

OPERATIONAL AUDIT

TILLMAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2009 through June 30, 2011



*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

**TILLMAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2011**

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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March 1, 2012

TO TILLMAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Tillman County Emergency Medical Service District for the period July 1, 2009 through June 30, 2011.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**TILLMAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
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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:

Don Dunham..... Chairman
Cullen Worthington Vice-Chairman
Craig Peters..... Treasurer
Frank Jensen Secretary
Dwight Parker Member
Max Brown Administrator

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

Beginning Cash Balance, July 1, 2010	\$ 208,485
Collections	
Ad Valorem Tax	82,570
Charges for Services	284,178
Intergovernmental	15,212
Miscellaneous	3,635
Total Collections	<u>385,595</u>
Disbursements	
Personal Services	234,520
Maintenance and Operations	154,879
Capital Outlay	7,500
Total Disbursements	<u>396,899</u>
Ending Cash Balance, June 30, 2011	<u>\$ 197,181</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, 2011.

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

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

Objective 1:	To determine the District’s collections, disbursements, and cash balances for FY 2011 were accurately presented on the Estimate of Needs.
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Conclusion With respect to the items reconciled and reviewed; collections, disbursements, and cash balances were accurately presented on the District’s Estimate of Needs.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.
- Performed the following to ensure collections, disbursements, and cash balances were accurately presented on the District’s Estimate of Needs:

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- Reconciled collections presented on the Estimate of Needs to collections deposited by the District.
- Reconciled checks issued presented on the Estimate of Needs to disbursements.
- Re-performed the bank reconciliation to determine that the ending cash balance presented on the Estimate of Needs at June 30, 2011, was accurate.

Observation

Inadequate Internal Controls over the Estimate of Needs

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.

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

- There is no independent oversight of the accuracy of collections, disbursements, and cash balances on the Estimate of Needs by the Administrator or a member of the Board of Trustees.

This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of funds.

Recommendation

OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that collections, disbursements, and cash balances are accurately presented on the District's Estimate of Needs.

Further, OSAI recommends the District Administrator or a member of the Board of Trustees compare general ledger postings to the Estimate of Needs to ensure collections, disbursements, and cash balances are accurately presented on the Estimate of Needs.

**Management
Response**

Since August of 2011, a new office manager was hired. At the end of each month, the bank statements are balanced with bookkeeping software, and all collections, disbursements, and cash balances are reconciled with the budget. The new office manager is working very closely with the Board members to make sure the Estimate of Needs is thorough and correct.

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Objective 2: To determine if the District's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

Conclusion The District's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the revenue process through discussions with District personnel, observation, and review of documents.

Observation **Inadequate Segregation of Duties over the Revenue Process**

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, and bank reconciliations should be separated. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of calculations and/or transactions.

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

The District has two part-time office employees.

One employee is responsible for performing billing services including:

- Entering run sheet information into the software system.
- Issuing receipts.
- Posting payments to patient accounts.

The other employee is responsible for performing duties related to the following:

- Preparing the deposit.
- Delivering the deposit to the financial institution.
- Reconciling bank statements.

A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation OSAI recommends the District separate the billing service duties of entering run sheet information into the software system, issuing receipts and posting payments to patient accounts. Further, OSAI recommends the District separate the duties

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of preparing the deposit, delivering the deposit to the financial institution, and reconciling bank statements.

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 accounting functions.

Management Response

Due to the shortage of employees, two people separate the billing from the bookkeeping. After the deposits are recorded, they are then turned over to the office manager to be recorded in the bookkeeping software and deposited into the account. The Board members approve and review all transactions each month. There really is no other way to separate accounting duties when there are only two people in the office at all times.

Objective 3: To determine if the District's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion

The District's internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the expenditures process through discussions with District personnel, observation, and review of documents.

Observation

Inadequate Segregation of Duties over the Expenditures Process

Accountability and stewardship are overall goals of management in the accounting of funds. Internal control should be designed to analyze and check accuracy, completeness, and authorization of calculations and/or transactions. To help ensure a proper accounting of funds, the duties of preparing a check, signing a check, approval of invoices, posting expenditures to accounting records, and reconciling bank statements to accounting records should be separated.

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

- One employee performs the duties of preparing purchase orders, posting expenditures to the accounting records, preparing checks for payment, and reconciling bank statements.

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A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation OSAI recommends separating the duties of preparing purchase orders, posting expenditures to the accounting records, preparing checks for payment, and reconciling bank statements.

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 accounting functions.

Management Response Due to the shortage of employees, two people separate the billing from the bookkeeping. After the deposits are recorded, they are then turned over to the office manager to be recorded in the bookkeeping software and deposited into the account. The Board members approve and review all transactions each month. There really is no other way to separate accounting duties when there are only two people in the office at all times.

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

Conclusion The District’s internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the payroll process through discussions with District personnel, observation, and review of documents.

Observation **Inadequate Segregation of Duties over Payroll Expenditures**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal control should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

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

- One person enrolls new hires, posts withholdings, maintains personnel files, initiates the payment of payroll, prints payroll, posts to accounting records, distributes payroll checks, and reconciles bank statements.

A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation

OSAI recommends employees of the District complete timesheets and timesheets should be signed by the employee and approved by a supervisor or administrator. OSAI also recommends separating the duties of enrolling new hires, posting withholdings, maintaining personnel files, initiating the payment of payroll, printing payroll, posting to accounting records, distributing payroll checks, and reconciling bank statements.

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 accounting functions.

Management Response

The Director makes a calendar at the end of each month for the employees to sign. This process is to ensure that the employee agrees to the hours they were paid for. All part-time employees work twelve hour shifts which are posted. Before any employee is paid, the Board members review and approve all accounting functions.

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

Conclusion

The District’s internal controls do not provide reasonable assurance that the fixed asset inventory was accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the fixed asset inventory process through discussions with District personnel, observation and review of documents.

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Observation

Inadequate Internal Controls over Fixed Asset Inventory

An important aspect of internal controls is the safeguarding of assets, which includes adequate segregation of duties. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of inventory and safeguarding inventory from loss, damage, or misappropriation.

Upon inquiry and observation of the recordkeeping process regarding fixed asset inventory, the following was noted:

- There is a lack of independent oversight over the employee responsible for recording fixed asset inventory items received or disposed.
- The District does not maintain supporting documentation of an annual physical count of fixed asset inventory items.

Failure to account for and safeguard inventory items and failure to perform a periodic physical inventory count could result in inaccurate records, unauthorized uses of fixed assets, or misappropriation of fixed assets.

Recommendation

OSAI recommends the District Board of Trustees establish policies and procedures regarding the recordkeeping for fixed asset inventory. OSAI also recommends the District perform an annual physical count of fixed asset inventory items and supporting documentation of the count be maintained.

Further, OSAI recommends the employee recording inventory items received or disposed for the District, sign and date the updated inventory listing and also the inventory listing be signed and dated by the Administrator or other member of management to ensure independent oversight of fixed asset inventory items added or removed from inventory records.

**Management
Response**

We have added a signature line for the Director to sign on the inventory log. After each inventory item has been accounted for, the Director can sign and date it. Hopefully, this will ensure independent oversight of all fixed asset inventory.

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Other Items Noted:

Observation **Inadequate Internal Controls over the Audit Expense Account and Non-Compliance with 19 O.S. § 1706.1**

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.

Upon inquiry and observation of the recordkeeping process of calculating the amount appropriated and dedicated to the audit of the emergency medical service district, the following was noted:

- The Administrator does not recalculate one-tenth mill upon the net total assessed valuation to ensure the amount appropriated for the audit account is correct.
- The audit account of the 2011-2012 Estimate of Needs should reflect \$4,055.88 in appropriations set aside for the audit of the District. The District Estimate of Needs reflects that \$8,000.00 was appropriated to this account.

These conditions resulted in the audit expense account being overfunded.

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 is appropriated and dedicated to the audit of the emergency medical service district in accordance with 19 O.S. §1706.1.

Further, OSAI recommends the Administrator, or other member of management, recalculate the one-tenth mill upon the net total assessed valuation for the expense of the audit to ensure the accurate amount is appropriated and dedicated to the audit of the emergency medical service district.

Management Response The next audit account will be calculated one-tenth mill upon the net total assessed valuation.

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Observation

Non-Compliance of Contract Provisions

Accountability and stewardship should be overall goals of management in the accounting of funds. A basic component of effective internal controls would include controls designed to ensure compliance with contract requirements.

The Tillman County Emergency Medical Service District (the District) contracted with the Grandfield Ambulance Service (the Service) to assist the Service by an amount equal to 2 mills of the assessed valuation of the Grandfield Independent School District. The repeal of personal property tax resulted in an adjustment factor in the millage to 2.09 mills.

Presently, the District receives all of the ad valorem tax from Tillman County and then remits 14.477% of the collections to the Service. This percentage was calculated on the valuation in 1981 and has been used for ad valorem tax collections for all tax years thereafter.

Upon recalculating the percentage that should have been remitted to the Service, the following was noted:

- Based on the 2009 ad valorem tax valuation for the District, the Service should have received 14.962% of total ad valorem tax collections.
- Based on the 2010 ad valorem tax valuation for the District, the Service should have received 14.953% of total ad valorem tax collections

The contract between the District and the Service requires the Service file receipt and expenditure information with the District. We noted the following with regard to contract compliance:

- The contract does not specify whether this information should be filed monthly or yearly.
- The Board of Trustees does not acknowledge, in open meeting, the receipt of information provided by the Grandfield Ambulance Service.

These conditions could result in misappropriation of assets, undetected errors, or unrecorded transactions.

Recommendation

OSAI recommends management be aware of the increase in the millage due to the repeal of personal property tax and recalculate the percentage due to the Grandfield Ambulance Service based on the valuations of each tax year.

OSAI further recommends the Board of Trustees amend the contract to require monthly activity reports of receipts and expenditures and to acknowledge receipt of such in open meetings.

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**Management
Response**

The Board is aware of the increase of millage and will bring this up at the next Board meeting.

Observation

Inadequate District-Wide Controls

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 Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

Control Environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding of internal controls and the communication of this importance to its employees are key elements of the control environment.

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.

Information and Communication is a component of internal control which should provide for a District to run and control its operations. A District must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the District who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the District needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communications.

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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.

District-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

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

Recommendation

OSAI recommends that the District implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

**Management
Response**

We are working on implementing a system of internal controls.



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