

OPERATIONAL AUDIT

CIMARRON COUNTY 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 Jones, CPA, CFE

**CIMARRON COUNTY 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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January 25, 2012

TO CIMARRON COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Cimarron County 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.

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

**CIMARRON COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
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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.

Operations of the District are through Cimarron County. All collections are deposited with the County Treasurer, also known as the District Treasurer, and all expenditures are made by purchase order through the County Clerk's office.

Board of Trustees:

Daryl McDaniel Chairman
Donnie Cook..... Vice-Chairman
Barbara Wardlaw Secretary
Bart Camilli Member
Travis Ferris Member

Treasurer:

Jenny Richardson..... County/District Treasurer

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

Beginning Cash Balance, July 1, 2010	\$ 250,557
Collections	
Ad Valorem Tax	84,790
Charges for Services	47,377
Intergovernmental	1,973
Miscellaneous	6,188
Total Collections	<u>140,328</u>
Disbursements	
Personal Services	98,382
Travel	2,481
Audit Expense	43,446
Total Disbursements	<u>144,309</u>
Ending Cash Balance, June 30, 2011	<u>\$ 246,576</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.
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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.

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- Tested accuracy of the District’s Estimate of Needs 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 the apportionments made to the District by the County Treasurer.
 - Reconciled warrants issued for the District by the County Clerk to disbursements paid by the County Treasurer for the District.
 - Reviewed beginning and ending cash balances presented on the Estimate of Needs and reconciled them to the County Treasurer’s Monthly Reports beginning and ending cash balances to ensure accurate presentation.

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:

- There is no independent oversight of the accuracy of collections, disbursements, and cash balances on the Estimate of Needs by the Administrator or the District Board.
- Upon inquiry of the reconciliation process between the District/County Treasurer and County Clerk, supporting documentation of the reconciliation is not maintained by either of the officials.

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.

Further, OSAI recommends the District Administrator or a member of the Governing Board compare the Estimate of Needs to records of the County Clerk and the District/County Treasurer to ensure collections, disbursements, and cash balances are accurately presented on the Estimate of Needs.

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OSAI recommends that the District/County Treasurer and County Clerk implement procedures to accurately maintain supporting documentation of monthly reconciliations.

**Management
Response**

The Cimarron County Clerk will generate and present a report showing collections, disbursements and cash balances which will be confirmed with and by the Cimarron County Treasurer's Office. The County Clerk and County Treasurer will sign off on and present the aforementioned report to the EMS Board of Directors. The Board will review the report for approval, and record such approval in the minutes of the meeting. A copy of said report will be attached to and kept with the minutes.

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:

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

Observation

Inadequate Segregation of Duties 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, the duties of receiving, receipting, recording, depositing cash and checks, and bank reconciliations should be separated. A single employee having responsibility for more than one area of recording, authorization, custody of assets, and reconcilments could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of calculations and/or transactions.

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

- The District does not maintain a cash drawer.

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- The Administrator issues receipts, balances cash and checks to receipts, prepares the deposit, and delivers the deposit to the County Treasurer, who acts as the District Treasurer.

A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions 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 maintain separate cash drawers for employees receiving money, and the District separate the duties of issuing receipts, balancing cash and checks to receipts, preparing the deposit, and delivering the deposit to the District/County Treasurer. In the event that segregation of duties is not possible due to the 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.

Management Response

Segregation of duties is not possible due to limited personnel, as the Administrator is the only employee allowed to receive payments on accounts receivables. The Administrator will henceforth retrieve payments, which have been sent via U.S. Postal Service once a week. The Administrator will receive the payment(s), receipt each payment and record each payment in a Ledger of Accounts Receivables. The ledger will include the name of payer, amount of payment, date received and amount outstanding on the account if applicable. The Administrator will then deliver the funds to the Cimarron County Treasurer, who will receipt and deposit said funds into the Cimarron County General Fund. The Administrator will deliver the receipt from the County Treasurer to the Cimarron County Clerk, who will then copy and record the information. These funds will be apportioned into the EMS Fund at the conclusion of each month, which is reported to the EMS Board of Directors at their monthly meeting for review and approval.

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 provide reasonable assurance that expenditures were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

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- Gained an understanding of internal controls related to the expenditure process through discussions with the District, observation, and review of documents.
- Tested controls which included reviewing a random sample of seventy-five expenditures for the following:
 - Ensuring that claims reflected the authorized signature of the requisitioning officer.
 - Ensuring that receiving reports were attached to the claims and reflected the authorized signature of the receiving officer verifying goods and/or services were received.
 - Ensuring expenditures were recorded and encumbered by the Purchasing Agent.
 - Ensuring that claims were signed by the County Clerk or deputy attesting all supporting documentation was attached to the claim prior to submission for payment.
 - Ensuring that claims reflected authorized signatures of the District Board of Trustees for the approval of payment.

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 Segregation of Duties 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, 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 segregated.

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

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- The payroll clerk posts withholdings, maintains personnel files, initiates the payment of payroll, prints payroll, posts to accounting records, distributes payroll checks, prepares OPERS reports and state and federal tax reports.

A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions 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 posting withholdings, maintaining personnel files, initiating the payment of payroll, printing payroll, posting to accounting records, distributing payroll checks, preparing OPERS reports and state and federal tax reports. 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.

**Management
Response**

The ability to segregate the payroll preparation is reduced due to limited personnel. In an attempt to provide accountability to the process, the EMS Administrator reviews and confirms accuracy of all personnel time and run sheets on a monthly basis. The Administrator then delivers the timesheets to the Cimarron County Clerk for processing. The Payroll Clerk reviews the timesheets for accuracy and then prepares and generates all required payroll documents, warrants, State and Federal tax reports. The EMS District is not enrolled with OPERS. The County Clerk reviews the payroll documents prepared by the Payroll Clerk before proceeding for approval by the EMS Board of Directors at their monthly meeting.

The EMS Board reviews the presented timesheets, State and Federal tax reports, confirms the net amounts to be paid, and votes to approve payment. The total payroll amount is recorded in the minutes of the meeting. The Chairman of the Board signs each approved payroll warrant, which is returned to the County Clerk's Office for disbursement.

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

Observation

Inadequate Internal 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 fixed assets and to safeguard fixed assets from loss, damage, or misappropriation.

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

- There is a lack of independent oversight of the County Purchasing Agent recording fixed asset items received or disposed by the District due to there being no signatures and dates of the Purchasing Agent and the District at the time of acquisition or disposal of items.
- The District does not maintain supporting documentation of an annual physical count of fixed assets.

Failure to account for and safeguard fixed asset items and failure to perform a periodic physical inventory of fixed assets could result in inaccurate records, unauthorized uses of fixed assets, or misappropriation of fixed assets.

Recommendation

OSAI recommends the District perform an annual physical count of fixed asset items and supporting documentation of the count be maintained. Further, OSAI recommends the Purchasing Agent, while recording fixed asset items received or disposed for the District, sign and date the updated inventory listing and also the inventory listing be signed and dated by the Administrator or member of the District Board of Trustees, to ensure independent oversight of fixed asset items posted or removed from inventory records.

**Management
Response**

The fixed assets inventory for the EMS District is filed with the Cimarron County Clerk. The District has always balanced the records in June of each year.

The EMS Administrator and assisting EMT(s) will continue to conduct a yearly physical inventory in June, and will sign and date the inventory sheets when they are balanced or any changes are made to the original inventory. The

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Administrator shall establish an Inventory Records File, which will contain a yearly inventory sheet signed and dated by the Administrator.

Objective 6: To determine if the District’s financial operations complied with 62 O.S. §517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

Conclusion With respect to the days tested, the District did not comply with 62 O.S. §517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to pledged collateral through discussions with the District/County Treasurer, observation, and review of records and documents.
- Tested compliance of the significant law which included the following:
 - Compared the largest balances per month for the two banks to the amount of pledged collateral to determine that deposits were adequately secured.

Observation **Inadequate Internal Controls Over Pledged Collateral**

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.

The District/County Treasurer has not properly designed and implemented internal controls related to pledged collateral due to the following:

- The District/County Treasurer does not monitor pledged collateral amounts to daily bank balances to ensure that district funds are adequately secured.
- District funds were not adequately pledged at one financial institution for one of the thirty-six days tested.

Failure to monitor pledged collateral amounts could result in unsecured District funds and possible loss of District funds.

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Recommendation OSAI recommends that the District/County Treasurer implement a system of internal controls to provide reasonable assurance that county funds are adequately secured. Amounts of pledged collateral should be compared to bank balances on a daily basis to ensure that county funds are adequately secured. OSAI further recommends the District/County Treasurer comply with 62 O.S. §517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

Management Response Since the audit, the Cimarron County Treasurer has set up internet banking with both banks being used and will print out a bank summary at the end of each business day, to confirm that the County is adequately pledged. These reports will be filed in the Cimarron County Treasurer's Office for review at future audits.

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 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 \$10,303.98 in appropriations set aside for the audit of the District; of which \$5,822.02 is the lapsed balance from 2010-2011.

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 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.

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**Management
Response**

The Estimate of Needs is completed each year at the June meeting of the EMS Board of Directors. The Cimarron County's Assessed Valuations are not complete at that time. When the Cimarron County Clerk receives the completed valuations, she will contact the EMS Administrator who recalculates the one-tenth mill and signs off by initialing and dating the recalculation.

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.

Control Environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding of internal controls and the communication of this importance to its employees are key elements of the control environment.

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.

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 nonfinancial. 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

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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 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.

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

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.

**Management
Response**

Ensuring the Administrator knows his responsibilities for adequate internal controls, communicating the importance of these controls to employees and performing ongoing monitoring during normal daily operations with documentation, will be instrumental in providing the control environment necessary to safeguard the District's assets and prevent and detect errors and fraud.



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