

OPERATIONAL AUDIT

GREER COUNTY SPECIAL AMBULANCE SERVICE DISTRICT

For the period July 1, 2011 through June 30, 2012



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**GREER COUNTY SPECIAL AMBULANCE SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2011 THROUGH JUNE 30, 2012**

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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December 13, 2013

TO GREER COUNTY SPECIAL AMBULANCE SERVICE DISTRICT

Transmitted herewith is the audit report of Greer County Special Ambulance Service District for the period of July 1, 2011 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

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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

David Kirby	Chairman
Jim Scivally.....	Vice-Chairman
Robert Garton.....	Board Member
Jerry Adams	Board Member
Steven Slaton	Board Member
Balma Brignon.....	District Treasurer
Scott Augustine.....	Administrator

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

	<u>FY 2012</u>
Beginning Cash Balance, July 1, 2011	\$ 90,378
Collections	
Ad Valorem Tax	51,069
Charges for Services	422,533
Miscellaneous	9,216
Total Collections	<u>482,818</u>
Disbursements	
Personal Services	223,206
Travel	28,011
Maintenance and Operations	178,800
Capital Outlay	75,774
Audit Expense	3,144
Total Disbursements	<u>508,935</u>
Ending Cash Balance, June 30, 2012	<u>\$ 64,261</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, 2011 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.

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

Conclusion: With respect to the items reconciled and reviewed; Greer County Special Ambulance Service District's (the District) collections, disbursements, and cash balances for FY 2012 appear to be accurately presented on the Estimate of Needs. However, internal controls over the collection of revenue 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 Collection of Revenue

Condition: Upon inquiry of District personnel with regard to the collection of the revenue process, we determined the following:

- One employee is responsible for performing the billing service of patients to various insurance companies or billing individuals for self-pay.
- The same employee is responsible for issuing receipts for collections from electronic deposits and collections received through the mail, posting to patient accounts, preparing deposit slips, and depositing at the financial institution.
- Although a separate individual performs monthly bank reconciliations and maintains the District general ledger, the individual does not initial and date the reconciliation. There is no evidence of an independent review by someone separate from the individual performing the monthly bank reconciliations.

Cause of Condition: Procedures have not designed and implemented for segregation of duties over the receipting, depositing, and accounting of collections received by the District.

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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: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends the District design and implement procedures to ensure a proper segregation of duties over the receipting process. OSAI recommends the following key accounting functions of the collection of revenue process be adequately segregated:

- Issuing receipts for mail or electronic payments.
- Posting payments received to patient's accounts in the computer system.
- Preparing the deposit slip.
- Depositing at the 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 functions of the office, and having management review and approval of key accounting functions.

Management Response: We have a small office staff this is limited to one office clerk and an administrator. We also have an independent accountant, who reconciles the bank statements and writes all the checks. The checks are signed by two of the Board of Directors at the monthly meeting along with the review of the purchase orders and claims. The administrator picks up the mail and opens it in front of the office clerk. The office clerk writes receipts for the checks or direct deposits. The cash and checks are taken to the bank for deposit by the administrator or one of the full-time medics. We try to maintain as much separation and segregation of duties as possible.

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.

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Objective 2: 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.

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.

- The District deposits all collections into the operating bank account.
- The operating bank account for the District was covered in excess of deposits in the amounts of \$120,000.00 to \$160,000.00 during the fiscal year.
- The District monitors the bank account on a daily basis by utilizing online banking.

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

- Gained an understanding of the internal controls related to pledge collateral through discussions with District personnel and observation of daily online monitoring of deposits.
- Tested internal controls, which included discussions with District personnel and observation of the daily online monitoring of deposits with the financial institution. Each day the operating account is accessed using online services to ensure deposits with the financial institution do not exceed coverage provided by the Federal Deposit Insurance Corporation of \$250,000.

Objective 3: To determine the District's financial operations complied with 19 O.S. § 1710.1A, which outlines purposes for expending District funds.

Conclusion: With respect to the items tested, the District generally complied with 19 O.S. § 1710.1A, which outlines purposes for expending District funds. However, internal controls over the expenditure process should be strengthened.

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 25 expenditures to determine the expenditures were for the purpose of providing funds for the support, organization, operation and maintenance of the District.

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Finding: Internal Control Weakness Over the Expenditure Process

Condition: Upon inquiry of District personnel and observation of records, it was determined that internal controls with regard to a proper segregation of duties over the expenditure process have been designed and implemented. However, the following internal control weaknesses were noted in our test of expenditures:

- Purchase orders are prepared after purchases are made using the invoice to backdate the activity documented on the purchase order.
- The District does not prepare receiving reports for goods and/or services received.

Cause of Condition: Procedures have not been implemented to encumber funds prior to the receiving of goods and/or services and prepare receiving reports for goods and/or services received due to the District being unaware of the need for such procedures.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends a proper segregation of duties over the expenditure process be implemented by the District. In addition, we recommend the District design and implement procedures to ensure funds are encumbered prior to the receiving of goods and/or services and receiving reports be prepared and attached to all purchase orders verifying the receipt of all goods and/or services.

Management Response: We have changed the way the purchase orders are prepared. The purchase order is encumbered and posted to the accounting records at the time of ordering. A requisition is made for the goods and services at that time, rather than after the receipt of goods and services. A receiving officer has been appointed and a file has been made to compare the ordering of goods and services to the items received and still outstanding. This is noted on a log sheet in the file.

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.

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

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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 internal controls which included discussions with District personnel and observation of written policies and procedures put into place for the bidding process by the District.
- Tested compliance of the significant law, which included the following:
 - Select 100% of purchases in excess of \$7,500 and determined that the District followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, and recording appropriate information in Board minutes.

Finding: Inadequate Internal Controls and Noncompliance Over Competitive Bidding

Condition: Upon inquiry of District personnel and observation of records, it was determined that internal controls with regard to the bidding process have been designed and implemented. However, the following noncompliance with the state statute was noted:

- The District prepared one bid for the fiscal year audited. The bid specifications noted the following:
 - (2) 2007 or newer Dodge Durango fully equipped emergency vehicles.
- The bid specifications appear to be restrictive as to the make and model of the vehicle.

Cause of Condition: Procedures have not been implemented to allow for bid specifications to include all possibilities of makes and models of emergency vehicles.

Effect of Condition: These conditions resulted in noncompliance with state statutes and could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: OSAI recommends the District design and implement procedures to ensure bid specifications are not brand specific so as to allow all possible vendors to participate in the bidding process.

Management Response: The District did not respond to this finding.

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

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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 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.
- Tested internal controls, which included reviewing a random sample of 6 of 12 monthly payroll claims for the following:
 - Ensuring that payroll claims reflected authorized signatures of the Administrator, Purchasing Agent, and District Treasurer, attesting all supporting document was attached to the payroll claim prior to submission of payment.
 - Ensuring that payroll claims were approved by the District Board, reflected the authorized signature of the Chairman of the Board, and payroll checks were signed by two board members other than the Chairman.

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.

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Management Response: The District will discuss risk and how to monitor those risks at monthly meetings.

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.

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.



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