

OPERATIONAL AUDIT

OKEENE 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 Jones, CPA, CFE

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

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



Oklahoma State Auditor & Inspector

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February 22, 2012

TO OKEENE EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Okeene Emergency Medical Service District for the period July 1, 2008 through June 30, 2011.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal 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:

John Boggs.....Chairman of the Board
Sandra Lamle Secretary
Jana Johannesmeyer..... Board Member
Darrel Burghardt Board Member
Lois Seelke..... Board Member

Administrator:

Greg Boggs

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

Beginning Cash Balance, July 1, 2010	<u>\$ 27,409</u>
Collections	
Ad Valorem Tax	48,285
Charges for Services	106,130
Miscellaneous	<u>20,261</u>
Total Collections	<u>174,676</u>
Disbursements	
Personal Services	68,423
Travel	696
Maintenance and Operations	46,610
Capital Outlay	<u>28,124</u>
Total Disbursements	<u>143,853</u>
Ending Cash Balance, June 30, 2011	<u>\$ 58,232</u>

Source: District Estimate of Needs (presented for informational purposes)

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**Purpose, Scope, and
Sample Methodology**

This audit was conducted in response to Article 10, § 9C (i) of the Oklahoma Constitution and as defined by 19 O.S. § 1704.3, which requires the State Auditor and Inspector’s Office to audit the books and accounts of the District.

The audit period covered was July 1, 2008 through June 30, 2011.

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

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

Objective 1:	To determine the District’s collections, disbursements, and cash balances for FY 2011 were accurately presented on the Estimate of Needs.
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Conclusion With respect to the items reconciled and reviewed; collections, disbursements, and cash balances were not accurately presented on the District’s Estimate of Needs.

Methodology To accomplish our 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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- Performed the following 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 collections deposited by the District.
 - Reconciled checks issued presented on the Estimate of Needs to disbursements.
 - Re-performed the bank reconciliation at June 30, 2011, to determine that all reconciling items were valid, and ending balance in the financial records agreed to the ending balance on the Estimate of Needs.

Observation

Inadequate Internal Controls over 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, the following was noted:

- Neither the Board of Trustees nor the Administrator provides independent oversight with regard to the preparation of the Estimate of Needs.

As a result of the procedures performed, we noted a significant variance between the amounts recorded on the Estimate of Needs and the amount recorded in the records of the District. The ending balance as recorded on the Estimate of Needs was \$65,476.04, which was overstated by \$7,244 or 12.44% of the correct balance of \$58,232. Additionally, we were unable to corroborate the June 30, 2011, bank reconciliation.

These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriations.

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.

Further, OSAI recommends that a member of the Governing Board perform the bank reconciliations and compare the amounts on the general ledger to the

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amounts recorded in the Estimate of Needs to ensure the collections, disbursements, and cash balances are accurately presented on the Estimate of Needs.

**Management
Response**

The District has employed the bookkeeping service of Krause and Associates to reconcile the bank account and complete the monthly financial statements. The Board of Trustees will review and discuss these reports at their monthly meetings, to ensure the bank balance and the financial statements are correct amounts. The Board of Trustees will also reconcile these financials to the Estimate of Needs on a quarterly basis.

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 Controls Over the Receipting Process

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, receipts should be issued and deposits should be made daily. Additionally, the duties of receiving, receipting, recording, depositing, and reconciling bank statements should be separated. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of calculations and transactions.

Based upon inquiry and observation of the receipting process, one employee opens mail, receives money, deposits money, posts to the accounting records, and reconciles the bank statement. Receipts are not issued for collections and deposits are not made on a daily basis.

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.

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Recommendation OSAI recommends the District separate the duties of receiving funds, depositing funds, posting to the accounting records, and reconciling the bank statements. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions. Additionally, OSAI recommends the District issue duplicate receipts for all collections and deposit those collections on a daily basis.

Management Response Separation of duties is an ongoing problem with small entities such as ours. We have separated the posting to accounting and reconciliation of the bank statements by outsourcing to a local accounting firm. This accounting firm will also be contacted to secure the collections directly from a post office box and make the deposits at the bank. The District will receive a copy of the receipt and the deposit slip. The Board of Trustees will monitor reports for unusual activity. Further segregation of duties would be an economic hardship for the District.

Objective 3: To determine if the District's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

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

Methodology To accomplish our objective, we performed the following:

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

Observation **Inadequate Segregation of Duties over the Expenditures Process**

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

Upon inquiry and observation of the expenditures process for the District, it was noted that the District Administrator is preparing the check, signing the check,

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recording the expenditure, and reconciling the bank statement to the accounting records.

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 misappropriations 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 expenditures to accounting records, and reconciling the bank statement to accounting records. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

Management Response Separation of duties is an ongoing problem with small entities such as ours. We have separated the posting to accounting and reconciliation of the bank statements by outsourcing to a local accounting firm. This accounting firm will also be contacted to secure the collections directly from a post office box and make the deposits at the bank. The District will receive a copy of the receipt and the deposit slip. The Board of Trustees will monitor reports for unusual activity. Further segregation of duties would be an economic hardship for the District.

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 internal controls related to the payroll process through discussions with the District administrator, observation and review of documents.

Observation **Inadequate Internal Controls 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 for accuracy, completeness, and authorization of payroll calculations and/or

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

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

- The District Administrator is preparing the check, signing the check, distributing the check, posting the expenditure to payroll records, and reconciling the bank statement.
- Timesheets are not being maintained for employee hours worked.

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 separating the duties of preparing timesheets, approving timesheets, preparing checks, signing checks, posting expenditures to the payroll records, and reconciling bank statements to the accounting records. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions. Further, timesheets should be completed by employees, approved by a supervisor, and maintained for recordkeeping purposes.

Management Response

The local accounting firm is also preparing the payroll, writing the payroll checks, and posting the expenditure to the payroll and general ledger accounts. The District is responsible for tracking the hours worked for each employee and submitting to the accounting firm. Again, the Board of Trustees will review the payroll reports generated by the accountant at their regular meeting, to ensure accuracy of reporting. The timesheets will be completed by the employee and approved by the supervisor. These timesheets will also be reconciled to the run reports. Further segregation of duties would be an economic hardship for the District.

Objective 5:

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

Conclusion

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

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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 the District Administrator, observation and review of documents.

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 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 inventory and safeguarding inventory from loss, damage, or misappropriation.

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

- The District did not maintain a current listing of fixed asset inventory items.
- An annual physical count of all inventory items is not performed.

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 policies and procedures to accurately maintain fixed asset inventory records and segregate duties over inventory recordkeeping. 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 physical verification of assets should be performed and documented.

**Management
Response**

The District agrees with the recommendation, and will prepare a spreadsheet showing the description of the asset, serial number, date of acquisition, and the cost. This worksheet will be reviewed annually and updated by the Board of Trustees.

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Objective 6: To determine if the District's internal controls provide reasonable assurance that the District complied with the provisions of a contract for collecting accounts receivable payments. The contract requires the District to remit eight percent of the total monthly collections to the contractor for payment of services provided.

Conclusion The District's internal controls do not provide reasonable assurance that provisions of the contract for collection of delinquent accounts receivable payments were accurately calculated and remitted.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the contract compliance process through discussions with the District administrator, observation and review of document.

Observation **Inadequate Internal Controls over Compliance with the Contract**

Upon inquiry and observation of the contract compliance for the District, the following was noted:

- The Board of Trustees has not properly designed and implemented internal controls related to the contract to ensure payment for collection services are accurately calculated and remitted.
- The Board does not review the monthly invoice to ensure that only current monthly collections were included in the invoice.

Failure to provide adequate internal controls over contract compliance could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation OSAI recommends the District design and implement a system of internal controls related to the accounts receivable billing contract to ensure that amounts remitted are correct. Further, OSAI recommends the District compare monthly invoices from the contractor to the actual deposits for charges for services and that the District maintains documentation of that review.

Management Response The District will prepare a report of the invoices billed and deposited, so that the contractor invoice can be compared to deposits made by the District during the month. This control will ensure that the contractor is being paid for the proper amount and will provide the complete documentation for the charges made for services on a monthly basis.

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Other Item(s) Noted:

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

Observation Inadequate Internal Controls over the Audit Expense Account

Accountability and stewardship are overall goals of management in the accounting of funds. A component objective of an effective internal control system is to provide accurate and reliable information through proper review and approval.

Upon inquiry and observation of the budgeting process, it was determined that controls have not been designed and implemented to ensure the amount required by statute is correctly budgeted for the audit budget account. The audit account of the 2011-2012 Estimate of Needs should reflect \$1,527.68 in appropriations dedicated for the audit of the District; however, the amount presented on the Estimate of Needs is \$1,539.68.

This condition could result in noncompliance with state statutes.

Recommendation OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that one-tenth mill upon the net total assessed valuation be set aside in the audit account and that any unused portion be lapsed into the next year audit account in accordance with 19 O.S. § 1706.1.

Management Response In the past, this amount has been provided by the Blaine County Treasurer instead of calculated based on the one-tenth mill required by State Statute. This calculation will be made on the Estimate of Needs and any lapsed amount will be placed in next year's amount.

Observation Control Environment

A component objective of an adequate internal control system is to provide accurate and reliable information. An entity's control environment is significantly influenced by those charged with governance. Components of the control environment include the extent of its involvement and scrutiny of activities, the appropriateness of its actions, and the information it receives. Other responsibilities of those charged with governance include oversight of the process for reviewing the effectiveness of the entity's internal controls.

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We noted the following issues resulting from a lack of internal controls:

- A deposit of ad valorem in the amount of \$558.07 from Blaine County was erroneously credited to an account not belonging to the Okeene EMS District.
- The management was not aware that there was a statutory requirement that one-tenth of a mill be set aside for an audit account.
- The District has not fully reimbursed the City of Okeene for an ambulance purchased on the District's behalf as outlined in a contract between the City and the District.
- The District has entered into a lease purchase contract for which there is no statutory allowance.
- The District overspent their budgeted appropriations by \$15,696.

These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriations, and noncompliance to state statutes.

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**

- The \$558.07 to Blaine County has been transferred to the proper account.
- This calculation will be made on the Estimate of Needs and any lapsed amount will be placed in next year's amount.
- We will work with the City of Okeene to complete the purchase of the ambulance to meet the requirements of the contract.
- A new annual lease is being negotiated to replace the three year agreement, so that we will be in compliance with the statutes.
- We will monitor the activity of the District on a quarterly basis and will issue modifications to the budget if needed or reduce expense to stay within the budgeted appropriations.

Observation

Inadequate District-Wide Controls

Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being 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

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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.

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 communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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

District-wide controls regarding Risk Assessment, Information and Communication, and Monitoring have not been designed.

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

Recommendation

OSAI recommends the District implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives to reduce or eliminate risks to the District as a whole.

**Management
Response**

We have made numerous changes to our system, which should strengthen the entire District's internal control and reduce the risks that the District faces. More people are involved in the daily activity by engaging an outside accounting firm and removing most of the accounting function from the District Manager's job duties. He will be able to actually manage the District and leave the accounting

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function to the third party. The Board of Trustees will monitor, identify, and document the risks that may be faced by the District on an ongoing basis.



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