

OPERATIONAL AUDIT

# OOLOGAH TALALA EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2010 through June 30, 2011



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**OOLOGAH TALALA EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2010 THROUGH JUNE 30, 2011**

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



# Oklahoma State Auditor & Inspector

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October 30, 2013

## **TO OOLOGAH TALALA EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Oologah Talala Emergency Medical Service District for the period July 1, 2010 through June 30, 2011.

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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**

Tim Albin.....Chairman of the Board  
James Senese..... Treasurer  
Jack Griggs..... Secretary  
Richard Tesson..... Board Member

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

	<u>FY 2011</u>
Beginning Cash Balance, July 1	\$ 230,930
Collections	
Ad Valorem Tax	357,815
Charges for Services	305,275
Miscellaneous	<u>1,216</u>
Total Collections	<u>664,306</u>
Disbursements	
Personal Services	662,824
Travel	-
Maintenance and Operations	-
Capital Outlay	192,490
Audit Expense	<u>-</u>
Total Disbursements	<u>855,314</u>
Ending Cash Balance, June 30	<u>\$ 39,922</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, 2010 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.

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Objective 1: To determine the District's collections, disbursements, and cash balances for FY 2011 were accurately presented on the Estimate of Needs.

**Conclusion:** With respect to the items reconciled and reviewed; collections, disbursements, and cash balances were not accurately presented on the District's Estimate of Needs.

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

- Gained an understanding of internal controls related to the process of accurately presenting the collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.
- Performed the following to ensure collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs, which included the following:
  - Reconciled collections presented on the Estimate of Needs to 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 the ending balance in the financial records agreed to the ending balance presented on the Estimate of Needs.

**Finding: Inadequate Internal Controls Over Estimate of Needs**

**Condition:** 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 variance between the amounts recorded on the Estimate of Needs and the amount recorded in the financial records of the District. The ending balance as recorded on the Estimate of Needs was \$40,127.65; which was overstated by \$205.65 or .51% of the correct balance of \$39,922.

**Cause of Condition:** Procedures have not been designed and implemented to ensure the ending balance on the Estimate of Needs agrees to the ending balance of the financial records of the District.

**Effect of Condition:** The lack of review of the Estimate of Needs for accuracy could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriated funds.

**Recommendation:** The Oklahoma State Auditor & Inspector's Office (OSAI) recommends the District implement a system of internal controls to provide reasonable assurance collections, disbursements, and cash balances are accurately presented on the District's Estimate of Needs.

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Further, OSAI recommends a member of the Governing Board perform the bank reconciliations and compare the amounts on the general ledger to the 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:** This condition has been corrected. OTEMS has hired a new accountant in hopes of alleviating this issue in the future. The board now reviews and approves the Estimate of Needs. OTEMS has developed a system for the Board Chairman to review the Estimate of needs before approval by comparing the amounts to the bank reconciliation and the general ledger.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding of assets from misappropriation. To help ensure proper accounting of funds, all accounting transactions should be properly segregated and reviewed for accuracy.

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

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

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

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

**Finding: Inadequate Internal Controls Over Pledged Collateral Securities**

**Condition:** Based upon discussion with District personnel, observation, and review of documents, it was noted that the District has not properly designed and implemented internal controls procedures to monitor the bank balances on a daily basis to ensure that District funds are adequately secured.

**Cause of Condition:** Policies and procedures have not been designed and implemented to adequately monitor pledged collateral with regard to the bank balance.



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

**Recommendation:** OSAI recommends that the District monitor and maintain evidence documenting the security of District deposits on a daily basis to ensure compliance with 62 O.S. § 517.4.

**Management Response:** This condition has been corrected. OTEMS has hired an accountant to assist with monitoring all transactions. Further, the institution of a lockbox with our depository bank assures no funds pass through OTEMS staff hands. Additionally, OTEMS has set up online banking which allows for easy monitoring and tracking on a daily basis. Bank statements and balances are presented monthly to the OTEMS Board of Directors for review and approval.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

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

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

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

- Gained an understanding of internal controls related to the process of preparing claims, authorizing claims for payment, and documenting goods and services received, which included discussions with District personnel, observation, and review of documents.
- Tested internal controls, which included:
  - Testing checks issued to determine if each check had two (2) signatures.

**Finding: Inadequate Internal Controls Over the Check Issuance Process**

**Condition:** Upon discussion with District personnel, observation, and review of documents, it was noted that the District has not properly designed and implemented internal controls procedures concerning the expending of District funds. The following was noted concerning this matter:

- For the period of July through December 2010, the same employee received bills, prepared checks for payment, served as one of the two check signatures, and reconciled the bank statement.

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- For the period of January through June 2011, the same employee received bills, informed the outside accountant of the check amount needed without providing supporting documentation for the bills, and served as one of the two check signatures.

In analyzing twenty-five (25) checks written by the District, the following was noted:

- Nine (9) of the twenty-five (25) checks had only one signature approval.
- Two (2) out of the twenty-five (25) checks had no signature approval.

**Cause of Condition:** Procedures have not been designed and implemented to ensure checks are only issued if they have two (2) signatures. Further, procedures have not been designed and implemented to adequately segregate duties regarding the expenditure process.

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

**Recommendation:** OSAI recommends the District design and implement procedures to adequately segregate duties over the expenditure process including ensuring each check issued has two (2) signatures.

**Management Response:** This condition has been corrected. OTEMS has hired an accountant to distribute all checks written each month. Through online banking, checks are reviewed by both the Director and the Assistant Director to assure proper signatures are present. Compliance is reported to the OTEMS Board of Directors.

**Criteria:** Title 19 O.S. § 1710.1A outlines purposes for expending District funds, which include the support, organization, operation, and maintenance of the emergency medical service district. Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation.

Objective 4:	To determine if the District's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.
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**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 expenditures process, which included discussions with District personnel, observation, and review of documents.

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**Finding: Inadequate Internal Controls Over Payroll Expenditures**

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

- One person enrolls new hires, posts withholdings, maintains personnel files, initiates the payment of payroll, prints payroll, posts to accounting records, and reconciles bank statements.
- Payroll records appeared incomplete on several instances where no time sheet records were present.
- The time sheet line for approval was not signed as approved for any of the twelve (12) months under audit.

**Cause of Condition:** Procedures have not been designed and implemented to provide reasonable assurance that payroll expenditures are properly recorded in the accounting records of the District.

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

**Recommendation:** OSAI recommends that management establish internal controls to provide reasonable assurance for the accurate and complete presentation of payroll expenditures in the financial records of the District.

Further, in the event that segregation of duties is not possible due to the 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 key accounting functions.

It should be noted management implemented a new payroll system in August, 2012.

**Management Response:** This condition has been corrected. OTEMS has hired a payroll company to assure the proper handling of all payroll matters. Additionally, OTEMS uses an online time clock that is now required to be used by all employees that are non-exempt. They clock in and out online, and their time is tracked in the payroll system. The Schedule Coordinator reconciles all time sheets through the payroll system, and then the time sheets are sent for approval to the Assistant Director. The Assistant Director reconciles and approves the Schedule Coordinator's time.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties, and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

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**Finding: Payroll Fraud**

**Condition:** Due to concerns noted in the payroll process (as outlined in finding Inadequate Internal Controls Over Payroll Expenditures), the following was noted during a review of the payroll records:

- On two (2) separate timesheets, the individual assigned with payroll review and approval responsibilities, was paid for working 29 hours in one day.
- An email was on file depicting the individual assigned with payroll review and approval responsibilities being out of town the following week. During the following week in question, 77 timesheet hours were claimed and paid.
- Between the period of October 25, 2010 and July 15, 2011, the individual assigned with payroll review and approval responsibilities was paid for a minimum of 144 hours during each two week pay period.
- Of the overtime hours paid to the individual assigned with payroll review and approval, 938 hours paid between the period of October 25, 2010 and July 15, 2011, contained no support or documentation to support such working hours. This lack of documentation consisted of the individual's name not appearing on any available EMT shift schedules, or on the actual EMT run logs.
- The 938 hours paid without documentation equates to an unsubstantiated amount of \$13,216.42 for the period between October 25, 2010 and July 15, 2011.

**Cause of Condition:** Procedures have not been implemented to provide reasonable assurance that payroll expenditures are properly recorded in the accounting records of the District.

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

**Recommendation:** OSAI recommends that management establish internal controls to provide reasonable assurance for the accurate and complete presentation of payroll expenditures in the financial records of the District. Furthermore, OSAI recommends management refer the above referenced fraud and abuse to their respected District Attorney for further review.

It should be noted management implemented a new payroll system in August, 2012.

**Management Response:** This condition has been corrected. OTEMS has hired a full time payroll company and now utilizes a time clock that all employees are required to register all regular and overtime time with. Additionally, OTEMS has a review process in place where the Schedule Coordinator, the Assistant Director, and the Director review all payroll items, and now must approve it before submission to the payroll company.

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The above said individual is no longer employed with the company. The Board will discuss any additional steps and/or notifying authorities at their next scheduled board meeting.

**Criteria:** Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties, and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

**Objective 5:** To determine if the District's internal controls provide reasonable assurance that inventory was accurately reported in the accounting records.

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

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

- Gained an understanding of internal controls related to the fixed assets inventory process, through discussions with the EMS Director and observation of the process.

**Finding: Inadequate Internal Controls Over Fixed Assets Inventory**

**Condition:** Upon inquiry with District personnel, it was determined that controls have not been designed and implemented with regard to the District's fixed assets inventory. The following weaknesses were noted:

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

**Cause of Condition:** Procedures have not been designed and implemented to provide adequate controls with regard to fixed assets inventory. Further, supporting documentation concerning these items is not sufficiently maintained.

**Effect of Condition:** These conditions could result in loss and misappropriation of fixed assets inventory.

**Recommendation:** OSAI recommends that the District implement policies and procedures to accurately maintain fixed assets inventory records. 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:** This condition has been corrected. OTEMS has completed a full inventory of all items worth, or the replaceable cost exceeds \$500.00. This is a living document and is now updated with every capital purchase or donation.

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**Criteria:** An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of fixed assets inventory and safeguard 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: Inadequate District-Wide Controls**

**Condition:** Upon inquiry with District personnel, observation, and review of documentation, it was determined that District-wide controls regarding Risk Management and Monitoring have not been designed.

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

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

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

**Management Response:** The corrective action of this condition is in progress. OTEMS has a disaster plan with a hazard vulnerability assessment. This is completed. However, the business continuity plan is in progress with a completion date of three months. OTEMS has already made some major changes such as weekly backups of all financial and operational documentation. This backup is kept off site and available should the main office be taken out by incident and/or disaster.

**Criteria:** Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. District management is responsible for designing a District-wide internal control system comprised of Risk Assessment and Monitoring for the achievement of these goals.

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

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

Other Item Noted:

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

**Finding: Inadequate Internal Controls & Noncompliance Over the Audit Expense Account**

**Condition:** Upon inquiry and observation of the recordkeeping process in regard to calculating the amount appropriated and dedicated to the audit of the District, there is no recalculation of the one-tenth mill upon the net total assessed valuation to ensure the amount appropriated is correct. Further, the audit account of the fiscal year 2011 Estimate of Needs should reflect \$11,655.66 in appropriations dedicated for the audit of the District. The Estimate of Needs does not reflect any appropriations for this account.

**Cause of Condition:** The District relies on the budget maker to calculate the required amount for the Audit Expense Account with no independent oversight by Board. Procedures have not been designed to ensure the Audit Expense Account is accurately budgeted in accordance with statutory requirements due to the District being unaware for the need of such a procedure.

**Effect of Condition:** This condition resulted in noncompliance with the statute and under funding of the Audit Expense Account.

**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 Expense Account and that any unused portion be lapsed into the next year Audit Expense Account in accordance with 19 O.S. § 1706.1.

Further, OSAI recommends the Board Treasurer perform the calculation of the required amount for the Audit Expense Account, and another Board member recalculate the amount for the Audit Expense

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Account. In addition, the Board should compare the amount calculated by the Board Treasurer and the budget maker to ensure compliance with the statute.

**Management Response:** This condition has been corrected. OTEMS has instituted a process with the OTEMS accountant to assure that the required amount is always identified and set aside by the accountant when preparing the Estimate of Needs. Additionally, the OTEMS Board now reviews, in detail, the proposed Estimate of Needs during the review process.

**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.

Further, according to 19 O.S. § 1706.1, the District must appropriate the net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation of the District for audit expenses.





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