

OPERATIONAL AUDIT

# RURAL SOUTHERN OKLAHOMA EMERGENCY MEDICAL SERVICE DISTRICT

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



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

**RURAL SOUTHERN OKLAHOMA EMERGENCY MEDICAL SERVICE DISTRICT  
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FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2012**

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# Oklahoma State Auditor & Inspector

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August 14, 2013

## **TO RURAL SOUTHERN OKLAHOMA EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Rural Southern Oklahoma 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 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**

Joy Linn Alexander.....	Chairman of the Board
Dana Gossvener .....	Vice-Chairman
Phillip McBain .....	Secretary/Treasurer
Elaine Scott .....	Board Member
Mary Strawn.....	Board Member
Scott Renfro .....	Board Member
Marland Vance.....	Board Member
StephenTreadwell .....	Board Member

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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2010, FY 2011, and FY 2012**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Beginning Cash Balance, July 1	\$ 240,282	\$ 246,509	\$ 276,389
<b>Collections</b>			
Ad Valorem Tax	191,763	196,758	207,468
Miscellaneous	937	964	429
<b>Total Collections</b>	<u>192,700</u>	<u>197,722</u>	<u>207,897</u>
<b>Disbursements</b>			
Contract Payments	180,000	160,000	200,000
Audit Budget Account	1,061	3,787	9,476
Maintenance and Operations	5,412	4,055	3,893
<b>Total Disbursements</b>	<u>186,473</u>	<u>167,842</u>	<u>213,369</u>
Ending Cash Balance, June 30	<u>\$ 246,509</u>	<u>\$ 276,389</u>	<u>\$ 270,917</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 2010, FY 2011, FY 2012 were accurately presented on the Estimate of Needs.

**Conclusion:** With respect to the items reconciled and reviewed; the District's collections, disbursements, and cash balances for FY 2010, FY 2011, and FY 2012 appear to be accurately presented on the Estimate of Needs. However, internal controls over the collection process 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.
- Performed the following to ensure that collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs:
  - 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.
  - Recalculated the ending cash balances presented on the Estimate of Needs to the financial records of the District.

**Finding: Inadequate Internal Controls Over the Collection Process**

**Condition:** Upon inquiry of District personnel and board members with regard to the revenue collection process, we noted the following weaknesses:

- One board member opens the mail, prepares the deposit, delivers the deposit to the bank, and renews the certificates of deposits at the bank.
- There was no evidence of review by an employee or board member independent of the process of the monthly bank reconciliations.
- The District does not issue receipts for monies received.
- The Bookkeeper reconciles the bank account, posts to the general ledger, makes changes to the general ledger, maintains the bank statements, and records the minutes of the EMS Board Meetings.

**Cause of Condition:** Procedures have not been designed and implemented due to the District being unaware of a need to properly segregate the duties and to issue receipts.

**Effect of Condition:** A single employee having responsibility for more than one area of the collection process could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

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**Recommendation:** The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends that the District implement a system of internal controls to provide reasonable assurance that the collection process is adequately segregated. OSAI recommends the following key accounting functions of the collection of revenue process be adequately segregated:

- Opening the mail.
- Issuing receipts.
- Preparing the deposit slip.
- Delivering the deposit to the bank.

Further, OSAI recommends bank reconciliations be reviewed, initialed, and dated by someone independent of the person preparing the bank reconciliation.

**Management Response:** The Board will work to segregate duties and to initiate a review procedure for bank deposits and reconciliations.

**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.

<p><b>Objective 2:</b> 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.</p>
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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 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.
- 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.



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

**Condition:** Upon discussions with District personnel and board members, observation, and review of documentation, it was noted that the District has not designed and implemented control procedures to monitor the bank balance on a daily basis to ensure that District funds are adequately secured.

**Cause of Condition:** Procedures have not been designed and implemented due to the District being unaware of a need for such procedures.

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

**Recommendation:** OSAI recommends that management of the District implement control procedures to ensure that District funds are adequately secured.

**Management Response:** The pledged collateral procedures will be reviewed by the Board and additional procedures will be implemented to monitor balances and to document this activity.

**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 the expenditure process.

**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 100% of expenditures for each year to determine that expenditures were for the purpose of providing funds for the support, organization, operation, and maintenance of the District.

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**Finding: Inadequate Internal Controls over the Expenditure Process**

**Condition:** Upon inquiry of District personnel and observation of records, it was determined that control procedures have not been implemented to ensure an adequate segregation of duties over the expenditure process of District funds due to the following:

- The District Bookkeeper prepares the purchase orders, checks the invoices for accuracy, posts invoices, prepares and mails the checks to the vendors, keeps purchase orders after they are paid, posts to the general ledger, makes changes to the general ledger and maintains the unissued checks.

**Cause of Condition:** Procedures have not been designed and implemented to adequately segregate the duties over the expenditure process due to the District being unaware for the need of such procedures.

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

**Recommendation:** OSAI recommends the District design and implement procedures to ensure a proper segregation of duties over the expenditure process.

**Management Response:** The expenditure process will be reviewed by the Board to determine how the District may segregate the expenditure process, and to document the review and approval process as necessary.

**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.

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:** 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.

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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.

Examples of risks and procedures to address risk management:

<b>Risks</b>	<b>Procedures</b>
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend workshops
Computer failures	Written disaster recovery plans
Board Member Turnover	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

<b>Monitoring</b>	<b>Procedures</b>
Communication between Board Members	Periodic meetings to address items that should be included in the handbook and to determine if the District is meeting its goals and objectives.
Annual Financial Statement	Review the financial statement of the District for accuracy and completeness.
Audit findings	Determine audit findings are corrected.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained variances.
Policies and procedures	Ensure employees understand expectations in meeting the goals of the District.
Following up on complaints	Determine source of complaint and course of action for resolution.
Estimate of needs	Work together to ensure this financial document is accurate and complete.

**Management Response:** The Board will work to develop procedures to identify risks and address risk management.

**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

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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.

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.

**Finding: Disaster Recovery Plan**

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

**Cause of Condition:** A formal, written Disaster Recovery Plan with regard to the accounting and bookkeeping software and hardware 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, goods and/or services, and the payroll process could continue uninterrupted.

**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.

Further, according to the standards of the Information Systems Audit and Control Association (CobiT Delivery and Support 4), information services function management should ensure that a written Disaster Recovery Plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Roles and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step by step execution;
- Training and/or awareness of individual and group roles in continuing plan;
- Listing of contracted service providers;

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- Logistical information on location of key resources, including back-up site for recovery operating system, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

**Management Response:** The Board will work to prepare a Disaster Recovery Plan.

**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.



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