

OPERATIONAL AUDIT

# COMMUNITY AMBULANCE 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

**COMMUNITY AMBULANCE 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 11, 2012

## **TO COMMUNITY AMBULANCE SERVICE DISTRICT**

Transmitted herewith is the audit report of Community Ambulance 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:**

Merisa Weeks .....	Chairman of the Board
Janet Archer .....	Vice-Chairman
Keith Gardener.....	Board Member
(Vacant) .....	Board Member
(Vacant) .....	Board Member

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

	General Fund	Capital Improvement Fund	Sinking Fund	Combining Information
Beginning Cash Balance, July 1, 2010	\$ 158,221	\$ 138,659	\$ -	\$ 296,880
<b>Collections</b>				
Ad Valorem Tax	38,083		30,179	68,262
Charges for Services	70,816			70,816
Grants	78,230			78,230
Miscellaneous	2,984		31	3,015
Total Collections	<u>190,113</u>	<u>-</u>	<u>30,210</u>	<u>220,323</u>
<b>Disbursements</b>				
Personal Services	45,767			45,767
Maintenance and Operations	39,541		11,305	50,846
Capital Outlay	84,601	138,659		223,260
Total Disbursements	<u>169,909</u>	<u>138,659</u>	<u>11,305</u>	<u>319,873</u>
Ending Cash Balance, June 30, 2011	<u>\$ 178,425</u>	<u>\$ -</u>	<u>\$ 18,905</u>	<u>\$ 197,330</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.

<b>Objective 1:</b>	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:

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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 Administrator 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**

Beginning with the upcoming 2013 Estimate of Needs, both the board and the administrator will insure that the collections, disbursements, and cash balances are accurately reflected on the Estimate of Needs.

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**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 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 approve accounting functions.



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**Management  
Response**

Measures have been taken which include the receipts being received by one person. This person prepares a ledger of the receipts and passes them to the bookkeeper. The bookkeeper then makes a separate receipt and deposits the funds. The first person reconciles the ledger against deposits.

**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 Expenditures 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 prepares checks, records the expenditures, receives the bank statements, and reconciles the bank statements to the accounting records.
- Payments lacking board approval are being processed and issued during months the Board did not meet.

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.

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**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 function of the district, and having management review and approval of accounting functions.

**Management Response** The Service currently has the bookkeeper receive the invoices for payment, prepare the checks and issue a purchase order. The Administrator reviews the claim and if appropriate signs the purchase order for board approval. If due to a lack of quorum the claims cannot be approved at that meeting the claims are held until the next meeting for approval. The Service will look into ways to better improve the system in place. However, as stated above lack of personnel we will look at avenues to better prevent any losses from occurring.

**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,

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electronically paying 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 approve accounting functions.

**Management Response** The Service will implement safeguards insuring that bank reconciliations are reviewed and checked for accuracy. The payroll slips will be signed by both the employee and management. Payroll tax filings will be monitored and checked for accuracy.

**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 asset inventory process through discussions with the District Administrator, 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.

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

- One employee receives fixed assets and maintains the fixed assets list.
- The District's list of fixed asset items was not current.
- 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. Records should be maintained in such manner that assets can be identified by serial number, date of acquisition, and purchase price.

**Management Response**

The Service will maintain an accurate fixed asset listing of any purchases for equipment over \$500. The listing will not be maintained by the same person who receives the items for listing. The Service will conduct an annual physical inventory to insure items are accounted for.

**Objective 6:**

To determine the District's financial operation complied with 62 O.S. § 517.4, which requires county 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, observation and review of documents.
- Tested compliance of the significant law which included the following:
  - Selected the highest daily bank balance per month and determined 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 the internal controls is the

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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 loss.

The District has not properly designed and implemented internal controls related to pledged collateral.

Further, District funds were not adequately pledged for twenty-one of the thirty-six days tested.

Failure to properly safeguard assets could result in the possible loss of District funds.

**Recommendation**

OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that district funds are adequately secured. Further, OSAI recommends the District comply with 62 O.S. §517.4, which requires district deposits with financial institutions be secured with collateral securities or instruments.

**Management  
Response**

The Service did have over the limit of funds and recognizes that it did fail to fulfill the requirements. The Service shall insure that if funds reach the limit again that the proper procedures are followed.

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.

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The audit account of the 2011-2012 Estimate of Needs should reflect \$3,780.90 in appropriations dedicated for the audit of the District; however, the amount presented on the Estimate of Needs is \$0.00

Estimate of Needs for:	Financial Statements for:	Total Valuation for District	1/10 of 1 Mill	Amount for Audit Account
2009-2010	2008-2009	11,127,875.00	0.0001	\$1,112.79
2010-2011	2009-2010	12,228,517.00	0.0001	1,222.85
2011-2012	2010-2011	14,452,562.00	0.0001	1,445.26
Total				<u>\$3,780.90</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**

The District will insure that auditing functions are covered in all future Estimate of Needs.

**Observation**

**Inadequate Internal Controls Over Contracts**

A component of an effective internal control system is to provide accurate and reliable information through proper review and approval. Effective internal controls would provide for monitoring procedures to ensure compliance with contracts.

The service contract between the District and the billing service states the following:

- The District will pay AccuFile \$19.00 for every billable run and \$3.00 for every non-billable run.
- The contract will be renewable with written notice of intent to renew at least 10 days before the expiration of the initial, and any successive terms.

Upon inquiry and observation of the process related to the billing contract, the following was noted:

- The copy of the contract provided by the District was not signed by an AccuFile representative.

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- AccuFile bills the District \$17.00 for every billable run and \$2.50 for every non-billable run.
- The District has not provided AccuFile with written intent to renew the contract prior to the expiration date.

These conditions could result in undetected errors or misappropriation of funds.

**Recommendation** OSAI recommends that the District maintain a current contract with its vendors for billing of patient accounts on a fiscal year basis.

**Management Response** The Service will complete a new contract for services provided by a billing company. The Service will pay what the contract states regardless of it being a lesser amount billed.

**Observation** **Control Environment**

A component objective of an adequate internal control system is to provide accurate and reliable information. An entity's control environment is significantly influenced by those charged with governance. Components of the control environment include the extent of its involvement and scrutiny of activities, the appropriateness of its actions, and the information it receives. Other responsibilities of those charged with governance include oversight of the process for reviewing the effectiveness of the entity's internal controls.

We noted the following issues resulting from a lack of internal controls:

- Neither the Board nor the administration was aware that there was a statutory requirement that one-tenth of a mill be set aside for an audit account.
- The District does not have in place a current contract with AccuFile.
- The District did not obtain pledged securities to safeguard funds over the FDIC limit of \$250,000.
- The District's Sinking Fund Budget does not reflect the correct amount to be collected due to a budgeting error.
- Payments were not timely credited to patients' accounts.

These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriations, and noncompliance with state statutes.

**Recommendation** OSAI recommends management be aware of these conditions and realize the most effective controls lie in managements attitude and operational style with regard to providing policies and procedures to safeguard the public's funds.

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**Management  
Response**

The Service agrees with the above findings and will implement procedures as listed previously to correct these deficiencies. The Service recognizes that due to limited personnel more safeguards will have to be utilized to lessen risk.

**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.

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 communication 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 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.



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

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

**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**

The Service does recognize its vulnerabilities and will make every attempt possible at improving safeguards and implementing new procedures to make sure transactions are correct, errors are found, and that there is no risk for any misappropriation of funds.



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