

OPERATIONAL AUDIT

# CANTON-LONGDALE EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2008 through June 30, 2011



*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

**CANTON-LONGDALE EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011**

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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](http://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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April 19, 2012

## **TO CANTON-LONGDALE EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Canton-Longdale Emergency Medical Service District for the period July 1, 2008 through June 30, 2011.

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". The signature is fluid and cursive, with a long horizontal stroke at the end.

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:**

Larry Stephens .....Chairman of the Board  
Don Parrish ..... Vice-Chairman  
Carl Van Meter ..... Treasurer  
William (Bill) Hill ..... Secretary  
Brenda Reichert ..... Board Member

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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2011**

	General Fund
Beginning Cash Balance, July 1, 2010	\$ <u>100,765</u>
<b>Collections</b>	
Ad Valorem Tax	60,179
Charges for Services	43,171
Miscellaneous	<u>1,346</u>
Total Collections	<u>104,696</u>
<b>Disbursements</b>	
Personal Services	45,004
Maintenance and Operations	23,019
Capital Outlay	1,178
Travel	<u>557</u>
Total Disbursements	<u>69,758</u>
Ending Cash Balance, June 30, 2011	\$ <u><u>135,703</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 July 1, 2008 through June 30, 2011.

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.

**Objective 1:** To determine the District’s collections, disbursements, and cash balances for FY 2011 were accurately presented on the Estimate of Needs.

**Conclusion** With respect to the items reconciled and reviewed; collections, disbursements, and cash balances were accurately presented on the District’s Estimate of Needs.

**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 collections, disbursements, and cash balances were accurately presented on the District’s Estimate of Needs:

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- Reconciled collections presented on the Estimate of Needs to collections deposited by the District.
- Reconciled checks issued presented on the Estimate of Needs to disbursements.
- Re-performed the bank reconciliations at June 30, 2011, to determine that all reconciling items were valid, and ending balance in the financial records agreed to the ending balance on the Estimate of Needs.

**Observation**

**Inadequate Internal Controls over the Estimate of Needs**

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.

Upon inquiry and observation of the recordkeeping process, the following was noted:

- Neither the Board of Trustees nor the Director provides independent oversight with regard to the preparation of the Estimate of Needs.

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 District Board of Trustees approval.

**Management Response**

We must continue to operate within our limited payroll abilities in order to serve the community here in the Canton-Longdale District. Your recommendations would translate into additional personnel, which the District cannot afford.

Objective 2: To determine if the District's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

**Conclusion**

The District's internal controls do not provide reasonable assurance that revenues 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 receipting process through discussions with District personnel, observation and review of documents.

**Observation**

**Inadequate Controls over the Receipting Process**

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds receipts should be issued and deposits should be made daily. Additionally, the duties of receiving, receipting, recording, depositing, and reconciling bank statements should be separated. Internal controls should be designed to analyze and check accuracy, completeness, calculations, and authorization of transactions.

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, and credits customer's accounts.
- Bank reconciliations are not reviewed or approved by anyone independent of the bookkeeper.

A single individual having responsibility for more than one area of recording, authorization, custody of assets, and reconciliation 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 separate the duties of receiving funds, depositing collections, posting to customer's accounts, posting to the accounting records, and reconciling the bank statements. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk 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.

**Management  
Response**

We feel adequate procedures and controls are in place. The Board reviews detailed monthly reports of all necessary aspects of the revenue, both accounts payable and receivable. All deposits are available to examine, as well as payroll and invoiced payables. All claim checks and payroll are signed by two board members, not by office personnel.



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**Objective 3:** To determine if the District's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

**Conclusion** The District's internal controls do not provide reasonable assurance that 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 expenditures process through discussions with District personnel, observation and review of documents.

**Observation** **Inadequate Internal Controls over the Expenditure Process**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, calculations, and authorization of transactions. To help ensure a proper accounting of funds, the duties of preparing a check, signing a check, approval of invoice, posting of expenditures to accounting records, and reconciling bank statements to accounting records should be separated.

Upon inquiry and observation of the expenditures process for the District, it was noted that:

- One individual is preparing checks, recording expenditures, receiving the bank statements, and reconciling the bank statements to the accounting records.

A single individual having responsibility for more than one area of recording, authorization, custody of assets, and reconciliation could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

**Recommendation** OSAI recommends separating the duties of preparing the check, signing the check, approving the invoice, posting the expenditures to accounting records, and reconciling bank statements to accounting records. 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 function of the District, and having management review and approval of accounting functions.

**Management Response** The Board signs all checks, not office personnel. The bank statements are reconciled in the office, and the Board reviews and approves a detailed report at every meeting.

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**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 process through discussions with District personnel, observation and review of documents.

**Observation** **Inadequate Internal Controls over Payroll Expenditures**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, calculations, and authorization of transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

Upon inquiry and observation of the payroll process, we noted the following:

- One person is inputting employee data into the payroll system, calculating payroll, printing payroll checks, filing payroll reports, initiating payment of payroll taxes, receiving the bank statements and reconciling the bank statements.

A single individual having responsibility for more than one area of recording, authorization, custody of assets, and reconciliation could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

**Recommendation** OSAI recommends separating the duties of preparing a check, signing a check, distributing payroll checks, and posting payroll expenditures to the records. 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 District, and having management review and approval of accounting functions.

**Management Response** All payroll hours and run pay is documented and payable according to Board approved rates and guidelines established by the Board. The system works extremely well. Two Board members sign all payroll checks, and all payroll is presented in a detailed report every month for the Board to view and approve.

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**Objective 5:** To determine if the District's internal controls provide reasonable assurance that inventory was 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 internal controls related to the fixed assets inventory process through discussions with the District Director and Bookkeeper, observation and review of documents.

**Observation** **Inadequate Internal Controls over Fixed Assets**

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 fixed assets from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding fixed assets, the following was noted:

- The Director and/or Bookkeeper receive fixed assets and maintain the fixed assets list.
- An annual physical count of all inventory items is not performed.
- There is no Board oversight with regard to establishing policy and procedures for recording fixed assets.

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

**Recommendation** OSAI recommends that the District implement policies and procedures to accurately maintain inventory records and segregate duties over inventory. Records should be maintained in such manner that assets can be identified by serial number, date of acquisition, and purchase price.

**Management Response** The District maintains a fixed asset list. The Board approves fixed asset purchases when required, and the Board declares surplus or writes off fixed assets as required. Consumable inventory is restocked as necessary. Medical consumables are stocked according to detailed Oklahoma Department of Health, EMS Division required list for Basic Licensed Ambulance Service.

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Other Item(s) Noted:

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

**Observation                      Inadequate Internal Controls over the Audit Expense Account**

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.

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 audit account of the 2011-2012 Estimate of Needs should reflect \$5,494.05 in appropriations dedicated for the audit of the District; however, the amount presented on the Estimate of Needs is \$1,891.20

Estimate of Needs for:	Financial Statements for:	Total Valuation for District	1/10 of 1 Mill	Amount for Audit Account
2009-2010	2008-2009	18,034,679.00	0.0001	\$1,803.47
2010-2011	2009-2010	18,034,679.00	0.0001	\$1,799.37
2011-2012	2010-2011	18,912,034.00	0.0001	\$1,891.21
Total				<u>\$5,494.05</u>

These conditions resulted in the Audit Expense Account being underfunded.

**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**                      Management did not respond to this comment.

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All Objectives:

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

**Observation                      Inadequate District-Wide Controls**

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 Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

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 knows their responsibilities for internal control and the need to make control monitoring part of their regular operation process.

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

This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

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**Recommendation**      OSAI recommends the District implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives to reduce or eliminate risks to the District as a whole.

**Management  
Response**                Management did not respond to this comment.



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