reports dating back to 1996.

Recommendation 4
We again recommend that MIEMSS comply with the requirements of the DGS *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Institute for Emergency Medical Services Systems (MIEMSS) for the period beginning November 8, 2005 and ending June 1, 2008. The audit was conducted in accordance with generally accepted government auditing standards. 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MIEMSS financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MIEMSS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

MIEMSS management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MIEMSS ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations.

MIEMSS response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MIEMSS regarding the results of our review of its response.

APPENDIX

STATE OF MARYLAND
Maryland Institute for Emergency Medical Services Systems

Martin O'Malley
Governor

Robert R. Bass, MD, FACEP
Executive Director, MIEMSS

Donald L. DeVries, Jr., Esq.
Chairman, Emergency Medical Services Board

November 7, 2008

Mr. Bruce Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed is the Maryland Institute for Emergency Medical Services Systems' response to your draft report for the period beginning November 8, 2005 and ending June 1, 2008. The agency appreciates the support and effort of the Office of Legislative Audits. The audit reveals the continuing progress made since the agency became an independent state agency responsible for its own administration. MIEMSS will use the recommendations and comments to further improve our efficiency and effectiveness in serving the citizens of the state of Maryland.

Sincerely,

Robert R. Bass, M.D.
Executive Director

MIEMSS Response
To October 2008 Draft Audit Report

Finding 1
MIEMSS lacked effective controls over ambulance licensing fee collections.

Recommendation 1
We again recommend that MIEMSS deposit all fees collected timely in accordance with the aforementioned requirement of the Comptroller of the Treasury. In addition, we again recommend that an employee independent of the license issuance and cash receipts functions periodically reconcile the number of licenses issued with the related fee collections and account for all license decals as issued, voided, or on hand. We advised MIEMSS on accomplishing the recommended segregation of duties using existing personnel.

Agency Response: MIEMSS concurs. MIEMSS is challenged by "division of duty" requirements due to its small administrative staff that was not increased when it become an independent state agency and assumed personnel, finance and related administrative functions previously provided by the University of Maryland, Baltimore. With each review by OLA, improvement has been documented.

Collections for the Commercial Ambulance Office must be handled by three people. One person's absence in the chain of events from receipt to deposit makes meeting the one-day requirement difficult. MIEMSS has identified a back-up resource for each step in the deposit process to address this matter.

The reconciliation referred to in the audit has now been performed by an employee independent of the license issuance and cash receipt functions, is current, and will be performed on a bi-monthly basis by the finance administrator.

Regarding the destruction of license decals, two employees (the Director of Finance and the Chief Administrative Officer) have been present as required to shred voided or outdated decals. Per OLA instruction, this action will be documented in the future. The number of licenses purchased, issued, returned and destroyed has been documented as required.

Finding 2
MIEMSS did not adhere to State law and related budgetary requirements applicable to certain special funds.

Recommendation 2
We again recommend that MIEMSS comply with State budgetary law and GAD's year-end closeout requirements. Specifically, we again recommend that the aforementioned special funds be reverted to the MEMSOF.

Agency Response: MIEMSS concurs. MIEMSS had reverted unspent FY 2007 funds cited by OLA on December 12, 2007. MIEMSS erred in reverting the funds as a FY 08 transaction instead of an FY 07 transaction. A Journal Entry adjustment has been made to reflect the transaction as an FY 07 reversion.

Finding 3
Proper internal controls were not established over purchasing and disbursement transactions.

Recommendation 3
We again recommend that MIEMSS fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions. Specifically, employees who initiate purchasing and disbursement transactions should not also have the capability to approve them.

Agency Response: MIEMSS concurs. All transactions initiated and approved by the same employee as cited had been accompanied by a paper trail and signed off by the Chief Administrative Officer. Such transactions were processed only for time- sensitive and/or emergent purchases when the absence of an employee precluded use of the normal procurement process; these transactions represented a miniscule part of the total agency purchases. That said, security paths have been amended so that employees who initiate purchasing and disbursement transactions do not have the ability to approve the transactions.

Finding 4
Adequate controls and accountability were not maintained over equipment.

Recommendation 4
We again recommend that MIEMSS comply with the requirements of the DGS *Inventory Control Manual*.

Agency Response: MIEMSS concurs. MIEMSS assumed responsibility for its inventory when it became an independent state agency administratively in 1995. Starting virtually from scratch, with an inventory valued at over $10 million, spread over the entire state including many pieces passed from provider to provider or ambulance to ambulance, between offices in hospitals and at difficult-to-access communications towers at remote sites, the staff has been challenged. Notable gains have been realized and "unseen" lists have been reduced with each audit period. For the most part, the agency is in compliance with DGS guidelines. As noted in the audit report, while some equipment has been identified as not "inventoried", i.e. not found or disposed of, the agency has actively searched for the equipment within required timeframes. For those MIEMSS equipment items that are difficult to track, MIEMSS will work through more than one inventory period before concluding that the items will not be found. Many long-unseen items are ultimately found and retained in the inventory.

Upon additional investigation of the $900,000 difference cited in the audit, MIEMSS has concluded that it did not use the correct criteria for totaling the sensitive equipment. The criteria should have included items $250 and above instead of $500 and above. Therefore, an additional $206,771.48 should have been added to the total of the detailed records. Given the discrepancy totals, MIEMSS has amended the FY07 Annual Report of Fixed Assets as follows:

Balance of July 1, 2006 - $11,687,335.11
Additions - $ 699,216.10
Disposals - $ 1,372,307.84

Balance of June 30, 2007 $11,014,243.37

Additionally, MIEMSS has identified some reporting errors on the FY06 Annual Report of Fixed Assets. The amount of disposals for FY06 reports was actually $1,438,281.34. This represents a difference of $444,233.92. MIEMSS will report the following numbers for the FY06 Annual Report of Fixed Assets.

Balance of July 1, 2005 – $12,517,390.87

Additions -	$ 608,225.58
Disposals -	$ 1,438,281.34

Balance of June 30, 2006 -$11,687,335.11

By amending these reports, MIEMSS will be reporting actual inventory numbers from this point on.

Lastly, the equipment control account will be updated by November 12, 2008 and will be maintained on an annual basis.

AUDIT TEAM

Laura R. Morgan, CPA
Audit Manager

James A. Twigg
Senior Auditor

Tamufor Nchumuluh
Jacquelyn M. Tindall
Staff Auditors