



Office of Missouri State Auditor  
**Nicole Galloway, CPA**

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**Vernon County Ambulance District**



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Vernon County Ambulance District

### Background

The Director of Operations (Director) is the chief executive officer directly responsible for overseeing daily operations of the district, including supervision of personnel and management of financial activities. The Office Manager was responsible for all duties related to bookkeeping, payroll, billing, collecting and disbursing monies, making deposits, and providing financial reports to the Board. Former Director James D. McKenzie began employment with the district in 1987 and former Office Manager Tina L. Werner began employment with the district in 2000. The Board held a special meeting on October 23, 2015, and terminated both the former Director and Office Manager following discussions regarding the district's poor financial condition.

A federal grand jury in the United States District Court for the Western District of Missouri indicted the former Director and former Office Manager in May 2017 for embezzling more than \$260,000 from the district. The indictment alleges that from January 2013 to October 2015 the defendants participated in a conspiracy to financially enrich themselves by fraudulently obtaining and attempting to obtain money and property from district bank accounts and credit card accounts. The Board filed a civil lawsuit in Vernon County Circuit Court against the 2 former employees on May 20, 2016.

In June 2017, we began an audit of the district at the request of district residents through the petition process. The petition audit required 863 signatures from registered voters within the district and 874 signatures were certified as valid by the Vernon County Clerk. Audit procedures focused primarily on the year ended June 30, 2017.

The civil case is ongoing as of May 2018, and the federal case is scheduled to go to trial in September 2018.

### Accounts Receivable Procedures

District personnel did not make sufficient efforts to restore lost billing and patient account data, and are not making proactive efforts to collect on old accounts receivable for trip charges incurred prior to October 2015. In addition, the billing agency contract does not specify billing and write-off procedures, and the district is not making efforts to collect on newer accounts once the billing agency deems them uncollectible and stops billing. Neither the Board nor district personnel adequately monitor accounts receivable write-offs, maintain sufficient documentation of collection efforts and decisions, and written policies lack sufficient details. The district's policy allowing for agency administrative discounts of ambulance billings for certain individuals may not be fully compliant with state laws. District personnel do not perform monthly reconciliations of amounts billed, payments received, amounts written off, and amounts unpaid for trip charges.

### Accounting Controls and Procedures

Supervisory reviews over certain accounting functions and records need improvement. Office personnel do not issue receipt slips for all monies received or maintain a complete record of receipts. In addition, the composition of receipts is not compared to the composition of deposits by an independent person. District personnel do not perform reconciliations to ensure all monies received, whether by office personnel or the contracted

billing agency, are accounted for properly. The Office Administrator does not restrictively endorse checks and money orders immediately upon receipt.

Disbursements	The district does not always solicit bids or proposals for goods and services, document the selection process, and maintain current written contracts with some providers. In addition, the district did not have a written bid policy. The bid policy adopted after our inquiry is not sufficient. Improvement is needed in the district's disbursement review procedures to ensure all invoices are reviewed by district personnel, marked paid, and supported by documentation acknowledging receipt of goods or services. The Board approved and paid incentives to employees in December 2016, but these payments were not (1) part of formal pay plans, (2) subject to tax withholdings, and (3) reported on W-2 forms. In addition, the district does not have procedures to review and evaluate the reasonableness of vehicle usage and does not reconcile fuel usage to fuel purchases.
Financial Reports and Budgets	District personnel did not file annual financial reports for fiscal years 2007 through 2016 timely with the SAO as required by state law. District budgets do not include all statutorily required elements. The fiscal year 2017 budget did not include a budget summary, the actual beginning and estimated ending cash balances, actual receipts and disbursements for the 2 preceding years, or district indebtedness information.
Sunshine Law	The Board held 7 closed session meetings during the year ended June 30, 2017, but minutes were not prepared and subsequently approved by the Board. In addition, the Board has not adopted a written policy regarding public access to district records as required by state law and district personnel do not maintain a log of public record requests to ensure all requests are handled in compliance with state law.
Electronic Data Security	The district has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data.
Capital Assets	The district does not maintain records of its capital assets including buildings, land, vehicles, equipment, and other property. Additionally, district personnel do not tag assets for specific identification or perform annual physical inventories.

In the areas audited, the overall performance of this entity was **Fair**.\*

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Vernon County Ambulance District

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## **NICOLE GALLOWAY, CPA**

### **Missouri State Auditor**

Board of Directors  
Vernon County Ambulance District

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Vernon County Ambulance District. We have audited certain operations of the district in fulfillment of our duties. The district engaged DSWA, Certified Public Accountants, PC, to audit the district's financial statements for the fiscal year ended June 30, 2017. To minimize duplication of effort, we reviewed DSWA's audit report for the year ended June 30, 2016, since the year ended June 30, 2017, audit had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2017. The objectives of our audit were to:

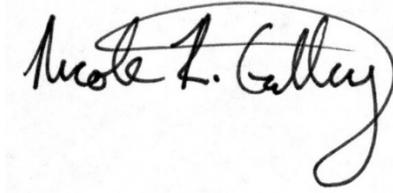
1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; inspection of capital assets; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in our audit of the district.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Vernon County Ambulance District.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Senior Director:	Regina Pruitt, CPA
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# Vernon County Ambulance District

## Introduction

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### **Background**

The Director of Operations (Director) is the chief executive officer directly responsible for overseeing daily operations of the district, including supervision of personnel and management of financial activities. The Office Manager<sup>1</sup> was responsible for all duties related to bookkeeping, payroll, billing, collecting and disbursing monies, making deposits, and providing financial reports to the Board of Directors. Former Director James D. McKenzie began employment with the district in 1987 and former Office Manager Tina L. Werner began employment with the district in 2000.

On October 19, 2015, the Internal Revenue Service (IRS) filed a tax lien of \$213,158 against the district for unpaid payroll taxes for the quarterly periods ending December 31, 2013, through March 31, 2015. The Board held a special meeting on October 23, 2015, and terminated both the former Director and Office Manager following discussions regarding the district's poor financial condition.

After determining annual audits had not be done for the 2 fiscal years ended June 30, 2015 and 2014, the Board hired a CPA firm on October 27, 2015, to perform those audits, and discussed options to outsource key accounting functions. On November 3, 2015, the Board executed a contract with a medical billing service agency to handle all billings and collections for the district's ambulance services. The Board also outsourced accounting functions related to accounts payable, payroll, bank reconciliations, and financial statement preparation in April 2016.

The Board obtained a \$150,000 tax anticipation loan in November 2015 to maintain daily operations (salaries, utilities, fuel, and supplies) and entered into a \$450,000 secured loan agreement in February 2016 to pay outstanding debts related to federal and state payroll taxes, credit cards, and equipment. The tax anticipation loan was repaid in January 2016 and the secured loan agreement is being repaid in 60 monthly installments. The district resolved the IRS tax lien liability in February 2016.

In January 2016, the Missouri State Highway Patrol (MSHP) began an investigation after the CPA firm's auditors identified questionable transactions and concerns related to accounts receivable and unbilled trip charges. The Federal Bureau of Investigation (FBI) began an investigation of these transactions in early 2016.

A federal grand jury in the United States District Court for the Western District of Missouri indicted the former Director and former Office Manager

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<sup>1</sup> The Office Manager position remains unfilled. Effective October 23, 2015, the Office Administrator assumed many of these duties except for certain billing and collection functions outsourced in November 2015 and accounting functions outsourced in April 2016.



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## Vernon County Ambulance District Introduction

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in May 2017 for embezzling more than \$260,000 from the district. The indictment alleges that from January 2013 to October 2015 the defendants participated in a conspiracy to financially enrich themselves by fraudulently obtaining and attempting to obtain money and property from district bank accounts and credit card accounts.

The former Office Manager used her position to electronically transfer money from district bank accounts into personal bank accounts held by herself and the former Director, and initiate electronic bill payments from district bank accounts to pay personal credit cards held by herself and the former Director. In addition, the defendants issued payments from district credit card accounts for payment of personal utility bills of the former Director and those of his family member. The former Office Manager allegedly falsified electronic payroll records and recorded additional overtime hours resulting in electronic payments to herself and the former Director for hours not worked. The indictment indicates the former Office Manager attempted to conceal the embezzlement by entering a false deposit of \$130,000 in the accounting system, and by obtaining a \$20,000 line of credit without the Board's knowledge. In addition, the defendants allegedly destroyed district financial and business documents in an effort to conceal their embezzlement.

In addition to the conspiracy, the defendants are charged with 8 counts of wire fraud including, three counts related to thefts from the district's Christmas account for payment of the defendants' credit cards; two counts related to thefts from the district's toy drive account for transfer to the bank account of a business owned by the former Director; one count related to theft from a district credit card to pay the personal utility bills of the former Director and his family member; and, one count each related to the former Director and former Office Manager receiving compensation to which they were not entitled.

The Board filed a civil lawsuit in Vernon County Circuit Court against the 2 former employees on May 20, 2016, as an attempt to recoup some of district's funds.

In June 2017, the State Auditor's Office (SAO) began an audit of the district at the request of district residents through the petition process. The petition audit required 863 signatures from registered voters within the district and 874 signatures were certified as valid by the Vernon County Clerk. Audit procedures focused primarily on the year ended June 30, 2017. However, procedures were expanded as appropriate for certain specific issues or concerns.

The FBI and MSHP investigations and the civil case in Vernon County Circuit Court are ongoing as of May 2018. The federal case is scheduled to go to trial in September 2018.

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# Vernon County Ambulance District

## Management Advisory Report

### State Auditor's Findings

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#### **1. Accounts Receivable Procedures**

Controls and procedures over accounts receivables need improvement. District records indicate billings totaled approximately \$5.4 million for ambulance services (trip charges) provided during the year ended June 30, 2017, and collections totaled approximately \$1.5 million.

The Board made the decision to outsource the billing and accounts receivable functions in late October 2015 after determining the former Office Manager had not processed insurance claims and billings for numerous trip charges. In November 2015, the district contracted with a medical billing service agency (billing agency) to provide patient billing and collection services for trip charges incurred beginning October 1, 2015.

##### 1.1 Collection procedures

District personnel did not make sufficient efforts to restore lost billing and patient account data, and are not making proactive efforts to collect on old accounts receivable for trip charges incurred prior to October 2015. In addition, the billing agency contract does not specify billing and write-off procedures, and the district is not making efforts to collect on newer accounts once the billing agency considers them uncollectible and stops billing.

##### Old accounts receivable

The district is not pursuing collection of old accounts receivable. Outstanding balances for trips incurred prior to October 2015, cannot be readily determined because the district did not ensure patient account data was fully restored after the district's old billing system crashed on December 19, 2014. The district did not have proper backup procedures. At our request, the Secretary generated an accounts receivable report from the old billing system showing 876 patient accounts with amounts due totaling approximately \$1.2 million as of June 30, 2017. District personnel said these amounts are not accurate because the most recent backup available for data restoration was from October 2012, more than 2 years prior to the system crash. As a result, the district lost a significant amount of data that needed to be manually reentered into the old billing system using available records such as trip logs, insurance settlement records, and deposit records. However, in late October 2015, the Board determined very little of this data had been reentered into the system and numerous 2015 trips had not been billed. As a result, old billing system data is inaccurate and district personnel do not use it to monitor or bill unpaid balances or make write-off decisions. If a patient contacts the district to pay on an old account, the Office Administrator will accept the payment and update the patient's account in the old billing system at that time.

##### Newer accounts receivable

Collection procedures for newer accounts processed by the billing agency since November 2015 need improvement. The billing agency contract does not specify requirements for a minimum number of monthly patient billing attempts to collect outstanding balances or procedures for writing off uncollectible accounts. According to district personnel, the billing agency currently mails patients up to 6 monthly statements for outstanding balances after applicable insurance payments. In addition, if a patient does not remit payment or contact the billing agency for 6 consecutive months, the agency



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considers the account uncollectible, writes off the balance due, and makes no further collection efforts. These accounts then show a zero balance due in the billing agency's system. District personnel make no further collection efforts unless a patient contacts the district about making a payment or setting up a payment plan. The billing agency contract also does not address discounts allowed for timely payment, as discussed further in section 1.2.

Good business practices require adequate collection procedures be established to ensure accounts are collected timely and bad debts are kept to a minimum.

## 1.2 Write-off procedures

Neither the Board nor district personnel adequately monitor accounts receivable write-offs or maintain sufficient documentation of collection efforts and decisions. Also, written policies lack sufficient details.

### Monitoring

The Office Administrator does not provide complete listings of accounts receivable balances and amounts written off to the Board for review and approval. The billing agency maintains its own system to process district accounts receivable and records all accounts receivable write-offs in this system to clear the balance owed. These amounts are not reviewed or verified by district personnel independent of the receipting function. District personnel have access to the billing agency's system and can produce detailed reports of balances due and amounts written off; however, only summary reports of trip charges occurring for a 2 or 3 month period prior to Board meetings are generated and provided to the Board. At our request, the Office Administrator generated a report showing write-offs totaling almost \$4.5 million during the year ended June 30, 2017. Approximately \$2.1 million represents write-offs of contractual allowances (amount charged less amount agreed to accept for payment) for certain Medicare patients. The remaining \$2.4 million consists of unallowable charges for Medicare, Medicaid, and other insurance companies; and balances the billing agency deemed uncollectible and wrote off due to bad addresses, bad debts, bankruptcy, and deceased patients. There is no documentation to demonstrate if any of these accounts were reviewed by the Board for appropriateness and whether the district made any further collection efforts.

### Documentation

The district is not maintaining sufficient documentation to demonstrate proper account handling or consideration of its collection efforts and other factors prior to approving write-offs. Patients with accounts handled by the billing agency will sometimes contact the Board and request a reduction of their bill, but it is unclear if there is any communication between the district and the billing agency of the account handling (i.e., full write-off, partial write-off, periodic payment arrangements) subsequently approved by the Board. Board minutes for the year ended June 30, 2017, show the Board reviewed letters from 5 patients requesting adjustments to amounts they owed the district. Correspondence indicates the Board approved write-offs for 2 of these accounts after considering the account activity and patients' financial



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records. For one account the Board agreed to reduce the account balance equal to regular monthly payments made by the patient resulting in a 50 percent write-off (totaling \$1,545). However, for this account the billing agency had written off the entire balance owed as a bad debt on January 20, 2017, prior to Board approval on February 16, 2017. The Office Administrator is maintaining a separate spreadsheet to track monthly payments made to the district office on this account but did not know if the billing agency was tracking the activity. For the other account, the Board authorized the \$500 balance be written off in full. We were unable to determine how the billing agency and district handled and recorded this request and the other 3 request because the Office Administrator redacted all the patient account information on the letters to and from the patients, and did not retain any original unredacted copies of the correspondence.

Written policies

District policies for the write-off of accounts receivable and payment discounts need updating. The February 13, 2009, meeting minutes indicate the Board gave the Director authority to allow a 10 percent discount to a patient's bill upon request if the bill is paid in full within 10 days. This discount was not documented in a formal written policy. Our review of the minutes and discussions with district personnel indicates the billing agency is offering 10 and 20 percent discounts to patients if bills are paid in full within 10 days. Written policy enacted in 2013 allows discretionary write-offs for patients making payments on a significant portion of their accounts or when the debt is likely uncollectible, but does not state who is responsible for approving them.

After our inquiry, the Board adopted a written policy on August 17, 2017, allowing discretionary write-offs and authorizing the Office Manager or Director to allow a 10 percent discount to patient accounts paid prior to the statement due date. This new policy does not clarify who is responsible for approving discretionary write-offs. In addition, the Office Administrator indicated she assumed most duties of the Office Manager and the Board essentially granted her authority to approve applicable discounts to patient accounts. Because the Office Administrator is primarily responsible for receipting, recording, and depositing monies, she should not have the ability to approve these discounts

Conclusion

There are no statutes permitting the ambulance district to write-off debts as a matter of discretion. Article III, Section 39(5) of the Missouri Constitution prohibits statutes that authorize the releasing or extinguishing of debt, in whole or in part, without consideration. Write-offs of receivables should be verified and approved by a person independent of the postings of such transactions to ensure they are legitimate. Considering the risks associated with adjustments to accounts, the Board should improve its monitoring of write-offs of accounts receivable. In addition, the Board should update the district's written policies to clarify who is authorized to approve write-offs,



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and ensure amounts written off are verified by an independent person, ensure reasons for writing off accounts are allowable per the policy, and maintain sufficient documentation of factors considered prior to approving write-offs.

### 1.3 Agency administrative write-offs

The district's written policy adopted in August 2017 may not be fully compliant with state laws. This policy allows for agency administrative discounts of ambulance billings in which the entire balance after insurance shall be written off for the following individuals:

- current full-time, part-time or retired employees and/or their dependents.
- active first responders of the district and/or their dependents, and past first responders who served at least 5 years and/or their dependents.
- active district Board members and/or their dependents, and past district Board members who served at least one full 3-year term.
- active and past medical directors and/or their dependents.
- firefighters, law enforcement, and first responders injured and transported in the line of duty, and dispatchers transported while on duty.

Providing write-offs to current employees could be considered part of their compensation or health insurance plan, but should be outlined in the employee benefit package. Writing off debt incurred by retired employees, past first responders, and contracted medical directors conflicts with Article III, Section 39(3) of the Missouri Constitution, which prohibits granting any extra compensation, fee, or allowance to employees or contractors for services already rendered. Writing off debt incurred by Board members could conflict with Section 190.055, RSMo, which provides the compensation for the Board, including a cap on the compensation. Additionally, Article VI, Sections 23 and 25, of the Missouri Constitution does not permit local governments to grant public money to benefit private individuals. The Board should review each of these policy provisions and consult with legal counsel as to whether forgiving these amounts is in compliance with Missouri Constitution and state law.

### 1.4 Accounts receivable reconciliations

District personnel do not perform monthly reconciliations of amounts billed, payments received, amounts written off, and amounts unpaid for trip charges.

Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are identified and corrected timely.



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Management Advisory Report - State Auditor's Findings

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## Recommendations

The Board of Directors:

- 1.1 Establish sufficient procedures to collect accounts receivable. In addition, the Board should update the billing agency contract to clarify billing and collection efforts, timely payment discounts, and procedures for writing off bad debts. The Board should also ensure proper data recovery procedures are in place.
- 1.2 Update the district's policy to clarify who is authorized to approve write-offs and ensure all write-offs are verified by an independent person. The Board should periodically review detailed accounts receivable records and take action to collect on accounts the billing agency is no longer pursuing, and ensure reasons for write-offs are allowable according to the policy. In addition, the Board should ensure sufficient documentation of factors considered prior to approving write-offs is retained.
- 1.3 Reevaluate agency administrative write-offs outlined in district policy and consult with legal counsel to determine legality.
- 1.4 Ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed.

## Auditee's Response

- 1.1 *The district's account is reviewed by the billing service for likelihood of collection, including availability of insurance, credit rating and income, using proprietary software and information services. No account is ever charged off without Board approval. In addition to billing services, Specialized Billing and Collection Services of Texas provides the services of a traditional collection agency, including letters and phone calls to debtors and implementation of payment plans. Specialized Billing and Collection Services of Texas has given us a draft of written policies on write offs for the district and legal counsel to review for their approval. The district is researching data recovery procedures above our on-site backup, off-site backup and Cloud backup systems we currently have.*
- 1.2 *In the future, the district will generate a periodic report of accounts that Specialized Billing and Collections of Texas deems uncollectible and will review and authorize cessation of active collection efforts on accounts that the Board agrees are uncollectible. These will be decided according to factors that will be stated in the policies that are being discussed and developed by Specialized Billing and Collections of Texas, the district, and our legal counsel.*
- 1.3 *The district will consult with legal counsel and review this policy.*



Vernon County Ambulance District  
Management Advisory Report - State Auditor's Findings

*1.4 The district will require Specialized Billing to provide the information necessary for periodic review and reconciliation.*

## 2. Accounting Controls and Procedures

### 2.1 Oversight

Accounting controls and procedures need improvement. The district uses a computerized accounting system to record receipts and deposits. The district collected approximately \$2 million for trip charges, property taxes, instructional courses, equipment sales, and miscellaneous fees during the year ended June 30, 2017.

Supervisory reviews over certain accounting functions and records need improvement. The Board took actions to segregate some accounting duties and reduce the risk of employee collusion by outsourcing billing and accounts receivable functions for trip charges in November 2015 and certain bookkeeping functions related to bank reconciliations, accounts payable, payroll, and financial statement preparation in April 2016. The Board reviews detailed reports of the bookkeeping functions, but does not review detailed accounts receivable reports (see MAR finding number 1.2). The district also revised procedures as outlined in a document titled "Procedure changes after Oct. 23, 2015," requiring the Director to verify all money that comes in the mail and all deposits prepared by office personnel. The Office Administrator, and the Secretary in her absence, are primarily responsible for receipting, recording, and depositing monies. The Director's reviews are not documented and do not include a detailed review of receipt records and transactions recorded in the accounting and billing systems. Also, there is no evidence the Board formally approved these procedure changes or incorporated them into district policy.

To reduce the risk of loss, theft, or misuse of funds going undetected, the district should ensure documented independent or supervisory reviews of detailed accounts receivable reports and accounting records are performed. The Board's formal approval of procedural changes and incorporating them into district policy is necessary to help ensure employees are aware of the changes and potential impact on their duties.

### 2.2 Receipting, recording, and depositing procedures

Office personnel do not issue receipt slips for all monies received or maintain a complete record of receipts. In addition, the composition of receipts is not compared to the composition of deposits by an independent person.

Receipt slips are only issued upon request. No manual receipt slips were issued during an almost 9 month period from December 14, 2015, to September 7, 2016. From September 7, 2016, to June 30, 2017, only 9 manual receipt slips were issued and the method of payment was not indicated on 2 of them. The Office Administrator uses various methods to record receipts for trip charges.

- The billing agency collects the majority of payments on newer accounts (trips beginning October 1, 2015) and transmits a batch of receipts in the



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Management Advisory Report - State Auditor's Findings

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mail to the district each week. The billing agency assigns a sequential batch number and dates each batch invoice accompanying the receipts, but the Office Administrator does not record the date she receives each batch. Instead, she makes copies of the checks and records the receipts in the accounting system when she prepares the deposit. As a result, there is no initial record of receipt. Our review of 9 batches deposited in June 2017 determined that batch number 2017-32 with a batch invoice date of June 19 was deposited on June 22, but batch number 2017-31 with a batch invoice date of June 14 was not deposited until June 26. The Office Administrator indicated she accounts for all batch numbers and attempts to deposit each batch the day received, but could not explain why batch number 2017-32 was deposited 4 days prior to batch number 2017-31.

- Customers with newer accounts sometimes remit the balance due to the district office rather than sending it directly to the billing agency. If billing statements are submitted with these payments, they are marked paid and a copy of the billing statement and a copy of the check is placed in a file folder with other collections. If a copy of the statement is not provided, a copy of the check is placed in the file folder. The Office Administrator then notifies the billing agency of payments received for recording into the billing agency's system.
- For the 6 customers making regular monthly payments to the district office on newer accounts, the Office Administrator maintains a spreadsheet for each person to track the payments and balance due. When a payment is made, the Office Administrator records the date, method of payment, check number, amount, and balance due; and provides a printout of this information to customers as their receipt. The Office Administrator then notifies the billing agency of the payment received for recording into the billing agency's system.
- For payments received on old accounts established prior to October 2015, the Office Administrator records the receipt in the district's old billing system and provides a statement showing the amounts paid and balance due to customers as their receipt. These receipts are not numbered in the district's billing system and the Office Administrator does not generate a report of receipts recorded. At our request, the Secretary generated a report showing collections totaling \$2,510 on 14 old patient accounts during the year ended June 30, 2017. We identified at least \$245 received and deposited but not recorded in the district's billing system (see section 2.3).

As a result of these multiple receipting methods, there is not a complete initial record of receipts to reconcile to postings in the accounting system, billing records, and deposits. In addition, the composition of receipts cannot be compared to the composition of deposits. The Office Administrator posts receipts to the accounting system when she prepares the deposit, but does not print a deposit summary listing the composition of receipts.



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Vernon County Ambulance District  
Management Advisory Report - State Auditor's Findings

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Failure to implement adequate receipting, recording, and depositing procedures increases the risk that loss, theft, or misuse of monies will occur and go undetected. To reduce this risk, procedures should be established to ensure all monies received are properly receipted, recorded, and deposited intact. In addition, internal controls could be improved by implementing documented independent comparisons of the composition of receipts to the composition of deposits.

### 2.3 Receipt reconciliations

District personnel do not perform reconciliations to ensure all monies received, whether by office personnel or the contracted billing agency, are accounted for properly. As a result, some transactions are not being properly or timely recorded in the billing systems, discrepancies exist between the billing and accounting systems, and errors are not detected and corrected timely.

For monies received from the billing agency, batch invoice totals and detailed receipt reports often include amounts electronically deposited into district bank accounts and transactions previously collected and deposited by district personnel. There is no review to ensure the billing agency's records agree to the district's accounting and deposit records. For example, our review of June 2017 receipts identified an electronic deposit of \$731.35 on June 29, 2017, to the district's bank account, but the district could not provide documentation the billing agency had recorded this item to the appropriate account. We also identified 2 transactions totaling \$422.96 (\$211.48 in check and \$211.48 in electronic deposit) on June 13, 2017, listed on batch number 2017-31 from the billing agency, but the electronic deposit has not posted to the bank account as of March 31, 2018.

The Office Administrator does not generate a detailed receipt report from the district's old billing system for comparison to amounts recorded in the accounting system and deposited. Our review of accounting records related to payments on 2 patient accounts established prior to October 2015 identified at least 10 receipts totaling \$245.20 recorded in the accounting system and deposited, but not recorded in the district's old billing system:

- Patient A: 3 receipts totaling \$65 dated December 16, 2016, February 13, 2017, and July 10, 2017, were not posted to the patient's account, resulting in the balance being overstated by \$65.
- Patient B: 7 receipts totaling \$180.20 dated between February 22, 2016, and September 7, 2016, were not posted to the patient's account. The memo on the patient's last check dated September 7, 2016, states "Balance \$0.00," but the patient's account shows a \$220.20 balance due as of March 1, 2018, indicating additional payments totaling \$40 may have been received prior to July 1, 2015, but not recorded in the old billing system.



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Reconciliations of detailed receipt reports from both billing systems to accounting and deposit records are necessary to ensure all monies received are accounted for properly, accounting and billing records are in balance, and errors are identified timely. Batch invoices and receipt reports from the billing agency's system should be reviewed to ensure the billing agency's records agree to the district's accounting records and amounts deposited. In addition, detailed receipt reports should be generated from the district's old billing system and reconciled to accounting and deposit records. Prompt follow up on differences and correction of errors is necessary to ensure monies are properly handled.

## 2.4 Restrictive endorsement

The Office Administrator does not restrictively endorse checks and money orders immediately upon receipt. She restrictively endorses them when preparing the deposit.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

## Recommendations

The Board of Directors:

- 2.1 Ensure documented independent or supervisory reviews of detailed accounts receivable reports and accounting records are performed. In addition, the Board should formally approve procedural changes and incorporate them into district policy.
- 2.2 Ensure official prenumbered receipt slips are issued for all monies received and all receipts are posted to the accounting system timely and deposited intact. Require batch receipts be date stamped and the numerical sequence accounted for properly. In addition, the Board should ensure documented independent reconciliations of the composition of receipts to the composition of deposits are performed.
- 2.3 Implement procedures to reconcile detailed receipt reports from both billing systems to accounting and deposit records. Any errors should be investigated and promptly resolved.
- 2.4 Restrictively endorse checks and money orders immediately upon receipt.

## Auditee's Response

- 2.1 *A list of each day's deposits will be reviewed and approved and initialed by the Director daily. A daily report of "Transactions by Account" will be reviewed and initialed by the Director and retained in the district records. Accounts receivable reports will be printed as required, reviewed, and initialed by the Director. Procedural changes will be formally approved by the Board and incorporated into district policy.*



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- 2.2 *The district will commence using a receipt book containing numbered receipts bearing the district's printed name. The Director will review the cash receipts daily to ensure that all cash and checks received are included in deposits. Batch receipts will be dated by date received. All receipts will be entered into the accounting system in a timely manner.*
- 2.3 *The district will implement a procedure to compare billing and collection reports with financial reports which are generated from the district's accounting system. Any errors will be investigated and corrected.*
- 2.4 *In the future, checks will be stamped "for deposit only" and endorsed upon receipt.*

### 3. Disbursements

Controls and procedures over district disbursements need improvement.

#### 3.1 Bidding and contracts

The district does not always solicit bids or proposals for goods and services, document the selection process, and maintain current written contracts with some providers. In addition, the district did not have a written bid policy. After our inquiry, the Board adopted a written bid policy on August 17, 2017. However, the policy does not stipulate a dollar threshold at which bidding is required for most purchases of goods and services. It only provides minimum standards for bidding purchases when Board members have a financial interest, bidding various types of insurance, and obtaining architectural and engineering services. It also addresses dispositions of unwanted or surplus property. The policy omits many routine and recurring purchases for which a bid process is also beneficial.

##### Billing and collection services

District officials did not solicit proposals for billing and collection services when they contracted with a billing agency in November 2015, and have not updated this contract for subsequent changes. The district paid the billing agency approximately \$125,000 in fees during the year ended June 30, 2017.

The 3-year contract has automatic renewals for 2 additional years and requires the district to pay fees equal to 8 percent of all funds collected by the agency on a monthly basis. On April 21, 2016, the Board voted to upgrade the district's patient care report software to a newer version provided by the billing agency because the district's old software was not fully compatible with the billing agency's system. As compensation for use of this software, the Board agreed to increase the fees to 10 percent of collections, but did not update the contract for these new terms.

##### Information technology and legal services

Information technology services costing \$19,274 during the year ended June 30, 2017, were not bid and the district does not have a written contract with the provider. District personnel indicated they have used this vendor for



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several years to perform system maintenance, upgrades, and virus protection services. In addition, the district has 2 different legal firms on retainer, but has not solicited proposals for legal services. The district paid \$3,750 for legal services during the year ended June 30, 2017.

Supporting documentation

The district does not sufficiently document sole source purchases or always retain bid documentation. The district entered into an agreement totaling \$59,361 for lease and maintenance costs for 3 chest compression machines for a 3-year period, and paid a local automotive shop \$12,603 during the year ended June 30, 2017, for multiple ambulance repairs. In both cases, district personnel indicated the purchases were sole source, but had no supporting documentation. In addition, district personnel indicated they obtained bids for medical supplies from multiple vendors, but did not retain documentation of those bids. The district paid the selected vendor \$25,310 for medical supplies during the year ended June 30, 2017.

Conclusion

This district should revise the August 2017 bid policy to address the threshold where purchases of goods and services must be bid or proposals solicited. Formal bidding procedures for major purchases or services provide a framework for economical management of district resources and help ensure the district receives a fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in district business. Complete documentation should be maintained of all bids received and justification for awarding the bid.

Clear and detailed written contracts are necessary to ensure all parties are aware of their duties and responsibilities, prevent misunderstandings, and ensure district monies are used appropriately and effectively. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. Formal written contract amendments are necessary when terms change substantially.

3.2 Review and approval  
process

Improvement is needed in the district's disbursement review procedures to ensure all invoices are reviewed by district personnel, marked paid, and supported by documentation acknowledging receipt of goods or services. Our review noted various weaknesses.

- The Director does not document his review and approval of invoices. He indicated his approval for appropriateness of the expenditure and confirmation of receipt of good or services is implied when he records the invoice in the accounting system. The Office Administrator also has the ability to record transactions in the accounting system.
- We noted 5 of 25 invoices reviewed were not marked paid or otherwise canceled to prevent duplicate payments.



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- The district does not always require documentation, such as fuel receipt slips and cash register receipt slips, to support credit card purchases. As a result, monthly statements cannot be reconciled to actual purchases and the appropriateness of purchases cannot be evaluated.

Director approval of invoices should be documented by signing or initialing invoices. Marking invoices and other supporting documentation as paid reduces the likelihood of duplicate payments, and requiring acknowledgement of the receipt of goods or services prior to payment helps ensure the district actually received all items. To ensure obligations were actually incurred and amounts paid are proper, all disbursements should be supported by paid receipts or other detailed documentation with payment information clearly indicated.

### 3.3 Longevity pay

The Board approved and paid incentives to employees, totaling \$2,760, on December 9, 2016. District personnel indicated longevity pay is typically paid in December each year, but was not paid in 2015 due to the district's poor financial condition. While these incentive payments were approved by the Board, they are not part of formal pay plans. In addition, these payments were not subject to tax withholdings and were not reported on employee W-2 forms. The monies are given as an incentive to employees as recognition and appreciation of their service. The amounts ranged from \$50 to \$640 based on years of service and employment status (full-time, part-time, or reserve staff).

To ensure the incentive plan is in compliance with state and federal laws and all employees are treated equitably, the provisions of the incentive plan should be clearly defined in a formal policy and reviewed by legal counsel. In addition, the district should ensure all employee compensation is subject to payroll tax withholdings and reported on employee W-2 forms.

### 3.4 Fuel

The district does not have procedures to review and evaluate the reasonableness of vehicle usage and does not reconcile fuel usage to fuel purchases. The district paid approximately \$31,000 for fuel during the year ended June 30, 2017.

The district utilizes fuel cards at gas stations to purchase fuel and record vehicle odometer readings. Employees do not always accurately enter odometer readings into the fuel pump at the time of fueling, making it difficult to evaluate the reasonableness of fuel costs. In addition, employees do not always submit fuel receipt slips to the district office for comparison to monthly billing statements (see section 3.2).

Adequate procedures for monitoring fuel purchases, including comparison of mileage to fuel usage, are necessary to ensure the reasonableness of vehicle use and to prevent and detect theft and misuse of fuel. In addition, accurate entry of odometer readings are necessary to document the appropriate use of vehicles and to support fuel purchases.



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## Recommendations

The Board of Directors:

- 3.1 Update the district's bid policy and ensure all applicable purchases of goods or services are made in accordance with the policy, and retain sufficient documentation of the selection process and criteria to support purchasing decisions. In addition, the Board should obtain and/or update current contracts specifying the services to be rendered and the manner and amount of compensation to be paid.
- 3.2 Ensure the Director's approval of invoices and receipt of goods or services is documented, invoices are marked paid, and adequate supporting documentation is obtained prior to payment for goods and services.
- 3.3 Establish formal policies for incentive payments, and ensure taxes are properly withheld and payments are reported on W-2 forms. The district should also contact the IRS and the Missouri Department of Revenue to determine if amended information returns should be submitted for the unreported compensation.
- 3.4 Establish adequate records and procedures to effectively monitor fuel use for reasonableness.

## Auditee's Response

- 3.1 *More detailed procedures and standards for solicitation of bids will be developed and reviewed by legal counsel to include retaining documentation and what is applicable for bid. In addition, the Board will ensure the selection processes are recorded and all contracts are up to date with terms of services and payments.*
- 3.2 *All invoices will be reviewed and approved by the Director before payment. All invoices will be marked paid when disbursement is made. The district's accounting firm reconciles checks written with invoices. All invoices and check stubs are marked paid after obtaining Board approval and signatures.*
- 3.3 *The district has implemented this recommendation.*
- 3.4 *The district will review fuel charges and vehicle mileage at least monthly and will spot check fuel charges and mileage using online access to the account as required.*

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## 4. Financial Reports and Budgets

The district financial reports were not filed timely and budgets do not include all elements required by state law.

### 4.1 Filing of financial reports

District personnel did not file annual financial reports for fiscal years 2007 through 2016 timely with the SAO as required by state law. The district



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submitted an annual financial report for the year ended June 30, 2016, in March 2017, although it was due by December 31, 2016. Reports for fiscal years 2007 through 2015 were submitted in June 2017, with the exception of the 2010 report (not submitted as of May 2018). District personnel filed the fiscal year 2017 report timely.

Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the State Auditor's Office. Section 105.145(5), RSMo, prohibits elected officials from continuing to receive compensation or processing disbursements after the deadline to submit the financial statement and until the financial statement is submitted to the State Auditor's Office. In addition, 15 CSR 40-3.030, requires each political subdivision to file annual financial reports within 6 months of the end of the subdivision's fiscal year. Effective August 28, 2017, under Section 105.145, RSMo, the State Auditor's Office must notify the Missouri Department of Revenue if a political subdivision fails to file a timely financial statement. Failure to timely file a financial statement may subject the political subdivision to a fine of \$500 per day.

## 4.2 Budgets

District budgets do not include all statutorily required elements. The fiscal year 2017 budget did not include a budget summary, actual beginning and estimated ending cash balances, actual receipts and disbursements for the 2 preceding years, or district indebtedness information.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the format. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of district operations. It also assists in setting tax levies and informing the public about district operations and current finances.

## Recommendations

The Board of Directors:

- 4.1 Ensure annual financial reports are submitted in accordance with state law.
- 4.2 Ensure budgets contain all information required by state law.

## Auditee's Response

- 4.1 *The district will file financial reports with State Auditor's Office as required by law.*
- 4.2 *The district will follow the recommendations of the Auditor beginning with the 2019 fiscal year budget.*

## 5. Sunshine Law

The Board's procedures for complying with the Sunshine Law need improvement.



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**5.1 Closed session minutes** The Board held 7 closed session meetings during the year ended June 30, 2017, but minutes were not prepared and subsequently approved by the Board. Without minutes of closed sessions, there is no record of the discussions held or support for the decisions made, and less assurance to the public that various statutory provisions are followed.

Section 610.020.7, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions made.

**5.2 Public access policy** The Board has not adopted a written policy regarding public access to district records as required by state law. A written policy regarding public access to district records would establish guidelines for the district to make records available to the public. This policy should identify a person to contact, provide an address to mail such requests, and establish fees that may be assessed for providing copies of public records.

Section 610.023, RSMo, lists requirements for making records available to the public. Section 610.026, RSMo, allows the district to charge fees for providing access to and/or copies of public records and provides requirements related to fees. Section 610.028, RSMo, requires a written policy regarding release of information under the Sunshine Law.

**5.3 Record requests** District personnel do not maintain a log of public record requests to ensure all requests are handled in compliance with state law. While personnel indicated there were few requests for records, they did not document important information, such as the date a request was received, when records were provided, or important communications related to those requests.

Section 610.023, RSMo, provides each request for access to public records shall be acted upon as soon as possible, but in no event later than the end of the third business day following the date the request was received. To ensure compliance with state law, the district should document adequate information in a log to determine if requests are completed timely and all requests are adequately filled. Necessary information includes, but is not limited to, the date of request, a brief description of the request, the date the request is completed or reason why the request cannot be completed, and any associated costs of filling the request.

## Recommendations

The Board of Directors:

- 5.1 Ensure meeting minutes are prepared, approved, and maintained for all closed session meetings.
- 5.2 Develop a written public access policy.



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	5.3	Ensure requests for information are responded to timely and maintain a public request log to help ensure compliance with state law.
Auditee's Response	5.1	<i>The district agrees with the recommendations of the auditor and will comply.</i>
	5.2 &	
	5.3	<i>The district will direct legal counsel to develop appropriate policies and procedures.</i>

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## 6. Electronic Data Security

The district has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data. Employees are not required to change passwords on a periodic basis to help ensure they remain known only to the assigned user and to reduce the risk of a compromised password.

Passwords are required to authenticate access to computers. Passwords should be changed periodically to reduce the risk of unauthorized access to and use of systems and data. Without effective security controls, there is an increased risk of unauthorized access to systems and the unauthorized use, modification, or destruction of data.

### Recommendation

The Board of Directors require confidential passwords for each employee that are periodically changed to prevent unauthorized access to the district's computers and data.

### Auditee's Response

*The district agrees with the Auditor's recommendation and will implement a more robust electronic data security policy.*

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## 7. Capital Assets

The district does not maintain records of its capital assets including buildings, land, vehicles, equipment, and other property. Additionally, district personnel do not tag assets for specific identification or perform annual physical inventories. Insurance documents listed the value of land, buildings, vehicles, and other property at approximately \$2.7 million at December 1, 2017.

Adequate capital asset records and procedures are necessary to provide controls over district property; safeguard district assets that are susceptible to loss, theft, or misuse; and provide a basis for proper financial reporting and insurance coverage.

### Recommendation

The Board of Directors ensure complete and detailed capital asset records are maintained that include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. The Board should also ensure district personnel properly tag, number, or otherwise identify all applicable district property and conduct and document an annual inventory.



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**Auditee's Response**

*A list of all capital assets has been created and an annual inventory will be conducted.*

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# Vernon County Ambulance District

## Organization and Statistical Information

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Vernon County Ambulance District was established in March 1978 pursuant to Chapter 190, RSMo. The district covers 826 square miles, has one building, and serves approximately 21,000 district residents. The district is comprised of six sub-districts of equal population with one taxpayer from each district comprising the Board of Directors of which a Chairman, Vice Chairman, and Treasurer are appointed from the group. Board members receive no compensation. As of June 30, 2017, the Board consisted of the following members:

### Board of Directors

Name and Title	Term Expires
Michael Harris, Chairman	April 2018
Coeta Smith, Vice Chairwoman	April 2020
Chris Mason, Treasurer	April 2018
Jim Hibbs, Member	April 2019
April Hendren, Member	April 2019
Jeanne Baldwin, Member	April 2020

### Director of Operations

The Director of Operations at June 30, 2017, was Leland Splitter and his annual compensation was \$75,389. The Director's compensation is established by the Board of Directors.

### Financing Arrangements

The Board entered into a secured loan agreement totaling \$450,000 in February 2016 to obtain funds to pay outstanding debts related to federal and state payroll taxes, credit cards, and equipment. The agreement is scheduled to be paid off in 2021, but the district is making additional payments and will have the loan repaid sooner. The remaining principal outstanding as of June 30, 2017, was \$259,477.

The Board entered into a lease purchase agreement totaling \$155,800 in September 2016 to obtain funds to purchase 3 used ambulances. The lease agreement is scheduled to be paid off in 2020. The remaining principal outstanding as of June 30, 2017, was \$112,528.

### Financial Activity

A summary of the District's financial activity for the year ended June 30, 2017, follows:

Vernon County Ambulance District  
 Schedule of Receipts, Disbursements, and Changes in Cash  
 Year Ended June 30, 2017

	<u>General Fund</u>
<b>RECEIPTS</b>	
Property taxes	\$ 354,545
Trip charges	1,515,911
Standby fees	2,050
Instructional courses	7,060
Capital asset sales	46,670
Interest	12
Other	79,411
Total Receipts	<u>2,005,659</u>
<b>DISBURSEMENTS</b>	
Ambulance purchase payments	55,062
Ambulance maintenance	144,709
Building maintenance	82,502
Communications	29,366
Billing services	125,560
Operating loan repayment	118,743
General and administrative	85,487
Medical supplies	63,417
Equipment	26,884
Salaries and benefits	858,463
Training	12,660
Total Disbursements	<u>1,602,853</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	402,806
CASH BALANCE, JULY 1, 2016	<u>1,616,133</u>
CASH BALANCE, JUNE 30, 2017	<u>\$ 2,018,939</u>