October 27, 2010

To: EMSA Board of Trustees

From: Kent Torrence, Chief Financial Officer

RE: Management Response to the Letter on Control Deficiencies

Please find below EMSA's response to the Auditor's remarks on internal control. I hope that discussing these remarks will provide you with a deeper understanding of EMSA's financial operations and internal financial controls.

Segregation of duties: Individuals within the accounting department have incompatible duties in financial statement reporting transaction cycles. Duties in these transactions cycles are not adequately segregated to safeguard the Authority's assets. The Accounting Manager has the ability to initiate a purchase order, approve an invoice for payment, make entries to the general ledger and generate payment. Also, the Western Division Director, Supervisor, Customer Service personnel, and Accounts Receivable clerks have access to payments, can authorize and record discounts and adjustments, can make changes to patient's billing file information, reconcile contractual adjustments to supporting remittance and can suppress statements from being issued to patients. The key compensating controls include management's monthly review of the financial statements as presented to the Board, independent reconciliations of cash, and the CFO's review and manual signature on checks. However, to improve the key compensating controls, we further recommend the Authority separate these responsibilities to reduce the risk of improper financial statement transactions.

Management Response:

The Authority places considerable importance on the proper safeguarding and control over the Authority's assets. The ideal segregation of all incompatible functions within the purchasing, cash disbursement, and accounts payable transaction cycles is impossible given the number of people tasked with carrying out the Authority's accounting function.

Four individuals – a chief financial officer, accounting manager, accounting clerk and grants accountant – comprise EMSA's accounting department. The chief financial officer and accounting manager are both CPA's, each with over twelve years of experience with the Authority. The department, particularly the CFO, works closely with other departments, such as billing and patient financial services, that impact the Authority's finances.

It should be noted that the Authority has implemented controls to compensate for a lack of segregation of duties. These include, among other things, a line item comparison of budgeted costs to actual each month and explanation of significant fluctuations. The signing of all checks by the CFO with accompanying support attached, a review by the CFO of the disbursement bank statement and cancelled checks before there is other access, the sending of statements on all patient accounts, and CFO approval of all bank reconciliations. Also note that the majority of patient receipts are sent to a lockbox which precludes employee handling of the vast majority of receipts and that most patient account adjustments are utility bill related where the patient had no payment obligation. Finally, the Authority carries a "crime" policy which carries limits of $100,000 for employee acts of dishonesty.

Taxable income reporting on employee W-2s**:** The IRS considers employee gifts not of a de minimus amount as taxable income to be reported on employee W-2 records. The Authority currently does not have a policy in place to report gifts as taxable income on employee W-2 records. In order to comply with IRS regulations, we recommend the Authority formally adopt a policy and document all gifts as employee taxable income or for any gift excluded as income, document the IRS regulation allowing the exclusion.

Management Response:

The Authority will draft a policy for gifts and achievement awards for Board approval. The IRS rules dictate gifts and awards should be included as compensation if they meet certain criteria. In management's opinion most, if not all of the aforementioned gifts and awards do not meet that criteria. If it is later determined that they do meet the criteria, they will be included as compensation.

Information technology: The Authority currently uses shared user accounts for CareTemp employees due to the rotational nature of temporary workers for these positions. Utilizing generic user accounts increases the risk that employee access cannot be properly tracked within the systems. While this risk has been identified and accepted by the Authority, best practice is to have a single user account to employee ratio anywhere possible. The Authority currently has a limited number of network administrators, which by default will have access to both production and development system. This presents an inherit risk as administrators have the ability to modify systems and applications, which will give them the ability to make unauthorized changes. We recommend using some form of segregation of duties where technologically and economical possible. Finally, the Authority has not undergone internal or external vulnerability testing on its network and this increases the risk of network exposure. We recommend these tests be performed on the network to identify any exposure.

Management Response:

The Authority utilizes generic accounts for TotalCare temporary employees due to their very transient nature. To create accounts and setup computers based upon unique logins for the temps would become burdensome from a time perspective. These generic accounts have passwords changed regularly (particularly during turnover in temp employees), and have no access via VPN or other external means.

The only software development environment we have is for Sharepoint applications only. There is no on-site development environment or capabilities to develop software for our critical business systems (CAD, Billing, AP, etc.). Segregation of duties within the IT team is not viable from a standpoint of limited resources and maximum response capabilities, which means that all IT staff are trained in all areas so that we can provide timely response and resolution for items that span the Authority.

We are presently receiving quotes to do network penetration and vulnerability assessments with estimated completion of external assessment by the end of calendar year 2010. Internal vulnerability assessments and all remediation (internal and external) should be completed by the end of the current fiscal year (6/30/2011).

Suspension and debarment: The Office of Management and Budget Circular A-133 dictates when a nonfederal entity enters into a contract or purchase order with an entity (vendor), the nonfederal entity must verify the entity is not suspended or debarred from participation in federal programs/grants when expending $25,000 or more in a year with a vendor. Currently, for vendors who've identified themselves as "sole source provider" of a product, the Authority does not verify they are not suspended or debarred prior to spending funds. We recommend the Authority ensure vendors used have not been suspended or debarred prior to entering into any transactions.

Management Response:

All vendors included on the active vendor list have been checked against the suspended/debarred vendor list with none noted. In the future, vendors will be checked against the list before entering into any business arrangement to purchase goods or services.

Grant reconciliation: The Authority is reconciling grant expenditures per its records to the Grant Coordinator's records to identify the majority of differences. However, differences were identified during the audit process between the Schedule of Expenditures of Federal Awards (SEFA) as prepared by the Grant Coordinator, and current year financial statements, primarily due to differences in timing of reporting. We recommend the Authority complete quarterly reconciliations between the SEFA and general ledger to ensure all grant expenditures are consistently reported.

Management Response:

Quarterly reconciliations between the Authority's books and the Grant Coordinator's records will be performed.