

OPERATIONAL AUDIT

LOVE COUNTY EMERGENCY MEDICAL DISTRICT

For the period July 1, 2009 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

**LOVE COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2009 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

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May 23, 2012

TO LOVE COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Love County Emergency Medical Service District for the period July 1, 2009 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, appearing to read "Gary A. Jones", is written over a horizontal line.

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:

Marty Grisham.....Chairman of the Board
Stephen Hutchins Vice-Chairman
Lawrence Anderson Secretary
Marcella Kirk..... Treasurer
Jesse Kirk..... 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	\$ 14,962
Collections	
Ad Valorem Tax	180,924
Miscellaneous	46
Total Collections	<u>180,970</u>
Disbursements	
Contract Payments	156,249
Audit Budget Account	1,103
Maintenance and Operations	153
Total Disbursements	<u>157,505</u>
Ending Cash Balance, June 30, 2011	<u>\$ 38,427</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, 2009 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; the District’s collections, disbursements, and cash balances for FY 2011 were accurately presented on the Estimate of Needs.

Methodology To accomplish our objectives, 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 Assets, Liabilities and Fund Balance prepared by the Accountant.
 - Reconciled checks issued presented on the Estimate of Needs to the District’s disbursements on the General Ledger.
 - Reviewed beginning and ending cash balances presented on the Estimate of Needs and reconciled to the District’s Statement of Assets, Liabilities and Fund Balance prepared by the Accountant and to the General Ledger in total.

Inadequate Internal Controls Over the Estimate of Needs

Condition Upon inquiry and observation of the recordkeeping process, it was noted that there is no independent oversight of the accuracy of collections, disbursements, and cash balances on the Estimate of Needs by the Emergency Medical Service Treasurer or the District Board.

Cause of Condition Procedures have not been designed to review the Estimate of Needs for accuracy and ensure the Estimate of Needs reconciles to the District’s accounting records.

Effect of Condition These conditions could result in unrecorded transactions and undetected errors.

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 Documentation will be maintained that reflects the reconciliation of the June 30th ledger to the Estimate of Needs.

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.

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Objective 2: To determine if the District's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

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

Methodology To accomplish our objective, we performed the following:

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

Inadequate Segregation of Duties Over the Receipting Process

Condition Upon inquiry and observation of the receipting process, the following was noted:

- The District Treasurer opens the mail, reconciles the bank accounts, posts to the General Ledger/Check Ledger, makes changes to the General Ledger/Check Ledger, maintains the bank statements, prepares the deposit, and takes the deposit to the financial institution.
- The District does not issue receipts for monies received.
- The District does not maintain a mail log.

Cause of Condition Procedures have not been designed to properly account for all collections and to adequately segregate the duties regarding the receipting process.

Effect of Condition A single employee having responsibility for more than one area of recording, authorization, custody of assets, and reconciliation could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation OSAI recommends that the District separate the duties of receipting, depositing, and maintaining ledgers. OSAI recommends that receipts be issued for all collections. Further, a mail log should be maintained for all collections received in the mail. The mail log should be reviewed with the deposit ticket to ensure all collections were deposited. 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 these accounting functions.

Management Response Independent oversight will be performed by a separate board member.

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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.

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 expenditure process through discussions with District personnel, observation, and review of documents.

Inadequate Segregation of Duties Over the Expenditures Process

Condition The District Treasurer initiates the purchase, requisitions goods/services, checks invoice for accuracy, receives goods/services, prepares the checks, signs the checks as one of the two required signatures, and mails the checks to the vendors. Additionally, this employee posts to the accounting records and makes changes to the accounting records. It was further noted that the District does not prepare or issue purchase orders for expenditures.

Cause of Condition Procedures have not been designed to prepare purchase orders for expenditures and to adequately segregate the duties regarding the expenditures process.

Effect of Condition 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 the duties of maintaining accounting records, issuing checks, and distributing checks for payment be adequately segregated. The duties of requisitioning and receiving should be segregated. Purchase orders should be prepared for all expenditures of the District. The most effective controls lie in management’s overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to perform all accounting functions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved

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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**

Steps will be taken to correct this issue.

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.

Objective 4: 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.

Inadequate Internal Controls Over Fixed Asset Inventory

Condition

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

- The District does not maintain a fixed asset listing on an annual basis.
- The District does not perform an annual physical count of all inventory items.

Cause of Condition

Procedures have not been designed to perform an annual physical inventory to ensure all items are accounted for and included on the inventory records.

Effect of Condition

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

Recommendation

OSAI recommends that the District implement controls for the safeguarding of fixed assets. OSAI recommends management maintain a complete and up-to-date fixed asset inventory listing to include description, serial number, model number,

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date of purchase, and cost. OSAI also recommends that an annual physical count of fixed assets be performed and documentation be retained to verify that the physical count was performed.

**Management
Response**

Steps will be taken to correct this issue.

Criteria

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.

Objective 5:

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 the days tested, the District 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 personnel, observation, and review of records and documentation.
- Tested controls which included discussions with the District personnel, observation, and review of records and documentation. It was noted that during the budgetary process, the District verifies that the budgeted ad valorem collections, which are the only funds deposited in the District's bank account, will not exceed the amount covered by Federal Deposit Insurance Corporation.
- Tested compliance of the significant law which included the following:
 - Judgmentally selected the day with the highest balance for each month at all banks containing District funds from July 1, 2009 through June 30, 2011, to determine if the District's funds were adequately secured as required by 62 O.S. §517.4.

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Objective 6: To determine the District's financial operations complied with the service contract provision, which states that the District will provide to the service provider "all mill levy funds to be received from ad valorem taxation collected by the Love County Treasurer."

Conclusion The District's financial operations did not comply with the service contract provision, which states that the District will provide to the service provider all mill levy funds to be received from ad valorem taxation collected by the Love County Treasurer.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the service contract through discussions with the District personnel, observation, and review of records and documentation.
- Summarized the payments to the service provider and compared to the amount as indicated by the contract.

Inadequate Internal Controls Over the Districts Service Provider Contract

Condition Upon inquiry and observation of the District's contacting process, it was noted that there is no independent oversight or review to ensure compliance with contractual obligations by the District Board.

Cause of Condition Procedures have not been designed to ensure compliance with contractual obligations.

Effect of Condition These conditions could result in noncompliance with contractual obligations and undetected errors.

Recommendation OSAI recommends that the District implement a system of internal controls to ensure that the District is in compliance with their contractual obligations.

Management Response Steps will be taken to correct this issue.

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.

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Contract Provisions in Conflict with State Statute

Condition	The contract requires the District to pay all mill levy funds collected by the Love County Treasurer to the provider. It was noted that the District did not pay all mill levy funds collected to the provider. It was also noted that the contract provision is in conflict with 19 O.S. § 1706.1 which requires the net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation be appropriated and dedicated to the emergency medical service district audit. It was further noted that the contract is on a calendar year basis rather than a fiscal year basis.
Cause of Condition	Procedures have not been designed to ensure compliance with contractual obligations.
Effect of Condition	This resulted in noncompliance with contractual provisions.
Recommendation	OSAI recommends that the contract with the ambulance provider be re-written to comply with state statutes. OSAI further recommends that the contract be on a fiscal year basis where all contract payments for the fiscal year are made in the appropriate fiscal year.
Management Response	Steps will be taken to correct this issue.
Criteria	<p>The Interlocal Cooperative Agreement between the Love County Emergency Medical Services District Board of Trustees and the Love County Health Center requires that all mill levy funds received from ad valorem taxation collected by the Love County Treasurer be paid to the Love County Health Center.</p> <p>Title 19 O.S. § 1706.1 states in part, “The net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation in any emergency medical service district for any year which shall be authorized and mandatorily required to be appropriated and dedicated to emergency medical service district audit shall henceforth be restricted to and used only for audit...”</p>

All Objectives:

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

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Inadequate District-Wide Controls

- Condition** District-wide controls regarding Risk Assessment and Monitoring have not been designed.
- Cause of Condition** Lack of policies and procedures regarding district-wide controls regarding Risk Management and Monitoring.
- Effect of Condition** This condition could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.
- 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.

Examples of risks and procedures to address risk management:

Risks	Procedures
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Natural disasters	Written disaster recovery plans
New employee errors	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between Board Members and employees of the District	Periodic meetings to address items that should be included in the handbook and to determine if the District is meeting its goals and objectives
Audit findings	Determine audit findings are resolved in a timely manner.
Financial Status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances
Policies and procedures	Ensure employees understand expectations in meeting the goals of the District

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Following 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

Love County EMS will implement procedures to monitor controls and document the review process.

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 Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the District faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

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.

Other Item Noted:

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

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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 and implemented to ensure the amount required by statute is correctly budgeted for the audit budget account. It was further noted that the District has not been lapsing the balance into the audit account each fiscal year. As a result, the District's balance in the audit account as of June 30, 2011, was \$4,798.98. However, the correct balance should have been \$10,508.82.
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 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	Steps will be taken to correct this issue.
Criteria	<p>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.</p> <p>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.</p>



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