

OPERATIONAL AUDIT

# ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

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



*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

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2012**

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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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January 2, 2014

## **TO ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Ellis County Emergency Medical Service District for the period July 1, 2008 through June 30, 2012.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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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**

Douglas Schoenhals .....	Chairman of the Board
Kay Torrence .....	Vice Chairman of the Board
Mary Weaver .....	Secretary/Treasurer
Bob Francis .....	Board Member
Kay Brewer .....	Board Member
Betty Wilcoxson.....	Board Member
Levi Gaisford .....	Board Member
Ted Thimling .....	Board Member
Larry Alspaugh .....	Board Member

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2011 and FY 2012**

	<u>FY 2011</u>	<u>FY 2012</u>
Beginning Cash Balance, July 1	\$ 270,683	\$ 290,181
Collections		
Ad Valorem Tax	177,373	211,690
Charges for Services	122,376	99,768
Intergovernmental Revenue	37,064	280,418
Miscellaneous	780	579
Total Collections	<u>337,593</u>	<u>592,455</u>
Disbursements		
Personal Services	13,422	90,831
Part Time Help	141,642	98,972
Maintenance and Operations	163,031	251,515
Capital Outlay	-	18,862
Other Deductions	-	25
Total Disbursements	<u>318,095</u>	<u>460,205</u>
Ending Cash Balance, June 30	<u>\$ 290,181</u>	<u>\$ 422,431</u>

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

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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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, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

---

**Objective 1:** To determine the District's collections, disbursements, and cash balances for FY 2011 and FY 2012 were accurately presented on the Estimate of Needs.

**Conclusion:** With respect to the items reconciled and reviewed; Ellis County Emergency Medical Service District's (the District) collections, disbursements, and cash balances for FY 2011 and FY 2012 appear to be accurately presented on the Estimate of Needs. However, internal controls with regard to reviewing the Estimate of Needs and segregating the duties within the revenue process should be strengthened.

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

- Gained an understanding of internal controls related to the process of accurately presenting collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.
- Reconciled and reviewed the 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 which included the following:
  - Reconciled collections presented on the Estimate of Needs to the District's financial records approved by the Board of Trustees.
  - Reconciled warrants issued presented on the Estimate of Needs to disbursements approved by the Board of Trustees and paid through the operating account of the District.
  - Reviewed the ending cash balances presented on the Estimate of Needs to the financial records of the District, including the bank reconciliation at June 30, 2012.

**Finding: Inadequate Internal Controls Over the Estimate of Needs**

**Condition:** Upon inquiry of the District Administrator, with regard to the procedures for approving the Estimate of Needs, it was noted that the Board of Trustees does not review the Estimate of Needs for accuracy prior to its approval.

**Cause of Condition:** Procedures have not been designed and implemented to review the Estimate of Needs for accuracy prior to its approval.

**Effect of Condition:** This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

**Recommendation:** The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the District implement a system of internal controls to provide reasonable assurance those 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 the District Board of Trustees approval.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

---

**Management Response:** The EMS Board always reviews the Estimate of Needs to ensure funds are adequate before the report goes to the Excise Board for approval.

**Auditor Response:** We recommend that evidence of this review be documented in the Board meeting minutes.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitutes 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.

**Finding: Inadequate Internal Controls Over the Collection of Revenue**

**Condition:** Upon inquiry of the District Administrator and observation of the collection of revenue process, we determined that the same employee opens the mail, issues receipts, prepares the deposit, deposits with the financial institution, and reconciles monthly bank statements.

**Cause of Condition:** Procedures have not been designed and implemented due to the District employing only one employee to perform the duties of revenue collection.

**Effect of Condition:** A single employee having responsibility for more than one area of the collection process could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

**Recommendation:** OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that the collection over the revenue process is adequately segregated.

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

- Issuing receipts for mail-in or electronic payments.
- Preparing the deposit slip.
- Delivering the deposit to financial institution.

Further, OSAI recommends the individual performing the duties of reconciling monthly bank reconciliations, initial and date the work performed. It is also recommended, a review of the reconciliation of monthly bank statements be performed and the individual responsible for the review initial and date to provide evidence of the review process.

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 funds of the office, and having management review and approval of key accounting functions.



**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

---

**Management Response:** The District employs only one office employee. All financial transactions are reviewed by the Board at monthly meetings.

**Auditor Response:** The duties over the collection of revenues are not adequately segregated.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

<p><b>Objective 2:</b> To determine the District's financial operations complied with 62 O.S. § 517.4, which requires deposits with financial institutions be secured with collateral securities or instruments.</p>
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**Conclusion:** With respect to the days tested, the District complied with 62 O.S. § 517.4, which requires deposits with financial institutions be secured with collateral securities or instruments. However, internal controls over the monitoring of pledged collateral should be strengthened.

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

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

**Finding: Inadequate Internal Controls Over Monitoring Pledged Collateral**

**Condition:** Upon discussion with the District Administrator, observation, and review of documents, it was noted that the District did not monitor bank balances to ensure that balances exceeding the FDIC limit of \$250,000 are properly collateralized.

**Cause of Condition:** The District is aware of the possibility of exceeding the \$250,000 FDIC limit, but was not knowledgeable with regard to securing additional collateral for bank deposits in excess of \$250,000.

**Effect of Condition:** This condition could result in the deposits of the District not being adequately safeguarded.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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**Recommendation:** OSAI recommends that the District Board establish policies and procedures to adequately safeguard the deposits of the District to ensure that funds are adequately secured. Further, OSAI recommends that an employee of the District monitor funds to ensure that the District complies with 62 O.S. § 517.4, which requires District deposits with financial institutions to be secured with collateral securities or instruments.

**Management Response:** Management will monitor bank balances more closely to make sure adequate collateral is maintained when the balance exceeds FDIC limit.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

<p>Objective 3: To determine the District's financial operations complied with 19 O.S. § 1710.1A, which outlines purposes for expending District funds.</p>
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**Conclusion:** With respect to the items tested, the District did not comply with 19 O.S. § 1710.1A, which outlines purposes for expending District funds.

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

- Gained an understanding of the internal controls related to the process of preparing purchase orders, authorizing payments, and documenting goods and services received, which included discussions with District personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
  - Selected a random sample of 100 expenditures (25 per year) to determine the expenditures were for the purpose of providing funds for the support, organization, operation, and maintenance of the District.

**Finding: Inadequate Internal Controls and Noncompliance Over the Expenditure Process**

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

- Purchase orders are not issued until the District receives an invoice.
- One employee generally orders goods and/or services and also receives goods and/or services.
- The District does not prepare receiving reports for goods and/or services.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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- The duties of preparing the purchase order, preparing the check and delivering the check, posting expenditures to accounting records, and reconciling the monthly bank statement to financial records are performed by the District Administrator.

Additionally, during the test of compliance, we noted the following:

- In six instances, expenditures did not have adequate supporting documentation to determine the expenditure was an allowable expense of the District.
- Four of these purchases were to the local grocery store for food and miscellaneous supplies.
- One purchase was to a local convenience store for fuel and miscellaneous supplies, and
- One purchase was to pay the balance of the Visa credit card for miscellaneous supplies.
- In one instance, an expenditure made was not an allowable expense of the District. This expense was for \$512.55 for travel thermoses imprinted with the name of the District.

Further, during our inquiry and observation of the expenditure process we noted that the District utilizes credit cards for certain expenditures.

- The District has a revolving credit account with Conoco/Phillips for three fuel cards that are in the name of the Administrator. The fuel cards are used to purchase fuel for the three ambulances.
- The District is in possession of a Visa credit card that is in the name of the Administrator. The credit card is a revolving credit account and has an \$18,000 credit limit. The credit card is used to pay expenses incurred by District personnel during transport of patients, or to conduct repairs on the ambulance.

**Cause of Condition:** Procedures have not been designed and implemented to adequately segregate the duties over the expenditure process due to the District employing only one employee in regard to the expenditure process. Credit cards have been used by the District for several years in order to expedite the expenditure process for travel related expenses.

**Effect of Condition:** These conditions could result in unrecorded transaction, misstated financial reports, undetected errors, or misappropriation of funds. Further, the use of credit cards presents an opportunity for misappropriation of funds. The use of a revolving line of credit, such as a credit card, is not authorized by Oklahoma State Statute.

**Recommendation:** OSAI recommends the District design and implement procedures to ensure a proper segregation of duties over the expenditure process and provide adequate documentation of expenditures to determine that expenses are for the operation of the District.

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

- An employee, who orders goods and/or services, is separate from the employee that requisitioned the purchase order.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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- An employee who signs a receiving report, as receiving officer, is separate from the two employees ordering goods and/or services and requisitioning the purchase order.

Additionally, the District Board should examine expenditures to determine that each expense is for the operation of the District, prior to approving payment. Further, OSAI recommends the District close all credit card accounts and reimburse legitimate travel expenses to the employees. The supporting documentation for these expenses would be receipts for meals and/or hotel receipts. With regard to the purchase of fuel for ambulances, the District should consider using fuel cards with a state authorized vendor through Office of Management and Enterprise Services (OMES).

**Management Response:** As an emergency medical service, the EMS or its employees have no prior knowledge of events that may result in employees being a long distance from the base of operations for several hours. The use of credit cards assures these employees have the means to purchase fuel for the ambulance and to have meals during this time.

**Auditor Response:** There is no statutory authority for the District to purchase goods and services with a revolving credit card.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. Additionally, 19 O.S. § 1710.1A, should be followed as a guideline for the expenditure of funds for the operation of the District.

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

**Conclusion:** With respect to the items tested, the District did not comply with 19 O.S. § 1723, which requires that purchases in excess of \$7,500 be competitively bid.

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

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

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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**Finding: Inadequate Internal Controls and Noncompliance Over the Bidding Process**

**Condition:** Upon inquiry of the District Administrator, it was noted that internal controls over the bidding process have been designed, but have not been implemented. However, during observation of documents, including the expenditures for the audit period, we noted the following two purchases exceeding \$7,500 were not competitively bid:

- Board of Trustee minutes dated July 7, 2008, reflected that the Administrator attempted to obtain three phone quotes for the purchase of a MRX Monitor for \$20,430.00. However, only one quoted was received; therefore, the Board considered the monitor a “sole source” and proceeded to purchase the item from this vendor.
- Board of Trustee minutes dated April 4, 2010, reflected that the Administrator researched the purchase of a ventilator, including the State Bid contract, and reported that one vendor could supply the type of ventilator needed. The Board agreed to purchase the ventilator for \$14,918.00. The minutes cited this vendor as “sole source.”

These purchases were both cited in the Board of Trustees’ meeting minutes as being “sole source.” However, the District did not follow bidding procedures to determine that the item was sole source.

**Cause of Condition:** The Board was unaware of the need to follow bidding procedures to determine that an item is “sole source.”

**Effect of Condition:** These conditions resulted in noncompliance with the bidding laws and could result in loss or misappropriation of District funds.

**Recommendation:** OSAI recommends the District implement procedures to ensure bidding is properly performed to determine items are truly “sole source.” These procedures should include publication of specific requirements for possible vendors, and the determination of “sole source” should be documented in the minutes of the Board of Trustees.

**Management Response:** Some specific equipment can only be purchased from the manufacturer; therefore, we considered these items as sole source suppliers.

**Auditor Response:** The District did not comply with 19 O.S. § 1723, which requires purchases over \$7,500 be competitively bid.

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

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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**Objective 5:** To determine if the District's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

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

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

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

**Finding: Inadequate Internal Controls Over Payroll Expenditures**

**Condition:** It was determined through discussion with the District Administrator, observation, and review of documents that the payroll process was not adequately segregated due to the following:

- The District Administrator prepares timesheets for all employees and prepares a Schedule for Payment.
- The Schedule for Payment is not reviewed by another employee or Board member of the District.
- The District Administrator also prepares the payroll claim, calculates withholdings, and prints and distributes payroll checks.

**Cause of Condition:** Procedures have not been designed and implemented regarding segregation of duties over the payroll process.

**Effect of Condition:** These conditions could result in errors and/or misappropriation with regard to the accurate reporting of payroll expenditures.

**Recommendation:** OSAI recommends that all employees of the District complete a timesheet and sign and date it. The timesheet should then be reviewed by another employee of the District and verified to the Schedule for Payment prepared by the Administrator. OSAI also recommends the District be aware of the concentration of duties performed by the Administrator and design internal controls to analyze and check accuracy, completeness, authorization, and validity of transactions.

**Management Response:** Payroll is reviewed by the EMS Board each month. Employees are on call from their homes located in different towns in the County. It would be difficult for each employee to have to come to the EMS office each month to sign a timesheet.

**Auditor Response:** The duties regarding payroll expenditures are not adequately segregated.

**Criteria:** Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process affected by an

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and/or misappropriation of funds.

All Objectives:

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

**Finding: Inadequate District-Wide Controls**

**Condition:** District-wide controls regarding Risk Management and Monitoring have not been designed.

**Cause of Condition:** Procedures have not been designed to address risks of the District.

**Effect of Condition:** This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

**Recommendation:** OSAI recommends that the District design procedures to identify and address risks. OSAI also recommends that the District design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the District's policies and procedures handbook.

**Management Response:** Each Board member has a copy of the Oklahoma EMS Board Member Handbook that covers each of these issues. The EMS Board will work more closely on complying with the handbook.

**Criteria:** Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. District management is responsible for designing a district-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

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.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

**Finding: Disaster Recovery Plan**

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

**Cause of Condition:** A formal, written Disaster Recovery Plan over the accounting and bookkeeping process has not been designed due to the District being unaware for the need of such a procedure.

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

**Recommendation:** OSAI recommends the District develop a formal, written Disaster Recovery Plan to safeguard the assets of the District from being unable to operate financially during the event of a disaster. Further, management should ensure that a written Disaster Recovery Plan contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;
- Training and/or awareness of individual and group roles in continuing plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;

**Management Response:** The EMS Board will work to create an effective Disaster Recovery Plan.

**Criteria:** An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. Internal controls over safeguarding of assets constitute a process, affected by an



**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention in a District being unable to function in the event of a disaster.

Other Item(s) Noted:

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

**Finding: Inadequate Internal Controls and Noncompliance Over the Audit Expense Account**

**Condition:** Upon inquiry of District personnel and observation of the budgeting process, it was determined that internal controls have not been designed and implemented to ensure the amount required by statute is correctly budgeted for the audit expense account. The District relies on the "budget maker" to calculate the required amount for the audit expense account with no independent oversight by employees of the District or members of the Board of Trustees.

Further, the audit expense account on the 2012-2013 Estimate of Needs should reflect a balance of \$36,260.79 in appropriations. The District Estimate of Needs reflects a balance of \$42,648.00 in appropriations. Thus, the appropriations are overstated in the amount of \$6,387.21.

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

**Effect of Condition:** This condition resulted in noncompliance with the state statute.

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

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

**Management Response:** The EMS Board does not know the total assessed valuation of the District before the Estimate of Needs is prepared by the budget maker.

**ELLIS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT**

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**Auditor Response:** As part of the approval process, the EMS Board should obtain the assessed valuation from the Ellis County Clerk and recalculate the amount required for the audit expense account.

**Criteria:** 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.

Further, according to 19 O.S. § 1706.1, the District must appropriate the net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation of the District for audit expenses.



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