

STATUTORY REPORT

BRYAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2013 through June 30, 2014



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

**BRYAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014**

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Oklahoma State Auditor & Inspector

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January 29, 2016

**TO THE BOARD OF DIRECTORS OF THE
BRYAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Bryan County Emergency Medical Service District for the period July 1, 2013 through June 30, 2014.

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", with a long horizontal flourish extending to the right.

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

**BRYAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
JUNE 30, 2014**

Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2014

	<u>FY 2014</u>
Beginning Cash Balance, July 1	\$ 639,749
Collections	
Ad Valorem Tax	883,166
Charges for Services	1,180,419
Miscellaneous	190,451
Total Collections	<u>2,254,036</u>
Disbursements	
Personal Services	1,342,657
Travel	-
Maintenance and Operations	604,605
Capital Outlay	207,839
Audit Expense	-
Total Disbursements	<u>2,155,101</u>
Ending Cash Balance, June 30	<u>\$ 738,684</u>

Source: District Estimate of Needs (presented for informational purposes)



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Bryan County Emergency Medical Service District
306 South 22nd Avenue
Durant, Oklahoma 74701

TO THE BOARD OF DIRECTORS OF THE BRYAN COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the purpose of complying with 19 O.S. § 1706.1, we have performed the following procedures:

- Determined that receipts were properly deposited and accurately reported in the accounting records.
- Determined cash balances were accurately reported in the accounting records.
- Determined whether deposits and invested funds were secured by pledged collateral.
- Determined that disbursements were properly supported, were made for purposes outlined in 19 O.S. § 1710.1, and were accurately reported in the accounting records.
- Determined that all purchases requiring bids complied with 19 O.S. § 1723.
- Determined that payroll expenditures were accurately reported in the accounting records and supporting documentation of leave records was maintained.
- Determined that fixed assets records were properly maintained.
- Determined whether the District's collections, disbursements, and cash balances for FY 2014 were accurately presented on the estimate of needs.

All information included in the records of the District is the representation of the Bryan County Emergency Medical Service District.

Our emergency medical service district statutory engagement was limited to the procedures performed above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of the Bryan County Emergency Medical Service District.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the Bryan County Emergency Medical Service District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in blue ink, appearing to read "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

January 28, 2016

SCHEDULE OF FINDINGS AND RESPONSES

Finding 1 – Control Environment

Condition: As part of our audit of the Bryan County Emergency Medical Service District (the District), we interviewed office employees as to their understanding on internal controls. As part of our audit, we tested receipts, disbursements, and cash balances. We identified several areas of concern which include the following:

- Lack of Management Oversight:
 - During the audit, the District was unable to provide Trust Indentures or evidence of Authority.
 - The State Health Department performed an agency/unit inspection that resulted in findings that required a plan of correction. The District failed to provide a timely response as required and as a result the District was fined \$25,000 which was paid February 25, 2015.
 - The District was unable to provide written policies regarding the office policies related to personnel matters, financial duties including billing and bad debt write offs.

- Unreliable or Lack of Recordkeeping:
 - Runs/Billing System
 - Runs entered into previous software system were not carried forward to the new software system.
 - Accounts receivable in the previous software system are no longer accessible and are not currently being billed.
 - Verification is not performed to ensure that all run numbers are entered into the billing system.
 - The billing was processed up to eleven months after services were provided.
 - The Billing Clerk was unfamiliar with capabilities of the new billing software after seventeen months in use.

 - Receipts:
 - Receipts are handwritten on generic receipts that are stamped with District information.

 - Delinquent Accounts:
 - There are no policies regarding accounts receivable.
 - The number of billings attempted and time lapse to write-offs were applied inconsistently to account receivable.
 - Accounts receivable in the previous billing system have no activity regarding collection of amounts owed.
 - Write-offs were not properly documented and were unable to be verified to Board minutes.

- Disbursements
 - Goods were not bid as required.
 - Accounts were paid late and charged penalties.
 - Fuel credit cards are used by District.
 - No authorization for petty cash used by district.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the District's operations are conducted in an effective and efficient manner.

Effect of Condition: These conditions adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends the District's Board of Trustees clearly communicate the responsibilities and duties expected of Management. Additionally, OSAI recommends the Management and key personnel gain an understanding of the design of the internal control process and implement those controls in an effective and efficient manner to reduce the risk of error and fraud within the District.

Management Response:

Chairman of the Board: The Board will require that management establish written policies and procedures for filing, collecting, and processing charged off accounts. Accounts collected under the new collection software system will be posted and a system generated receipt will be provided to customer. New numbered receipt books have been put in use and will be provided to customers that make payments under the old collection software. Additional training will be required immediately on the new billing software so that its capabilities will be maximized, and management reports provided.

Criteria: Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, and compliance with applicable laws and regulations. An effective internal control system has in place policies and procedures that reduce the risk of errors and fraud within an organization. A key factor in this system is the environment established by management. In addition, management attitude, qualifications, and operating style become the foundation of all other internal control components.

Finding 2 – Lack of Segregation of Duties Over Receipting Process (Repeat Finding)

Condition: While gaining an understanding of the receipting, depositing, and reconciling functions of the District, it was noted that the Office Manager performs the following duties:

- Receives payments and issues receipts.
- Posts to ledgers and accounts.
- Prepares and takes the deposit to the County Treasurer.
- Reconciles posted payments to receipts.

Cause of Condition: Policies and procedures have not been designed and implemented to sufficiently segregate the receipting process.

Effect of Condition: 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 management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's oversight of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to perform all accounting functions. In the event that segregation of duties is not possible due to 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 approve accounting functions.

Management Response:

Chairman of the Board: Management will be required to segregate duties so that no one employee is able to perform all the duties. Controls will include separating key processes and/or critical functions of the office and management will review and approve accounting functions.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, and reconciliations should be segregated.

Finding 3 – Run Test (Repeat Finding)

Condition: Our test of 25 ambulance runs resulted in the following:

- Amount billed for one run was not received and there has been no billing activity to collect this run for nine months.
- Amounts billed for two runs were not received and there has been no billing activity to collect these for eight months.
- Three runs were denoted as written-off as bad debt. The billing clerk state that the amounts were written off as bad debts, however documentation was not provided to determine that the Board approved these accounts as bad debt.
- As of the testwork date, the billing clerk was four to eleven months behind on billing of runs tested.

The District does not have an established verbal or written policy regarding bad debt write-offs.

Cause of Condition: Procedures have not been designed to ensure that all runs are billed accurately, to ensure bad debt write-offs only occur after authorization is documented in Board minutes, and to ensure runs are billed in a timely manner.

Effect of Condition: These conditions resulted in the District having inaccurate record information available for audit review, and could result in the District missing the opportunity to receive additional billing revenue.

Recommendation: OSAI recommends the District implement recordkeeping policies and procedures to ensure bad debt write-offs only occur after Board authorization occurs, to ensure all runs are billed accurately, and to ensure all runs are billed in a timely manner so the District can receive billing revenue crucial to operations of the District.

Management Response:

Chairman of the Board: Management will be required to implement written policies and procedures to ensure all runs are billed in a timely manner and that bad debts will be submitted to the Board for approval before action is taken.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with the regard to reliability of financial reporting. Integral aspects of this would be ensuring the District only performs bad debt write-offs after proper Board approval and ensuring all runs are billed accurately and in a timely manner.

Finding 4 – Lack of Segregation of Duties Over Disbursements (Repeat Finding)

Condition: While gaining an understanding of the expenditures process of the District, we noted that the Office Manager performs the following duties:

- Prepares purchase orders and warrants.
- Takes purchase orders and warrants to one Board Member for approval.
- Posts warrants to the warrant register.
- Takes warrants to the County Treasurer to be registered.
- Mails warrants to vendors.

Cause of Condition: The District has not designed and implemented policies and procedures to sufficiently segregate the disbursement process.

Effect of Condition: 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 management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's oversight of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to perform all accounting functions. In the event that segregation of duties is not possible due to 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 approve accounting functions.

Management Response:

Chairman of the Board: The Board will require management to segregate duties where possible and implement compensating controls to mitigate risks involved with concentration of duties. Management review and approval of accounting functions will be required as an ongoing process.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse. 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/or misappropriation of funds.

Finding 5 – Disbursements (Repeat Finding)

Condition: Based upon inquiry and observation of the expenditures process, the following was noted concerning the testwork conducted of 25 expenditures:

- One expenditure tested did not have supporting documentation attached to claim.
- Three expenditures tested did not have evidence of a receiving report or the invoice was not signed and verified for accuracy.

It was noted the District has fuel credit cards without statutory authority for such cards.

In addition, a review of purchases on an account with a local vendor indicated that the purchases made during the audit period were for pizzas, candies, fresh fruit, and donuts.

Cause of Condition: Policies and procedures have not been designed to ensure all claims are filed with sufficient supporting documentation for recordkeeping and audit related needs. Additionally, policies and procedures have not been developed to ensure expenditures are incurred only for the lawful operation of the District. This includes the incurrence of debt through credit cards, which is not permitted per state statute.

**BRYAN COUNTY AMBULANCE AUTHORITY
STATUTORY REPORT
JUNE 30, 2014**

Effect of Condition: These conditions resulted in noncompliance with state statute, and could result in inaccurate records, incomplete information or misappropriation of assets.

Recommendation: OSAI recommends the District implement a system of internal controls to ensure that all expenditures have proper supporting documentation, and are for the lawful operation of the District. Additionally, OSAI recommends the District discontinue the use of their credit cards.

Management Response:

Chairman of the Board: Management will establish policies and procedures to ensure all expenditures have proper supporting documentation and will be only for lawful operation of the District. The District will discontinue the use of their credit cards as recommended.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting. Key factors in this system are having supporting documentation maintained for record keeping and audit needs, ensuring expenditures are only incurred in accordance with state statute, and ensuring the proper approval of the Board for the operation of the District.

Title 19 O.S. § 1717 (B, C) states in part: "B. It shall be unlawful for any employee or member of the board in any budget year: 1. To create or authorize creation of a deficit in any fund... C. Any obligation that is contracted or authorized by any member or employee of the board in violation of this act shall become the obligation of the member or employee himself and shall not be valid or enforceable against the district. Any member or employee who violates this act shall forfeit his position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure or expenditure made in violation of this act shall be illegal and void.

Finding 6 – Bids (Repeat Finding)

Condition: Based upon inquiry, observation, and testwork conducted on the bidding process of the District, the following was noted on the 5 items reviewed:

- The District did not bid or the bid could not be located for the following:

Purpose	Date	Amount
Stryker Powered Pro Cots	7/25/2013	\$61,103.20
Motorola Radios (20)	7/23/2013	\$45,803.50
Generators (2)	5/28/2014	\$42,650.17

**BRYAN COUNTY AMBULANCE AUTHORITY
STATUTORY REPORT
JUNE 30, 2014**

- The Board minutes did not state the justification or vendor of the awarding bid for the following:

Purpose	Date	Amount
Billing Hardware	5/29/2014	\$42,737.84
Billing Software	12/24/2013	\$95,990.50

- Proof of sealed bid or date/time stamp receipt could not be located for the following:

Purpose	Date	Amount
Billing Hardware	5/29/2014	\$42,737.84

In addition, the billing hardware and billing software was let for bids concurrently. The specifications for the billing hardware were written for specific billing software that would exclude other potential bidders.

Cause of Condition: Policies and procedures have not been designed to ensure that expenditures are competitively bid in compliance with 19 O.S. § 1723.

Effect of Condition: These conditions resulted in noncompliance with state statute, and could result in inaccurate records, incomplete information, or misappropriation of assets.

Recommendation: OSAI recommends that all purchases in excess of \$15,000 be competitively bid in accordance with state statutes. The District should follow purchasing procedures outlined in state statutes and refrain from conducting business in any manner that suggests preferential treatment for one vendor at the exclusion of all other vendors with similar products or materials.

Management Response:

Chairman of the Board: The District will seek competitive bids on all purchases in excess of \$15,000 and will follow purchasing procedures as outlined in state statute.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting and compliance with applicable laws and regulations.

19 O.S. § 1723 requires EMS entities to make purchases in accordance with the county purchase procedures as outlined in 19 O.S. § 1505, which requires all purchases in excess of \$15,000 be competitively bid.

Finding 7 – Payroll Expenditures (Repeat Finding)

Condition: Based upon inquiry, observation, and a review of District payroll documents the following was noted:

- Employee timesheets are not signed/approved by a Supervisor.
- Leave balance reports were not maintained with a beginning or ending balance, nor did they show accrual amounts. Leave balance reports are not acknowledged by employees.
- The Director and the Assistant Director do not prepare a timesheet or maintain a leave ledger.
- Federal and state withholdings were not applied to all payroll disbursements.
- The Director received additional monetary compensation for a vehicle allowance (\$300 month) and insurance allowance (\$236.50 month). These fringe benefits were not subject to federal or state withholdings. In addition, no written policies were available for the additional compensation.
- The Assistant Director received additional monetary compensation for a phone allowance (\$60 month). In addition, no written policies were available for the additional compensation.
- The Billing Clerk received additional monetary compensation for information technology duties (\$150 month). There were no written policies available for the additional compensation.
- Excessive overtime was noted for District office employees totaling \$26,032.15:
 - Billing Clerk - 1,137.98 hours paid at time and a half rate (\$22,411.95).
 - Office Manager - 172.50 hours paid at time and a half rate (\$3,256.67).
 - Part time Office Clerk - 27.25 hours paid at time and a half rate (\$363.53)
- Assistant Director received additional compensations for 254 hours at the EMT rate paid at straight time (\$3,540.76) for covering shifts.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that both employees and supervisors verify the accuracy of timesheets, to ensure all employees complete a timesheet and maintain a leave ledger, to ensure leave balance reports depict the beginning, ending, and accrued amounts, and to ensure timesheet leave taken matches the leave ledger amounts taken. Additionally, policies and procedures have not been designed and implemented to ensure that compensation is paid in accordance with Internal Revenue Service and the Oklahoma Tax Commission regulations regarding withholdings.

Effect of Condition: These conditions resulted in inaccurate recordkeeping and incorrect payment of wage and leave benefits.

Recommendation: OSAI recommends the District ensure all employees prepare a timesheet, and that each timesheet is verified by the employee and supervisor for accuracy. Additionally, OSAI recommends the District ensure the leave ledger depicts the beginning balance, ending balance, and any accrued or used amounts for all employees. The leave used per the leave ledger should match the leave taken on the timesheet. OSAI also recommends the District develop written policies and ensure all compensation comply with Internal Revenue Service and the Oklahoma Tax Commission regulations regarding withholdings.

Management Response:

Chairman of the Board: Management will compile a policy manual to address procedures and responsibilities that will include but not limited to timesheets and verification by employees and Supervisors for accuracy. The District will maintain a leave ledger as recommended by OSAI. The District will comply with IRS and OTC regulations regarding withholdings.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse. 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/or misappropriation of funds.

Finding 8 – Inventory Records (Repeat Finding)

Condition: Based on inquiry, observation, and review of the District the following was noted concerning inventory:

- Documentation was not maintained for fixed assets list.
- An annual physical count of inventory was not performed.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure inventory is properly maintained and updated through a periodic review by the District.

Effect of Condition: This condition could result in errors and improprieties, unrecorded transactions, misappropriation of assets, or loss of District equipment.

Recommendation: OSAI recommends that policies and procedures be implemented to ensure inventory is updated on an ongoing basis. Furthermore, OSAI recommends an annual physical inventory verification by someone other than the individual maintaining inventory.

Management Response:

Chairman of the Board: Management will compile a list of fixed assets and account for items quarterly that will be presented to the Board and will be verified by Director or Assistant Director.

Criteria: An aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the 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 safeguarding assets from loss, damage, or misappropriation.

Finding 9 – Audit Expense Account (Repeat Finding)

Condition: For the period of July 1, 2013 through June 30, 2014, the District did not carry forward the proper amount for the audit expense account from the previous year’s remaining balance. The following was noted:

- The audit expense account budgeted amount per the Estimate of Needs was \$5,608, but the balance at beginning of the fiscal year should have been \$118,247.22. As a result the budget was underfunded by \$112,639.22.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure compliance with 19 O.S § 1706.1.

Effect of Condition: This condition resulted in noncompliance with state statute and underfunding of the audit expense account.

Recommendation: OSAI recommends that the District implement policies and procedures designed to ensure that one-tenth mill upon the net total assessed valuation be set aside in the audit expense account, and that any unused portion be carried forward into the next year audit expense account in accordance with 19 O.S. § 1706.1.

Management Response:

Chairman of the Board: The Board will instruct management to implement policies and procedures to ensure the correct amount is set aside for the audit expense and balance carried forward into next year.

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.

Finding 10 - Estimate of Needs (Repeat Finding)

Condition: While reviewing the District accounting records and comparing them to the Estimate of Needs (EON) for the period of July 1, 2013 through June 30, 2014, the following was noted:

- The ending cash balance contained an understated variance of \$350 between the EON and the District records.

Cause of Condition: Policies and procedures have not been designed and implemented to accurately balance the Estimate of Needs to the District’s financial records.

**BRYAN COUNTY AMBULANCE AUTHORITY
STATUTORY REPORT
JUNE 30, 2014**

Further, the Estimate of Needs was not prepared in accordance with 19 O.S. § 1702.

Effect of Condition: The District's Estimate of Needs for the period under review did not reflect the complete financial condition of the District.

Recommendation: OSAI recommends the District ensure the Estimate of Needs is prepared in such a manner that the accurate financial situation of the District is presented.

Management Response:

Chairman of the Board: Management will make every effort going forward to ensure the EON correctly reflects the complete financial condition of the District.

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.

Title 19 O.S. § 1702 states in part that Districts should "...3. Make available to the public and investors sufficient information as to the financial conditions, requirement and expectations of the district..."



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