

OPERATIONAL AUDIT

BUTLER EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2008 through June 30, 2012



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

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2008 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

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

April 17, 2013

TO BUTLER EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Butler Emergency Medical Service District for the period July 1, 2008 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". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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

Lonnie Haggard	Chairman of the Board
Judy Walker	Vice-Chairman
Donice Johnson	Secretary
Frankie Patterson	Treasurer
Paula Fiesalman	Board Member

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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

Beginning Cash Balance, July 1, 2011	<u>\$ 74,788</u>
Collections	
Ad Valorem Tax	42,004
Charges for Services	1,462
Miscellaneous	<u>1,115</u>
Total Collections	<u>44,581</u>
Disbursements	
Personal Services	29,863
Maintenance and Operations	<u>26,322</u>
Total Disbursements	<u>56,185</u>
Ending Cash Balance, June 30, 2012	<u><u>\$ 63,184</u></u>

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

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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 July 1, 2008 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.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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 FY 2012 appear to be accurately presented on the Estimate of Needs. However, internal controls over 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 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 the District's financial records approved by the Board of Trustees.
 - Reconciled warrants issued presented on the Estimate of Needs to disbursements approved by the Board of Trustees and paid through the operating account of the District.
 - Recalculated the ending cash balances presented on the Estimate of Needs to the financial records of the District, including the bank reconciliation at June 30, 2012.

Finding: Inadequate Controls Over the Revenue Process

Condition: Upon inquiry of District personnel and Board members with regard to the collection of revenue process, we noted the following weaknesses:

- One employee or volunteer opens the mail, sorts the mail, processes payments, prepares the deposit, delivers or mails the deposit to the bank, and reconciles the bank statement.
- The same employee or volunteer also performs the billing service of patients to various insurance companies and does not issue receipts of any kind.
- There was no evidence of review by an employee or Board member independent of the process of the monthly bank reconciliations.
- The District did not have an accounts receivable or bad debt write off system or policy in place.
- The previous bookkeeper used her personal computer to store patients' billing and insurance information at her home. At the date of our audit, the District Board had not requested any information be returned from the previous bookkeeper's personal computer.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

- The current bookkeeper, who is also a Board member, uses a personally owned computer in her home to provide the monthly report of deposits and prepare the expenditures for payment.

Cause of Condition: Procedures have not been designed and implemented due to the District being unaware of properly segregating the duties, issuing receipts, and safeguarding of information with regard to the collection process. Additionally, policies and procedures have not been designed and implemented to properly maintain a system of accounts receivable and uncollectable accounts.

Effect of Condition: A single employee having responsibility for more than one area of the collection process 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 the collection process is adequately segregated.

OSAI recommends the following key accounting functions of the collection of revenue process be adequately segregated:

- Billing of services provided.
- Opening the mail.
- Issuing receipts for mail-in or electronic payments.
- Preparing the deposit slip.
- Developing an accounts receivable policy and account write off policy that tracks posting the receipt of payments to patients' accounts.
- Developing procedures for securing District property and safeguarding patient billing and insurance information.

Further, OSAI recommends employees performing the duties of reconciling and reviewing, initial and date the work performed.

Management Response: A new procedure has been written and implemented to distribute the assignments to more than one person. An independent corporation has been hired to process the patient billing runs. Their position is to submit the District's required information to the Oklahoma State Health Department and also submit billing, both to the insurance companies and to patients. Their policy is to direct deposit payments to the District's bank account. A policy has been written and will be discussed at the December Board meeting that will result in the District Board becoming more involved in the billing process. A list of names will be presented to the Board to determine whether further collection procedures should be continued by the corporation.

The Board has approved the purchase of an additional computer for the purpose of financial records of the District being maintained by the Treasurer.

It was stated in the audit, the Board has had no input as to the financial status of the District. However, the Board reviews the purchase orders, bank statements, certificate of deposits and the status of such accounts at each meeting.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Auditor Response: Although the Board states a review of financial records is performed, the official minutes do not reflect discussions and approvals of financial records.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. 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. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

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.

Conclusion: With respect to the days tested, the District complied with 62 O.S. § 517.4, which requires deposits with financial institutions be secured with collateral securities or instruments. However, internal controls over pledged collateral should be strengthened.

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

- Gained an understanding of the internal controls related to pledged collateral through discussions with District personnel, observation, and review of ledgers and documents.
- Tested compliance of the significant law, which included the following:
 - Selected the highest balance day for each month at all banks for the audit period to determine if the District's funds were adequately secured as required by 62 O.S. § 517.4.

Finding: Inadequate Controls Over Pledged Collateral

Condition: Upon discussions with the Board members, observation, and review of documents, the following weakness was noted:

- There was no discussion recorded in the Board minutes related to safeguarding deposits against loss. Further, there was no written documentation that the District monitored bank balances to ensure the balances did not exceed the FDIC limit.

Cause of Condition: Policies and procedures have not been implemented to adequately monitor pledged collateral with regard to the bank balance and the opportunity for assets to be over the FDIC limit exists.

Effect of Condition: This condition could result in bank balances exceeding the FDIC insurance limits which could further result in the possible loss of District funds.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Recommendation: OSAI recommends that management of the District closely monitor bank balances and provide supporting documentation of monitoring.

Management Response: In the past, a form was presented and reviewed at each Board meeting that reflected the amounts of the investments. That form has been reinstated and will be reviewed and signed by Board members at all future meetings. The Board would like to express that they are well aware of the \$250,000.00 FDIC insurance limit and if the possibility existed, the District did hold investments that were valued near that amount, they would surely monitor the amounts more closely.

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.

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 items tested, the District complied with 19 O.S. § 1710.1A, which outlines purposes for expending District funds. However, internal controls over the expenditure process should be strengthened.

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

- Gained an understanding of the internal controls related to the process of preparing purchase orders, authorizing payments, and documenting goods and services received, which included discussions with District personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a random sample of forty purchase orders (ten per year) to determine the expenditures were for the lawful purpose of the EMS and that expenditures were properly supported with documentation.
 - Reviewed 100% of checks issued during the period to determine the expenditures were for the purpose of providing funds for the support, organization, operation, and maintenance of the emergency medical service.

Finding: Inadequate Controls Over the Expenditure Process

Condition: Upon inquiry and observation of records, it was determined that internal controls have not been implemented to ensure an adequate segregation of duties over the expenditure process of District funds due to the following:

- There is no formal requisitioning process or policy.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

- The bookkeeper prints a purchase order for payment after receiving the invoice or statement.
- The purchase orders are signed for approval by the Board after the checks have been issued.
- Payments are being made and sent to the vendors before Board approval.
- There are no approval dates on the purchase orders.

Cause of Condition: Procedures have not been designed and implemented to provide internal controls and to adequately segregate the duties over the expenditure process due to the District being unaware for the need of such procedures.

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

Recommendation: OSAI recommends the District design and implement procedures to ensure internal controls and to ensure a proper segregation of duties over the expenditure process.

OSAI recommends the following key accounting functions of the expenditure process be adequately segregated:

- An employee order goods and/or services separate from the employee that requisitioned the purchase order.
- An employee sign a receiving report, as receiving officer, separate from the two employees ordering goods and/or services and requisitioning the purchase order.
- An employee posting expenditures to the account software separate from the employees performing the duties stated above.

Further, employees of the District should not be authorized to use the signature stamp of the Director of the District or any member of the Board of Trustees.

Management Response: The Board has implemented new procedures relating to expenditures and the segregation of duties. All purchase orders will be reviewed at the monthly Board meeting. After approval, checks will be signed and issued after the meeting. All members will sign and date the purchase orders at the meeting.

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.

Effective internal controls require that management implement procedures and policies that safeguard the assets of the District with respect to 19 O.S. § 1710.1A, which outlines purposes for expending District funds, which include the support, organization, operation, and maintenance of the emergency medical service.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Objective 4: To determine the District's financial operations complied with 19 O.S. § 1723, which requires District purchases in excess of \$7,500 be competitively bid.

Conclusion: With respect to the items tested, the District complied with 19 O.S. § 1723, which requires that purchases in excess of \$7,500 be competitively bid. However, internal controls over the bidding process should be strengthened.

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

- Gained an understanding of the internal controls related to the process of competitively bidding purchases in excess of \$7,500, which included discussions with District personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Reviewed 100% of bank statements for the period for checks issued in the amount of \$7,500 or more to determine purchases greater than \$7,500 were competitively bid.

Finding: Inadequate Controls Over the Bidding Process

Condition: Upon inquiry of Board members and observation of documents, we determined internal controls over the bidding process have not been properly implemented.

Cause of Condition: Procedures have not been developed and designed to document compliance with state statutes and provide assurance that controls are in place.

Effect of Condition: This condition could result in violation of statute with regard to items purchased over \$7,500.

Recommendation: OSAI recommends the District implement procedures to ensure bidding is properly performed. These procedures should include documentation of notification to the successful bidder be maintained in the bid file and all bid awards should be documented in the minutes of the Board.

Management Response: The District is aware of the bidding process and the amount of \$7,500.00 limit. The bidding process was correctly used at the time the District made its last large purchase of an ambulance and equipment in 2005.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases over \$7,500 comply with 19 O.S. § 1723.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Objective 5: 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 the internal controls related to the payroll process through discussions with District personnel, observation and review of documents.

Finding: Inadequate Controls Over Payroll Expenditures

Condition: It was determined through discussion with District personnel, observation, and review of documents that controls were not implemented over the payroll process.

- Upon the recommendation the Board, the bookkeeper during the audit period, was paid \$500 per month.
- Payroll taxes were not withheld from the bookkeeper's paycheck.
- A 1099 for contract labor was not issued for the bookkeeping services.
- Duties were not adequately segregated regarding the payroll process. The bookkeeper prepared the monthly expenditure report, prepared the checks, and signed her paycheck.

Cause of Condition: Procedures have not been designed and implemented for segregating the duties over the payroll process due to the District being unaware of the need for such procedures. Additionally, the Board was uncertain of the status of the prior bookkeeper with regard to withholding payroll taxes or filing a 1099 for contract labor.

Effect of Condition: This condition resulted in errors with regard to the accurate reporting of payroll expenditures. Further, the method of compensation regarding the bookkeeper was not in compliance with IRS regulations.

Recommendation: 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 compensatory 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.

Additionally, we recommend the Board seek advice with regard to filing accurate payroll tax reports for the prior bookkeeper.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Management Response: During the last audit of the District performed by the OSAI's office, these same conditions existed, but there was not mention of it. At the time of the 2012 audit, changes had already been made. The District no longer employs a contract bookkeeper. The District will consult with an attorney on the subject of issuing proper tax paperwork.

Auditor Response: Management is responsible for ensuring the entity is in compliance with laws and regulations regarding the expenditure of funds.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

<p>Objective 6: To determine if the District's internal controls provide reasonable assurance that consumable inventories were accurately reported in the accounting records.</p>

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

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

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

Finding: Inadequate Controls Over Consumable Inventory

Condition: Upon our inquiry of the Board member that performs the duties of overseeing the consumable inventory, we determined the following weaknesses in controls were present:

- There is not sufficient evidence to document that an inventory of consumable items is maintained.
- One board member, who is also an EMT, orders the supplies for the ambulance, receives the supplies and stocks the ambulance.
- Receipt of supplies is not documented and may be received at the Board member's home.

Cause of Condition: Procedures have not been designed and implemented to provide adequate controls and proper segregation of duties with regard to consumable inventories. Supporting documentation of physical consumable inventory counts is not being maintained by the District.

Effect of Condition: Opportunities for loss and misappropriation of District assets may be more likely to occur when the District does not maintain supporting documentation of a physical consumable inventory list.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Recommendation: OSAI recommends management implement a system of maintaining supporting documentation for consumable inventory counts, which documents the date of the count, items received, items used, and items on hand. OSAI further recommends all supporting documentation be signed and dated by the individual performing the duty and the individual responsible for reviewing the accuracy of the documentation.

Management Response: A basic inventory of the consumable items used on the ambulance is maintained as a guide to maintain required inventory on the ambulance. The Board member/EMT orders the needed supplies, receives and restocks the ambulance. This is due to the fact that no one else is available to maintain the ambulance's needs.

The supplies are occasionally delivered to the home address of the EMT/Board member who lives outside of Butler. This is due to the fact the EMS building is unmanned and unsecured. It was thought to be a better choice than to have it delivered and placed on the doorstep of the station, with the possibility of theft or sitting in the elements.

The Board will review and make changes regarding the ordering process.

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 consumable inventories and safeguard assets from loss, damage, or misappropriation.

Objective 7: 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.

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

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

Finding: Inadequate Controls over Fixed Assets

Upon our inquiry of the Board member that performs the duties of overseeing the fixed asset inventory, we determined the following weaknesses in controls were present:

- The Board has not adopted a formal policy with regard to a dollar threshold for fixed assets.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

- One Board member, who is also an EMT, orders the equipment, receives the equipment, and maintains a listing of fixed asset inventory at her home.
- There is not sufficient evidence to document that an inventory of fixed asset items is maintained.

Cause of Condition: Procedures have not been designed and implemented to provide adequate controls and proper segregation of duties with regard to the fixed asset inventory. Supporting documentation of a physical fixed asset inventory count is not being maintained by the District.

Effect of Condition: Opportunities for loss and misappropriation of District assets may be more likely to occur when the District does not maintain supporting documentation of a physical fixed asset inventory.

Recommendation: OSAI recommends management implement a system of maintaining supporting documentation for fixed inventory counts, which documents the date of the verification and signature of the person performing the verification. OSAI further recommends all supporting documentation be signed and dated by the individual performing the duty and the individual responsible for reviewing the accuracy of the documentation.

Management Response: The Board will implement a system of maintaining an accurate inventory of fixed assets. Proper segregations of duties will be supervised by the Board.

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 fixed assets and safeguard 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.

Finding: Inadequate District-Wide Controls

Condition: District-wide controls regarding Risk Management 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.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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 should be included in the District’s policies and procedures handbook.

Examples of risks and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Computer failures	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 and employees of the District	Periodic meetings to address items that should be included in the handbook and to determine if the District is meeting its goals and objectives.
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the District.
Following 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.

Management Response: The Board chose not to respond to this finding.

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.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Risk Assessment is a component of internal control 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 control objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings 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 know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

Finding: Disaster Recovery Plan

Condition: Upon inquiry of District personnel with regard to the accounting and bookkeeping software, the District does not have a formal, written Disaster Recovery Plan.

Additionally, we were informed that District computer equipment and software has not been safeguarded from fraud and abuse. This software includes personal information of patient accounts used for billing and may be subject to misuse.

Cause of Condition: A formal, written Disaster Recovery Plan with regard to the accounting and bookkeeping software and hardware was not designed due to the District being unaware for the need of such a procedure.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the District being unable to function financially in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring District business, such as collections, expenditures for operations, such as goods and/or services and the payroll process, and patient billing could continue uninterrupted.

Recommendation: OSAI recommends the District develop a formal, written Disaster Recovery Plan to safeguard the assets of the District from being unable to operate financially during the event of a disaster.

Further, according to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;
- Training and/or awareness of individual and group roles in continuing plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

Management Response: The Board will write and implement a formal Disaster Recovery Plan. The paperwork of the District is housed in a locked file cabinet in a FEMA approved Safe Room at the EMS/Fire Station. The paperwork needed to file reports to the State Health Department and billing is sent to an independent corporation for processing on a weekly basis.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. 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 in a District being unable to function in the event of a disaster.

Other Item Noted:

Although not considered significant to the audit objectives, we believe the following issue 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 and implemented to ensure the amount required by statute is correctly budgeted for the Audit Budget Account. The District relies on the "budget maker" to calculate the required amount for the Audit Budget Account with no independent oversight by employees of the District.

At June 30, 2012, the Audit Budget Account reflected a balance of appropriations of \$5,166.99; however, the amount calculated for the audit period should be \$3,977.08.

Cause of Condition: Procedures have not been designed to ensure the Audit Budget Account is accurately budgeted in accordance with statutory requirements due to the District being unaware for the need of such a procedure.

**BUTLER EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Effect of Condition: This condition could result in noncompliance with statute and overpayment of audit costs.

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 Budget Account and that any unused portion be lapsed into the next year audit account in accordance with 19 O.S. § 1706.1.

Further, OSAI recommends the financial officer of the District perform the calculation of the required amount for the Audit Budget Account, sign and date, and then an employee, separate from financial recordkeeping, recalculate the amount for the Audit Budget Account, sign and date. In addition, the Board should compare the figures calculated by the financial officer and the budget maker to ensure compliance with Oklahoma Statutes.

Management Response: Regarding the Audit Expense Account, the Board Treasurer has spoken with the accounting firm responsible for the yearly budget and adjustments have been made.

Criteria: Accountability and stewardship are overall goals of management in the account 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 ad valorem levy upon the net total assessed valuation of the District for audit expenses.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV