

STATUTORY AUDIT

ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2012 through June 30, 2014



*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
STATUTORY REPORT
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2014**

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

March 9, 2015

**TO THE BOARD OF DIRECTORS OF THE
ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Alfalfa County Emergency Medical Service District for the period July 1, 2012 through June 30, 2014.

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 that reads "Gary A. Jones".

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

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2013 and FY 2014

| | <u>FY 2013</u> | <u>FY 2014</u> |
|--------------------------------|-------------------|-------------------|
| Beginning Cash Balance, July 1 | \$ 277,701 | \$ 433,864 |
| Collections | | |
| Ad Valorem Tax | 226,601 | 274,208 |
| Charges for Services | 275,331 | 273,726 |
| Miscellaneous | 41,426 | 81,790 |
| Total Collections | <u>543,358</u> | <u>629,724</u> |
| Disbursements | | |
| Personal Services | 376,145 | 472,060 |
| Maintenance and Operations | 4,523 | 2,678 |
| Audit Expense | 6,527 | 3,001 |
| Total Disbursements | <u>387,195</u> | <u>477,739</u> |
| Ending Cash Balance, June 30 | <u>\$ 433,864</u> | <u>\$ 585,849</u> |

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



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Alfalfa County Emergency Medical Service District
P.O. Box 36
Helena, Oklahoma 73741

TO THE BOARD OF DIRECTORS OF THE ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the purpose of complying with 19 O.S. § 1706.1, we have performed the following procedures:

- Determined that receipts were properly deposited and accurately reported in the accounting records.
- Determined cash balances were accurately reported in the accounting records.
- Determined whether deposits and invested funds were secured by pledged collateral.
- Determined that disbursements were properly supported, were made for purposes outlined in 19 O.S. § 1710.1, and were accurately reported in the accounting records.
- Determined that all purchases requiring bids complied with 19 O.S. § 1723.
- Determined that payroll expenditures were accurately reported in the accounting records and supporting documentation of leave records was maintained.
- Determined that fixed assets records were properly maintained.
- Determined whether the District's collections, disbursements, and cash balances for FY 2013 and FY 2014 were accurately presented on the estimate of needs.

All information included in the records of the District is the representation of the Alfalfa County Emergency Medical District Service.

Our emergency medical service district statutory engagement was limited to the procedures performed above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of the Alfalfa County Emergency Medical Service District.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the Alfalfa County Emergency Medical Service District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

January 13, 2015

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

SCHEDULE OF FINDINGS AND RESPONSES

Finding 1 – Inadequate Segregation of Duties Over Receipting (Repeat Finding)

Condition: The Alfalfa County Emergency Medical Service District (the District) has a very limited staff. The accounting and administrative duties are shared by two employees. Based upon inquiry and observation of the receipting process, the following was noted:

- One individual receives the mail, opens the mail, writes receipts, prepares the deposit, credits customer accounts, and reconciles the bank statement to the accounting records.
- Discounts are made on accounts regularly due to insurance agreements and there is no oversight or review of those discounts.
- The District's bookkeepers maintain separate financial records, but do not reconcile these financial reports with each other nor do they reconcile to the contracted CPA's financial reports.

Cause of Condition: Policies and procedures have not been designed and implemented to adequately segregate the duties of receiving, depositing, posting to accounts, and reconciling revenue received to 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: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions. We recommend evidence of the Board's review process be clearly documented so as to provided a mitigating control over the lack of segregation of duties for the receipting, depositing , and reconciling processes.

Management Response:

Chairman of the Board and Director: There has been a policy put into place, entitled, Bookkeeping Policy and Procedures, that details the responsibilities for each bookkeeper and separates the duties with review and approval of the Director. Additionally, both bookkeepers are now checking each report to determine that they are reconciled. Also, the bookkeepers review the monthly financial report issued by the CPA to determine that it is accurate. Further, the word discounting pertains to the non-allowable amounts that Medicare and other government insurance policies do not reimburse. The District has no control over these matters.

Auditor Response: While discounts are standard practice for non-allowable amounts, without a proper segregation of duties and monitoring controls there is a potential risk that unauthorized adjustments could be made to patient accounts resulting in a loss of review for the District.

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

Criteria: To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Finding 2 – Inadequate Internal Controls Over Charges for Services (Repeat Finding)

Condition: Based on observation of billing records and discussion with District staff, we determined that the District staff does not follow up with the third party billing service to verify a second bill is sent if payment has not been received.

Additionally, we reviewed and recalculated 50 run sheets, related receipts and deposits, and noted the following deficiencies:

- 1 instance in which the patient was not billed.

| Incident Date | Log Run Number | Billed | Calculated | Variance |
|---------------|----------------|--------|------------|----------|
| 10/15/2012 | 600 | 0.00 | 937.00 | (937.00) |

- 4 instances in which the amount recalculated did not agree to the amount billed for charges for services.

| Incident Date | Log Run Number | Billed | Calculated | Variance |
|---------------|----------------|----------|------------|----------|
| 1/26/2013 | 14 | 1,042.60 | 1,047.00 | (4.40) |
| 9/11/2012 | 552 | 1,226.30 | 1,223.00 | 3.30 |
| 12/22/2012 | 676 | 1,081.80 | 1,084.00 | (2.20) |
| 3/8/2013 | 376 | 1,091.70 | 1,241.70 | (150.00) |

Cause of Condition: Policies and procedures have not been adequately designed and implemented to ensure the amounts billed for services are correct.

Effect of Condition: These conditions could result in the District under/over-billing for ambulance services.

Recommendation: OSAI recommends the Board of Trustees (the Board) actively review the billing statements to ensure that correct amounts are billed and provide evidence of this review so as to mitigate some of the risk associated with having one staff member to perform all duties of billing accounts.

Management Response:

Chairman of the Board and Director: The charges for our services are reviewed each month and at the Board meeting. Any differences are reported to the Director, who corresponds with the billing company to rectify those differences.

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

Auditor Response: Based on our review of run sheets, charges for services were not accurately billed for 10% of the sample tested and this resulted in a loss of revenue for the District.

Criteria: Effective internal controls require oversight by management to provide assurance that amounts billed are based upon the billing policies adopted by the Board, and the billing process is monitored for correctness and completeness.

Finding 3 – Inadequate Internal Controls Over Bank Statement Reconciliations (Repeat Finding)

Condition: When documenting the process over bank statement reconciliations, the following deficiencies were noted:

- There is not adequate documentation of the reconciling items.
- There is no documentation of the bank reconciliations being reviewed by someone other than the preparer.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all accounts are reconciled, approved, and the amounts recorded on the bank accounts are complete and accurate.

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

Recommendation: OSAI recommends the County design procedures to ensure that all activity on all bank statements is complete and accurate. We recommend that all accounts be reconciled on a monthly basis and in a timely manner. All bank accounts and investments identified with the County's tax identification number should be included on the general ledger. Furthermore, the review and approval of the reconciliation should be documented.

Management Response:

Chairman of the Board and Director: The Director will review the bank reconciliation on a monthly basis and approve the documentation by signing it.

Criteria: To help ensure a proper accounting of funds, bank reconciliations should be performed on a monthly basis and approved by someone other than the preparer and include an indication of review.

Finding 4 – Inadequate Internal Controls Over Monitoring Pledged Collateral

Condition: It was determined through conversation with Board of Trustees, that internal controls had not been established with regard to pledged collateral. The District relies on the bank to collateralize balances in excess of \$250,000.

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

Cause of Condition: 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.

Effect of Condition: This condition could result 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.

Management Response:

Chairman of the Board and Director: This documentation is on file with the District and is in agreement with the banking facility and office staff. It is reviewed at the monthly meetings.

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 statute.

Finding 5 – Inadequate Internal Controls Over Disbursements (Repeat Finding)

Condition: Based on observation of 50 randomly selected disbursements and discussion with District staff, we noted the following weaknesses with regard to the disbursement process:

- The Board of Trustees did not provide documentation of the approval of disbursements.
- 1 employee performs the duties of expending and replenishing the petty cash fund.

Of the fifty disbursements selected, the following exceptions were noted:

- Claims were not prepared for disbursements of the District.
- 6 disbursements were voided checks. 2 of the 6 voided checks were not maintained by the District.
- 2 checks randomly selected could not be located.
- 3 checks did not have supporting documentation.
- 41 checks did not have any indication that goods and/or services had been received (i.e., receiving report, etc.).

Cause of Condition: Policies and 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:

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

- The District Director review and document the approval of disbursements prior to being sent to the contracted bookkeeper for payment.
- The Board of Trustees establishes a policy whereby disbursements 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:

Chairman of the Board and Director: At this time, the District has established a written Policy and Procedure for the disbursement process.

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.

Finding 6 – Inadequate Internal Controls Over the Payroll Process

Condition: Based on observation of 1 payroll period, we noted that 4 of 18 timesheets were not approved by a supervisor or director.

Cause of Condition: Policies and 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 internal controls to provide reasonable assurance for the accurate and complete presentation of payroll expenditures in the financial records of the District.

Management Response:

Chairman of the Board and Director: The Board is now reviewing each payroll period and signing off on each timesheet pertaining the employee's payroll information.

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.

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

Finding 7 – Inadequate Internal Controls and Noncompliance Over the Audit Expense Budget Account (Repeat Finding)

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 carried forward the balance into the audit account each fiscal year. As a result, the District's balance in the audit budget account as of June 30, 2014 was \$4,000.00. However, the correct balance should have been \$27,397.03.

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

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

Recommendation: OSAI recommends 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 carried forward into the next year audit account in accordance with 19 O.S. § 1706.1.

Management Response:

Chairman of the Board and Director: The Board and Director have implemented more internal controls over the budget process.

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.

Finding 8 – Inadequate Internal Controls Over Review and Monitoring the Budgeting Process

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:

- 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 audit fee category for fiscal year 2013. Audit fee expenditures were \$2,527.26 more than budgeted.

**ALFALFA COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JULY 1, 2012 TO JUNE 30, 2014**

- The District expended funds over the amount budgeted in the Intergovernmental account line of the Emergency Medical Audit Budget Account for fiscal year 2014. The Intergovernmental expenditures were \$20,620.93 more than budgeted.

Cause of Condition: Policies and procedures have not been designed to ensure expenditures do not exceed amounts budgeted.

Effect of Condition: These conditions 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 Board of Trustees approval.

Management Response:

Chairman of the Board and Director: The Board and Director have implemented more internal controls over the budget process.

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.



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