

OPERATIONAL AUDIT

JOHNSTON 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 A. Jones, CPA, CFE

**JOHNSTON 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

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

March 26, 2012

TO JOHNSTON COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Johnston 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, with a long horizontal line extending from 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:

Jerold PhillipsChairman of the Board
Sharon BevillVice-Chairman
Denise WestSecretary/Treasurer
John GermanyBoard Member
Scott Hutchings.....Board Member

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

Beginning Cash Balance, July 1, 2010	<u>\$ 998,256</u>
Collections	
Ad Valorem Tax	174,635
Charges for Services	449,883
Intergovernmental Revenues	150
Sales Tax	57,307
Miscellaneous	2,351
Total Collections	<u>684,326</u>
Disbursements	
Personal Services	380,119
Maintenance and Operations	166,641
Total Disbursements	<u>546,760</u>
Ending Cash Balance, June 30, 2011	<u><u>\$ 1,135,822</u></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 not 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 District’s Statement of Activity Report.
 - Reconciled warrants issued presented on the Estimate of Needs to the District’s Statement of Activity Report.
 - Reviewed beginning and ending cash balances presented on the Estimate of Needs and reconciled to the District’s Statement of Activity Report.

Observation

Inadequate Internal Controls Over the Estimate of Needs

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the Estimate of Needs should reconcile to District ledgers. Additionally, there should be an independent verification of the reconciliation. Internal controls should be designed to analyze and check accuracy and completeness.

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 District Director or the District Board.
- The beginning balance at July 1, 2010, on the Estimate of Needs showed \$27,633.37 less than the District’s beginning balance on the Statement of Activity Report. Total Collections on the Estimate of Needs showed \$2,034.52 less than the District’s collections on the Statement of Activity Report. Total Warrants Issued on the Estimate of Needs showed \$31,668.69 less than the District’s expenses on the Statement of Activity Report. Also, the ending balance at June 30, 2011, on the Estimate of Needs showed \$21,142.55 less than the District’s ending balance on the Statement of Activity Report.

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.

**Management
Response**

JCEMS has determined after meeting with budget maker that the difference is due to outstanding warrants was taken into consideration. JCEMS will retain

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copies of everything pertaining to the Estimate of Needs. JCEMS will sign and reconcile with budget maker and require a worksheet from budget maker to determine how figures were obtained.

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, 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.

In addition, 62 O.S. § 517.3.B states in part, "The Treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind shall come into the possession of the treasurer by virtue of the office, in one or more financial institutions that have been designated as either state or county depositories, or both, and the acceptance of any such deposit from any such treasurer shall be tantamount to adoption, in relation thereto, of the same privileges and conditions, other than collateral security, as are now provided by law in acceptance of designation as state or county depositories."

Based upon inquiry and observation of the receipting process, the following was noted:

- The District office has one employee who opens the mail, issues receipts, pulls explanation of benefits for Medicare payments from the computer system and posts payments to the patient accounts. The District office has another employee who prepares the deposit, reconciles all bank accounts, posts to the District's accounting records, shares in the

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responsibility of delivering the deposit to the bank and can make additions and changes to the accounting records.

- The bank reconciliation is not reviewed or approved by anyone other than the original preparer.
- Generic receipts are being used by the District and no one monitors the sequence of the unused receipt books. The unused receipt books are maintained in an unlocked cabinet and there is no listing of the unused receipt books.
- The District office does not deposit daily.

This condition 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 mail, issuing receipts, depositing funds, 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 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. Additionally, OSAI recommends that the District use pre-printed receipt books that are issued in numerical sequence and that all monies collected be deposited daily.

Management Response

JCEMS does not have the personnel to meet all requirements, but will work towards more internal controls. Bank reconciliations will be reviewed and signed by the Director, JCEMS will document dates and numbers on each receipt book, and JCEMS will make daily 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.

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Observation

Inadequate Segregation of Duties Over the Expenditures Process

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. Further, all expenditures should be made in accordance with state statutes.

Based upon inquiry and observation of the expenditures process, there are no controls to ensure all expenditures are recorded in the accounting records and that all expenditures are valid purchases of the District. The following items were noted:

- The District office has one employee who prepares the purchase order, prepares the checks, signs the checks, mails the checks to the vendors, and posts to the accounting records.
- The Director prepares the Statement of Activity Sheet from the Accounts Payable Profit and Loss Sheet; however, he does not verify the expenditures numbers, he just transfers the numbers over from the Profit and Loss Sheet.
- Unissued checks that are currently being used are kept in a locked file cabinet; however, the remaining unissued checks that are not being used are kept in a box beside the file cabinet.
- The District does not have designated requisitioning and receiving officers. The District does file the names of requisitioning and receiving officers that are used for purchase orders that go through the County with the County Clerk's office.
- The District utilizes credit cards from a local vendor for purchases. However, there is no statutory authority for an EMS to have a credit card. These cards are maintained in the Director's possession.

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 that the District not have the same person prepare the purchase orders, prepare the checks, sign the checks, mail the checks to the vendors, and post to the accounting records. Also, the amounts shown on the Accounts Payable Profit and Loss Sheet should be reconciled prior to transferring over to the Statement of Activity Sheet. All blank checks should be maintained in a safe and secure location, such as a locked filing cabinet. The District should designate requisitioning and receiving officers and these should be approved by the Board on a yearly basis. OSAI recommends that the District comply with

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state statutes regarding purchasing. If the District Board chooses to continue utilizing the credit card for purchases, we recommend that procedures be designed to ensure all purchases are properly authorized, to ensure all expenditures are accurately reported in the accounting records, and to ensure the credit card is safeguarded from unauthorized use.

OSAI further recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

**Management
Response**

JCEMS does have signatures from the Director and Board member on checks. The director signs, places in envelopes, signs invoices, AP clerk verifies packing slip to invoice for accuracy. If not verified, the Director investigates and provides documentation for accuracy. JCEMS will obtain signatures on packing slips from receiving officers, and Director will approve invoice and AP clerk will verify all before payment will be issued. All checks are secured in office. JCEMS will appoint requisition and receiving officers internally and credit cards are secured in Directors office. Director will implement a log sheet to document the use and authorization of credit cards.

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 was accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the 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

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transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

Based upon inquiry and observation of the payroll process, the following was noted:

- The District office has one employee who prepares the payroll, enters information into the computer on new employees, prepares the payroll checks, signs the payroll checks, and enters payroll changes.
- Payroll changes are not reviewed and approved by someone independent of the preparer.
- Timesheets are completed by all employees except the Director. Timesheets are signed by the employee but they are not signed by the Supervisor as being reviewed and approved.

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 entering information into the computer for new employees, preparing the payroll checks, signing the payroll checks, preparing the year end reports and quarterly reports, or making changes or additions to the accounting records concerning payroll. OSAI recommends that management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions. OSAI further recommends that timesheets be completed by all employees, including the Director, in order to document vacation and sick leave used and to document hours worked. Also, the timesheets should be signed by the employee and reviewed and approved by the Supervisor.

**Management
Response**

The Director currently signs off on payroll changes and timesheets. The Director will review and sign off payroll report before checks are written. The Director is salary position and only fills out a timesheet for days off. The Director will work to ensure that all timesheets are signed by the employees.

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

Conclusion The District's internal controls do not provide reasonable assurance that fixed asset inventory was accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

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

Observation **Inadequate Internal Controls Over Fixed Asset Inventory**

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 the entity's assets and safeguard assets from loss, damage, or misappropriation.

Based upon inquiry and observation of the fixed assets and inventories process, the following was noted:

- The District does not maintain supporting documentation of an annual physical count of fixed asset inventory items.
- The District's fixed assets are not identified or marked as property of Johnston County EMS District.

Failure to provide adequate internal controls over fixed asset inventory could result in inaccurate fixed asset records, unauthorized use or misappropriation of fixed assets

Recommendation OSAI recommends management maintain a complete and up-to-date fixed asset inventory listing to include description, serial number, model number, date of purchase and cost on an annual basis. OSAI also recommends management affix identification tags denoting property of Johnston County EMS District to all fixed asset inventory items. OSAI further recommends that the District perform an annual physical count of fixed asset items and supporting documentation of the count be maintained.

Management Response JCEMS will maintain supporting documentation that inventory is verified and updated annually, and will ensure that all assets have identification tags.

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Objective 6: To determine the District's internal controls provide reasonable assurance that consumable inventories were accurately reported in the accounting records.

Conclusion The District's internal controls do not provide reasonable assurance that consumable inventories 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 consumable inventory process through discussions with District personnel, observation and review of documents.

Observation **Inadequate Internal Controls Over the Consumable Inventory Process**

An important aspect of internal controls is the safeguarding of consumable inventory. Internal controls over safeguarding consumable inventory 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 the entities consumable inventory and safeguard consumable inventory from loss, damage, or misappropriation.

Based upon inquiry and observation of the consumable inventory process, the following was noted:

- Internal controls are not designed to prevent unauthorized access to consumable inventories. There are no procedures in place to record balances and monitor usage of consumable inventories.

Failure to provide adequate internal controls over consumable inventory could result in inaccurate consumable inventory records, unauthorized use of inventory, or misappropriation of inventory.

Recommendation OSAI recommends that the District maintain a consumable inventory listing in order to keep track of the balances on hand and to monitor the usage of consumable inventories.

Management Response JCEMS will work toward implementing a consumable inventory beginning with a sign out list. JCEMS will investigate the purchase of an inventory control program.

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Objective 7: 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 items tested, 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.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to pledged collateral through discussions with the District, observation and review of records and documentation.
- Judgmentally selected the day with the highest balance for each month at all banks containing District funds from July 1, 2008 through June 30, 2011, to determine if the District's funds were adequately secured as required by 62 O.S. §517.4.

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.

Based upon inquiry and observation of the pledged collateral process, the following was noted:

- The District has not properly designed and implemented internal controls to ensure deposits with banks are adequately secured on a daily basis.

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

Recommendation OSAI recommends that the District implement a system of internal controls to provide reasonable assurance the District funds are adequately secured. Amounts of pledged collateral should be compared to bank balances on a daily basis to ensure that District funds are adequately secured.

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**Management
Response**

The bank monitors the amounts and provides monthly reports of pledged collateral. JCEMS verifies that funds are properly secured on a monthly basis.

All Objectives:

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

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 met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. District management is responsible for designing 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

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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 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 JCEMS will consider recommendation and work towards an acceptable plan of action.

Observation **Disaster Recovery Plan**

Disaster Recovery Plan(s) are an integral part of operations to ensure that business can be continued as usual in the event of a disaster. The District should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;

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- Rules 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;
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined;
- Training and/or awareness of individual and group roles in continuity plan;
- Listing of contracted service providers;
- Logistical information on location of key resources, including backup site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

A Disaster Recovery Plan is not in place for the Johnston County Emergency Medical Service District. There is no procedure addressing how critical information and systems would be restored in the event of a disaster. In addition, back-up tapes are stored in an unlocked book shelf at the District office. The District does not store their back-up tapes in a safe, secure location, away from the District office.

Failure to have a current Disaster Recovery Plan could result in the District being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and/or systems would be restored could cause significant problems in ensuring that District business could continue without interruption.

Recommendation

OSAI recommends the District develop a Disaster Recovery Plan that has a procedure that addresses how critical information and systems would be restored in the event of a disaster. OSAI further recommends the District store their back-up tapes in a safe, secure location away from the District office, such as a safe deposit box, where information could be easily retrieved in the event of a disaster.

**Management
Response**

JCEMS currently maintains back up disks. JCEMS will work toward a well established disaster recovery plan.

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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. As a result, the correct amount was not budgeted for the audit account for the 2011-2012 Estimate of Needs. The amount budgeted was \$11,755 and should have been \$17,379.22.

This condition could result in noncompliance with state statutes.

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 Director contacted OSAI and was told via telephone there was no balance left to pay. JCEMS and budget maker chose to lapse the balance into the general fund. In the future, JCEMS will obtain written documentation before the balance is lapsed.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV