



# **Internal Audit Committee of Brevard County, Florida**

## **Limited Internal Audit Procedures Fund #1351 (Emergency Medical Services- Ambulance Service) Special Request**

**Prepared By:  
Bray, Beck & Koetter, CPA's, P.A.  
September 19, 2005**

September 19, 2005

Ms. Peggy Busacca, County Manager  
Brevard County, Florida  
Viera, Florida 32940-6699

Pursuant to a request made by the County Manager's Office, we conducted a special review of "Fund #1351" regarding concerns related to; cash carry forward calculations used for budgetary purposes, a temporary loan related to hurricane related costs and various accounting processes and philosophies. This should not be relied on as an external financial statement audit.

We discussed with County personnel their concerns and conducted a limited review of Fund #1351, as follows:

- Conducted an entrance conference with the County Manager, Assistant County Manager for management Services and Fire Chief to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements. We then met with other staff of the County to obtain relevant data.
- Reviewed various documents related to the concerns addressed above.
- Conducted interviews with Fire Rescue, Budget and Finance personnel as considered necessary to complete our review of the selected documents.
- Prepared un-audited pro-forma adjustments to the Net Assets of Fund #1351 as of August 31, 2005.

Based on our procedures we have attached the un-audited pro-forma adjustments to Net Assets (August 31, 2005) and other observations which have been previously communicated in a formal exit conference with the County Manager, Assistance County Managers, the Board Attorney, Fire Chief and the Director of Budget Office.

**Pro-Forma Adjustments to Net Assets as of August 31, 2005**

Based on the procedures we performed we have prepared the following table, which depicts Net Assets as of August 31<sup>st</sup> (as presented in the County's books and records) and estimated adjustments based on our procedures. We did not conduct a financial audit and therefore actual adjustments could differ from those presented.

Net Assets - August 31, 2005	\$ 5,399,680
Potential adjustments-estimated:	
Bad debt adjustment	(4,008,000)
Allowance for uncollectible	280,000
Interest/Dividends receivable	12,000
Accrue payables	(165,000)
Accrue wages payable	(258,000)
Deferred Revenues	531,000
	<u>(3,608,000)</u>
Balance of intra-fund transfers	<u>(2,400,000)</u>
Adjusted Net Assets (deficit) - August 31, 2005	<u>\$ (608,320)</u>

Pro-forma Adjustment Explanations:

Adjustment for Bad Debts

- Accounts receivable from ambulance fees increased from \$13,641,937 (net of bad debt adjustments) at September 30, 2004 to \$16,702,826 (Gross-no bad debt adjustment) as of August 31, 2005.
- Based upon our discussions with County Finance we understand an adjustment for write-off of uncollectible ambulance accounts receivables has not taken place as this is typically done at year end and approved by the Board of County Commissioners.
- Uncollectible accounts adjustments are typically based on a detailed review of accounts receivable. In order to provide a more realistic financial position of the fund a pro-forma adjustment of \$4,008,000 to accounts receivable has been provided. This represents a 24% adjustment for bad debts consistent with prior years. The actual adjustment could vary significantly from this estimate.
- Based on the increase in accounts receivable, a detailed analysis of accounts should be performed to determine the accounts considered bad debts. As stated above, this is typically performed at year end.
- At the time of this report the detailed reasons for the increase in gross accounts receivable has not been analyzed. This increase could indicate operational issues which should be addressed. An operational internal audit, which will address this issue, is scheduled to be completed by the end of October.

Allowance for Uncollectible

- As stated above, accounts receivable from ambulance fees at August 31, 2005 had not been adjusted for bad debts. After the pro-forma adjustment discussed above accounts receivable at August 31, 2005 would be \$12,694,826 compared to \$13,641,937 at September 30, 2004.
- No adjustment for uncollectible accounts had been made at August 31, 2005 as this adjustment is typically done at year end and approved by the Board of County Commissioners.
- Prior year audited financials reflected a 29.6% allowance for uncollectible on outstanding receivables. The above pro-forma adjustment of \$280,000 (positive adjustment due to decrease in net receivables after bad debt adjustment) brings the allowance to a 29.6% level consistent with the prior year.
- A detailed analysis of uncollectible accounts should be performed (typically preformed at year end). Thus the actual allowance could vary from this estimate.

#### Deferred Revenues

- Deferred revenues have not been adjusted since September 30, 2004, in accordance with current County policy.
- The County's policy is to record revenue which will not become available within 60 days as deferred revenue. We did not review the underlying calculations for the September 30, 2004 balance; however concur with the appropriateness of the policy.
- Based on the change in outstanding receivables noted above, the pro-forma adjustment of \$531,000 (positive adjustment due to decrease in net receivables after bad debt adjustment) to deferred revenues brings the balance equal to 56.25% of outstanding accounts receivable, which is the same relationship deferred revenue had to accounts receivable in the prior year. Because we did not review the underlying data for the current year or prior year the actual adjustment could vary.

#### Intra-fund Transfers

- Intrafund transfers represent transfers between various operating departments, such as operations, dispatch and fire rescue. These transfers are considered a funding source for the department receiving the transfers.
- At August 31, 2005 all intrafund transfers had not been made. The current budget in the general ledger system indicates total intrafund transfers for the year would be \$6,158,530. The total actual transfers at August 31, 2005 were \$2,804,010. This would leave a balance to be transferred of \$3,354,520. Fund #1351 administrative staff has estimated only an additional \$2,400,000 will actually be transferred.
- The timely posting of intrafund transfers is important to ensure accurate financial reporting by fund.

#### Other Adjustments

- We estimated the adjustments for payables, wages and interest and dividends based on prior year entries which were reversed at the beginning of this fiscal year.

#### **Other Observations**

##### Due from FEMA

- As of September 30, 2004 and August 31, 2005 \$1,178,053 was outstanding due to costs associated with the 2004 hurricanes. The reimbursement of these funds generally extends the normal collection period and has significantly impacted the department's cash flow.

##### Cash Flows

- As a result of cash flow issues associated with collection of ambulance receivables, Fund #1351 has been in a deficit cash position at different times throughout the last two years. The outstanding receivable of emergency funds related to the hurricanes has also negatively impacted cash flows of the fund.
- Due to these cash flow issues within Fund #1351, temporary loans have been extended by other County funds to provide the necessary cash flow to maintain operations.

##### Temporary Loan for Hurricane-Related Expenditures

- On September 15, 2004, the Board of County Commissioners authorized borrowing money from the insurance fund to make payroll and immediate expenses associated with Hurricane Frances. A loan of \$1,178,053 loan was made, of which \$742,173 was associated with Hurricane Frances. The balance of \$435,880 (related to emergency management services performed during Hurricanes Charley and Jeanne) does not appear to have been specifically authorized by the Board of County Commissioners based on the information provided.

Budget – 2006

- The proposed 2006 budget includes no cash balance carry forward. Based on the pro-forma adjustments this appears to be a prudent approach. However, the 2005 mid-year projected cash forward reflected a carry forward balance of \$5,087,649. The difference is primarily due to interim financial adjustments (as noted above) which were not made. See also other matters below.
- We understand the fiscal year 2006 operating budget has been prepared anticipating the hurricane-related receivables from 2004 in the amount of \$1,178,053 as a funding source. If such funds are projected to fund on-going operating costs, Fund #1351 could be in a difficult budgetary position in fiscal 2007.
- As reported previously, the County reports deferred revenues related to ambulance fees not anticipated to be received within a time period that would allow the County to utilize the funds to pay liabilities of the current period. While these funds are not considered currently available, it should be noted that the County expects to collect a significant portion of these funds. If collected, the fund could have a positive cash balance.
- We have provided Fund #1351 administrative staff with operating guidance for use during the budgeting process, including calculation of the cash carry forward (balances). The department should consider formalizing a written procedure to ensure fiscal responsibility and a reasonable, effective budget.
- Due to the significance of and uncertainty surrounding collection of accounts receivable associated with the ambulance fees, the County should continue to budget for bad debt expenses and also the effect changes in deferred revenues will have on cash flows. From an operational perspective Cash flow should be the primary focus.

Other Matters

- Given the significant and unique financial issues facing Fund #1351, we recommend Department and County personnel schedule quarterly meetings to review the financial status of the fund and post interim adjustments. We understand personnel from both departments have committed to this.
- There has been significant turnover in Fund #1351 administrative staff. Based upon our limited procedures, it appears that additional training should be provided to staff responsible for the financial matters of the fund.
- We understand the department is in the process of establishing formal written policies and procedures over critical areas such as budget preparation and financial matters. We recommend these procedures be finalized as soon as possible as the use of standard written operating procedures is critical in maintaining an effective control structure.

We would like to thank all those involved in assisting the Internal Auditors in connection with our special review of Fund #1351.

Respectfully Submitted,

***INTERNAL AUDITORS***