



# OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT

## Operational Audit

For the period July 1, 2013 through June 30, 2017

**Cindy Byrd, CPA**  
State Auditor & Inspector

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2017**

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April 29, 2019

**TO THE BOARD OF TRUSTEES OF THE  
OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Oologah-Talala Emergency Medical Service District for the period of July 1, 2013 through June 30, 2017.

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,



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**TABLE OF CONTENTS**

**OPERATIONAL AUDIT REPORT**

Executive Summary of Findings .....	ii
Introductory Section (Unaudited)	
Statistical Information .....	v
Board of Trustees .....	vi
Ad valorem Tax .....	vii
Administrative Payroll .....	viii
Presentation of Collections, Disbursements, and Cash Balances of District Funds for the Fiscal Year Ended June 30, 2017 .....	1
Description of District Funds and Supplementary Information .....	2
Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—General Fund Fiscal Year 2017 .....	5
Comparative Schedule of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis—Sinking Fund Fiscal Year 2017 .....	6
Purpose, Scope, and Sample Methodology .....	11
Objectives and Results of Operational Audit .....	12

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**EXECUTIVE SUMMARY**

**WHY WE CONDUCTED THIS AUDIT**

The Office of the State Auditor & Inspector conducted an Operational Audit of the Oologah-Talala Emergency Medical Service District for the period of July 1, 2013 through June 30, 2017 in accordance with Article 10 § 9C(I) of the Oklahoma Constitution as defined by 19 O.S. § 1704.3.

**WHAT WE FOUND**

- Negligent oversight at every level of management resulted in financial mismanagement of taxpayer funds. Included within this finding was a lack of monitoring by the Board of Directors (Board) of credit card purchases to ensure purchases were legally authorized. The District's financial accounting consists of delinquent accounts, vendor accounts paid late and charged penalties, failure to keep fuel logs and monitor fuel usage, and payments to employees without timesheets. *(Finding 001 and 002)*
- Financial Reports presented by Management to the Board did not accurately reflect the financial position of the District. The Board was not provided supporting documentation and was incapable of verifying the accuracy of the report provided had it sought to do so. Too many facets of financial transactions, reconciliation, and reporting was only handled and reviewed by the preparer. *(Finding 014)*
- Purchasing practices did not adequately assure the legitimate expenditure of public funds including preparing purchase orders/claims prior to purchase, maintaining supporting documentation to justify the purchase, no management review and approval of credit card statements, insufficient packing slip verification by the designated receiving agent, and no Board oversight/action in the authorization or review of disbursements. *(Finding 006)*
- The District incurred debt in violation of state law by utilizing revolving lines of credit loans from a local bank and failing to completely pay off credit card accounts each month. The incurred debt was used to cover operational costs when disbursements exceeded revenues and budgetary limits. This fiscal mismanagement places the District in perpetual debt and makes it more susceptible to misappropriation of funds, fraud, and abuse. During the audit it was noted the District held outstanding debt as of March 9, 2018 from two revolving lines of credit totaling \$167,000. *(Finding 012)*
- The Board used restricted, dedicated ad valorem revenues through an improper transfer from its Sinking Fund to its General Fund in the amount of \$78,000 to help cover general operating costs. The transfer is a violation of the Oklahoma Constitution which mandates that "no tax levied and collected for one purpose shall ever be devoted to another purpose." These restricted ad valorem revenues were to only be used to retire bond indebtedness. *(Finding 010)*

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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- We identified numerous concerns regarding the District's improper accounting practices regarding payroll including compensation and reimbursement to the Director exceeding a purported contract as an executed contract between the Board and both the Director and Assistant Director could not be located. Time records for the Director and Assistant Director were not kept. The Board failed to review or approve payroll disbursement and Management was unaware its Payroll Officer did not submit payroll information from the District's computer system and altered her personal payroll claim on at least three occasions without supporting documentation or approval. Additionally, Management did not review or approve leave balances and personnel files were not properly maintained, including documentation for withholdings. (*Finding 008*)
- The history of obtaining revolving lines of credit and utilizing restricted Sinking Fund revenues is indicative of the District not operating within the constraints of its budget and could result in the District being unable to meet its current financial obligations.
- The District is currently in litigation with the Internal Revenue Service which resulted from not properly remitting 2011 payroll withholding taxes. The debt was approximately \$42,000 at the date of our audit. This information was reported in a previous audit conducted by SAI.
- The Board did not maintain Executive Session records as required by the Oklahoma Open Meeting Act. Regular Board meeting minutes were not signed by a quorum of the Board. (*Finding 005*)
- The Board and Management did not periodically review financial information to ensure revenue collections met budgeted revenue expectations. This lack of fiscal oversight resulted in expenditures exceeding revenues by more than \$82,000 in FY17 and created a condition in which the District did not comply with state statutes. (*Finding 013*)
- We would also note that neither the Board nor Management complied with statutory requirements to set aside 1/10<sup>th</sup> of one mill for its audit expense budget account leaving the account underfunded. Further, audit expenses were improperly classified as Maintenance and Operation. (*Finding 007*)

## **CONCLUSION AND RECOMMENDATIONS**

The Board has a fiduciary responsibility to be good stewards of public funds which includes effective oversight of Management and operations and establishing a system of internal controls designed to safeguard public assets. Oversight belongs to the Board. Implementation of effective internal control policies and procedures belongs to Management. Failure by either the Board or Management to be responsible stewards of public funds places these funds at risk of being squandered, misappropriated, and embezzled. Failure by both the Board and Management to carry out proper fiscal management erodes public trust and invites the financial collapse of the public entity.

At a minimum, we recommend the Board discontinue its use of credit cards, loans, and any other means by which it would incur debt in violation of the Oklahoma Constitution and state statutes. Further, this audit report contains repeat findings which resulted in the District continuing its improper accounting practices and lack of safeguards. All recommendations both previously reported and contained in this report should

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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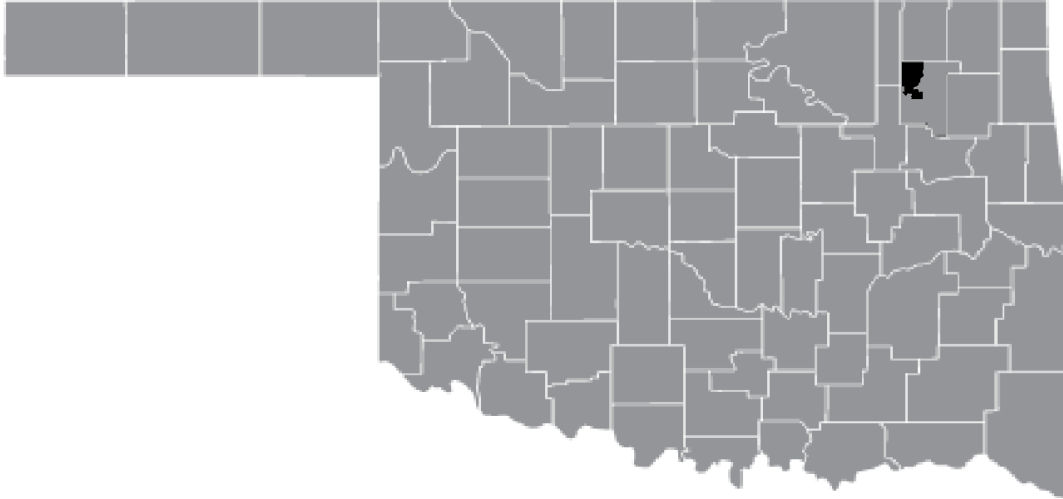
be implemented without additional delay to establish those safeguards necessary to protect public assets and restore public trust in the management and operation of this public entity.

**INTRODUCTORY SECTION**  
**UNAUDITED INFORMATION ON PAGES v - viii**  
**PRESENTED FOR INFORMATIONAL PURPOSES ONLY**



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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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. An additional millage may be authorized by a vote of the citizens of the District for issuance of debt and repayment thereof.

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.

District voters approved the formation of the District and 3 mills to support the operation of the District. The Oologah-Talala Emergency Medical Service District is comprised of the Oologah-Talala School District and was created to provide ambulance service to all citizens residing in that area.

*(Source: State statutes Oklahoma Constitution, also, the Board minutes were reviewed for the audit period.)*

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**BOARD OF TRUSTEES**

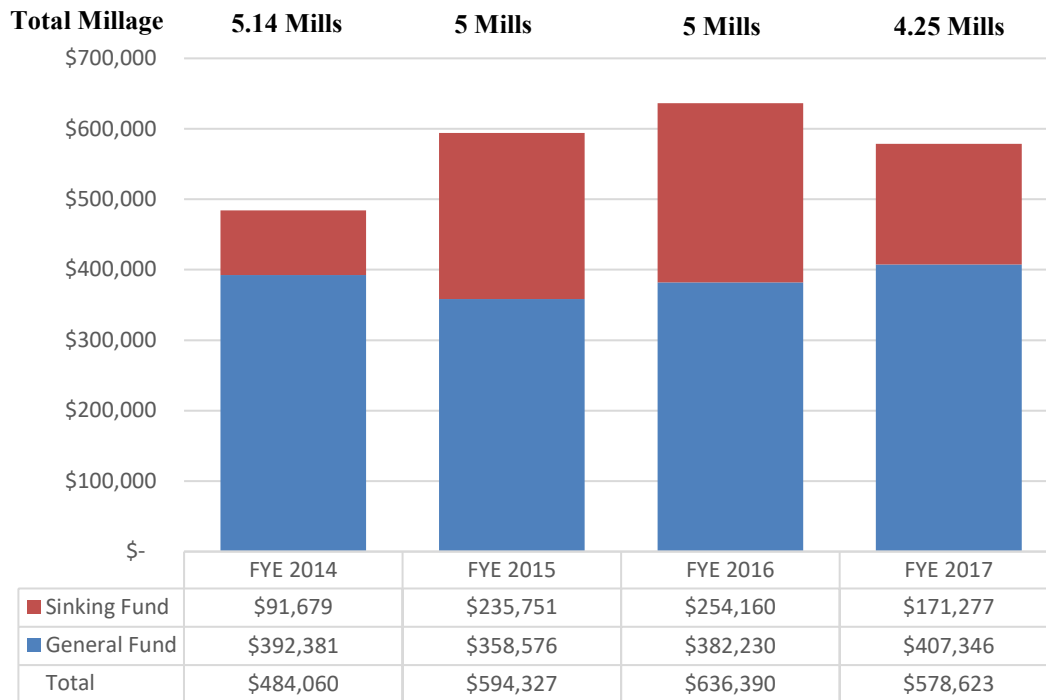
Tim Albin.....	Chairman
Jack Griggs.....	Vice-Chairman
Richard F. Tesson, Jr. ....	Secretary
Sheila Wofford.....	Treasurer
Mark Abdo.....	Board Member

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
ADMINISTRATIVE PAYROLL  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. The District has a 3-mill levy for the General Fund and an additional millage that ranged from 1.25 mills to 2.14 mills for the Sinking Fund that is collected by the County Treasurer and is remitted directly to the District. For the period of July 1, 2013 through June 30, 2017, the District received \$2,293,400 in ad valorem taxes.

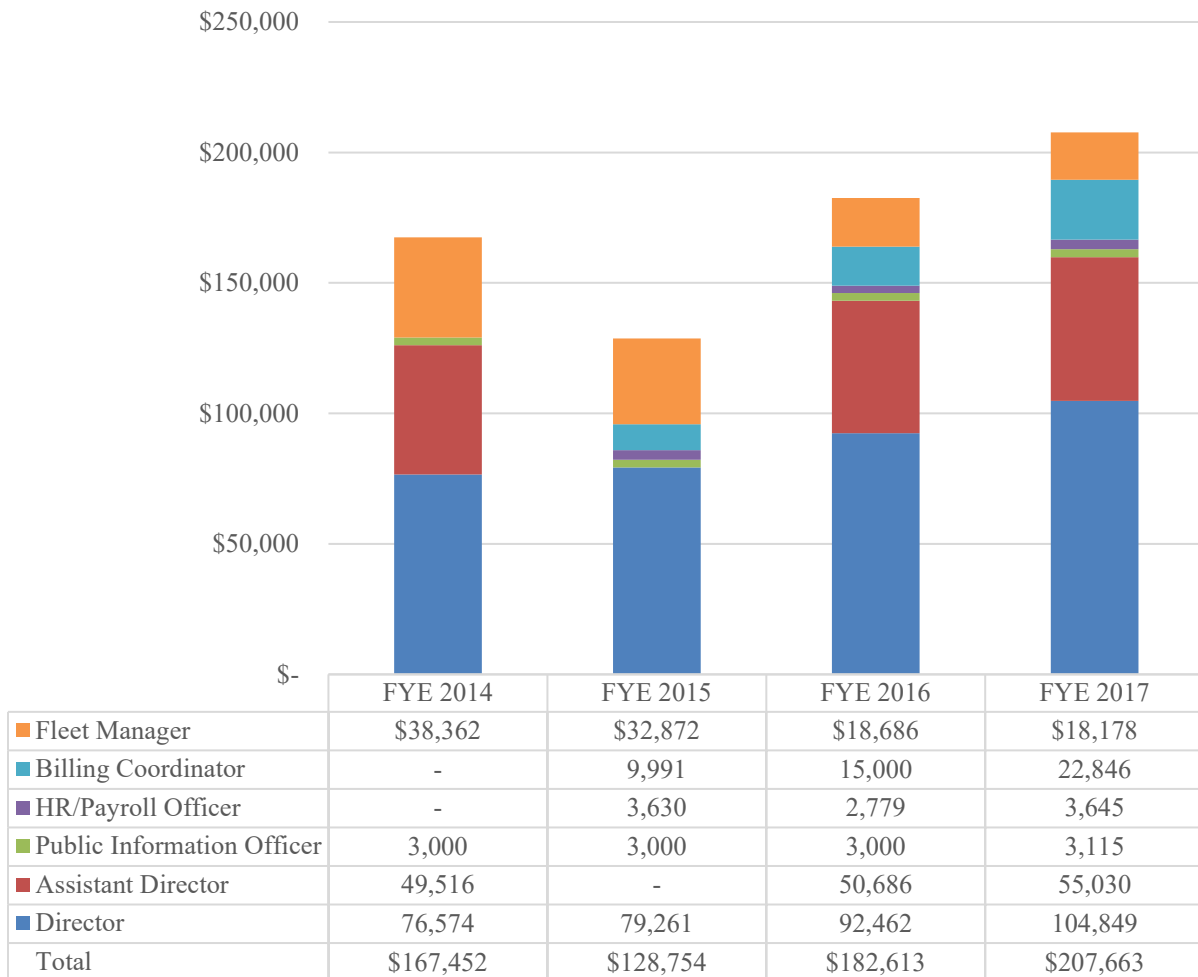
5 Year Graph Depicting Ad Valorem Taxes Remitted to the District



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
ADMINISTRATIVE PAYROLL  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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### Administrative Payroll



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for the Fiscal Year Ended June 30, 2017.**

<b>FY17</b>	General Fund	Sinking Fund	Total Funds
Beginning Cash Balance, July 1	\$ 143,508	\$ 77,710	\$ 221,218
Collections:			
Ad Valorem Tax	407,346	171,277	578,623
Charges for Services	527,180	-	527,180
Governmental Revenues	1,207	-	1,207
Miscellaneous	18,684	803	19,487
Total Collections	<u>954,417</u>	<u>172,080</u>	<u>1,126,497</u>
Disbursements:			
Personal Services	606,804	-	606,804
Maintenance and Operations	464,124	-	464,124
Debt Payments:			
Bond Payments	-	145,000	145,000
Coupons	-	25,375	25,375
Fiscal Agent Fee	-	200	200
Total Disbursements	<u>1,070,928</u>	<u>170,575</u>	<u>1,241,503</u>
Ending Cash Balance, June 30	<u>\$ 26,997</u>	<u>\$ 79,215</u>	<u>\$ 106,212</u>

Note: The Estimate of Needs did not reflect a \$78,000 transfer of funds from the Sinking Fund to the General Fund. See related Finding 010. The Estimate of Needs did not reflect a \$85,000 line of credit utilized by the District for general operations. See related Finding 012.

Source: The District's Estimate of Needs (Fiscal Year 2017 was presented for informational purposes)

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
DESCRIPTION OF DISTRICT FUNDS AND SUPPLEMENTARY INFORMATION  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**1. Description of District Funds**

The District uses funds to report receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are the descriptions of the District funds within the Presentation of Collections, Disbursements, and Cash Balances of District Funds:

General Fund – accounts for the general operations of the government.

Sinking Fund – accounts for debt service receipts derived generally from an ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments resulting from the issuance of General Obligation Bonds of 2009 in the amount of \$1,000,000.

**2. General Obligation Bond of 2009**

On July 26, 2008, a special election was held in the District for the approval of General Obligation Bonds of 2009. The proceeds from the bonds are to be used to expand and improve emergency services, capital expenditures, and to pay for costs relating to the issuance of the Bonds.

Purpose	Interest Rate	Original Amount
Oologah-Talala Emergency Medical Service District, State of Oklahoma General Obligation Limited Tax Bonds of 2009	5.300% to 7.500%	\$1,000,000

During fiscal year 2014, payments included \$130,000 for principal, \$54,738 interest, and \$61 for fees.  
During fiscal year 2015, payments included \$145,000 for principal, \$45,313 interest, and \$94 for fees.  
During fiscal year 2016, payments included \$145,000 for principal, \$33,278 interest, and \$0 for fees.  
During fiscal year 2017, payments included \$145,000 for principal, \$25,375 interest, and \$200 for fees.

The beginning balance July 1, 2016 was \$ 435,000.00 with a payment of \$145,000.00 during fiscal year 2016-2017 resulting in the ending balance *at June 30, 2017* of \$290,000.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
DESCRIPTION OF DISTRICT FUNDS AND SUPPLEMENTARY INFORMATION  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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Following is a schedule of the principal and coupons for the G.O. Bonds of 2009 requirements to maturity for general obligation bonds:

<b>Due Date</b>	<b>Interest Rate</b>	<b>Principal Amount</b>	<b>Interest Amount</b>
7/1/13	7.50%	\$130,000	\$ 29,706
1/1/14			24,831
7/1/14	6.00%	145,000	24,831
1/1/15			20,481
7/1/15	5.30%	145,000	20,481
1/1/16			16,639
7/1/16	5.45%	145,000	16,639
1/1/17			12,688
7/1/17	5.65%	145,000	12,688
1/1/18			8,591
7/1/18	5.85%	145,000	8,591
1/1/19			4,350
7/1/19	6.00%	145,000	4,350
		<u>\$ 1,000,000</u>	<u>\$ 204,866</u>

3. Line of Credit

The District utilized a revolving line of credit obtained through an agreement from a local bank. This incurrence of debt was not presented in the District's financial statements.

Further, loans were used to pay off the balance of existing loans when they became due.

See chart below for activity of loans from July 1, 2013 through March 9, 2018:

<b>Loan Number</b>	<b>Start Date</b>	<b>Payoff Date</b>	<b>Revolving Line of Credit Amount</b>	<b>Draw Down Amount</b>	<b>Total Fees and Interest</b>
4266345	10/29/2013	1/20/2014	\$ 50,000	\$ 45,000	\$ 694
4259551	7/25/2013	4/8/2014	100,000	99,850	3,195
4293334	10/9/2014	1/12/2015	100,000	50,000	808
4326272	11/3/2015	4/19/2016	100,000	45,000	1,201
4354066	9/7/2016	4/10/2017	100,000	85,000	1,913
4385508	8/3/2017	Open	100,000	99,700	300
4393540	11/1/2017	Open	100,000	70,000	300
<b>Total</b>			<u>\$ 650,000</u>	<u>\$ 494,550</u>	<u>\$ 8,412</u>

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
DESCRIPTION OF DISTRICT FUNDS AND SUPPLEMENTARY INFORMATION  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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At March 9, 2018, two of the revolving lines of credit had open balances including interest accrued as follows:

#4385508	\$102,940.33
#4393540	\$71,540.57

4. Subsequent Events

During the audit it was noted the District held outstanding debt as of March 9, 2018 from two revolving lines of credit totaling one hundred thousand sixty-seven thousand dollars (\$167,000). In addition, the District has utilized seventy-eight thousand dollars (\$78,000) of funds from the Sinking Fund to meet financial obligations in the General Fund.

The history of the revolving line of credit and utilization of Sinking Fund revenues indicates an increasing dependency on additional revenues in order for the District to continue to meet financial obligations.

Further, past and current revenues indicate an increased likelihood that the District will be unable to meet its current financial obligations.

The District is currently in litigation with the Internal Revenue Service which resulted from 2011 payroll withholding taxes. The debt was approximately \$42,000 at the date of our audit.

The voters of the Oologah-Talala Emergency Medical Service District approved a bond issue totaling one million four hundred forty thousand dollars (\$1,440,000) on February 13, 2018. The purpose of the bond issued is to acquire, maintain and house emergency vehicles and other equipment. The payment of these bonds will be collected through a Sinking Fund ad valorem levy not to exceed one and ninety-nine hundredths (1.99) mills.



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	General Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 143,508	\$ 143,508	\$ -
Receipts:			
Ad Valorem Taxes	367,842	407,346	39,504
Charges for Services	477,084	527,180	50,096
Intergovernmental Revenues	-	1,207	1,207
Miscellaneous Revenues	-	18,684	18,684
Total Receipts, Budgetary Basis	844,926	954,417	109,491
Expenditures:			
Personal Services	620,000	606,804	13,196
Maintenance and Operations	368,434	464,124	(95,690)
Total Expenditures, Budgetary Basis	988,434	1,070,928	(82,494)
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	26,997	\$ 26,997
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances Ending Cash Balance		\$ 26,997	

Note: The Estimate of Needs did not reflect a \$78,000 transfer of funds from the Sinking Fund to the General Fund. See related Finding 010. The Estimate of Needs did not reflect \$85,000 line of credit utilized by the District for general operations. See related Finding 012. The Estimate of Needs reflected expenditures in excess of eighty-two thousand four hundred ninety-four dollars (\$82,494) of the budgeted amount for Total Expenditures. See related Finding 013.

*Source: The District's Estimate of Needs (Fiscal Year 2017 was presented for informational purposes)*

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—  
SINKING FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	Sinking Fund		
	Budget	Actual	Variance
Beginning Cash Balances	\$ 77,710	\$ 77,710	\$ -
Less: Prior Year Outstanding Warrants	-	-	-
Beginning Cash Balances, Budgetary Basis	77,710	77,710	-
Receipts:			
Ad Valorem Taxes	160,442	172,080	11,638
Total Receipts, Budgetary Basis	160,442	172,080	11,638
Expenditures:			
Coupons/Interest Paid	25,375	25,375	-
Bond Payment	212,777	145,000	67,777
Commission Paid to Fiscal Agency	-	200	(200)
Total Expenditures, Budgetary Basis	238,152	170,575	67,577
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	\$ -	79,215	\$ 79,215
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances			
Ending Cash Balance		\$ 79,215	

Note: The Estimate of Needs did not reflect a \$78,000 transfer of funds from the Sinking Fund to the General Fund. See related Finding 010.

*Source: The District's Estimate of Needs (Fiscal Year 2017 was presented for informational purposes)*

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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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.

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.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the period of July 1, 2013 through June 30, 2017. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the District's operations,
- Reconciling total collections, disbursements, and balances presented on the District's Presentation of Collections, Disbursements, and Cash Balances of District Funds for the fiscal year ended June 30, 2017 to the financial accounting records,
- Confirming third party confirmations to the financial ledgers,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, and District purchasing procedures, and
- Gaining an understanding of the District's internal controls as it relates to each audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**Objective 1:** Determine the District's internal controls provide reasonable assurance that the collections, disbursements, and cash balances are accurately presented on the District's monthly financial reports for the period of July 1, 2013 through June 30, 2017, and the District's internal controls provide reasonable assurance that the District complied with Article 10 § 9C (a) and (i).

**Conclusion:** The District's internal controls do not provide reasonable assurance that monthly financial reports were accurately reported in the accounting records.

The District's internal controls do not provide reasonable assurance regarding the District's compliance with Article 10 s. 9C(a) for the collection of fees for services.

**FINDINGS AND RECOMMENDATIONS**

**Finding 002 – Inadequate Internal Controls Over Management and Board Oversight of Financial Accounting**

**Condition:** As part of our audit of the Oologah-Talala Emergency Medical Service District (the District), we interviewed office employees, management and Board members with respect to understanding internal controls over financial accounting processes.

We identified several areas of concern, which include the following:

- Inadequate Management and Board Oversight:
  - The District was unable to locate By-Laws.
  - Employment contracts were not prepared for employees in management positions.
  - A contract for outsourced accounting services for one individual was not documented.
  - No one reviewed, approved, and ensured the accuracy of the monthly financial reports, Estimate of Needs, and bank reconciliations to supporting documentation.
  - The District did not review outsourced accounting services for accuracy.
  - Revenue collections, accounts payables, and uncollectible debt was not analyzed and compared monthly or annually to make informed financial decisions.
  - The Board and management did not review disbursements and compare payments to supporting documentation to ensure disbursements were for the legally authorized use of the District.
  - Credit card purchases were not monitored by the Board or Director to ensure purchases were for the legally authorized use of the District.
  - Evidence that payroll claims were reviewed or approved by the Board or Director was not documented.
  - Management could not provide documentation to specify the hourly work requirements for administrative employees.
  - The Board or management did not ensure the annual verification of fixed assets is performed.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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- Management has not effectively communicated information to personnel performing key roles to ensure internal control objectives are achieved.
- The District did not have a policy for internal controls over financial reporting or billing processes.
- The District Handbook did not address the following: internal controls over financial reporting, employee evaluations, Information Technology (IT) security, and the use of District property for personal business.
- **Unreliable or Inadequate Financial Accounting:**
  - **Runs/Billing System:**
    - The contract between the ambulance run billing vendor and the District could not be located.
    - Evidence verifying the billing vendor accurately and correctly billed ambulance runs was not documented.
    - The District did not have a billing run rate policy.
    - The District did not have a billing/mileage rate policy.
  - **Delinquent Accounts:**
    - The District did not have a policy on determining the process of writing off amounts/accounts as uncollectable.
  - **Disbursements:**
    - Accounts were paid late and charged penalties.
    - Disbursements were not supported by adequate documentation or could not be located.
    - The District did not maintain a log for fuel obtained for each unit.
    - Management was unable to review fuel usage to determine accurate billing.
  - **Payroll:**
    - Five (5) employees did not submit timesheets.
    - Employee personnel files were not maintained.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the District's operations are conducted in an efficient and reliable manner.

**Effect of Condition:** These conditions adversely affected the District's ability to initiate, authorize, record, process, or report financial data reliably.

**Recommendation:** The Oklahoma State Auditor and Inspector's Office (OSAI) recommends the District's Board of Trustees clearly communicate the responsibilities and duties expected of management. Additionally, OSAI recommends management and key personnel gain an understanding of the financial activities and internal control process and implement those controls in an effective and efficient manner to reduce the risk of error and fraud within the District.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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**Management and Board Chairman Response:**

In progress: Implementation of internal and financial control policies are under revision to better ensure District operations. The Board of Directors will provide specific duties expected of management per the administrative policy manual and employment contracts. Management and key personnel will be educated annually on governmental financial activities to help reduce the risk of error and fraud. Collaborating with our CPA, our attorney, the County Clerk and other subject matter experts for accuracy of information is to be included in revised policies.

The District will be reorganizing our management structure to include a Business Manager whose primary focus will be to monitor and assure our goal of full financial compliance.

**Criteria:** Effective internal controls are essential to provide reasonable assurance about the achievement regarding reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization. A key factor in this 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.

**Finding 003 – Inadequate Internal Controls and Noncompliance Over Pledged Collateral (Repeat Finding)**

**Condition:** Upon inquiry of the District, observation, and review of documents regarding the pledged collateral process, the following exceptions were noted:

- The District did not monitor the bank balances to ensure District funds were adequately secured.
- The District funds were not adequately secured from April 7, 2016 through June 30, 2016 (60 days) for a minimum amount of \$35,601.53 and a maximum amount of \$38,760.93.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the bank deposits are adequately secured.

**Effect of Condition:** These conditions resulted in noncompliance with state statute and unsecured District funds in fiscal year 2016. Further, this condition could result in possible loss of District funds.

**Recommendation:** OSAI recommends that the District design and implement policies and procedures to compare bank balances to the fair market value of pledged collateral daily to ensure District funds are adequately secured in compliance with 62 O.S. § 517.4. Documentation for this daily procedure should be maintained.

**Management and Board Chairman Response:**

In progress: The District will hire a CPA to replace the current bookkeeper. The CPA will prepare a statement on a recurring basis attesting to this compliance.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Criteria:** Effective internal controls require monitoring pledged securities daily to ensure compliance with state statute.

Title 62 O.S. § 517.4.A. states, “A treasurer of a public entity shall require that financial institutions deposit collateral securities or instruments to secure the deposits of the public entity in each such institution. The amount of collateral securities or instruments to be pledged for the security of public deposits shall be established by the treasurer of the public entity consistent with the provisions of the Security for Local Public Deposits Act; provided, such amount shall not be less than the amount of the deposit to be secured, less the amount insured.”

**Finding 004 - Inadequate Internal Controls Over Ambulance Service Run Billing**

**Condition:** Upon inquiry of District staff, observation of records, and the test of fifty-three (53) ambulance runs, the following exceptions were noted regarding inaccurate billing of ambulance runs:

Fiscal Year 2014 –

- Two (2) of the fourteen (14) runs tested had a fee charged that did not agree to the fee schedule.
- Five (5) of the fourteen (14) runs tested could not be verified by transaction to a deposit on the bank statements due to lack of documentation provided to us by the District.
- Two (2) of the fourteen (14) runs tested were not approved by the Board to be written off as uncollectable by the billing vendor.

Fiscal Year 2015 –

- One (1) of the thirteen (13) runs tested had a fee charged that did not agree to the fee schedule.
- Four (4) of the thirteen (13) runs tested could not be verified by transaction to a deposit on the bank statements due to lack of documentation provided to us by the District.
- One (1) of the thirteen (13) runs tested did not have a second billing and/or documentation of being sent to the collection agency.
- Four (4) of the thirteen (13) runs tested were not approved by the Board to be written off as uncollectable by the billing vendor.

Fiscal Year 2016 –

- One (1) of the eleven (11) runs tested had a fee charged that did not agree to the fee schedule.
- One (1) of the eleven (11) runs tested could not be verified by transaction to a deposit on the bank statements due to lack of documentation provided to us by the District.
- Two (2) of the eleven (11) runs tested did not have a second billing and/or documentation of being sent to the collection agency.

Fiscal Year 2017 –

- One (1) of the fifteen (15) runs tested had a fee charged that did not agree to the fee schedule.
- Two (2) of the fifteen (15) runs tested could not be verified by transaction to a deposit on the bank statements due to lack of documentation provided to us by the District.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

- One (1) of the fifteen (15) runs tested did not have a second billing and/or documentation of being sent to the collection agency.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure that all services provided were billed accurately, pertinent documentation is retained by the District, delinquent accounts are reviewed, and the Board approves all uncollectable accounts to be written off.

**Effect of Condition:** These conditions resulted in inaccurate billing, clerical errors, and could result in misappropriation of funds not being detected in a timely manner and the District missing the opportunity to receive additional billing revenue. Additionally, due to documentation not being retained by the District, some ambulance run revenue could not be verified as deposited.

**Recommendation:** OSAI recommends the District implement billing policies and procedures to ensure all services provided are billed accurately and retained properly within the District. In addition, OSAI recommends patient accounts be reviewed to ensure payments are received and credited to patient accounts. Further, delinquent accounts should be reviewed by the Board to determine additional actions to initiate account settlement, including second billing or collection agency notification.

**Management and Board Chairman Response:**

In progress: The District will be hiring a new billing company to ensure patient accounts are handled properly, billed accurately and retained properly. The billing company and Business Manager will review delinquent accounts and policies put in place to determine actions to be taken to resolve debt. The Board will be required to approve all write-offs. These changes will also allow ease of internal testing and tracing our billing processes quarterly.

**Criteria:** Accountability and stewardship are overall goals of the Board and management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the District's objectives with regard to reliability of financial reporting. A component objective of an effective internal control system requires oversight by the Board and management to provide assurance that amounts billed are based upon the billing policies adopted by the Board, pertinent documentation is retained, and the billing process is monitored for accuracy and completeness.

**Finding 015 – Inadequate Internal Controls Over Management Oversight of the Billing Process**

**Condition:** Upon inquiry, observation, review of documentation, and test work, the following was noted:

- The billing contract between the District and billing vendor who performs the third-party billing service could not be located.
- The billing vendor performed all duties related to the billing of patients' accounts; therefore, no monitoring or oversight was performed by the District to ensure services provided were billed accurately.
- The District has not established policies regarding billing practices, ambulance service rates, mileage rates, and write-off of delinquent accounts.



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure a formal contractual agreement with the billing vendor is approved by the Board, services provided are accurately billed, and Board approved policies are designed regarding billing practices, ambulance service rates, mileage rates, and write-offs of delinquent accounts.

**Effect of Condition:** These conditions could result in inaccurate payments to the billing vendor, incorrect billing to patients' accounts, and loss of revenue.

**Recommendation:** OSAI recommends the District implement a system of internal controls to provide reasonable assurance over services provided by the billing vendor. To improve internal controls, we recommend the following:

- The Board review and approve a contract with the billing vendor that is renewed each fiscal year.
- The District actively reviews the billing information to ensure all services provided are billed and to ensure the accuracy of the amounts billed for services.
- The Board develops policies to address billing practices, ambulance service rates, mileage rates, and write-off of delinquent accounts for the District.

**Management and Board Chairman Response:**

In progress: The District Board and/or Director will approve and review on an annual basis the billing vendor contract. Billing services will be reviewed to ensure accuracy. A new fee schedule will be implemented once approved by the Board and ongoing assessment of industry standards for billing practices, ambulance service rates, mileage rates and write-off's will be evaluated on an annual basis. Additionally, all contracts, both internal and external, will be reviewed every June at the regular monthly meeting.

**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 the District'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. Internal controls should be designed and implemented to ensure the District has a valid contract with the third-party billing vendor and monitor to ensure terms of the contract are met. Additionally, internal controls require oversight by management to provide assurance that the amounts billed are based on billing policies adopted by the Board and the billing process is monitored for accuracy and completeness.

**Finding 011 – Inadequate Internal Controls Over Bank Reconciliations**

**Condition:** While interviewing District employees and reviewing documentation of bank statement reconciliations, the following discrepancies were noted:

- Bank reconciliations were not reviewed or approved by someone other than the preparer, which was the outsourced bookkeeper.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

Evidence of bank reconciliations being performed could not be located for the following bank accounts:

- The following bank reconciliations as of June 30, 2014 could not be located:
  - Operating Account
  - Sinking Account
  - Miscellaneous Account
  - Storage Account
- The following bank reconciliations as of June 30, 2015 could not be located:
  - Sinking Account
  - Miscellaneous Account
  - Storage Account
- The following bank reconciliations as of June 30, 2016 could not be located:
  - Miscellaneous Account

**Cause of Condition:** The District has not designed and implemented policies and procedures to sufficiently segregate the bank reconciliation process. Additionally, policies and procedures have not been designed and implemented to ensure bank reconciliations are retained.

**Effect of Condition:** These conditions could result in inaccurate records, incomplete information or misappropriation of assets. Further, 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 Board and management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in the Board's oversight 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 with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office and having the Board and management review and approve accounting functions including performing bank reconciliations and retaining documentation of the bank reconciliations.

**Management and Board Chairman Response:**

In progress: Due to limited personnel, the District will be reviewing current, and implementing better controls to mitigate risk with the Board, including having the CPA and management reviewing and approving accounting functions to include the bank reconciliation and retaining such documentation.

**Criteria:** Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse. An important aspect of internal controls is the

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

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/or misappropriation of funds.

Accountability and stewardship are overall goals of the Board and management in the accounting of funds. To help ensure a proper accounting of funds, the duties of maintaining and reconciling bank account balances should be segregated, and documentation of each bank account reconciliation should be retained.

**Finding 014 – Inadequate Internal Controls Over Monthly Financial Reports**

**Condition:** Upon inquiry, observation, review of documentation, and test of the monthly financial reports, the following was noted:

- The Profit and Loss and Balance Sheet statements (monthly financial reports) were presented to the Board before the Board meeting; however, information provided in the monthly financial reports did not accurately reflect the financial position of the District.
- Supporting documentation was not attached; therefore, the Board could not verify the accuracy of the information.

**Cause of Condition:** Policies and procedures have not been designed and implemented to review monthly reports and related financial information to verify that these amounts are accurately presented on the monthly financial reports.

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

**Recommendation:** OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that receipts apportioned, disbursements, and cash balances are accurately presented on the District's financial reports. To improve internal controls over the District's monthly financial reports, we recommend the following:

- Monthly reports should be reviewed by someone other than the preparer.
- Monthly financial reports should be submitted to the Board during the meetings and documented as approved in the minutes.

**Management and Board Chairman Response:**

In progress: The District will replace the current bookkeeper and is in the process of hiring a CPA to prepare monthly reports which will then be reviewed by the Business Manager and Director. Monthly financial reports are currently reviewed at every Board meeting and this process will continue in the future.

**Criteria:** Accountability and stewardship are overall goals of the Board and 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

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

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 preparing and approving monthly reports should be segregated and monitored with active oversight.

**Objective 2:** Determine the District's internal controls provide reasonable assurance that the District's financial operations complied with 19 O.S. §1710.1.A regarding expenditures of District funds.

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

The District's financial operations did not comply with 19 O.S. § 1710.1.A, which requires that funds be expended for the purpose of providing funds for the support, organization, operation and maintenance of district ambulance services, known as emergency medical service districts.

**FINDINGS AND RECOMMENDATIONS**

**Finding 006 – Inadequate Internal Controls and Noncompliance Over Disbursements**

**Condition:** While interviewing employees, and observation of the disbursement process and reviewing documentation of disbursements, the following discrepancies were noted:

- The Board does not authorize or review disbursements.
- Packing slips verified by the designated receiving person were not utilized to verify the accuracy of invoices/statements.
- Supporting documentation for disbursements were not submitted with the checks for payment approved and signed by the Director.
- Purchase orders/claims were not prepared and supporting documentation was not provided for all disbursements.
- Credit card statements were not reviewed and approved by management.

We also noted the following noncompliance weaknesses:

- Some credit card purchases do not appear to be for the legally authorized use of the District as follows:
  - Retailer purchases totaling \$557.14 (Rue 21, JCPenney, Old Navy, Bass Pro Shops, AMC Owasso).
  - Association dues totaling \$136.00 (National Gun Owner Association).
  - Undocumented meals totaling \$4,662.47.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

- Late fees of \$116.00 were incurred on credit cards.
- Monthly service charges were incurred on two bank accounts; General Fund and Sinking Fund bank accounts.
- Check numbers 10337, 10397, and 8254 were voided then reissued to another individual/vendor without documentation of the reason for reissuance.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure expenditures are reviewed and approved by the Board, goods and services are verified as received, supporting documentation of each disbursement is retained, and disbursements are incurred only for the lawful operation of the District including the incurrence of debt through unpaid credit card balances and bank service fees.

**Effect of Condition:** These conditions resulted in noncompliance with state statute and could result in inaccurate records, incomplete information or misappropriation of assets.

**Recommendation:** Policies and procedures should be designed and implemented to ensure all disbursements are properly reviewed, approved, verified for receipt, documented, and for the appropriate and lawful use of the District to ensure compliance with state statute.

**Management and Board Chairman Response:**

In progress: The District is writing a new credit card usage policy to ensure maximum oversight and compliance. Any discrepancies will be identified and reported monthly and be included in the financial reports.

**Auditor Response:** The Management and Board Chairman response did not address all aspects of Finding 006.

**Criteria:** Effective internal controls require that management properly implement procedures to ensure reasonable assurance that expenditures were accurately reported in the accounting records and that purchases comply with 19 O.S. § 1710.1(A).

Title 19 O.S. § 1710.1(A) states, “Any proceeds collected pursuant to the provisions of Section 9C of Article X of the Oklahoma Constitution shall only be expended for the purpose of providing funds for the support, organization, operation and maintenance of district ambulance services, known as emergency medical service districts.”

**Objective 3:** To determine the District’s internal controls provide reasonable assurance that payroll expenditures were accurately reported in the financial records.

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

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

<b>FINDINGS AND RECOMMENDATIONS</b>
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**Finding 008 – Inadequate Internal Controls Over the Payroll Process**

**Condition:** Based upon inquiry and observation of the payroll process, the following weaknesses were noted:

- The Board and management did not review or approve payroll disbursements.
- Management did not review or approve leave balances.
- The employment contracts for the Director and Assistant Director *approved* by the Board could not be located; however, we did obtain unsigned contracts.

Upon inquiry, observation, review of documentation regarding the compensation of the District Director the following was noted:

- The Director's *unapproved* contract provided by the Director, stipulated compensation regarding Salary states in part;  
*"The District shall pay the Employee a salary of Sixty-Eight Thousand Sixteen Dollars (\$68,016.00) per year, payable Biweekly, for the first 40 hours worked in any week. When the Director works in the capacity of a field medic, beyond business hours he will be compensated at the rate of \$50.05 an hour, not to exceed 32 hours per month."*
- The Director's *unapproved* contract provided by the Director, specifies the District will provide the Director a vehicle for District business and the Director is eligible to be reimbursed for reasonable expenses on behalf of the District subject to the State Travel Reimbursement Act, and District will provide a "Smart Phone" type communication device (or stipend) for the Director's use for official business.
- The following discrepancies were noted regarding the Director's compensation:
  - The Director received a \$7,500 bonus in fiscal year 2017 "for extra work at the 911 center."
  - The Director was reimbursed for mileage; however, there was no indication the Board approved the reimbursement.
  - The Director exceeded the field medic hours, six of the twelve months for fiscal year 2016 and five of the twelve months for fiscal year 2017.
  - The Director was reimbursed for using his personal cell phone for District business; however, there was no indication the Board approved the reimbursement.
  - The District's policy and employment contract does not state "paid time off" will be paid in addition to the salary; however, the Director did receive additional payments.
  - The Director's salary exceeded the amount stated in the unapproved contract.
  - The Director did not prepare a timesheet indicating hours worked.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

Fiscal Year	Bonus	Mileage	Field Medic Pay	Phone Reimbursement	Special Event	Paid Time Off	Salary	Total Compensation
2014	\$ -	\$36	\$4,997	\$812	\$300	\$270	\$70,160	\$76,575
2015	\$ -	\$ -	\$7,041	\$1,320	\$ -	\$270	\$70,631	\$79,262
2016	\$ -	\$153	\$19,786	\$1,320	\$ -	\$1,884	\$69,319	\$92,462
2017	\$7,500	\$ -	\$21,275	\$1,371	\$ -	\$2,019	\$72,684	\$104,849

Upon inquiry, observation, review of documentation regarding the compensation of the Assistant District Director, the following was noted:

- The Assistant Director's *unapproved* contract provided by the Director, stipulated compensation regarding Salary states in part;  
*"The District shall pay the Employee a salary of Sixty-Eight Thousand Sixteen Dollars [sic] (\$42,000.00) per year, payable Biweekly, for the first 40 hours worked in any week. When working beyond business hours, in the capacity of a field paramedic the Assistant Director will be paid at a rate of \$35.00 an hour, not to exceed 32 hours per month."*

*\*The written and numeric salary amount did not agree in the contract.*

- The Assistant Director's *unapproved* contract provided by the Director, specifies Assistant Director is eligible to be reimbursed of reasonable expenses on behalf of the District subject to the State Travel Reimbursement Act, and District will provide a "Smart Phone" type communication device (or stipend) for the Assistant Director's use for official business.
- The following discrepancies were noted regarding the Assistant Director's compensation:
  - The Assistant Director was reimbursed for mileage; however, there was no indication the Board approved the reimbursement.
  - The Assistant Director exceeded the field medic hours, four of the twelve months for fiscal year 2016 and two of the twelve months for fiscal year 2017.
  - The Assistant Director was reimbursed for using his personal cell phone for District business; however, there was no indication the Board approved the reimbursement.
  - The District's policy and employment contract does not state "paid time off" will be paid in addition to the salary; however, the Assistant Director did receive additional payments.
  - The Assistant Director's salary may have exceeded the amount stated in the unapproved contract fiscal year 2017.
  - The Assistant Director did not prepare a time sheet indicating hours worked.

Fiscal Year	Mileage	Field Medic Pay	Phone Reimbursement	Paid Time Off	Salary	Total Compensation
2016*	\$175	\$9,170	\$997	\$485	\$39,860	\$50,687
2017	-	\$9,707	\$1,122	\$485	\$43,716	\$55,030

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

\*Note the Assistant Director assumed the position fiscal year 2016.

Upon inquiry, observation, review of documentation regarding the compensation of the District employees' the following was noted:

- The following employees did not submit timesheets:
  - Director (Full-time)
  - Assistant Director (Full-time)
  - Public Information Officer (Part-time)
  - Human Resource/ Payroll Officer (Part-time)
  - Billing Coordinator (Part-time)
- The part-time employees listed above did not have a formal or informal employment contract specifying job duties or expected hours to be worked.
  - Management could not specify the number of hours required to work for part-time employees.

Additionally, we noted the following concerns:

- The Fleet Manager's timesheet was prepared and submitted by the Assistant Director. This employee did not approve the timesheet.
- The payroll officer did not submit payroll information utilizing the District's computer system; rather, the payroll officer utilized personal unsecured electronic devices to submit payroll data to the payroll vendor.
- The payroll officer altered her payroll claim in the District's payroll system without supporting documentation or Board authorization on the following dates:
  - 6/30/14 altered to \$23 per hour.
  - 5/16/17 altered to \$200 per pay period.
  - 10/12/17 altered to \$300 per pay period.
- Employee personnel files were not being maintained by management, including documentation for withholdings.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the accuracy of payroll disbursements and to ensure payroll disbursements are authorized by the Board and properly recorded in the accounting records of the District. Additionally, policies and procedures have not been designed and implemented to ensure all employees submit signed timesheets that are approved by a supervisor, employment contracts are approved by the Board and retained, and leave balances are accurate.

**Effect of Condition:** These conditions resulted in errors and misappropriation with regard to the inaccurate reporting of payroll disbursements.

**Recommendation:** OSAI recommends that the Board and management establish internal controls to provide reasonable assurance for the accurate and complete presentation of payroll disbursements in the financial records of the District. Furthermore, OSAI recommends all employees submit signed timesheets that are approved by a supervisor, employment contracts be retained, and leave balances be reviewed for accuracy and approved.



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Management and Board Chairman Response:**

In progress: A new Policy Manual is being implemented to include job descriptions and definitions of full-time and part-time staff. All non-exempt employees use a web-based time clock. Management will use the web-based time clock for any non-exempt time worked per the conditions of their contract. Time cards are approved in the payroll system by the immediate supervisor. Managers are exempt employees. The District will work with the CPA and a professional human resources company to ensure internal controls provide reasonable assurance for the accurate and complete presentation of payroll disbursements in the financial records of the District. Personal files are maintained, and we are in the process of shifting this from a paper system to computer based.

**Auditor Response:** The Management and Board Chairman response did not address all aspects of Finding 008.

**Criteria:** Accountability and stewardship are overall goals of the Board and management in the accounting of funds. Internal controls should be designated to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, all employees should submit signed timesheets that are approved by a supervisor, Board approved contracts should be retained, and leave balances should be reviewed and approved for accuracy.

**Objective 5:** To determine 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.

**FINDINGS AND RECOMMENDATIONS**

**Finding 009 – Inadequate Internal Controls Over Fixed Assets Inventory**

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Condition:** Based on inquiry of District employees, observation, and review of the fixed assets inventory process, and review of the District's fixed assets inventory records for fiscal year 2017, the following weaknesses were noted:

- An annual verification of fixed assets was not performed.
- The District did not have a formal policy indicating a dollar threshold for adding fixed assets to the fixed assets inventory records.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure fixed assets inventory is properly maintained and updated through a periodic review by the District.

**Effect of Condition:** These conditions could result in errors and improprieties, unrecorded transactions, misappropriation of assets, or loss of District equipment.

**Recommendation:** OSAI recommends annual physical inventory verifications be performed for fixed assets by someone other than the individual maintaining fixed assets inventory records, and the Board establish a dollar threshold for fixed assets to ensure accurate records are properly maintained, updated, and documented.

**Management and Board Chairman Response:**

Completed: The District has new inventory software to ensure accurate records are properly maintained, updated, and documented. The CPA assisted us with the development of this policy and procedure. The District now requires biannual physical capital inventories to be performed every January and July.

**Criteria:** An important aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the 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 safeguarding assets from loss, damage, or misappropriation.

**All Objectives:**

The following finding is not specific to any objective but is considered significant to all of the audit objectives.

**Finding 001 - Inadequate District-Wide Controls and Lack of Documentation of District-Wide Controls (Repeat Finding)**

**Condition:** The District has not addressed or documented all of the components of an internal control framework which are the control environment, risk assessment, information and communication, and monitoring.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Cause of Condition:** This condition is a result of the District not being aware of how the process of identifying risks, implementing control activities, communicating pertinent information, and monitoring could positively impact the operations and reporting of the District.

**Effect of Condition:** This condition does not allow the District to function in the most effective manner possible. Additionally, without written documentation of the District-wide controls it is more difficult to retain organizational knowledge, communicate that knowledge to personnel, indicate what internal controls are present and monitor those controls.

**Recommendation:** OSAI recommends that the District design procedures to establish internal controls, identify and address risks, and to ensure that information is communicated effectively. 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.

**Management and Board Chairman Response:**

In progress: The District and Board are revising the current Administrative and Financial Policy and Procedures Handbook to establish better internal controls, identify and address risks, and to ensure that information is communicated effectively. The CPA will provide aid and oversight of these new policies.

**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 met. 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.

The control environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding by management of the importance of internal controls and the communication of this importance to its employees are key elements of the control environment.

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 of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

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For a District to run and control its operations, it must have relevant, reliable information, both financial and nonfinancial. 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.

**Other Item(s) Noted:**

**Finding 005 – Inadequate Internal Controls and Noncompliance Over Board Meeting and Minutes**

**Condition:** Upon review of the District’s Board meeting agendas and minutes, the following weaknesses were noted:

- Minutes were not signed by a quorum of the Board.

Additionally, the Board entered executive session to discuss matters concerning personnel issues.

- While minutes of executive session are not public, the Board is required to record the proceedings of these executive sessions and to keep them sealed and secure; however, upon discussion with the Director, documentation of these minutes does not exist.

**Cause of Condition:** Policies and procedures have not been designed and adequately implemented to ensure that all relevant discussions in the District Board minutes are properly documented in accordance with state statutes pertaining to the Open Meeting Act and Open Records Act.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes related to the Open Meeting Act and Open Records Act and could result in inadequate documentation of the Board’s decisions.

**Recommendation:** OSAI recommends the District maintain minutes for all Board meetings to ensure compliance with the Open Meetings Act and Open Records Act.

**Management and Board Chairman Response:**

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

Completed: The policy has been revised requiring present Board members to sign minutes at the meetings.

**Auditor Response:** The Management and Board Chairman response did not address all aspects of Finding 005.

**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 documentation of the Board meetings.

Title 25 O.S. § 307 states in part, “E. No public body may go into an executive session unless the following procedures are strictly complied with:

1. The proposed executive session is noted on the agenda as provided in Section 311 of this title;
2. The executive session is authorized by a majority vote of a quorum of the members present and the vote is a recorded vote;

F. A willful violation of the provisions of this section shall:

1. Subject each member of the public body to criminal sanctions as provided in Section 314 of this title; and
2. ***Cause the minutes and all other records of the executive session, including tape recordings, to be immediately made public.***

Title 25 O.S. § 312.A states, “The proceedings of a public body shall be kept by a person so designated by such public body ***in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and*** absent, all matters considered by the public body, and all actions taken by such public body. The minutes of each meeting shall be open to public inspection and shall reflect the manner and time of notice required by this act.”

Title 51 O.S. § 24A.5 states in part, “All records of public bodies and public officials shall be open to any person for inspection, copying, or mechanical reproduction during regular business hours; provided:

1. The Oklahoma Open Records Act, Sections 24A.1 through 24A.30 of this title, does not apply to records specifically required by law to be kept confidential including:
  - a. records protected by a state evidentiary privilege such as the attorney-client privilege, the work product immunity from discovery and the identity of informer privileges,
  - b. ***records of what transpired during meetings of a public body lawfully closed to the public such as executive sessions authorized under the Oklahoma Open Meeting Act.***

**Finding 007 – Inadequate Internal Controls and Noncompliance Over the Audit Expense Budget Account**

**Condition:** Upon inquiry and observation of the budgeting process, it was determined that internal controls have not been designed and implemented to ensure that the amount required by statute is correctly budgeted for the audit expense budget account.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

It was further noted that the District has not budgeted the 1/10<sup>th</sup> of mill in the audit expense budget account each fiscal year. As a result, the District's balance in the audit expense budget account as of June 30, 2017, was underfunded by \$51,221. Additionally, audit expenses were classified as Maintenance and Operation expenses instead of in the audit expense budget account.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure the audit expense budget account is accurately budgeted in accordance with statutory requirements and audit expenses are properly classified on the budget.

**Effect of Condition:** This condition resulted in noncompliance with state statute and the audit expense budget account being underfunded and underfunded and audit expenses being misclassified on the budget.

**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 and that any unused portion be carried forward into the next year's audit expense budget account in accordance with 19 O.S. § 1706.1. Also, OSAI recommends the District prepare an accurate budget set forth by 19 O.S. § 1709.

**Management and Board Chairman Response:**

Completed: The CPA will calculate, annually, the required funds and set them aside and these funds cannot be accessed except for the purpose of audit expenses.

**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.

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 ...."

Additionally, the District should report an accurate Budget as set forth by Title 19 O.S. § 1709.

**Finding 010 – Inadequate Internal Controls and Noncompliance Over Transfer of Funds**

**Condition:** Upon inquiry of District employees, observation of financial activity, and tests of the monthly reports, we determined the District did not report financial information accurately, as follows:

- FY 2014 - During the year, the District transferred \$15,154 from the Storage Account to the General Fund and \$3,459 from the Miscellaneous Account to the General Fund due to a deficiency of funds in the General Fund.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

- FY 2015 - On July 7, 2014, the District transferred monies from the General Fund to the Sinking Fund in the amount of \$78,830 due to insufficient funds to pay the bond payment for General Obligation Bond from the Sinking Fund.
- FY 2017 - From July 2016 through September 2016, the District transferred monies from the Sinking Fund to the General Fund totaling \$78,000 due to a deficiency of funds in the General Fund.

**Cause of Condition:** The District did not follow provisions of the Oklahoma Constitution regarding dedication of the levied tax for the purpose of providing general government operation funding and is in violation of the state statutes.

**Effect of Condition:** These conditions resulted in noncompliance with the Oklahoma Constitution and state statutes regarding the District pledging ad valorem tax collections for a purpose other than the specified purpose approved by the citizens of the District. Further, this condition resulted in overstatement of revenues and disbursements on the Districts Financial Statement.

**Recommendation:** OSAI recommends that the Board implement policies and procedures to ensure that dedicated funds are appropriated and expended for the purpose intended in compliance with the Oklahoma Constitution and state statutes.

**Management and Board Chairman Response:**

In progress: The CPA is assisting the District in developing the proper policies and procedures to ensure compliance with laws regarding the transfer of funds.

**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.

Title 62 O.S. § 446 states “Whenever any city or town of the State of Oklahoma shall have accumulated an amount of money in its sinking fund sufficient to pay at maturity the principal and interest of all its outstanding bonds, coupons and judgments, any surplus money in said fund, after all outstanding bonds, judgments or other charges against said sinking funds have been fully paid, whether maturing in the current or in future years, may be transferred by the governing body of such city or town to its general fund to be used in reducing the ad valorem tax levies for the ensuing fiscal year or years, or in constructing public buildings or other permanent improvements as the governing body may determine.”

Article 10 § 19 Oklahoma Constitution states, “Every act enacted by the Legislature, and every ordinance and resolution passed by any county, city, town, or municipal board or local legislative body, levying a tax shall specify distinctly the purpose for which said tax is levied, and no tax levied and collected for one purpose shall ever be devoted to another purpose.”

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Finding 012 – Inadequate Internal Controls and Noncompliance Over Incurrence of Debt (Repeat Finding)**

**Condition:** While interviewing employees and reviewing documentation of credit card disbursements, the following discrepancies were noted:

- The District did not pay a credit card in full which resulted in an incurrence of debt.
- The following total expenses and payments made for one credit card account:

	FY 2014	FY 2015	FY 2016	FY 2017
Expenses	\$27,137	\$26,315	\$22,740	\$31,225
Payments	\$26,789	\$33,488	\$21,679	\$30,471

Additionally, the District utilized a revolving line of credit obtained by agreement with a local bank. This line of credit is an incurrence of debt without the vote of the citizens and is not statutorily authorized.

See chart below for activity of these bank loans for the period of July 1, 2013 through March 9, 2018:

Loan Number	Start Date	Payoff Date	RLOC Amount	Draw Down Amount	Total Fees and Interest
4266345	10/29/13	01/20/14	\$50,000	\$45,000	\$694
4259551	07/25/13	04/08/14	\$100,000	\$99,850	\$3,196
4293334	10/09/14	01/12/15	\$100,000	\$50,000	\$808
4326272	11/03/15	04/19/16	\$100,000	\$45,000	\$1,201
4354066	09/07/16	04/10/17	\$100,000	\$85,000	\$1,913
4385508	08/03/17	Open	\$100,000	\$99,700	\$300
4393540	11/01/17	Open	\$100,000	\$70,000	\$300
Total			\$650,000	\$494,550	\$8,412

Further, in fiscal year 2017, District's disbursements as presented in the Estimate of Needs, were in excess \$82,494 of the amount budgeted for disbursements.

**Cause of Condition:** The District has not designed and implemented policies and procedures to ensure adequate internal controls and compliance with state statutes. Additionally, the District has not designed and implemented policies and procedures to ensure the financial stability of the District.

Further, management and the Board does not appear to be aware of the state statutes that regulate the District's financial operations.

**Effect of Condition:** These conditions resulted in noncompliance with state statutes and the District being perpetually in debt. Further, these conditions could result in unrecorded transactions, undetected errors, misappropriation of funds, and fraud and abuse.



**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Recommendation:** OSAI recommends the District discontinue use of their credit card and revolving lines of credit bank loans that incur unauthorized debt and expending funds in excess of the amount budgeted for disbursements.

Further, OSAI recommends the Board require administrative personnel to gain the knowledge regarding the financial processes and state statutes that provide guidance regarding the incurrence of debt to ensure proper financial management of the District.

**Management and Board Chairman Response:**

In progress: The District is now making significant efforts to bring operational cost down and we are working to be totally selfsustained. The CPA will assist us in proper budgeting and policies needed to ensure compliance. Additionally, a new aggressive credit card usage policy is in development that will be multitiered and any discrepancies will be investigated and reported in the monthly financial reports. A Board member will be part of the usage oversight and investigated as needed.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the District's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors, abuse and fraud within an organization. Internal controls should be designed to monitor compliance with laws and state statutes pertaining to debt. A key factor in this system is the environment established by management. In addition, management attitude, qualifications, and operating style become the foundation of all other internal control component.

Effective accounting procedures and internal controls are necessary to ensure stewardship and accountability of public funds. Safeguarding controls are an important aspect of internal controls.

Further, to help ensure proper accounting of funds, OSAI recommends the district adhere to the following state statutes;

Title 19 O.S. § 1717 (B, C) states in part: "B. It shall be unlawful for any employee or member of the board in

any budget year: 1. To create or authorize creation of a deficit in any fund... C. Any obligation that is contracted or authorized by any member or employee of the board in violation of this act shall become the obligation of the member or employee himself and shall not be valid or enforceable against the district. Any member or employee who violates this act shall forfeit his position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure or expenditure made in violation of this act shall be illegal and void."

Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1710.1(A) and District Policy and Procedures as follows:

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

Title 19 O.S. § 1710.1(A) states, “Any proceeds collected pursuant to the provisions of Section 9C of Article X of the Oklahoma Constitution shall only be expended for the purpose of providing funds for the support, organization, operation and maintenance of district ambulance services, known as emergency medical service districts.”

The following is the Policy and Procedure for purchasing from the District’s current handbook on page 28:

“Credit card usage is very limited and is acceptable only with the approval of management. OTEMS utilizes three credit cards. Only management uses the Arvest credit card. A manager must approve all purchases. The Phillips 66 card is for use by crews when needing to purchase fuel or other maintenance purchases.

The Sam’s card is for use only by management for purchase of station supplies and equipment.

ALL receipts MUST be turned into the Director/Assistant Director. Receipts are then sent to the OTEMS Bookkeeper for reconciliation. Any discrepancy shall be reported immediately and investigated by OTEMS management. Findings shall be reported to the OTEMS Board of Directors.

Lost receipts MUST be reported immediately and shall include a detailed email to the director explaining the loss of the receipt. The Email shall include where the purchase was made and the total amount of purchase.

Any misuse of OTEMS credit cards will be investigated and appropriate disciplinary action up to and including termination will be taken.”

**Finding 013 – Inadequate Internal Controls and Noncompliance Over Estimate of Needs (Repeat Finding)**

**Condition:** Based on inquiry of District employees, observation, and review of the of the Estimate of Needs, the following was noted:

- The Estimate of Needs was not reviewed for accuracy by someone independent of preparing this document.
- Financial information is not periodically reviewed by management or the Board to determine the District revenue collections will meet budgeted revenue expectations. Budgeted expenditures were \$988,434 but actual expenditures were \$1,070,928 resulting in actual expenditures for the fiscal year 2017 being excess of the amount budgeted of \$82,494.

**Cause of Condition:** Policies and procedures have not been developed to ensure budgeted funds are properly managed and reviewed for accuracy. Further, policies and procedures have not been developed to ensure purchases are not made in excess of budgeted appropriations creating debt for the District.

**OOLOGAH-TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD OF JULY 1, 2013 THROUGH JUNE 30, 2017**

---

**Effect of Condition:** This condition resulted in noncompliance with state statute and could result in debt and possible loss of assets.

**Recommendation:** OSAI recommends management review the Estimate of Needs budgeted amounts and compare to actual revenues and expenditures to ensure expectations are met with respect to the District approved Estimate of Needs as authorized by state statute.

**Management and Board Chairman Response:**

In progress: The CPA will provide professional oversight and will make appropriate adjustments on an ongoing basis. The CPA is assisting the board in development of the appropriate policy and procedures development.

**Criteria:** The adopted Estimate of Needs is an expression of public policy and financial intent and is a method of providing controls over that intent. Effective internal controls as they relate to government entities financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users' access to that accountability by demonstrating whether resources were obtained and used in accordance with the entity's adopted budget.

Further, Title 19 O.S. § 1717 (B, C) states in part:

“B. It shall be unlawful for any employee or member of the board in any budget year: 1. To create or authorize creation of a deficit in any fund... C. Any obligation that is contracted or authorized by any member or employee of the board in violation of this act shall become the obligation of the member or employee himself and shall not be valid or enforceable against the district. Any member or employee who violates this act shall forfeit his position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure or expenditure made in violation of this act shall be illegal and void.”



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