

OPERATIONAL AUDIT

ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the period January 1, 2009 through June 30, 2012



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JANUARY 1, 2009 THROUGH JUNE 30, 2012**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by Article 10, § 9C (i) of the Oklahoma Constitution and as defined by 19 O.S. § 1704.3, has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



Oklahoma State Auditor & Inspector

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January 23, 2013

TO ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Alfalfa Emergency Medical Service District for the period January 1, 2009 through June 30, 2012.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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BACKGROUND

Article 10, § 9C of the Oklahoma Constitution authorized the formation of emergency medical service districts and initially authorized a tax levy not to exceed three (3) mills for the purpose of providing funds for the purpose of support, organization, operation, and maintenance of district ambulance services.

Emergency medical service districts are governed by a district board of trustees. The board of trustees has the power to hire a manager and appropriate personnel, contract, organize, maintain, or otherwise operate the emergency medical services within said district and such additional powers as may be authorized by the Legislature.

The trustees must act as a board when entering into contracts or other agreements affecting the district's welfare. Thus, actions taken by the board are voted on and approved by a majority of the trustees. The board's business meetings are open to the public.

The board of any district shall have capacity to sue and be sued. Provided, however, the board shall enjoy immunity from civil suit for actions or omissions arising from the operation of the district. Such districts shall be empowered to charge fees for services, and accept gifts, funds or grants from sources other than the mill levy, which shall be used and accounted for in a like manner.

BOARD OF TRUSTEES

Ellen Rockenbach	Chairman of the Board
Roger Nichols	Vice Chairman
Margaret Goss	Secretary
Merry Gaff	Board Member
Dr. Ron Hansen.....	Board Member
Jon Nichols.....	Board Member
Melvin Ricke.....	Board Member

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Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2012

Beginning Cash Balance, July 1, 2011	<u>\$ 231,221</u>
Collections	
Ad Valorem Tax	179,540
Charges for Services	244,570
Miscellaneous	<u>964</u>
Total Collections	<u>425,074</u>
Disbursements	
Personal Services	365,482
Maintenance and Operations	<u>13,112</u>
Total Disbursements	<u>378,594</u>
Ending Cash Balance, June 30, 2012	<u><u>\$ 277,701</u></u>

Source: District Estimate of Needs (presented for informational purposes)

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PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to Article 10, § 9C (i) of the Oklahoma Constitution and as defined by 19 O.S. § 1704.3, which requires the State Auditor and Inspector's Office to audit the books and accounts of the District.

The audit period covered was January 1, 2009 through June 30, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit 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. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

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Objective 1: To determine the District's collections, disbursements, and cash balances for FY 2012 were accurately presented on the Estimate of Needs.

Conclusion: With respect to the items reconciled and reviewed, the District's collections, disbursements, and cash balances for the FY 2012 appear to be accurately presented on the Estimate of Needs. However, controls with regard to reviewing the Estimate of Needs and segregating the duties within the revenue process, should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting the collections, disbursements, and cash balances, through discussions with District personnel, observation, and review of documents.
- Performed the following to ensure that collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs:
 - Reconciled collections presented on the Estimate of Needs to collections deposited by the District.
 - Reconciled checks as per the Estimate of Needs to disbursements.
 - Re-performed bank reconciliation at June 30, 2012, to determine that the ending balance on bank statement agreed to the District's records and the Estimate of Needs.

Finding: Inadequate Controls Over the Estimate of Needs

Condition: Through discussions with District personnel, observation, and review of documents, we noted the following concerns regarding the Estimate of Needs and the collection process:

- One employee picks up the mail, opens the mail, issues receipts, prepares the deposit, and takes the deposit to the bank.
- The District's bookkeepers do not reconcile financial reports with each other nor do they reconcile to the contracted CPA's financial reports.
- The District does not retain documentation that the Director reviews financial reports from the District's bookkeepers or the contracted CPA.
- The Board of Trustees does not compare the actual expenditures to budgeted expenditures to determine the District is within the budget limits.
- Neither the Board of Trustees nor the Director provides independent oversight with regard to the preparation of the Estimate of Needs
- The District expended funds over the amount budgeted in the personal services category for both FY 11 and FY 12. Personal services expenditures were \$24,930.53 more than budgeted in FY11 and were \$15,481.66 more than budgeted for FY12.

Cause of Condition: Procedures have not been designed to adequately segregate the duties of receipting and depositing funds, reconciling documents prepared by bookkeepers or the contracted CPA, and providing independent oversight of the budgeting process.

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Effect of Condition: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that collections, disbursements, and cash balances are accurately presented on the District's Estimate of Needs. Such controls would include a comparison of the financial records to the Estimate of Needs prior to the District Board of Trustees approval.

Management Response: The District will attempt to create a system to address how mail is collected and opened. We will address the manner in which deposits are made and segregate the process of reconciling bank statements.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

<p>Objective 2: To determine the District's financial operations complied with 62 O.S. § 517.4, which requires deposits with financial institutions be secured with collateral securities or instruments.</p>

Conclusion: The District did not comply with 62 O.S. § 517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to pledged collateral through discussions with District personnel, observation, and review of ledgers and documents.
- We reviewed the bank balances for the audit period and determined that collateral securities or instruments were adequate to safeguard the District's deposits.

Finding: Inadequate Controls and Noncompliance Over Pledged Collateral

Condition: It was determined through conversation with Board members that internal controls had not been established with regard to pledged collateral.

- The District has not properly designed and implemented procedures to monitor the bank balance on a daily basis to ensure that District funds are adequately secured.
- District funds were not adequately pledged from January 12, 2012 to June 30, 2012.

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Cause of Condition: The District relied on misinformation that government entities did not require pledged collateral for balances in excess of \$250,000.

Effect of Condition: This condition resulted in the deposits of the District not being adequately safeguarded.

Recommendation: OSAI recommends that the Board of Trustees establish policies and procedures to adequately safeguard the deposits of the District, especially in the event that bank deposits exceed \$250,000. Furthermore, OSAI recommends the District comply with 62 O.S. § 517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

Management Response: The District Chairman will be visiting with the bank to comply with statute requiring adequate pledged collateral instruments to safeguard deposits.

Criteria: Effective internal controls require that monitoring of bank balances be adequately documented to allow for the safeguarding of assets on deposit and compliance with state statutes.

Objective 3: To determine the District's financial operations complied with 19 O.S. § 1710.1A, which outlines purposes for expending District funds.

Conclusion: With respect to the expenditures tested, the District complied with 19 O.S. §1710.1A, which requires that collections be expended for the purposes of supporting, organizing, operating, and maintaining ambulance services. However, controls over the expenditure process should be strengthened.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of preparing claims, authorizing claims for payment, and documenting goods and services received, which included discussions with District personnel, observation, and review of documents.
- Tested 55 checks for expenditures issued during the audit period to ascertain that they were made for purposes outlined by 19 O.S. § 1710.1A.

Finding: Inadequate Controls Over the Expenditure Process

Condition: Upon discussions with District personnel, observation, and review of documents we noted the following weaknesses with regard to the expenditure process:

- The District Board did not provide documentation of the approval of expenditures.
- The District has not established a process of documenting the receiving of goods and/or services.
- The District allows employees to purchase goods and then reimburses the employees from District funds.

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- The District did not obtain sufficient documentation for 14 purchases such as invoices and statements.
- One employee performs the duties of expending and replenishing the petty cash fund.

Cause of Condition: Procedures have not been designed to document approval of expenditures and the receipt of goods and/or services.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include the following:

- The District Director review and document the approval of expenditures prior to being sent to the contracted bookkeeper for payment.
- The Board of Trustees establishes a policy whereby expenditures are approved prior to purchase.
- The Board of Trustees establishes policy and procedures to attain sufficient supporting documentation of each purchase prior to payment.
- The Board of Trustees establishes policy and procedures to eliminate the practice of reimbursing employees for supplies.
- The Board of Trustees establishes policy and procedures to segregate the duties of expending and replenishing the petty cash fund.

Management Response: The District will be implementing a policy and procedure that addresses expenditures and the manner in which to document those expenditures, including petty cash reimbursements. Additionally, a policy will be implemented to eliminate employee reimbursements.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be established to analyze and check accuracy, completeness, authorization and validity of transactions.

Objective 4: To determine if the District's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Conclusion: The District's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the payroll expenditures process, which included discussions with District personnel, observation, and review of documents.

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Finding: Inadequate Internal Controls Over Payroll Expenditures

Condition: Through discussions with District personnel, observation, and review of documents we noted the following control weaknesses with regard to the payroll process:

- Employees do not complete timesheets and do not review or approve the wage claims prepared by the Director.
- The Director does not document the review of payroll information.
- The District does not document the review of the quarterly payroll reports prepared by the contracted bookkeeper.
- A review of quarterly payroll reports for fourteen periods revealed four instances in which payroll taxes were deposited after the due date.

Cause of Condition: Procedures have not been implemented to provide reasonable assurance that payroll expenditures are properly recorded in the accounting records.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends the District establish controls to provide reasonable assurance for the accurate and complete presentation of payroll expenditures in the financial records of the District. These controls would include the following:

- Each employee should prepare, sign and date their timesheet.
- The Director should approve each timesheet with a signature and date.
- Evidence of the review of payroll reports should be documented.
- Payroll taxes should be deposited in a timely manner.

Management Response: The District will develop a system to require each employee to complete a timesheet. The District Director will approve each timesheet with a signature and the date. The District has informed the accounting firm that prepares the payroll tax reports, that taxes must be filed and paid in a timely manner.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls include key functions within a process be adequately segregated and monitored to allow for prevention and detection of errors and abuse.

Objective 5: To determine if the District's internal controls provide reasonable assurance that fixed assets were accurately reported in the accounting records.

Conclusion: The District's internal controls do not provide reasonable assurance that fixed assets were accurately reported in the accounting records.

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Methodology: To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the fixed asset inventory process through discussions with District personnel, observation, and review of documents.

Finding: Inadequate Controls Over Fixed Asset Inventory

Condition: Through discussions with District personnel, observation, and review of documents we noted the following concern regarding fixed asset inventory:

- The District has not established a policy with regard to the dollar threshold for fixed asset inventory.
- The District does not maintain a fixed asset inventory.

Cause of Condition: Procedures have not been designed to maintain a fixed asset inventory.

Effect of Condition: Failure to provide adequate internal controls over fixed assets could result in inaccurate inventory records, unauthorized use of inventory, or misappropriation of inventory.

Recommendation: OSAI recommends that the District implement controls for the safeguarding of fixed assets by establishing policies and procedures to determine the threshold for fixed assets and by maintaining a complete and up-to-date fixed asset inventory listing to include description, serial number, model number, date of purchase, and cost. OSAI also recommends that an annual physical inventory count of fixed assets be performed and documentation be retained to verify that the physical count was performed.

Management Response: The District will establish an inventory listing to include the recommendations of the auditor and we will document an annual inspection of the items on the list.

Criteria: An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.

All Objectives:

The following findings are not specific to any objective, but are considered significant to all of the audit objectives:

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Finding: Inadequate District-Wide Controls

Condition: District-wide controls regarding Risk Assessment and Monitoring have not been designed.

Cause of Condition: Procedures have not been designed to address risks of the District.

Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds. This condition has resulted in failure to obtain provider contracts for the fiscal years ending June 30, 2012 and June 30, 2011.

Recommendation: OSAI recommends that the District design procedures to identify and address risks. OSAI also recommends that the District design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the District's policies and procedures handbook.

Examples of risk and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of Duties
Information loss to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
Board member turnover	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between board members	Periodic meetings to address items that should be included in the handbook and to determine if the District is meeting its goals and objectives
Annual Financial Statement	Review of financial statement of the District for accuracy and completeness
Audit findings	Determine if audit findings are corrected
Financial status	Periodic review of budgeted amounts to actual amounts and resolve unexplained variances
Policies and procedures	Ensure board members understand expectations in meeting the goals of the District
Follow up on complaints	Determine source of complaint and course of action for resolution
Estimate of Needs	Work together to ensure this financial document is accurate and complete.

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Management Response: The District will design and implement policies and procedures to address risk management.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. District management is responsible for designing a district-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal controls which should provide for an assessment of the risks the District faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal controls objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the finding of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management knows their responsibilities for internal control and the need to make control monitoring a part of their regular operating process.

Other Item(s) Noted:

Although not considered significant to the audit objectives, we believe the following issues should be communicated to management.

Finding: Inadequate Internal Controls Over the Audit Expense Account

Condition: Upon inquiry and observation of the budgeting process, it was determined that controls have not been designed or implemented to ensure the amount required by statute is correctly budgeted for the audit budget account. It was further noted that the District has not lapsed the balance into the audit account each fiscal year. As a result, the District's balance in the audit account as of June 30, 2012, was \$4,000.00. However, the correct balance should have been \$24,250.97.

Cause of Condition: Procedures have not been designed to ensure the audit account is accurately budgeted in accordance with statutory requirements.

Effect of Condition: This condition resulted in noncompliance with state statutes.

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Recommendation: OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that one-tenth mill upon the net total assessed valuation be set aside in the audit account and that any unused portion be lapsed into the next year audit account in accordance with 19 O.S. § 1706.1.

Management Response: The District will perform a complete inspection of the budget to ensure that it is accurate. We have informed the accounting firm that prepares the budget that an account category for audit expense should be established in the next budget.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. A component objective of an effective internal control system is to provide accurate and reliable information through proper review and approval.

Further, according to 19 O.S. §1706.1, the District must appropriate the net proceeds of the one-tenth mill annual levy upon the net total assessed valuation of the District for audit expenses.



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