Emergency Medical Services Authority

Compliance Report
Year Ended June 30, 2010

PRELIMINARY DRAFT - FOR REVIEW & DISCUSSION - SUBJECT TO CHANGE

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PRELIMINARY DRAFT - FOR REVIEW & DISCUSSION - SUBJECT TO CHANGE

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Emergency Medical Services Authority
Tulsa, Oklahoma

We have audited the basic financial statements of Emergency Medical Services Authority (the Authority) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

PRELIMINARY DRAFT - FOR REVIEW & DISCUSSION - SUBJECT TO CHANGE

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, shown as 10-II-A. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 13, 2010.

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Kansas City, Missouri
October 13, 2010

PRELIMINARY DRAFT - FOR REVIEW & DISCUSSION - SUBJECT TO CHANGE

Independent Auditor's Report on Compliance With Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

To the Board of Trustees
Emergency Medical Services Authority
Tulsa, Oklahoma

PRELIMINARY DRAFT - FOR REVIEW & DISCUSSION - SUBJECT TO CHANGE

Compliance

We have audited the compliance of Emergency Medical Services Authority (the Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2010. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standard,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 10-III-B.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 10-III-A. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated October 13, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Trustees and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties

Kansas City, Missouri
October 13, 2010

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Emergency Medical Services Authority

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Identifying Number	Expenditures
U.S. Department of Transportation, National Highway Traffic Safety Administration, Passed through the Oklahoma Department of Highway Safety:			
Childseat Safety Program	20.600	OP-07-02-02-10	$ 20,151
U.S. Department of Health and Human Services, Passed through the Oklahoma Department of Health and Human Services:			
Hospital Preparedness Program	93.889	3409012395	116,794
National HealthCare Preparedness Program	93.089	3409014066	33,240
Hospital Preparedness Program	93.889	3409013688	850,277
			1,000,311
U.S. Department of Homeland Security, Passed through the Oklahoma Office of Homeland Security:			
Metropolitan Medical Response System	97.071	88.002	67,793
Metropolitan Medical Response System	97.071	107.000	298,695
Metropolitan Medical Response System	97.071	233-03-0090	30,400
Metropolitan Medical Response System	97.071	233-02-0091	26,991
Metropolitan Medical Response System	97.071	129.000	25,218
EMS Package Plan	97.073	127.000	60,940
EMS Package Plan	97.073	80.001	185,725
EMS Package Plan	97.067	105.000	4,107
			699,869
Total expenditures of federal awards			$ 1,720,331

See Notes to Schedule of Expenditures of Federal Awards.

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Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Emergency Medical Services Authority for the year ended June 30, 2010. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in the schedule may differ from the amounts presented in or used in the preparation of the basic financial statements.

Note 2. Significant Accounting Policies

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

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Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Number	Comment	Status	Corrective Action or Other Explanation
None			

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	☐ Yes	☑ No
• Significant deficiency(ies) identified?	☑ Yes	☐ None Reported
• Noncompliance material to financial statements noted?	☐ Yes	☑ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	☐ Yes	☑ No
• Significant deficiency(ies) identified?	☑ Yes	☐ None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	☑ Yes	☐ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
97.067, 97.071 and 97.073	Homeland Security Grant Program Cluster

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee?	☑ Yes	☐ No

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II. Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies in Internal Control

10-II-A

Finding: The design of the Authority's internal controls for documentation and approval of reimbursement requests, employee gifts and entering into legal documents does not provide adequate Board of Trustee oversight. The Authority does not have a sufficient system for documenting and reporting employee gifts as compensation in accordance with IRS rules.

Criteria: Internal control, as defined by auditing standards, is a process affected by those charged with governance, management, and other personnel designed to achieve an organization's objectives including compliance with laws and regulations. In addition to the internal control standards, *Government Auditing Standards* provides a framework for public accountability and transparency including holding government managers accountable for use of public resources. The Government Accountability Office (GAO) defines sensitive payment areas and state that these areas pose a higher level of risk to an organization and, as a result, require the appropriate level of controls.

IRS Code Section 74 and 3121(a)(20) provide the guidance for employee awards and gifts and if reportable for compensation. Generally, the value of an award or prize given by an employer is taxable to an employee as wages, included on Form W-2, and subject to Federal Income Tax withholding, social security and Medicare. Certain awards and prizes are excludable such as de minimis awards and employee achievement awards if properly documented.

As a government organization, the Authority is held to a higher standard than private organizations for documentation and approval and use of public resources.

Condition/Prevalence: We selected a sample of five of the President's expense reports and noted the following:

- The current policy and practice requires the Chief Financial Officer to review and approve the President's expense reimbursement request. Internal controls are compromised when a direct report approves a supervisor's transactions. The Board of Trustees should review the President's expense reports including the supporting invoices and approve the reimbursement on a monthly basis.
- Expense reimbursement should be limited to travel and associated meals and lodging. The volume of transactions is expected to be minimal. The sampled reimbursement reports included software purchases, computer equipment and supplies. Authority purchases should follow the procurement and purchasing internal control and operational processes and not be a part of a reimbursement request.

(Continued)

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- Approximately $4,000 of expense reimbursement was for gifts for specific employees. The Authority does not have a Board policy over gifts or achievement awards. In addition, gifts are considered by the IRS to be compensation to the employee and should be reported as such for tax purposes. Any gifts to employees should be reported through the payroll processes and documented for compliance with IRS guidelines.
- In testing the reimbursement requests, we noted the Authority is leasing an apartment in Oklahoma City. The lease period is October 1, 2009 through September 30, 2010. The Board of Trustees did not document approval of the lease.

Cause: Expense reimbursements do not follow the same processes as the procurement and payroll controls of the Authority. The Board of Trustees does not review expense reimbursements. The Authority does not have a policy over employee gifts.

Effect: The Authority is at risk for not having proper documentation of IRS compliance over employee gifts and awards. Purchases in sensitive payment areas do not have the level of oversight and documentation expected by *Government Auditing Standards*.

Recommendation: We recommend the Authority address the above items as follows:

- The Board of Trustees should revise the current expense reimbursement policy to require the Board of Trustees to review and approve the President/CEO's expense reports prior to reimbursement.
- All purchases should be ordered, received and paid for following the Authority's purchasing and payment processes.
- If employee gifts are to continue, the Board of Trustees should determine the appropriateness of employee gifts by establishing a formal policy to apply to all employees and document the public purpose of specific occasions for when gifts are allowable and dollar limits. Any employee gift should be reported in compliance with IRS rules over compensation.
- Approval of leases or other agreements, including renewals, should be documented in the Board of Trustees' meeting minutes.

Response and Corrective Action Plan: Currently, the Accounting Manager reviews the report to ensure that all entries are properly supported and then the CFO reviews the report for overall propriety. In the future, the report will be submitted to the Board Chairman for final approval.

Expense reimbursement purchases were in compliance with the Authority's purchasing policy in that they were less than $2,500 and thus did not require a requisition. The Authority purchases a considerable amount of individually small equipment items, some of which are most economically purchased via the internet via a credit card. The Authority has been precluded in the past from having a credit card to be used for these type of purchases. If approved, future purchases would be made with an Authority credit card to be used only for this purpose. If an Authority card cannot be obtained, these purchases would be made on the President's credit card with separate expense reports for travel and nontravel related costs.

(Continued)

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The Authority will draft a policy for gifts and achievement awards for Board approval. The IRS rules dictate gifts and awards should be included as compensation if they meet certain criteria. In management's opinion most, if not all the aforementioned gifts and awards do not meet that criteria. If it is later determined that they do meet the criteria, they will be included as compensation. Of the above noted $4,000, $2,140 was paid by the Contractor. The average for the remaining gifts was $310 per gift. These gifts were 20-year anniversary gifts for key employees and retirement gifts for key employees who had been with the Company over 24 years.

All future building lease renewals will be included on the consent agenda for Board approval.

B. Compliance Findings

None

III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiency in Administering Federal Awards

10-III-A

U.S. Department of Homeland Security
Passed through the Oklahoma Office of Homeland Security
Metropolitan Medical Response System
(CFDA 97.071)
Federal Award Year 2010

Finding: The Authority does not have an adequate system in place to document the allocation of split funded employee payroll costs related to Department of Homeland Security awards and record the time spent on Federal awards where the employee splits their time between Federal awards.

Criteria: OMB Circular A-87 dictates where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which is signed by the employee.

Condition: The Authority did maintain personnel activity reports, or equivalent documentation, for employees who work on more than one Federal award, but the reporting mechanisms in place did not delineate between CFDA clusters and/or federal programs.

Questioned Costs: $63,184

Context: Authority had two employees that split their time between more than one Federal award and the personnel activity reports did not delineate between the CFDA clusters.

Effect: The Authority is not in compliance with the allowable costs/cost principles requirement and improper payroll expenditures could be charged to the Federal program.

Cause: The Authority believed the submitted budget was enough support to meet the cost principle requirement.

Recommendation: We recommend the Authority maintain personnel activity reports which represent the time spent on each Federal award.

(Continued)

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Response and Corrective Action Plan: The personnel activity report (PAR) will be modified to reflect the hours worked on any individual CFDA grant. In addition, the percentage of program hours for each CFDA grant will be recorded in order to reflect the percentages of salary obtained from each grant.

In the past, PAR reports were in place and utilized but did not delineate between the CFDA clusters. These PAR's were approved by the Oklahoma Office of Homeland Security and the Oklahoma State Department of Health and reviewed in conjunction with grant compliance and budget approval by the funding agencies. There has never been an issue regarding reimbursement of salary dollars by either Federal or State granting agencies.

B. Instances of Noncompliance

10-III-B

U.S. Department of Homeland Security
Passed through the Oklahoma Office of Homeland Security
Metropolitan Medical Response System
(CFDA 97.071)
Federal Award Year 2010

Finding: The Authority did not submit interest earned on advances timely to the correct federal agency.

Criteria: The OMB Circular A-133 requires the interest earned by local government grantees and subgrantees on advances to be submitted promptly, but at least quarterly, to the Federal agency.

Condition: The Authority did not submit the interest earned from the Federal Award to the U.S. Treasury.

Questioned Costs: $22,000

Context: The Authority identified $22,000 of interest earned from an advance on the Metropolitan Medical Response System Grant award for fiscal year 2003. The interest earned has been maintained as interest payable for the Authority and has not been submitted to the U.S. Treasury.

Effect: The Authority is not in compliance with cash management requirements of the Metropolitan Medical Response System grant.

Cause: The Authority could not determine to whom they should submit the money.

Recommendation: We recommend the Authority submit the interest earned to the U.S. Treasury.

Response and Corrective Action Plan: The identified interest has been remitted to the U.S. Treasury and future interest accrued will be remitted on a quarterly basis.

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Emergency Medical Services Authority

Corrective Action Plan
Year Ended June 30, 2010

Number	Comment	Corrective Action or Other Explanation	Contact Person	Anticipated Date of Completion
Significant Deficiency in Internal Control				
10-II-A	The design of the Authority's internal controls for documentation and approval of reimbursement requests, employee gifts and entering into legal documents does not provide adequate Board of Trustee oversight. The Authority does not have a sufficient system for documenting and reporting employee gifts as compensation in accordance with IRS rules.	See corrective action plan at 10-II-A	Kent Torrence, CFO	June, 30, 2011
Findings Related to Federal Awards				
Significant Deficiency in Administering Federal Awards				
10-III-A	The Authority does not have an adequate system in place to record the time spent on Federal awards where the employee splits their time between Federal awards.	See corrective action plan at 10-III-A	Kent Torrence, CFO	June, 30, 2011
Instances of Noncompliance				
10-III-B	The Authority did not submit interest earned on advances timely to the correct federal agency.	See corrective action plan at 10-III-B	Kent Torrence, CFO	June, 30, 2011

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