

OPERATIONAL AUDIT

VICI-CAMARGO EMERGENCY MEDICAL SERVICE DISTRICT

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



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

**VICI-CAMARGO 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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June 21, 2013

TO VICI-CAMARGO EMERGENCY MEDICAL SERVICE DISTRICT

Transmitted herewith is the audit report of Vici-Camargo 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', is written over a light blue horizontal line.

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

Tom Carman	Chairman of the Board
Otis Hughen	Vice-Chairman
Sandra McManus	Board Member
Jeff Cole	Board Member
Leslie Hutchens.....	Board Member

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

Beginning Cash Balance, July 1, 2011	<u>\$ 114,540</u>
Collections	
Ad Valorem Tax	39,019
Charges for Services	75,367
Miscellaneous	<u>7,341</u>
Total Collections	<u>121,727</u>
Disbursements	
Personal Services	28,650
Maintenance and Operations	47,765
Capital Outlay	<u>-</u>
Total Disbursements	<u>76,415</u>
Ending Cash Balance, June 30, 2012	<u>\$ 159,852</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 2012 were accurately presented on the Estimate of Needs.

Conclusion: With respect to the items reconciled and reviewed; collections, disbursements, and cash balances appear to be accurately presented on the District's Estimate of Needs. However, internal controls with regard to reviewing the Estimate of Needs and segregating the duties within the revenue 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 collections, disbursements, and cash balances were accurately presented on the District's Estimate of Needs:
 - 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 reconciliations at June 30, 2012, to determine that all reconciling items were valid, and ending balance in the financial records agreed to the ending balance on the Estimate of Needs.

Finding: Inadequate Controls Over the Estimate of Needs and Revenue Process

Condition: Through discussions with District personnel, observation and review of documents, we noted the following concerns regarding the Estimate of Needs and the collection of revenue process:

- One employee picks up the mail, opens the mail, issues receipts, applies amounts to customer accounts, prepares the deposit, takes the deposit to the bank, and reconciles the bank account.
- Neither the Board of Trustees nor the Director provides independent oversight with regard to the preparation of the Estimate of Needs.
- One deposit totaling \$416.28 was deposited into the wrong account and was discovered and corrected during the bank reconciliation process.

Cause of Condition: Procedures have not been designed to adequately segregate the duties of receiving and depositing funds, reconciling collections received by individuals involved in the collection of funds, and providing independent oversight of the budgeting process.

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Effect of Condition: These conditions 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 those collections, disbursements, and cash balances are accurately presented on the District's Estimate of Needs. Such controls would include a comparison of the financial records to the Estimate of Needs prior to the District Board of Trustees approval of these documents. Additionally, the duties of receiving, depositing, and reconciling bank statements should be segregated and reviewed by someone other than the preparer of the records so as to provide assurance that revenue is safeguarded.

Management Response: The District appointed a member of the Board to get the mail, receipt payments, and make any deposits. This person will also review the bank statements and sign them. The paperwork will then be passed on to the bookkeeper to complete the necessary work.

Auditor Response: We commend the District for recognizing the need for a separation of duties; however, the addition of another Board member to perform all the duties mentioned in the response will not provide segregation of those duties. We recommend that the duties be separated as to retrieving the mail, issuing receipts and making deposits and reviewing the bank reconciliations.

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 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 audit period, the District complied with 62 O.S. § 517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments. However, internal controls with regard to 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.
- Reviewed the bank statements for each month and selected the highest balance day 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

Condition: Upon discussion with District personnel, observation, and review of documents, we noted the following concerns regarding pledged collateral:

- The District has not properly designed and implemented internal controls related to daily monitoring and review of bank balances to determine that funds were secured.

Cause of Condition: The District has maintained a bank balance that is less than the FDIC limit of \$250,000 and has not developed procedures to monitor those funds for adequate collateral.

Effect of Condition: Failure to properly safeguard assets could result in the possible loss of District funds.

Recommendation: OSAI recommends that the District Board establish policies and procedures to adequately safeguard the deposits of the District, especially in the event that bank deposits exceed \$250,000.

Management Response: The monthly financial statement was changed to reflect the total monies that were on deposit at each individual financial institution to help make them more aware of the amounts.

Criteria: Effective internal controls require that monitoring of bank balances be adequately documented to allow for the safeguarding of assets on deposit.

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 did not comply with 19 O.S. § 1710.1A, which outlines the purposes for expending District funds.

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 a random sample of fifty expenditures for compliance with 19 O.S. § 1710.1A to determine expenditures were for an allowable expense.

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Finding: Inadequate Internal Controls and Noncompliance Over the Expenditure Procedures

Condition: Upon discussion with District personnel, observation, and the test of fifty expenditures, we noted the following concerns regarding purchasing:

- One individual orders goods, receives goods, prepares payments, and reconciles the bank statements.
- The District has not designed and implemented a procedure to formally approve claims for expenditures.
- The District has not designed and implemented a procedure to document the receipt of goods or services.
- The District allows employees to purchase goods and then reimburses the employees from District funds.

Additionally, we noted noncompliance with purchasing guidelines with regard to the following:

- Petty cash in the amount of \$100.00 was stolen from the District ambulance in which the fund is maintained. A police report was filed January 28, 2010.
- Three more instances were noted of missing petty cash; \$20.00 was missing in October, 2010; \$30.00 was missing in January, 2011; and \$15.00 was missing in April 2012. No police reports were filed.
- There were five instances totaling \$34.50 in which the reduction of petty cash was noted only by handwritten notes.
- Adequate supporting documentation for the purchase of fuel from the petty cash fund was not attached to one claim to replenish the fund.
- In one instance a purchase order for an employee reimbursement of \$239.98 did not have the original receipt for two GPS devices attached to the claim.
- A receipt for \$28.92 was attached to a purchase order for the reimbursement of meals, but fuel was erroneously listed as the item purchased.
- In two instances, the District reimbursed an employee for mileage, but a mileage log was not attached to the claim.

Cause of Condition: Procedures have not been designed and implemented to document approval of expenditures, maintain adequate documentation of expenditures, document the receipt of goods or services, safeguard cash maintained in the ambulance as a petty cash fund, and reimbursements to employees.

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

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Recommendation: OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include the District Director review and document the approval of expenditures prior to being sent to the contracted bookkeeper for payment and the Board of Trustees approving expenditures prior to purchase. Additionally, the receipt of goods and/or services should be documented by someone other than the individual that approves the expenditure. Further, the Board should strongly consider discontinuing the petty cash fund and the informal policy of reimbursing individuals for purchases.

Management Response: The District will make plans to appoint separate individuals to order goods and another to receive goods, other than the bookkeeper. The District will attempt to avoid situations where personnel are personally purchasing items that require reimbursements. In the event that a reimbursement is necessary; an original receipt will be required. Future mileage reimbursements will require a mileage log.

Criteria: Effective internal controls require that management properly implement procedures to ensure that purchases comply with 19 O.S. § 1710.1A. Furthermore, accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Objective 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: The District did not comply with 19 O.S. § 1723, which requires that purchases in excess of \$7,500 be competitively bid.

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:
 - Selected 100% of purchases in excess of \$7,500 to determine that the District followed statutes regarding public notice, handling of unopened bids, awarding bid to best bidder, recording appropriate information in Board minutes, and notification to successful bidders.

Finding: Inadequate Controls and Noncompliance Over the Bidding Process

Condition: Controls and statutory requirements over the bidding process have not been properly implemented, and as a result, in the review of one item (100% of purchases in excess of \$7,500), revealed the following discrepancies:

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- The Administrator of the District performs all bidding processes, except the awarding of the bids, for purchases in excess of \$7,500.
- The bid tested revealed the following weaknesses in the control procedures for bidding:
 - There was no evidence that the bid notice was published in the paper.
 - There was no evidence that unopened bids were time and date stamped as to the delivery of the bid to the Board.
 - There was no evidence of notification to the successful bidder.
- Additionally, the following noncompliance with bidding laws was noted with regard to this bid:
 - The District Administrator mailed five bid packets to vendors for the purchase of an ambulance.
 - After the bids were opened in an open meeting, the Board asked one of the vendors, who was present, to lower the bid price that had been submitted.
 - The vendor lowered the submitted bid by \$1,000.
 - The Board accepted the bid from this vendor.

Cause of Condition: Procedures have not been designed and implemented to document compliance with statutes and provide assurance that internal controls are in place.

Effect of Condition: These conditions resulted in noncompliance with statute and could further result in the possible loss of District funds.

Recommendation: OSAI recommends the District implement procedures to ensure bidding is properly performed. These procedures should include documentation of notification to the successful bidder be maintained in the bid file and all bid awards be documented in the minutes of the Board of Trustees. Further, the Board should not allow one vendor to lower the original bid after all bids have been opened.

Management Response: The District will review policies regarding proper bidding procedures in the event that purchases requiring bids are needed in the future.

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 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.

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

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

Finding: Inadequate Controls Over Payroll Expenditures

Condition: Upon inquiry of District personnel, observation, and review of documents, we determined that the payroll process was not adequately segregated due to the following:

- One employee determines amounts to pay, calculates withholdings, writes payroll checks, makes payroll tax payments, and prepares quarterly payroll reports.
- These reports are not reviewed by anyone other than the preparer.
- Employees do not complete work logs and do not review, approve, or sign the work logs.
- The District provides meals for employees on emergency runs that are not included as taxable fringe benefits.

Cause of Condition: Procedures have not been implemented to provide reasonable assurance that payroll expenditures are properly recorded in the accounting records of the District.

Effect of Condition: These conditions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends that management establish internal controls to provide reasonable assurance for the accurate and complete presentation of payroll expenditures in the financial records of the District. Furthermore, OSAI recommends that management consult a tax professional on the taxability of meals provided to employees.

Management Response: In the future, employees will review their work log and sign and date it, documenting that they agree with the hours worked and amount to be paid. The District Board will seek advice from the accounting firm on the issue of treating meals as fringe benefits.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse.

<p>Objective 6: To determine if the District’s internal controls provide reasonable assurance that the consumable inventory was accurately reported in the accounting records.</p>
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Conclusion: The District’s internal controls do not provide reasonable assurance that consumable inventory was accurately reported in the accounting records.

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

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

Finding: Inadequate Internal Controls Over Consumable Inventory

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

- The District does not maintain an inventory of consumable items.
- A District employee orders the consumable items, receives the goods, and stocks the ambulances.

Cause of Condition: Procedures have not been designed to provide reasonable assurance that consumable inventory is adequately safeguarded from theft or misappropriation.

Effect of Condition: Failure to provide adequate internal controls over consumable inventory could result in inaccurate inventory records, unauthorized use of inventory, or misappropriation of inventory.

Recommendation: OSAI recommends management implement a system of maintaining supporting documentation for consumable inventory counts, that documents the date of the count, items received, items used, and items on hand. OSAI further recommends all supporting documentation be signed and dated by the employee performing the duty and the employee responsible for reviewing the accuracy of the documentation.

Management Response: Concerning inventory of consumable items, the District will review procedures with regard to the recommendation requiring more than one person ordering, receiving, and stocking the items, and make recommendations based on financial and personnel feasibility.

Criteria: 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 acquisition, use, or disposition of consumable inventory and safeguard assets from loss, damage, or misappropriation.

Objective 7: To determine if the District's internal controls provide reasonable assurance that fixed assets were accurately reported in the accounting records.

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

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

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

Finding: Inadequate Internal Controls Over Fixed Assets

Condition: Upon discussion with District personnel, observation, and review of documents we noted the following concerns regarding fixed assets:

- One employee orders fixed assets, receives fixed assets, notifies the bookkeeper to update fixed assets records and completes the inventory verification.

Cause of Condition: Procedures have not been designed to perform annual physical fixed assets inventory verifications by someone independent of the purchasing process.

Effect of Condition: Failure to provide adequate internal controls over fixed assets could result in inaccurate inventory records, unauthorized use of inventory, or misappropriation of inventory.

Recommendation: OSAI recommends that the District implement controls for the safeguarding of fixed assets. OSAI also recommends that an annual physical count of fixed assets be performed by someone independent of the purchasing process and documentation be retained to verify that the physical count was performed.

Management Response: The service will have more than one person complete an annual physical inventory of fixed assets that is not involved in the purchasing process.

Criteria: 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 acquisition, use, or disposition of the entity's assets and safeguard assets from loss, damage, or misappropriation.

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 Assessment and Monitoring have not been designed.

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Cause of Condition: Policies and procedures in regards to District wide controls for Risk Management and Monitoring have not been designed.

Effect of Condition: This condition could result in unrecorded transactions, misappropriation of funds, or clerical errors that are not detected in a timely manner.

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:

Risks	Procedures
Fraudulent activity	Segregation of duties
Information lost to computer crashes	Daily backups of information
Noncompliance with laws	Attend Workshops
Natural disasters	Written disaster recovery plans
Board Member Turnover	Training, attending workshops, monitoring

Examples of activities and procedures to address monitoring:

Monitoring	Procedures
Communication between Board Members and employees of the District	Periodic meetings to address items that should be included in the handbook and to determine if the District is meeting its goals and objectives
Audit findings	Determine audit findings are resolved in a timely manner.
Financial status	Periodically review budgeted amounts to actual amounts and resolve unexplained differences.
Policies and procedures	Endure 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 District Board does recognize that there are areas of possible risk and that it is our responsibility to put procedures in place to provide adequate safeguards. The District will be diligent with regard to being aware of individual situations as they occur and to develop necessary procedures as they are needed.

Criteria: Internal control is a 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

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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 controls 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 controls objectives.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the finding 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 knows their responsibilities for internal control and the need to make control monitoring a part of their regular operating process.

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 Over the Audit Expense Account

Condition: It was determined through discussions with District personnel, observation, and review of documents, that controls have not been designed and implemented to ensure the amount required by statute is correctly budgeted for the audit expense account.

It was further noted that the District has not lapsed the balance into the audit expense account each fiscal year. As a result, the District's balance in the audit expense account as of June 30, 2012, was \$3,175.00. However, the correct balance should have been \$3,789.21.

Cause of Condition: Procedures have not been designed to ensure the audit expense account is accurately budgeted in accordance with statutory requirements.

Effect of Condition: This condition resulted in noncompliance with the 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

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audit expense account and that any unused portion be lapsed into the next year audit expense account in accordance with 19 O.S. § 1706.1.

Management Response: The District board will speak to the accounting firm about this item to relay the necessity of using the appropriate state statutes to calculate the correct amount to be placed in 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.



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