

OPERATIONAL AUDIT

**MOUNTAIN VIEW - GOTEBO EMERGENCY
MEDICAL SERVICE DISTRICT**

For the period July 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

**MOUNTAIN VIEW-GOTEBO EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JULY 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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January 14, 2013

TO MOUNTAIN VIEW-GOTEBO EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Mountain View-Gotebo Emergency Medical Service District for the period July 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 that reads "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

Burt McCoyChairman of the Board
Gregory George Vice-Chairman
Billie Maloy Secretary
Robert Fobes Treasurer
Michael Dooley..... Board Member

Debra DeMarcus Administrator

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

Beginning Cash Balance, July 1, 2011	\$ 57,054
Collections	
Ad Valorem Tax	113,383
Charges for Services	20,255
Intergovernmental	204
Miscellaneous	658
Total Collections	<u>134,500</u>
Disbursements	
Personal Services	109,636
Maintenance and Operations	<u>36,222</u>
Total Disbursements	<u>145,858</u>
Ending Cash Balance, June 30, 2012	<u>\$ 45,696</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, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

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

Conclusion: With respect to the items reconciled and reviewed, the District's collections, disbursements, and cash balances for fiscal year 2012 appear to be accurately presented on the Estimate of Needs. However, controls over the collection of revenue should be strengthened.

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

- Gained an understanding of internal controls related to the process of accurately presenting collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.
- Reconciled and reviewed the accuracy of the District's Estimate of Needs to ensure collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs which included the following:
 - Reconciled collections presented on the Estimate of Needs to the District's financial records approved by the Board of Trustees.
 - Reconciled warrants issued presented on the Estimate of Needs to disbursements approved by the Board of Trustees and paid through the operating account of the District.
 - Reconciled the ending cash balances presented on the Estimate of Needs to the financial records of the District, including the bank reconciliation at June 30, 2012.

Finding: Inadequate Controls Over the Collection of Revenue

Condition: Upon inquiry of District personnel and observation of the collection of revenue process, we determined the following weaknesses were present in the control procedures:

- The same employee that opens the mail also has duties of issuing receipts, endorsing checks, depositing with the financial institution, and reconciling the monthly bank statement.
- The employee performing monthly bank reconciliation is not initialing and dating the reconciliation.
- There is no review by someone other than the preparer, independent of the monthly bank reconciliations.

Cause of Condition: Procedures have not been designed and implemented due to employees of the District being unaware of the need to segregate the critical processes of the revenue collection process.

Effect of Condition: A single employee having responsibility for more than one area of the collection process could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

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Recommendation: OSAI recommends that the District implement control procedures to provide reasonable assurance that the duties regarding the revenue collection process are adequately segregated.

OSAI recommends the following key accounting functions of the collection of revenue process be adequately segregated:

- Opening the mail
- Issuing receipts for collections
- Preparing the deposit slip
- Posting the receipt of payments to patient's accounts in the computer system

Further, OSAI recommends employees performing the duties of reconciling and reviewing, initial and date the work performed.

Management Response: The District has made changes to segregate the duties of collection of revenue to mitigate risks.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, reconciliations, and transaction authorization should be segregated.

Objective 2: To determine the District's financial operations complied with 62 O.S. § 517.4, which requires deposits with financial institutions be secured with collateral securities or instruments.

Conclusion: With respect to the days tested, the District complied with 62 O.S. § 517.4, which requires deposits with financial institutions be secured with collateral securities or instruments. However, controls over monitoring pledged securities should be strengthened.

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

- Gained an understanding of internal controls related to pledged collateral through discussions with District personnel, observation, and review of ledgers and documents.
- Tested compliance of the significant law, which included the following:
 - Selected the highest balance day for each month at all banks for the audit period, to determine if the District's funds were adequately secured as required by 62 O.S. § 517.4.

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Finding: Inadequate Controls Over Pledged Collateral Securities

Condition: The District has not designed and implemented control procedures to monitor the bank balance on a daily basis to ensure that District funds are adequately secured.

Cause of Condition: Procedures have not been designed and implemented due to the District being unaware of a need for such procedures.

Effect of Condition: Failure to monitor daily bank balances could result in unsecured funds and possible loss of District funds.

Recommendation: OSAI recommends that management of the District implement control procedures to ensure that District funds are adequately secured.

Management Response: The District has made changes to monitor the bank balance in order to adequately secure funds on deposit.

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.

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

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

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

- Gained an understanding of the internal controls related to the process of preparing purchase orders, authorizing payments, and documenting goods and services received, which included discussions with District personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Selected a random sample of 72 expenditures (24 per year), to determine that expenditures were for the purpose of providing funds for the support, organization, operation, and maintenance of the District.

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Finding: Inadequate Controls Over the Expenditure Process

Condition: Upon inquiry of District personnel and observation of records, it was determined that control procedures have not been implemented to ensure an adequate segregation of duties over the expenditure process of District funds due to the following:

- The Administrator orders goods and/or services, prepares purchase orders, receives goods and/or services, and prepares the check for payment.
- The District does not prepare receiving reports for goods and/or services received.

Cause of Condition: Procedures have not been designed and implemented to adequately segregate the duties over the expenditure process due to the District being unaware for the need of such procedures.

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

Recommendation: OSAI recommends the District design and implement procedures to ensure a proper segregation of duties over the expenditure process.

OSAI recommends the following key accounting functions of the expenditure process be adequately segregated:

- The employee, who orders goods and/or services, should be separate from the employee who requisitions District funds to be expended.
- An employee who verifies the receipt of goods and/or services using a receiving report, as receiving officer, should be separate from the two employees ordering goods and/or services and requisitioning District funds to be expended.

Management Response: The District has made changes to the expenditure process as recommended by the auditor.

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.

Finding: Noncompliance with Expenditure Statute

Condition: Our test of 72 expenditures, revealed one instance of noncompliance with regard to the expenditure statute.

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- District funds were expended for the purpose of reimbursing the Administrator for a gift card and picnic supplies totaling \$220.57, as noted on the purchase order.

Cause of Condition: District management was unaware of the compliance requirement over the expenditure of District funds.

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

Recommendation: OSAI recommends management comply with 19 O.S. § 1710.1A, to ensure goods and/or services are for the support, organization, operation, and maintenance of the District.

Management Response: The District has made changes so that these types of expenditures are not made in the future.

Criteria: Effective internal controls require that management properly implement procedures to ensure that expenditures of District funds comply with 19 O.S. §1710.1A.

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 expenditures were accurately reported in the accounting records.

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

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

Finding: Inadequate Controls Over the Payroll Expenditures

Condition: It was determined through discussion with District personnel, observation, and review of documents that the payroll process was not adequately segregated due to the following:

- The Administrator is responsible for the collection, review, and approval of all employee timesheets.
- The Administrator manually computes payroll amounts, and also writes and distributes all payroll checks.
- The Administrator enrolls new hires and maintains personnel files.

Cause of Condition: Procedures have not been designed and implemented for separating the duties over the payroll process due to the District being unaware of the need for such procedures.

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Effect of Condition: These conditions could result in errors and/or misappropriation with regard to the accurate reporting of payroll expenditures.

Recommendation: 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 compensatory 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.

Management Response: The District has made changes to the payroll process to segregate the duties as much as possible.

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 5: To determine if 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 the internal controls related to the consumable inventory process through discussions with District personnel, observation, and review of documents.

Finding: Inadequate Controls Over Consumable Inventories

Condition: Upon inquiry of District personnel and observation of documents, we determined that insufficient documentation of the controls has been implemented in the following manner:

- The employee performing the count of consumable inventory for the District is not signing or dating the inventory list.

Cause of Condition: The procedure of signing and dating the count of consumable inventory has not been performed to due to the District being unaware of the need for such procedures.

Effect of Condition: This condition could result in opportunities for loss and misappropriation of District assets to be more likely to occur.

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Recommendation: OSAI recommends all supporting documentation of consumable inventory counts, be signed and dated by the employee performing the duty to ensure that internal controls designed and implemented operate effectively.

Management Response: The District has implemented changes to inventory controls in which the employee performing the inventory count will sign and date the listing.

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 consumable inventories and safeguard assets from loss, damage, or misappropriation.

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

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

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

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

Finding: Inadequate Controls Over Fixed Asset Inventories

Condition: Upon inquiry of District's personnel and observation of records, we determined the following weaknesses in the control procedures:

- The District's fixed asset inventory list is included with the consumable inventory listing and does not contain information such as a description, the serial number, the cost, and the date of purchase for fixed asset items.
- The Board of Trustees has not established a policy regarding the minimum threshold for fixed asset items.
- The District did not document a physical inventory count of fixed assets.

Cause of Condition: The procedure of maintaining a complete fixed asset inventory listing and documenting a physical count has not been prepared due to the District being unaware of the need for such procedures. Additionally, the District was unaware that a policy regarding the dollar threshold for fixed assets should be developed.

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Effect of Condition: Opportunities for loss and misappropriation of District assets may be more likely to occur when the District does not maintain a fixed asset inventory list of items separate from consumable inventory.

Recommendation: OSAI recommends that management realize the importance of documenting fixed asset items on a separate inventory listing and implementing a system of control procedures to ensure assets of the District can be accounted for by management. Additionally, the Board of Trustees should establish a minimum dollar threshold for reporting of fixed assets.

OSAI recommends the list provide sufficient information such as a description of equipment, the serial number, the cost, and the date such item was purchased. Further, OSAI recommends an annual count of all fixed assets be performed and the employee responsible for performing the annual count sign and date supporting documentation.

Management Response: The District has discussed the need for making changes to the fixed asset documentation and is making changes.

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 fixed assets, and safeguard fixed assets from loss, damage, misappropriation.

All Objectives:

Finding: Inadequate District-Wide Controls

Condition: District-wide controls regarding Risk Management and Monitoring have not been designed.

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

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

Recommendation: OSAI recommends that the District design procedures to identify and address risks. OSAI also recommends that the District design monitoring procedures to assess the quality of performance over time. These procedures should be written policies and procedures and could be included in the District's policies and procedures handbook.

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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
Risks	Procedures
Noncompliance with laws	Attend workshops
Computer failures	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 corrected.
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.
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: The District has discussed this situation and has addressed monitoring procedures.

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.

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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 Items Noted:

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

Finding: Inadequate 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. The District relies on the “budget maker” to calculate the required amount for the audit budget account with no independent oversight by employees of the District or members of the governing board.

Cause of Condition: Procedures have not been designed to ensure the audit account is accurately budgeted, in accordance with statutory requirements, due to the District being unaware for the need of such a procedure.

Effect of Condition: 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.

Further, OSAI recommends a member of District management perform the calculation of the required amount for the audit budget account, sign and date, and then an employee, separate from financial recordkeeping, recalculate the amount for the audit budget account, and sign and date. In addition, the

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Board should compare the figures calculated to the reported amount approved for appropriation on the Estimate of Needs, to ensure compliance with state statutes.

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

Criteria: Accountability and stewardship are overall goals of management in the account 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 ad valorem levy upon the net total assessed valuation of the District for audit expenses.



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