

OPERATIONAL AUDIT

ROGER MILLS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2009 through June 30, 2012



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

**ROGER MILLS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2012**

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



Oklahoma State Auditor & Inspector

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December 18, 2013

TO ROGER MILLS COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Roger Mills County Emergency Medical Service District for the period July 1, 2009 through June 30, 2012.

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

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

Sincerely,

A handwritten signature in blue ink, 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

Glenna Kirk.....	Chairman of the Board
John Wells.....	Vice Chairman of the Board
Janice Thompson	Secretary/Treasurer
Lloyd Bentley.....	Board Member
Jan Bailey.....	Board Member

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Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2011 and FY 2012

	<u>FY 2011</u>	<u>FY 2012</u>
Beginning Cash Balance, July 1	\$ 380,875	\$ 458,404
Collections		
Ad Valorem Tax	287,038	386,227
Interest on Investments	3,047	2,554
Total Collections	<u>290,085</u>	<u>388,781</u>
Disbursements		
Personal Services	1,896	1,885
Maintenance and Operations	6,660	4,645
Contract Services	204,000	266,400
Total Disbursements	<u>212,556</u>	<u>272,930</u>
Ending Cash Balance, June 30	<u>\$ 458,404</u>	<u>\$ 574,255</u>

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

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PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

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

The audit period covered was July 1, 2009 through June 30, 2012.

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

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

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Objective 1: To determine the District's collections, disbursements, and cash balances for FY 2011 and FY 2012 were accurately presented on the Estimate of Needs.

Conclusion: With respect to the items reconciled and reviewed; Roger Mills County Emergency Medical Service District's (the District) collections, disbursements, and cash balances for FY 2011 and FY 2012 appear to be accurately presented on the Estimate of Needs. However, internal controls over the collection process and review of the Estimate of Needs should be strengthened.

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

- Gained an understanding of internal controls related to the process of accurately presenting the collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.
- Reconciled and reviewed the accuracy of the District's Estimate of Needs to ensure collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs, which included the following:
 - Reconciled collections presented on the Estimate of Needs to the District's financial records approved by the Board of Trustees.
 - Reconciled warrants issued presented on the Estimate of Needs to disbursements approved by the Board of Trustees and paid through the operating account of the District.
 - Reviewed the ending cash balances presented on the Estimate of Needs to the financial records of the District, including the bank reconciliations at June 30, 2011 and June 30, 2012.

Finding: Inadequate Internal Controls Over the Collection Process and Estimate of Needs

Condition: Upon inquiry of District personnel and observation of the collection of revenue process, we determined that internal control procedures are not adequate.

- The District Board of Trustees (the District Board) does not review run reports, accounts receivable reports, expenditures, or bad debt/write offs from the contracted provider, Roger Mills County Hospital Authority.
- The District Clerk receives ad valorem payments, prepares the deposit, takes the deposit to the bank, receives the bank statements, and reconciles the bank statements.
- There is no evidence of a review by a board member independent of the process of monthly ad valorem collections.
- The District Board does not provide evidence of independent oversight with regard to the preparation of the Estimate of Needs.

Cause of Condition: Procedures have not been designed and implemented due to the management of the District being unaware of proper segregation of duties with regard to the collection process and review of

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the Estimate of Needs. Additionally, policies and procedures have not been designed and implemented to review reports of accounts receivable and uncollectable accounts.

Effect of Condition: A single employee having responsibility for more than one area of the collection process without management review of records and reports could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends the District implement policies and procedures to maintain a system of accounts receivable and uncollected accounts. Such policies and procedures would include receiving a detailed description of revenue received, accounts receivable, and uncollected amounts from the contract provider.

OSAI also recommends the District implement a system of internal controls to provide reasonable assurance those collections, disbursements, and cash balances are accurately presented on the District’s Estimate of Needs. Such controls would include comparison of financial records to the Estimate of Needs prior to the Board of Trustees approval.

Further, we recommend that the duties of receipting, depositing, and reconciling bank statements be segregated. In the event that duties cannot be segregated, OSAI recommends the District Board review financial records as evidenced by initials and dates, so as to provide assurance that revenue is safeguarded. Such review would include independent review of ad valorem collections from the County Treasurer.

Management Response: The District will implement procedures, including but not limited to, hiring the District’s own Certified Public Accountant to oversee the collection process and Estimate of Needs.

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

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

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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.
- 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

Condition: Upon discussion with District personnel, observation, and review of documents the following was noted:

- The District has not properly designed and implemented internal controls related to monitoring bank balances to ensure collateral is adequately pledged and maintained for deposits.

Cause of Condition: Procedures have not been designed to review and monitor bank deposits to determine that deposits are adequately secured.

Effect of Condition: These conditions could result in possible loss of district funds.

Recommendation: OSAI recommends the District Board establish policies and procedures to adequately safeguard the deposits of the District. To accomplish this, OSAI recommends the District request monthly pledge reports from the financial institution and monitor funds on a daily basis.

Management Response: The District will implement the procedure of approving the pledged collateral documentation from the local financial institution every month, requiring the initials of the Board Treasurer and noting the approval by the Board in the proceedings.

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.

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

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 over the expenditure process should be strengthened.

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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 compliance of the significant law, which included the following:
 - Selected a random sample of 15 expenditures (5 per year due to the low volume of transactions) to determine that expenditures were for the purpose of providing funds for the support, organization, operation and maintenance of the District.

Finding: Inadequate Internal Controls Over the Expenditure Process (Including Payroll) by the Contract Service Provider

Condition: Upon inquiry of the District Clerk and observation of records, we determined that internal controls have not been designed and implemented by the Board of Trustees with regard to the expenditure process. The Board of Trustees does not monitor expenditures, including payroll expenditures, made by the Contract Service Provider, Roger Mills County Hospital Authority, to ensure that funds are expended for the support, organization, operation and maintenance of the District.

Cause of Condition: The District Board has not established policies or procedures to monitor funds expended by the Contract Service Provider.

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

Recommendation: OSAI recommends the District Board establish policies and procedures to ensure the Contract Service Provider are expending funds for the support, organization, operation, and maintenance of the District.

Management Response: The District will amend or add to the Service Provider Contract, including, but not limited to, hiring outside legal counsel, to ensure that adequate documentation is received in regard to expenditures, including payroll expenditures, made by the Contract Service Provider to ensure that funds are expended for the support, organization, operation, and maintenance of the District.

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.

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Objective 4: To determine the District's financial operations complied with 19 O.S. § 1723, which requires District purchases in excess of \$7,500 be competitively bid.

Conclusion: With respect to the items tested, the District complied with 19 O.S. § 1723, which requires that purchases in excess of \$7,500 be competitively bid. However, internal controls over the bidding process have not been designed.

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

- Gained an understanding of internal controls related to the process of competitively bidding purchases in excess of \$7,500, which included discussions with District personnel, observation, and review of documents.
- Tested compliance of the significant law, which included the following:
 - Reviewed all bank statements for the audit period for checks issued in the amount of \$7,500 or more to determine purchases greater than \$7,500 were competitively bid.

Finding: Inadequate Internal Controls Over the Bidding Process

Condition: Upon inquiry of District personnel, it was noted that the District Board does not monitor the Contract Service Provider to ensure that bidding laws and processes are followed in accordance with the state statute.

Cause of Condition: Procedures have not been designed and implemented to monitor the Contract Service Provider to ensure that bidding laws and processes are followed.

Effect of Condition: These conditions could result in noncompliance with the state statute.

Recommendation: OSAI recommends the District implement procedures to ensure the Contract Service Provider abides by bidding laws and processes. These procedures should include documentation of notification to the successful bidder be maintained in the bid file and all bid awards should be documented in the minutes of the Board of Trustees.

Management Response: The District will allow Roger Mills County Hospital Authority Board to perform the bidding process and the District will open bids and award the bid based upon approval of the District.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases over \$7,500 comply with 19 O.S. § 1723.

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Objective 6: To determine if the District complied with 19 O.S. § 1710.1C regarding provider contracts.

Conclusion: The District complied with 19 O.S. § 1710.1C regarding provider contracts. However, internal controls over the contractual compliance should be strengthened.

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

- Gained an understanding of internal controls related to provider contracts through discussions with District personnel, observation, and review of documents.
- Tested compliance with contractual obligations which included review of payments to the contractual provider to ensure that the amount remitted to the provider equaled the amount agreed upon in the service contract.

Finding: Inadequate Internal Controls Over the Contract Service Provider

Condition: There is no documentation of review by the District Board over the contract provisions between the Contract Service Provider and the District Board.

Cause of Condition: Procedures have not been designed or implemented by the District Board to ensure that contractual obligations for the District are being met.

Effect of Condition: These conditions could result in misuse or misappropriation of District funds by the Contractual Service Provider.

Recommendation: OSAI recommends that the District Board design and implement procedures to ensure the provisions of the contract are being met.

Management Response: The District will utilize an independent CPA for monitoring and amend the Provider Service Contract to ensure that the provisions of the contract between the District and the Provider are being met and safeguard against the misuse or misappropriation of District funds.

Criteria: Effective internal controls require that internal controls be implemented to ensure compliance with 19 O.S. § 1710.1C regarding provider contracts.

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All Objectives:

The following findings are not specific to any objective, but are considered significant to all of the audit objectives:

Finding: Inadequate District-Wide Controls

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

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

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

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

Management Response: The District will implement policies with controlled oversight to reduce the risks from internal and external sources to the District.

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.

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Finding: Disaster Recovery Plan

Condition: Upon inquiry of District personnel with regard to the accounting and bookkeeping process, the District does not have a formal, written Disaster Recovery Plan.

Cause of Condition: A formal, written Disaster Recovery Plan over the accounting and bookkeeping process has not been designed due to the District being unaware for the need of such a procedure.

Effect of Condition: The failure to have a formal Disaster Recovery Plan could result in the District being unable to function financially in the event of a disaster. The lack of a formal plan could cause significant problems in ensuring District business, such as collections, expenditures for operations, the payroll process, and patient billing could continue uninterrupted in the event of a disaster.

Recommendation: OSAI recommends the District develop a formal, written Disaster Recovery Plan to safeguard the assets of the District from being unable to operate financially during the event of a disaster.

Management Response: The District will also design and implement a Disaster Recovery Plan to be able to function financially in the event of a disaster.

Criteria: An important aspect of internal controls is the safeguarding of assets which includes adequate Disaster Recovery Plans. 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 in a District being unable to function in the event of a disaster.

Other Item Noted:

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

Finding: Inadequate Internal Controls Over the Audit Expense Account

Condition: Upon inquiry and observation of the budgeting process, it was determined that internal controls have not been designed and implemented to ensure the amount required by statute is correctly budgeted for the Audit Expense Account. The District relies on the "budget maker" to calculate the required amount for the Audit Expense Account with no independent oversight by employees of the District or members of the Governing Board.

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

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Effect of Condition: This condition could result in noncompliance with the state statute.

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 account in accordance with 19 O.S. § 1706.1.

Further, OSAI recommends a member of the District Board performs the calculation of the required amount for the Audit Expense Account. In addition, the Board should compare the figures calculated by the financial officer and the budget maker to ensure compliance with the state statute.

Management Response: The District will design and implement procedures, including, but not limited to, District oversight and approval, to ensure that the audit expense account is accurately calculated in accordance with statutory requirements.

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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