

OPERATIONAL AUDIT

# MAJOR 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

**MAJOR COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011**

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This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by Article 10, § 9C (i) of the Oklahoma Constitution and as defined by 19 O.S. § 1704.3, has not been printed, but is available on the agency's website ([www.sai.ok.gov](http://www.sai.ok.gov)) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



# Oklahoma State Auditor & Inspector

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May 31, 2012

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

Transmitted herewith is the audit report of Major 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, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at 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:**

Isaac Rieger, Jr. ....Chairman of the Board  
Mike Bales ..... Board Member  
Kenneth Palmer..... Board Member  
David Martens..... Board Member  
Barbara Davison ..... 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	\$ 474,117
Collections	
Ad Valorem Tax	258,530
Charges for Services	245,512
Intergovernmental	412
Miscellaneous	93,063
Total Collections	<u>597,517</u>
Disbursements	
Personal Services	293,325
Maintenance and Operations	78,814
Capital Outlay	19,048
Total Disbursements	<u>391,187</u>
Ending Cash Balance, June 30, 2011	<u>\$ 680,447</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.

<b>Objective 1:</b>	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.
- Performed the following procedures to ensure collections, disbursements, and cash balances were accurately presented on the District’s Estimate of Needs:

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Reconciled collections presented on the Estimate of Needs to collections deposited by the District.

- Reconciled issued checks presented on the Estimate of Needs to disbursements.
- Re-performed the reconciliation at June 30, 2011, to determine if all reconciling items were valid, and the ending balance on the financial records agreed to the ending balance on the bank statement.

**Observation**

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

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.

Upon inquiry and observation of the recordkeeping process, it was noted that there is no review of the accuracy of collections, disbursements, and cash balances on the Estimate of Needs by the District Administrator or the District Board of Trustees.

As a result, the following errors and omissions were noted:

- Revenues were coded incorrectly on the monthly general ledger reports prepared by the contracted bookkeeper.
  - Charges for services in the amount of \$7,324.13 were coded incorrectly as current ad valorem tax collections.
  - Interest earned on a certificate of deposit in the amount of \$307.50 was coded incorrectly as charges for service.
  - Revenue reported on the Estimate of Needs as intergovernmental revenue was coded as miscellaneous revenue on the monthly general ledger reports.
  - Interest is not regularly receipted by the contracted bookkeeper. Interest in the amount of \$3,951.56 was not receipted.
  - The re-performance of the bank reconciliation at June 30, 2011, revealed that the ending balance on the general ledger report does not agree to the ending balance on the bank statement.

These conditions could result in unrecorded transactions, misstated general ledger reports, undetected errors, or misappropriation of funds.

**Recommendation**

OSAI recommends that the District implement a system of internal controls to provide reasonable assurance collections, disbursements, and cash balances are

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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 approval by the District Board of Trustees. Additionally, interest should be recorded and accounted for in a timely manner.

**Management  
Response**

Given the size of the entity, we do not think it would be cost-effective to fully cure this deficiency at this time. Contracted Bookkeeper has changed ownership during the next fiscal year, and we expect many of the deficiencies to be improved and/or cured.

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

**Observation**

**Inadequate Internal Controls Over the Receipting Process**

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be separated. Internal controls should be designed to analyze and check accuracy, completeness, calculations and authorization of transactions.

Upon inquiry and observation of the receipting process, we noted the following conditions:

- One employee receives payments for services, issues receipts for collections, and prepares deposits.
- The District's contracted bookkeeper reconciles the bank statements, prepares the monthly financial records, prepares the year-end financial statements, and receives and deposits funds from Major County on behalf of the District.
- There is no review of the receipting process by the District Administrator or District Board of Trustees to mitigate the risks involved with a concentration of duties.



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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, undetected errors, or misappropriation of funds.

**Recommendation** OSAI recommends the District design internal controls to separate the duties of issuing receipts for collections, preparing deposits, reconciling bank statements, and preparing financial statements to minimize the risks involved with a concentration of duties. Compensating controls would include separating key processes or critical functions of the office and having management review and approve accounting functions. Additionally, OSAI recommends that the contracted bookkeeper no longer receive and deposit funds for the District. These funds should be sent directly to the District to be deposited.

**Management Response** Given the size of the entity, we do not think it would be cost-effective to fully cure this deficiency at this time. Management will look at these recommendations to implement those that are able to be utilized within the means that this entity can support.

**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 and the contracted bookkeeper, observation and review of documents.

**Observation** **Inadequate Internal Controls Over the Expenditure Process**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, calculations, and authorization of transactions. To help ensure a proper accounting of funds, the duties of preparing a check, posting expenditures to the accounting records, and reconciling bank statements to the accounting records should be separated.

Upon inquiry and observation of the expenditure process for the District, the following conditions were noted:

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- There is limited involvement by the District Administrator and/or members of the Board of Trustees over the expenditure process.
- The District’s contracted bookkeeper prepares all checks, records all expenditures, reconciles the bank statements to the accounting records, and prepares the financial statements without oversight of the District Administrator.

A single individual having responsibility for more than one area of recording, authorization, custody of assets, and reconciliations could result in unrecorded transactions, misstated financial reports, or misappropriations of funds not being detected in a timely manner.

**Recommendation** OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include the District Administrator review the expenditures prior to being sent to the contracted bookkeeper for payment and the Board of Trustees approving expenditures prior to purchase.

**Management Response** Procedures will be implemented to ensure these recommendations are addressed.

**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 County’s internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

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

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

**Observation** **Inadequate Internal Controls and Lack of 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 transactions. To help ensure a proper accounting of funds, the duties of enrolling new employees, processing, authorizing, and payroll distribution should be separated.

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

- The District Administrator enrolls new employees and prepares wage claims for all employees.
- Employees do not complete timesheets and do not review, approve or sign the wage claims prepared by the District Administrator.
- The District's contracted bookkeeper posts payroll information into the computer system, prepares federal and state withholding reports, prints checks for both payroll and state and federal withholdings, posts expenditures to the monthly general ledger reports, and prepares monthly financial statements.
- There is no review of the payroll process by the District Administrator or District Board of Trustees to mitigate the risks involved with a concentration of duties.

A single individual having responsibility for more than one area of recording, authorization, and execution of transactions could result in unrecorded transactions, misstated financial reports, or misappropriation of funds not being detected in a timely manner.

**Recommendation**

OSAI recommends the Major County EMS District employees prepare their own timesheets and sign them prior to submitting for review and approval by the District Administrator for pay. Additionally, the duties of preparing federal and state withholding reports, printing checks, posting expenditures to the monthly general ledger reports, and preparing monthly financial statements should be separated. If the duties cannot be separated, OSAI recommends implementing compensating controls to mitigate the risks involved which would include management review and approve the federal and state withholding reports, the calculation of payroll amounts, and thorough review of the monthly general ledger reports for accuracy.

**Management  
Response**

Given the size of the entity, we do not think it would be cost-effective to fully cure this deficiency at this time. Contracted Bookkeeper is a local CPA firm, which implements review procedures in preparation of the payroll and reporting duties. Procedures will be implemented to address management's involvement in reviewing monthly payroll and general ledger reports for accuracy. Procedures will be implemented to address employee approval of timesheets.

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**Objective 5:** To determine if the District's internal controls provide reasonable assurance that 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 the internal controls related to the fixed asset inventory process through discussions with District personnel and observation of the process.

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

An important aspect of internal controls is the safeguarding of assets, which includes adequate segregation of duties. Internal controls over safeguarding of assets constitutes a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of fixed assets and safeguarding inventory from loss, damage, or misappropriation.

Upon inquiry and observation of the internal control process over fixed asset inventory, the following was noted:

- The District does not maintain a list of fixed asset inventory.
- An annual physical count of all inventory items is not performed.
- The District does not have a policy or procedures in place related to accounting of fixed assets.

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

**Recommendation** OSAI recommends that the District implement policies and procedures to accurately maintain inventory records and segregate duties over inventory. Records should be maintained in such a manner that assets can be identified by serial number, date of acquisition, and purchase price. Further, an annual verification of fixed asset items should be performed to properly account for fixed assets.

**Management Response** Management agrees with the finding. The Board and the Contracted Bookkeeper will work together to implement a procedure that will ensure that the District's investments and deposits are adequately secured with pledged collateral.

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**Objective 6:** To determine the District's financial operations complied with 62 O.S. §517.4, which requires county deposits with financial institutions be secured with collateral securities or instruments.

**Conclusion** With respect to the days tested, the District did not comply with 62 O.S. § 517.4, which requires county 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 District Officials, observation and review of ledgers and documents.
- Tested compliance of the significant law, which included the following:
  - Compared the largest balances per month of the financial institution to the amount of pledged collateral to determine that deposits were adequately secured.

**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 constitutes a process, affected by an entity's governing body, management, and other personnel, designed to prevent or detect unauthorized transactions and misappropriation of funds.

Observation of the monthly bank statements for the thirty-six month period revealed that the District has not designed or implemented internal controls to ensure the District's investments and deposits are adequately secured with pledged securities.

Neither the District's Administrator nor Board of Trustees review bank balances as a secondary review to ensure the District's investments and deposits are adequately secured with pledged collateral.

Further, we noted that the District did not have adequate pledged securities to properly secure deposits and certificates of deposit for nine of the twelve months in fiscal year 2011-2012.

Failure to monitor bank balances and ensure adequate pledged collateral amounts could result in loss of District funds.

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**Recommendation** OSAI recommends that the District implement internal controls to ensure that the contracted bookkeeper and the District's management ensure that the District's investments and deposits are adequately secured with pledged collateral.

**Management Response** Management agrees with the finding. The Board and the Contracted Bookkeeper will work together to implement a procedure that will ensure that the District's investments and deposits are adequately secured with pledged collateral.

All 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 effective and efficient operations, reliable financial reporting and compliance with laws, regulations and contracts are met. Internal controls are comprised of the plans, methods, and procedures used to meet missions, goals, and objectives. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting error and fraud. District management is responsible for designing entity-wide internal controls comprised of Control Environment, Risk Assessment, Information and Communication, and Monitoring for achievement of these goals.

Risk Assessment is a component of internal control which should provide for the assessment of the risks from both internal and external sources that affect the District. Once risks have been identified, they should be analyzed for their possible effect. Management should then formulate an approach for risk management and determine the internal controls 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 relevant, reliable information, both financial and non-financial. 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 communication are broad-based and that information technology management assures useful, reliable, and continuous communication.

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Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisor 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 Risk Assessment, Information and Communication, and Monitoring have not been designed.

These conditions 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 to reduce or eliminate risk to the District as a whole.

**Management Response** Management agrees with the finding. The Board will address the recommendations as presented.

**Observation** **Inadequate Controls Over Recordkeeping**

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

Upon observation of the District's monthly general ledger reports prepared by the contracted bookkeeper, it was determined that the ending balance for May 2011, does not agree to the beginning balance for June 2011, with the variance being \$14,507.56. Discussion with the District personnel determined there is no review of the monthly general ledger reports by the District Administrator or the District Board of Trustees.

A single person having responsibility for all recordkeeping with no management oversight by the District Administrator or the District Board of Trustees 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 review the recordkeeping activities and ensure accuracy of the monthly general ledger reports and financial statements.

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**Management  
Response**

Contracted Bookkeeper has changed ownership during the next fiscal year and we expect many of the deficiencies to be improved and/or cured. The Board will address the recommendations as presented.

**Observation**

**Control Environment**

A key factor of an internal control system is the environment established by management. In addition, management's attitude, qualifications, and operating style become the foundation of all other internal control components.

As part of our audit we assessed the entity's internal control environment.

Upon inquiry and observation of the District Administrator, the District Board of Trustees, contracted employees, and District employees, we noted the following conditions:

- The District Administrator was unavailable during the work week for discussion. The District Administrator does not appear to conduct business during the week due to other employment.
- The recently hired secretary appears uninformed of the business activities for which she was hired to perform.
- There is no contract for the audit period with the billing service.
- There is no management oversight of the services provided by the contracted bookkeeper.

These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of assets.

**Recommendation**

OSAI recommends management be aware of these conditions and realize the most effective controls lie in managements attitude and operating style with regard to effective internal controls.

**Management  
Response**

Management agrees with the finding. The Board will address the recommendations as presented.

Other Items Noted:

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



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**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 budget process, it was determined that controls have not been designed and implemented to ensure the amount required by statute for the audit expense account is correctly appropriated. There is no recalculation of the one-tenth mill upon the net total assessed valuation to ensure the amount appropriated is correct.

As a result, the audit budget account was not budgeted in accordance with statute requirements. The audit account of the 2011-2012 Estimate of Needs should reflect \$38,114.32 in appropriations dedicated for the audit of the District. However, the audit account was incorrectly budgeted \$8,120 short.

This condition resulted in noncompliance with 19 O.S. § 1706.1.

**Recommendation**

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

Further, OSAI recommends the Administrator, or other member of management, recalculate the one-tenth mill upon the net total assessed valuation for the expense of the audit to ensure the accurate amount is appropriated and dedicated to the audit of the District.

**Management  
Response**

Management agrees with the finding. The Board will address the recommendations as presented.



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