

OPERATIONAL AUDIT

SUGAR CREEK AMBULANCE SERVICE DISTRICT

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



*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

**SUGAR CREEK AMBULANCE 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

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

December 13, 2013

TO SUGAR CREEK AMBULANCE SERVICE DISTRICT

Transmitted herewith is the audit report of Sugar Creek Ambulance 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", written in a cursive style.

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

Keith Gardner.....	Chairman of the Board
Pam Kokojan.....	Secretary/Treasurer
J.C. Carroll.....	Board Member
Mark Fouts.....	Board Member
Patti Sharry.....	Board Member
Tracy Sharry.....	Board Member
Jim Humphreys.....	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	\$ 323,070	\$ 241,644
Collections		
Ad Valorem Tax	139,829	147,990
Miscellaneous Revenue	<u>177,778</u>	<u>128,443</u>
Total Collections	<u>317,607</u>	<u>276,433</u>
Disbursements		
Personal Services	1,450	1,450
Maintenance and Operations	9,849	30,273
Capital Outlay	121,282	25,720
Contract Services	262,192	243,408
Audit Expense	<u>4,260</u>	<u>-</u>
Total Disbursements	<u>399,033</u>	<u>300,851</u>
Ending Cash Balance, June 30	<u>\$ 241,644</u>	<u>\$ 217,226</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; Sugar Creek Ambulance 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 does not review any reporting of runs, accounts receivable, expenditures, or bad debt/write offs from the contracted provider.
- The District Treasurer 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 independent oversight with regard to the preparation of the Estimate of Needs.

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Additionally, we noted the following weaknesses regarding monitoring of the operating fund bank balances:

- On April 18, 2011, there were insufficient funds in the operating account to cover check number 1083, in the amount of \$19,584 with a \$25 fee charge.
- On April 5, 2012, there were insufficient funds in the operating account to cover check number 1124, in the amount of \$12,635.05 with a \$25 fee charge.
- On April 6, 2012, there were insufficient funds in the operating account to cover check number 1125, in the amount of \$512.00 with a \$25 fee charge.

Cause of Condition: Procedures have not been designed and implemented due to the management of the District being unaware of the need for proper segregation of duties with regard to the collection process and review of 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 record and reports could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation: 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 takes all required documents to the accountant each year to prepare the Estimate of Needs. In the future, we will show him the audit report to ensure we are providing him with everything we need.

With regard to the operating bank account having insufficient funds to cover checks written, the Secretary Treasurer does not have the ability to transfer money between the two bank accounts. Therefore, twice in the last two years, the funds were not transferred in a timely manner.

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,

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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.

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.

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 adequate pledged collateral is maintained for deposits.
- The District receives pledge reports from a local financial institution on a sporadic basis; therefore, the District cannot adequately monitor pledged collateral.

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

Effect of Condition: This condition 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. Further, this information should be reviewed by the Board at monthly meetings.

Management Response: The District will continue to obtain adequate pledged collateral from the bank.

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Auditor Response: The District did not have instances in which the accounts were inadequately covered with pledged collateral; however, as stated above, the District did not monitor bank balances on a daily basis and did not consistently obtain monthly pledge reports from the financial institution in order to ensure that deposits were adequately secured.

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 over the expenditure process should be strengthened.

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

Condition: Upon inquiry of District personnel and observation of records, it was determined that the District did not provide adequate documentation to determine if expenses were within the guidelines of the state statute.

The following conditions were noted with regard to the lack of documentation of District expenses:

- There is a lack of segregation of duties involving the Treasurer of the District, who distributes payments to vendors, receives invoices from vendors, reconciles the petty cash account, and reconciles the bank statements to District accounting records that are prepared by the Treasurer.
- Purchase orders or claims were not issued for expenses incurred by the District.
- Adequate documentation to support that goods or services were received was not retained (i.e., receiving reports.)

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- The Board does not monitor the expenditures made by the contracted service provider to ensure that funds are spent for the support, organization, operation and maintenance of the District.

Cause of Condition: The District Board of Trustees has not established policies or procedures to monitor funds expended by the contract service provider or adequately document expenses paid directly by the Board.

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

Recommendation: OSAI recommends the District Board of Trustees establish policies and procedures to ensure the District and the contract service provider are expending funds for the support, organization, operation and maintenance of the District. At a minimum, expenditures should be supported by a purchase order, invoice or statement, and evidence that the goods or services were received. Additionally, contracted service expenditures should be supported by itemized invoices in accordance with contract stipulations, prior to the Board approving payment for those monthly services.

Management Response: The volunteer Secretary Treasurer does not sign any checks for the payment of any goods or services. This is a control which is in place to safeguard the District funds. All payments for all goods and services are paid for by check during the regularly scheduled meetings. All checks require two signatures of two board members. An invoice is available for all claims which are paid. The other payments which the Board makes are to pay for the amounts that are contracted with the contract service provider and Carnegie Hospital. The District is governed and run by volunteers. The District does not have employees. All deposits and monthly bank statements are examined by the Board. On the suggestion of a previous audit, all deposits are recorded by receipt and bank ledger by the volunteer Secretary Treasurer. We are unable to segregated duties since we only have one volunteer for this position.

Auditor Response: Documentation provided to OSAI did not reflect any evidence that expenditures were monitored. Claims were not prepared to support expenditures. Stipulations regarding expenditures outlined in service provider contract were not followed.

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 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.
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Conclusion: With respect to the items tested, the District did not comply with 19 O.S. § 1723, which requires that purchases in excess of \$7,500 be competitively bid.

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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 and Noncompliance Over the Bidding Process

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

Additionally, the District did not perform bidding procedures for five purchases made during the audit period including all purchases that had a competitive bidding requirement.

Those purchases were for the following items:

• Physio Control Equipment	\$18,282.48
• Phoenix Group Ambulance	\$103,000.00
• Stryker - Equipment	\$11,933.06
• Physio Control Equipment	\$13,287.75
• Medic West Ambulance Repair	\$12,635.05

Cause of Condition: Procedures have not been designed and implemented to ensure that bidding laws and processes are followed by either the District or contract service provider.

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

Recommendation: OSAI recommends the District implement procedures to ensure that the District and the contract service provider abide 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 items which were purchased by the District were recommended by the contract service provider. This equipment is bid specific equipment which the personnel are familiar with and are on other ambulances in the fleet. Management agrees these items need to be like items to ensure the efficiency of the employees which are using the equipment.

Auditor Response: The District did not comply with 19 O.S. § 1723, which requires all purchases over \$7,500 be competitively bid.

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

Objective 5: To determine the District's financial operations complied with the service contract provision, which states that the District will provide to the service provider the sum of \$19,584 per month to provide ambulance service to the citizens residing in the District and that the service provider will provide the District a monthly report of run activity.

Conclusion: With respect to items tested, the District's financial operations complied with the service contract provision which states that the District will provide to the service provider the sum of \$19,584 per month to provide ambulance service to the citizens residing in the District. However, a monthly report of run activity was not provided to the District and internal controls should be strengthened with regard to compliance with the contract provisions.

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: Upon discussion with District personnel, observation and review of the contract provisions, we noted the following weaknesses in the internal controls over the contract:

- There is no documentation of review by the District Board of Trustees over the Contract provisions between the contract service provider and the District Board.
- The District Treasurer pays the contract service provider \$19,584 per month without documentation of services performed, such as a monthly report of activity.

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

Effect of Condition: This condition could result in misuse or misappropriation of District funds by the contract service provider.

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

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Management Response: The District is under contract with the contract service provider to provide ambulance service for the Sugar Creek Ambulance District. We, as a Board, do not feel we need to monitor their internal procedures as long as they are fulfilling the contract with the District.

Auditor Response: At a minimum the District should review the provisions of the contract and obtain monthly reports of activity from the Provider to ensure that the funds are spent in accordance with the provisions.

Criteria: Effective internal controls require that internal controls be implemented to ensure compliance with provisions regarding provider contracts.

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 responded as follows:

- The Director of contract service provider attends workshops.
- All pertinent information is kept in a fireproof file.
- The Board will work on a written Disaster Recovery Plan.
- The volunteer Secretary Treasurer attends all Board meetings to discuss with Board members.
- We continue to correct audit findings when it is possible.
- The financial status of the District is reviewed at each regular Board meeting.
- The District has not received any complaints; however, complaints would be thoroughly evaluated and resolved.
- An accounting firm is hired each year to prepare the Estimate of Needs for the next year. This document is then reviewed and discussed at the September meeting each year.

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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.

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 Board will work on a written 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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Other Item Noted:

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

Finding: Inadequate Internal Controls and Noncompliance 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.

Additionally, we calculated the amount for the audit expense account for the fiscal years of 2009-2010, 2010-2011, and 2012-2013 and determined that a total of \$14,339.44 should have been set aside for audit expense account. Of that amount, \$4,259.60 was paid to the State Auditor and Inspector in fiscal year 2011-2012. The balance in the account for 2012-2013 should have been \$10,079.84; however, the budget maker estimated \$7,000 for the audit expense account.

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.

Effect of Condition: This condition resulted 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 of Trustees perform 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 contact the accounting firm that completes the estimate of needs and will review the calculations of the audit expense account.

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.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV