

OPERATIONAL AUDIT

KINGFISHER COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the period November 1, 2009 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

**KINGFISHER COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD NOVEMBER 1, 2009 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 6, 2012

TO KINGFISHER COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Kingfisher County Emergency Medical Service District for the period November 1, 2009 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

Scott McCarthy	Chairman of the Board
Ronnie Fry	Vice-Chairman
Trena Gardner	Treasurer
Robert Dambold.....	Secretary
Gary Reid.....	Board Member

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

Beginning Cash Balance, July 1, 2011	\$ 37,891
Collections	
Ad Valorem Tax	273,849
Charges for Services	-
Miscellaneous	-
Total Collections	<u>273,849</u>
Disbursements	
Payments to Ambulance Provider	247,774
Maintenance and Operations	3,309
Total Disbursements	<u>251,083</u>
Ending Cash Balance, June 30, 2012	<u>\$ 60,657</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 November 1, 2009 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 2011 were accurately presented on the Estimate of Needs.

Conclusion: With respect to the items reconciled and reviewed; the District's collections, disbursements, and cash balances for the FY 2012 appear to be accurately presented on the Estimate of Needs. However, 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 the collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.
- Performed the following to ensure that collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs.
 - Reconciled collections presented on the Estimate of Needs to collections deposited by the District.
 - Reconciled checks issued presented on the Estimate of Needs to disbursements.
 - Re-performed bank reconciliation at June 30, 2012, to determine that the ending balance on bank statement agreed to the District's records and the Estimate of Needs.

Finding: Inadequate Controls over the Estimate of Needs

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

Cause of Condition: Procedures have not been designed to provide documentation of the review of the Estimate of Needs prior to its approval.

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

Recommendation: OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that collections, disbursements, and cash balances are accurately presented on the District's Estimate of Needs. Such controls would include a comparison of the financial records to the Estimate of Needs prior to the District Board of Trustees approval.

Management Response: The District has implemented such controls that include a comparison of the financial records to the Estimate of Needs prior to the District Board of Trustees approval.

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

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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.

Finding: Inadequate Controls over the Revenue Process

Condition: Upon inquiry of District personnel, we determined that the following weakness exists in the procedures for recording revenue:

- One individual receives the checks, deposits the checks, records the deposits and reconciles the bank account.

Cause of Condition: Procedures have not been designed to adequately separate the duties regarding the revenue process.

Effect of Condition: A single person having responsibility for more than one area of recording, authorization, custody of assets, and reconciliation 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 adequately separate the duties of receipting, depositing, and maintaining ledgers. In the event that segregation of duties is not possible, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. An example of a mitigating control would be: An individual separate from the receipting and depositing process obtain a listing of checks issued from the County and tracing those checks to the bank statement to ascertain that the correct amounts were deposited.

Management Response: The Vice-Chairman obtains a listing of checks issued from the County and traces those checks to the bank to ascertain that the correct amounts have been deposited.

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.

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.
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Conclusion: With respect to the audit period, the District complied with 62 O.S. §517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

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

- We reviewed the bank balances for the audit period and determined that FDIC was adequate and additional collateral securities or instruments were not necessary to safeguard the District's deposits.

Finding: Inadequate Controls over Pledged Collateral

Condition: It was determined through conversation with Board members that internal controls had not been established to monitor the need for pledged collateral. The Board has not established a policy to safeguard deposits if they exceed \$250,000.

Cause of Condition: The District had not considered the possibility that deposits could exceed \$250,000.

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

Recommendation: OSAI recommends that the District Board establish policies and procedures to adequately safeguard the deposits of the District, especially in the event that bank deposits exceed \$250,000.

Management Response: The Board reviewed this finding and approved it in the July 11, 2012 meeting; opening a second account, if the amount in the main account exceeds \$250,000.

Criteria: Effective internal controls require that monitoring of bank balances be adequately documented to allow for the safeguarding of assets on deposit.

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 expenditures during our audit period, the District complied with 19 O.S. §1710.1A, which requires that collections be expended for the purposes of supporting, organizing, operating and maintaining ambulance services. However, controls over the expenditure process should be strengthened.

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

- Gained an understanding of internal controls related to the process of authorizing, preparing and recording expenditures through conversation with the District Treasurer, observation, and review of documents.
- Tested all expenditures issued during the audit period (29 checks) to ascertain that they were made for purposes outlined by 19 O.S. §1710.1A.

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Finding: Inadequate Controls over the Expenditure Process

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

- One individual is preparing, signing, recording the check, and reconciling the bank statement to the accounting records.
- The Board meeting minutes, in which some of the expenditure approvals were mentioned, were not signed or dated to indicate approval of the minutes and the expenditures listed.

Cause of Condition: The Board has not established procedures to segregate duties, nor has it established mitigating procedures to offset the concentration of duties performed by one individual.

Effect of Condition: 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 separating the duties of preparing the check, signing the check, approving the invoice, posting the expenditures to accounting records, and reconciling the bank statement to accounting records. In the event that segregation of duties is not possible, OSAI recommends implementing compensating controls to mitigate the risks associated with a concentration of duties assigned to one individual.

Management Response: The Vice-Chairman is now reconciling the bank statements to accounting records prepared by the Treasurer. Meeting minutes now have a signature sheet for approval that is dated to indicate the Board's approval of the minutes and expenditures.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be established to analyze and check accuracy, completeness, authorization and validity of transactions.

Objective 4: To determine if the District complied with 19 O.S. § 1710.1C regarding provider contracts.
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Conclusion: The District complied with 19 O.S. §1710.1C, which requires that Districts utilize at least ninety percent of revenue collected for payment of contracts to ambulance providers. However, controls over the recalculation and review of the amounts remitted to the provider should be strengthened.

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

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

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- Tested compliance with contractual obligations, which included recalculating the amount to be provided by:
 - Obtaining the amount of ad valorem received.
 - Determining the amount that constituted ninety percent.
 - Ensuring that the amount remitted to the contracted service provider equaled or exceeded the calculated amount.

Finding: Inadequate Controls over Provider Contract Amounts

Condition: There is no documentation of the amount paid to the contracted ambulance provider being reviewed or recalculated, by a person independent of the initial calculations.

Cause of Condition: Procedures have not been implemented to provide for the recalculation and/or review of the amounts remitted to the contracted ambulance provider.

Effect of Condition: This condition could result in errors in the amount remitted and noncompliance with 19 O.S. §1710.1C.

Recommendation: OSAI recommends that the calculations of the amount remitted to the contracted ambulance provided be retained. OSAI further recommends that the calculations be re-performed or reviewed by a person independent of the initial calculations, and that review also be documented.

Management Response: Board members will independently confirm the ninety percent to be paid to the providers during the meetings before a vote is taken to approve payment to the provider.

Criteria: Effective internal controls require that internal controls be implemented to ensure compliance with 19 O.S. §1710.1C.

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 Assessment and Monitoring have not been designed.

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

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Effect of Condition: This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds. This condition has resulted in failure to obtain provider contracts for the fiscal years ending June 30, 2011 and June 30, 2012.

Recommendation: OSAI recommends that the District design procedures to identify and address risk. 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.

Examples of risk and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of Duties
Information loss to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
Board member turnover	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between board members	Periodic meetings to address items that should be included in the handbook and to determine if the District is meeting its goals and objectives
Annual Financial Statement	Review of financial statement of the District for accuracy and completeness
Audit findings	Determine if audit findings are corrected
Financial status	Periodic review of budgeted amounts to actual amounts and resolve unexplained variances
Policies and procedures	Ensure board members understand expectations in meeting the goals of the District
Follow up on complaints	Determine source of complaint and course of action for resolution
Estimate of Needs	Work together to ensure this financial document is accurate and complete.

Management Response: The Bylaws are being amended and the items as mentioned above are being added to them. The amended Bylaws are scheduled for review and will be voted on for approval in our next regularly scheduled meeting.

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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 controls 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 controls objectives.

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

Finding: Disaster Recovery Plan

Condition: Upon inquiry, the District does not have a formalized Disaster Recovery Plan.

Cause of Condition: Procedures have not been designed and implemented to prepare a formal Disaster Recovery Plan.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the District being unable to function in the event of a disaster. The lack of formal plan could cause significant problems in ensuring District business could continue uninterrupted.

Recommendation: OSAI recommends the District Board develop a Disaster Recovery Plan that addresses how critical information and systems within their offices would be restored in the event of a disaster.

Management Response: The Board is working on a formal 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 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.

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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.

Finding: Inadequate Internal Controls over the Audit Expense Account

Condition: Upon inquiry and observation of the budgeting process, it was determined that controls have not been designed or 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 by the District. The District budgeted \$1,938.57 and should have budgeted \$34,858.99.

Cause of Condition: Procedures have not been designed to ensure the audit account is accurately budgeted in accordance with statutory requirements.

Effect of Condition: This condition resulted in non-compliance 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: The accountant that prepares the Estimate of Needs will be invited to the next regularly scheduled meeting, January 9, 2013, to discuss changes which need to be made in the audit expense account that is included in our annual budget.

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 levy upon the net total assessed valuation of the District for audit expenses.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

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