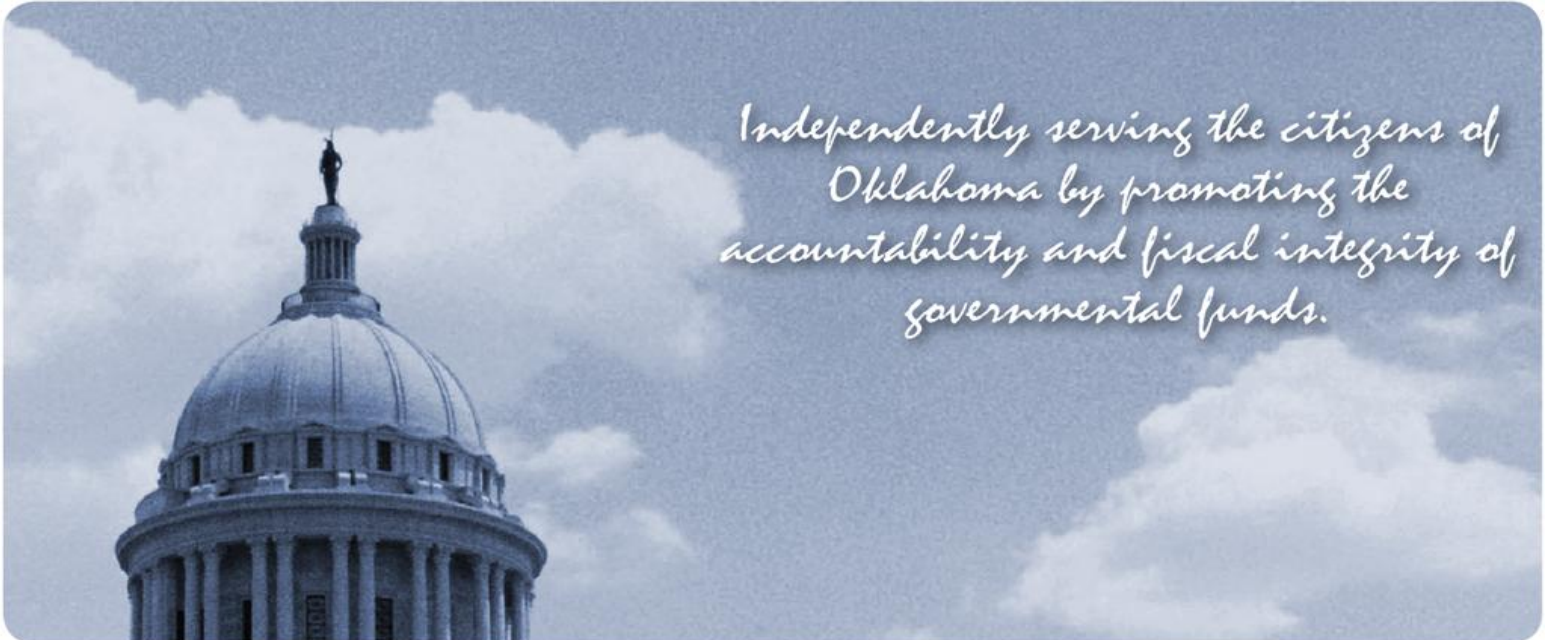


OPERATIONAL AUDIT

OOLOGAH TALALA EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2011 through June 30, 2013



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

**OOLOGAH TALALA EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2013**

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



Oklahoma State Auditor & Inspector

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July 23, 2015

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, 2011 through June 30, 2013.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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BACKGROUND

Article 10, § 9C of the Oklahoma Constitution authorized the formation of emergency medical service districts and initially authorized a tax levy not to exceed three (3) mills for the purpose of providing funds for the purpose of support, organization, operation, and maintenance of district ambulance services.

Emergency medical service districts are governed by a district board of trustees. The board of trustees has the power to hire a manager and appropriate personnel, contract, organize, maintain, or otherwise operate the emergency medical services within said district and such additional powers as may be authorized by the Legislature.

The trustees must act as a board when entering into contracts or other agreements affecting the district's welfare. Thus, actions taken by the board are voted on and approved by a majority of the trustees. The board's business meetings are open to the public.

The board of any district shall have capacity to sue and be sued. Provided, however, the board shall enjoy immunity from civil suit for actions or omissions arising from the operation of the district. Such districts shall be empowered to charge fees for services, and accept gifts, funds or grants from sources other than the mill levy, which shall be used and accounted for in a like manner.

BOARD OF TRUSTEES

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

**OOLOGAH TALALA EMERGENCY MEDICAL SERVICE DISTRICT
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Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2012 and FY 2013

	<u>FY 2012</u>	<u>FY 2013</u>
District Cash Balance, July 1	\$ 39,922	
Plus: Reporting Variance Prior Year	<u>206</u>	
Beginning EON Cash Balance, July 1	<u>\$ 40,128</u>	<u>\$ 123,464</u>
 Collections		
Ad Valorem Tax	360,595	367,668
Charges for Services	538,426	482,072
Miscellaneous	<u>256</u>	<u>11,002</u>
Total Collections	<u>899,277</u>	<u>860,742</u>
 Disbursements		
Personal Services	632,693	631,544
Maintenance and Operations	<u>100,102</u>	<u>306,544</u>
Total Disbursements	<u>732,795</u>	<u>938,088</u>
 Less: Due to Sinking Fund	(122,635)	
 Ending EON Cash Balance, June 30	<u>\$ 83,975</u>	<u>\$ 46,118</u>
 Plus: Under-Reported on EON	\$ 40,580	
 Ending District Cash Balance, June 30	\$ 124,555	
Less: Not Carried Forward To EON	<u>(1,091)</u>	
Ending Balance Carried Forward EON	<u>\$ 123,464</u>	

Note: An Estimate of Needs specific finding can be found on pages 4-5.

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, 2011 through June 30, 2013.

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

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

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Objective 1: To determine the District's collections, disbursements, and cash balances for FY 2012 and FY 2013 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 Oologah Talala Emergency Medical Service District's (the District's) Estimate of Needs (EON).

Finding: Inadequate Internal Controls Over Estimate of Needs (Repeat Finding)

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

- Although the Board of Trustees (the Board) approves the Estimate of Needs in open meeting, neither the Board 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 amounts recorded in the financial records of the District. The June 30, 2012 Estimate of Needs ending balance was \$40,580 less than the financial records balance of the District. Additionally, the July 1, 2013 beginning balance was \$1,091 less than the financial records balance of the District.

Cause of Condition: Procedures have not been designed and implemented to ensure the beginning and ending balances on the Estimate of Needs agrees to the balances 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.

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:

Director/Chairman of the Board: This condition has been corrected. Oologah Talala Emergency Medical Service (OTEMS) has hired an accountant in hopes of alleviating this issue in the future. The accountant who develops the Estimate of Needs will attend the OTEMS Board meeting to explain the details of the document and allow for questions and concerns. The Board now reviews and approves the Estimate of Needs. Additionally, 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.

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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.

Finding: Inadequate Internal Controls Over Pledged Collateral Securities (Repeat Finding)

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.

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. This could be accomplished by having the District's accountant prepare a statement on a recurring basis attesting to this compliance.

Management Response:

Director/Chairman of the Board: This condition has been corrected. OTEMS has hired an accountant and a bookkeeper to assist with monitoring all transactions. Further, the institution of a lockbox with our depository bank assures few, if any, funds pass through OTEMS staff hands. Additionally, OTEMS has set up an online banking program which allows for easy monitoring and tracking. This allows both the Director and the Bookkeeper to access the accounts on a daily basis. Bank statements are reconciled daily by the OTEMS Bookkeeper and balances are presented monthly to the OTEMS Board of Directors for review and approval.

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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.

Finding: Inadequate Internal Controls and Noncompliance Over the Check Issuance Process and Incurrence of Debt Using Credit Cards

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 2011 through April 2012, 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.

Additionally, the District is utilizing bank issued credit cards, fuel credit cards, and a Club Membership credit card without statutory authority for such cards.

Cause of Condition: For the period of July 2011 through April 2012 procedures were not designed and implemented to adequately segregate duties regarding the expenditure process.

Further, procedures have not been designed with regard to the disbursement process to ensure adequate internal controls over the expenditure of funds. This includes the incurrence of debt through credit cards, which is not permitted per state statute.

Effect of Condition: These conditions resulted in noncompliance with state statutes, and could result in unrecorded transactions, misstated financial reports, and undetected errors. Further, use of a credit card could result in unauthorized or improper purchases. The use of a credit card also increases the risk of improper purchases going undetected.

Recommendation: OSAI recommends the District design and implement procedures to adequately segregate duties over the expenditure process. OSAI further recommends management suspend the use of all credit cards. Regarding fuel purchases, OSAI recommends the District consider using the state

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contract through ComData. Using the state contract approved ComData card could serve as a legal alternative to the use of credit cards.

Management Response:

Director/Chairman of the Board: This condition has been corrected. OTEMS has hired a bookkeeper to distribute all checks written each month. Through online banking, checks are reviewed by both the Director and the Bookkeeper (3rd party) to assure proper signatures are present. Compliance is reported to the OTEMS Board of Directors. The above mentioned employee has been terminated and the concerns of the above mentioned findings prompted OTEMS to hire a forensic accountant to investigate and OTEMS then turned over said findings to the OSBI for further investigation. OSBI anticipates turning their findings over to the Rogers County DA in 2015 for review and action as warranted. Additionally, OTEMS submitted the internal findings and those of the forensic accountant to our insurance carrier. This allowed OTEMS to receive a \$10,000 bond for this dishonest employee action.

Lastly, the OTEMS Board of Directors decided to continue to utilize the credit cards mentioned. EMS is a 24/7 emergency service that responds to major incidents and disasters as well as the daily emergency responses of any EMS service. The Board feels the credit cards allow us to operate when other services are unavailable. OTEMS has developed and approved a policy and procedure on specifically when and how these credit cards are utilized. Every receipt must be turned into the OTEMS Bookkeeper for review, justification and reconciliation.

Auditor Response: We recommend the Board and the Director discontinue the use of any unauthorized credit cards. We further recommend the District obtain a fuel card as authorized on the state-wide contract and review policies and procedures regarding the use of a state authorized p-card for the purchase of goods and services. State statutes do allow political subdivisions to utilize a state p-card.

Criteria: Effective internal controls require that management establish policies and procedures that detect and prevent unauthorized transactions. Furthermore, the EMS District is not authorized to utilize credit cards.

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. Another important aspect of internal controls is ensuring expenditures are incurred in accordance with state statute.

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

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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.

Objective 4: To determine if the District's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Conclusion: For the period of July 1, 2011 through July 2012, the District's internal controls did not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

For the period of August 2012 through June 30, 2013, the District's internal controls did provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Finding: Inadequate Internal Controls Over Payroll Expenditures (Repeat Finding)

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

- For the period of July 2011 through April 2012, one person enrolled new hires, maintained personnel files, was responsible for collecting and reviewing timesheets, and initiated the payment of payroll.
- The period of May 2012 through July 2012 served as a transitional period until the payroll system was implemented.

Cause of Condition: For the period of July 2011 through July 2012, procedures had not been designed and implemented to provide reasonable assurance that payroll expenditures were 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 that management implemented a new payroll system in August 2012.

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Management Response:

Director/Chairman of the Board: 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.

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 provide reasonable assurance that fixed assets inventory was accurately reported in the accounting records.

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 (Repeat Finding)

Condition: Upon inquiry with District personnel, observation, and review of documentation, it was determined that District-wide controls regarding Risk Management and Monitoring had not been designed for the period under audit.

The District adopted a Business Continuity Plan on April 24, 2014. This plan will be reviewed in future audit periods.

Cause of Condition: During the period under audit, procedures had 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.

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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:

Director/Chairman of the Board: This condition has been corrected. OTEMS has written, distributed and approved our Business Continuity Plan in April of 2014. This plan will be reviewed annually to assure it is current on risk analysis and responses to various threats, both internally and externally.

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.

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(s) Noted:

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

Finding: Inadequate Internal Controls and Noncompliance Over the Audit Expense Account (Repeat Finding)

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.

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Further, the audit account of the 2011-2012 Estimate of Needs should reflect \$12,204.50 in appropriations dedicated for the audit of the District, and the audit account of the 2012-2013 Estimate of Needs should reflect an additional \$12,263.27 in appropriations. The Estimate of Needs for these two years 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 the Board. Procedures have not been designed to ensure the Audit Expense Account is accurately budgeted in accordance with statutory requirements.

Effect of Condition: This condition resulted in noncompliance with state 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 carried forward 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 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:

Director/Chairman of the Board: This item has been corrected. When developing the annual estimate of needs, the accountant has been advised to budget in the required one-tenth mill upon the net total assessed valuation to ensure the amount appropriated is correct and available.

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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