

OPERATIONAL AUDIT

CASHION 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

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

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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July 17, 2012

TO CASHION EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Cashion 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, reading "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

**CASHION 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:

Bruce Temple.....	Chairman of the Board
Kevin Fowler	Treasurer
Jennifer Knopp.....	Secretary
Charley Robinson	Board Member
Greg Yearout	Board Member

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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

Beginning Cash Balance, July 1, 2010	<u>\$ 54,475</u>
Collections	
Ad Valorem Tax	137,931
Charges for Services	198
Miscellaneous	<u>2,606</u>
Total Collections	<u>140,735</u>
Disbursements	
Contract Payment	123,592
Payroll	8,408
Maintenance and Operations	<u>3,282</u>
Total Disbursements	<u>135,282</u>
Ending Cash Balance, June 30, 2011	<u><u>\$ 59,928</u></u>

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

**CASHION 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, 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.
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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:
 - Reconciled collections presented on the Estimate of Needs to collections deposited by the District.

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

- Reconciled checks issued presented on the Estimate of Needs to disbursements.
- Re-performed the bank reconciliation at June 30, 2011, to determine that all reconciling items were valid, and the 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, it was noted that there is no independent oversight of the accuracy of collections, disbursements, and cash balances on the Estimate of Needs by the District Board of Trustees.

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

The Board will initiate reconciliation/comparison of financial records to the Estimate of Needs prior to Board approval.

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.

Methodology

To accomplish our objective we performed the following:

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

- 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, and authorization of calculations and transactions.

Upon inquiry and observation of the receipting process the following was noted:

- One individual opens the mail, makes deposits, and reconciles the bank statements.
- Receipts are not issued for collections.
- Deposits are not made daily.

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 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. Additionally, OSAI recommends the District issue pre-numbered duplicate receipts for all collections and deposit those collections on a daily basis.

**Management
Response**

The Board, consisting of four new members as of spring 2011, has already implemented a system of separation of duties. The secretary receives and deposits monies, the treasurer posts and reconciles financial statements as required. Also, the Board has implemented daily depositing of checks and funds received.

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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 expenditure 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 for accuracy, completeness, and authorization of calculations and/or 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 the check, signing the check, recording the expenditure, and reconciling the bank statements to the accounting records.
- Invoices for expenditures are not being maintained as supporting documentation for the expenditure.

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 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. Further, all expenditures should be adequately documented with proper supporting documentation.

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Management Response

The Board, consisting of four new members as of spring 2011, has already implemented a system of separation of duties with regard to expenditures. The secretary prepares the check, the treasurer and chairman provide two signatures required on each check. Expenditures are approved per invoice received.

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 and Board of Trustees members, observations, 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 for accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be separated.

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

- One employee or one Board member is preparing the check, signing the check, distributing the check, posting the expenditure to payroll records, and reconciling the bank statements.
- Timesheets are not maintained for employee hours worked

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

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

key processes and/or critical functions of the office, and having management review and approval of accounting functions. OSAI further recommends that timesheets be completed and approved for all hours worked to provide internal controls of the time accounting process.

**Management
Response**

The Board no longer has any employee payroll.

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

Conclusion

The District's internal controls do not provide reasonable assurance that fixed asset inventory was 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 asset inventory process through discussions with District Board of Trustees members and observation of the process.

Observation

Inadequate Controls over Inventory

An important aspect of internal controls is the safeguarding of assets, which includes adequate segregation of duties. 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 inventory and safeguarding inventory from loss, damage, or misappropriation.

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

- The District does not have a policy or procedures in place relating to recordkeeping of fixed asset inventory.
- The District does not maintain a list of fixed asset items.
- An annual physical count of all inventory items is not performed.

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.

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

Records should be maintained in such manner that assets can be identified by serial number, date of acquisition, and purchase price.

**Management
Response**

Inventory records will be created and maintained annually.

Other Items 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 recordkeeping process of calculating the amount appropriated and dedicated to the audit of the District, there is no recalculation of the one-tenth mill upon the net total assessed valuation to ensure the amount appropriated is correct.

Further, the audit account of the 2011-2012 Estimate of Needs should reflect \$24,607.10 in appropriations dedicated for the audit of the District. The Estimate of Needs does not reflect any appropriations for this account.

This condition could result in noncompliance with state statutes and could result in the audit budget account being under or over funded.

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 is appropriated and dedicated to the audit of the emergency medical service district in accordance with 19 O.S. §1706.1.

Further, OSAI recommends the Administrator, or other member of management, recalculate the one-tenth mill upon the net total assessed valuation for the expense of the audit to ensure the accurate amount is appropriated and dedicated to the audit of the emergency medical service district.

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

**Management
Response**

An audit expense account will be created and funds shall be set aside as required by state statute for future audit expenses. The Estimate of Needs shall also reflect the balance of this fund.

Observation

Control Environment

A key factor of an internal control system is the environment established by management. In addition, management attitude, qualifications, and operating style become the foundation of all other internal control components.

As part of our audit we assessed the environment. Through inquiry and observation, it was noted that discord exists between Board members and an attitude of mistrust exists between the contracted service provider (the Town of Cashion) and the District Board of Trustees. As a result, the lack of cooperation and communication has facilitated a high turnover of Board members, Board vacancies, difficulty in recording, processing and maintaining financial information and non-compliance with By-Laws and Contracts.

Part of assessing the environment included a review of the minutes of the official proceedings of the Board and the provider contract. We noted the following:

- The District lacked controls over the process of recording the proceedings.
- The date of the minutes being approved was not recorded in the minutes.
- The minutes were not approved by someone other than the preparer.
- There were two records of meetings that were not located.
- The annual list of regularly scheduled meetings was not filed with the Kingfisher County Clerk for the 2009 and 2010 calendar years.
- The Board voted to advertise for a new administrator with no mention of the need for a new administrator or how the position became available.

This condition could result in inaccurate information and possible violation of open meeting laws.

Recommendation

OSAI recommends management be aware of these conditions and realize the most effective controls lie in management's attitude and operating style with regard to effective internal controls. OSAI further recommends that the minutes reflect the date of the minutes being approved, the minutes be signed by someone other than the preparer, the minutes and agendas for all meetings be kept in one central location, and the list of regularly scheduled meetings be filed with the Kingfisher County Clerk.

**Management
Response**

The Board will initiate a system of checks and balances with regard to recording of proceedings of meetings and meeting schedules. The Board has already

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

implemented a system of approval by other Board members than the preparer of the minutes.

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, regulations and contracts are being met. 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 entity-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 the 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.

Information and Communication is a component of internal control which should provide for a district to run and control its operations. A district must have relevant, reliable information, both financial and non-financial. That information should be recorded and communicated to management and others within the district who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the district needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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 supervisor 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.

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

**CASHION EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT**

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

Recommendation

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

**Management
Response**

The Board notes the findings of the audit and will implement a system of controls in order to reduce or eliminate risk to the District.



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