

STATUTORY REPORT

HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the fiscal year ended June 30, 2015



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

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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Oklahoma State Auditor & Inspector

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

February 16, 2017

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

Transmitted herewith is the audit report of Hughes County Emergency Medical Service District for the fiscal year ended June 30, 2015.

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 the first name "Gary" being the most prominent.

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

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2015

	<u>FY 2015</u>
Beginning Cash Balance, July 1	<u>\$ 204,390</u>
Collections	
Ad Valorem Tax	405,058
Charges for Services	643,013
Miscellaneous	88
Total Collections	<u>1,048,159</u>
Disbursements	
Personal Services	873,921
Travel	282
Maintenance and Operations	166,970
Capital Outlay	1,970
Interest paid on loan	75
Total Disbursements	<u>1,043,218</u>
Warrants Estopped or Cancelled	<u>276</u>
Ending Cash Balance, June 30	<u><u>\$ 209,607</u></u>

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



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Hughes County Emergency Medical Service District
114 North Oak Street
Holdenville, Oklahoma 74848

TO THE BOARD OF DIRECTORS OF THE HUGHES 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 2015 were accurately presented on the estimate of needs.

All information included in the records of the District is the representation of the Hughes 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 Hughes 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 Hughes 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 that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

October 5, 2016

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-01 – Inadequate Internal Controls and Noncompliance Over Audit Budget Expense Budget Account (Repeat Finding)

Condition: Hughes County Emergency Medical Service District (the District) did not carry forward the proper amount for the audit budget expense account from the previous years remaining balance. The following exception was noted:

- The audit budget expense account amount per the Estimate of Needs on June 30, 2015 was \$10,760.30, but the calculated budgeted amount should have been \$64,631.53. As a result, the budget was underfunded by \$53,871.23.
- The District did not appropriate the correct amount for the audit budget expense account. The District appropriated \$10,760.30 for the period; however, the amount calculated that should have been was appropriated \$14,523.88. This resulted in an underfunded amount of \$3,763.58.
- The District did not indicate audit expenses incurred and paid on the Estimate of Needs.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the Estimate of Needs was prepared in accordance with 19 O.S § 1706.1.

Effect of Condition: This condition resulted in noncompliance with the state statute and underfunding of the audit budget expense account. Further, balances from previous years were not properly carried forward.

Recommendation: The Oklahoma State Auditor & Inspector's Office (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 budget expense account, and that any unused portion be lapsed into the next year's audit budget expense account in accordance with 19 O.S § 1706.1.

Management Response:

Chairman of the Board: The District will address the findings issued with our budget maker to ensure future compliance with state statute 19 O.S. § 1706.1 by indicating audit budget disbursements on the District's Estimate of Needs. We will also ensure that the amount budgeted is one-tenth mill of the net total assessed valuation and the unused portion will be carried forward as to prevent underfunding. The District will develop policies and procedure with our accounting firm to ensure the creation of a separate account for audit expenses, and the correct appropriation of one-tenth mil of the net total assessed valuation into said 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.

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Further, Title 19 O.S. § 1706.1 states in part “The net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation in any emergency medical service district for any year which shall be authorized and mandatorily required to be appropriated and dedicated to emergency medical service district audit”

Finding 2015-02 – Inadequate Internal Controls Over the Receipting Process (Repeat Finding)

Condition: While gaining an understanding of the receipting, depositing, and reconciling functions of the District, it was noted that the following duties were not properly segregated:

- Receiving mail,
- Receiving funds and issuing receipts,
- Posting transactions, and
- Preparing the deposit.

We also noted the following internal control weaknesses within the receipting process:

- Receipts were not deposited daily.
- Receipts were not issued for all monies received.

Cause of Condition: Policies and procedures have not been designed and implemented to sufficiently segregate the receipting process, to ensure funds are deposited on a daily basis, and pre-numbered duplicate receipts are issued for all monies received.

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.

Additionally, OSAI recommends the District ensure that all receipts are issued and deposits are made in a timely manner.

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Management Response:

Chairman of the Board: Management is aware of the conditions and due to the small size of our agency and limited staffing; we utilize all available office staff and an outsourced accounting agency to ensure accountability.

Auditor Response: Districts with limited staff can compensate for lack of segregation of duties by providing management oversight. OSAI recommends the Board implement mitigating controls including reviewing and approving transactions as evidenced by initials and dates of the reviewer. We recommend the Board implement office policies and procedures to ensure the staff issues pre-numbered duplicate receipts for all collections received and those collections are deposited daily to safeguard those collections from loss or misappropriation.

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, and recording, should be segregated. A component of effective internal control system is to provide accurate and reliable information through receipts with monies being receipted, and deposits being made in a timely manner.

Finding 2015-03 – Inadequate Internal Controls Over the Third Party Billing Process (Repeat Finding)

Condition: The District utilizes a third party billing company to process accounts receivable for ambulance run charges.

While gaining an understanding of the billing process, it was noted the District staff does not have access to billing information to ensure runs have been billed, or the payment status of the patient accounts.

Additionally, the test of twenty-five (25) ambulance runs resulted in the following exceptions:

- Records for three (3) ambulance runs were unable to be located by the third party billing company.
- Eighteen (18) ambulance runs were overcharged for a total amount of \$3,600.00 due to the third party billing company charging incorrect fees.
- Nine (9) accounts have a remaining balance after initial insurance payments were received. The third party billing company was unable to provide additional documentation to determine if a second bill was issued and/or account was sent to the collection agency.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all services provided are billed, amounts billed for services are accurate, delinquent accounts are reviewed, and the Board approves all accounts to be written-off as uncollectable.

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, and the District under/over-billing for ambulance services.

Recommendation: OSAI recommends the District actively review the billing statements to ensure all services provided are billed and amounts billed for services are accurate. In addition, OSAI recommends patient accounts be reviewed to ensure payments are received, properly receipted, and credited to patient accounts. Further, delinquent accounts should be reviewed to determine additional actions to initiate account settlement.

Management Response:

Chairman of the Board: With the current billing company the District is unable to actively review billing statements for accuracy in a timely manner. The District will rectify this finding by the selection of a new billing company that will be selected at the first of the year in 2017.

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. Effective internal controls require oversight by management to provide assurance that amounts billed are based upon the billing policies adopted by the Board, and the billing process is monitored for accuracy and completeness.

Finding 2015-04 – Inadequate Internal Controls and Noncompliance Over Disbursements (Repeat Finding)

Condition: While gaining an understanding of the disbursement process of the District, it was noted that the administrative assistant performed the following duties which were not properly segregated:

- Ordered supplies.
- Compared good/services received to the invoice.
- Prepared purchase orders.
- Prepared checks.
- Posted disbursements to accounting records.
- Mailed checks to vendors.

Additionally, a review of purchase orders indicated some disbursements were made on an account with a local vendor for plants, flowers, and fuel purchases.

The District also utilized a credit card for fuel purchases that allowed the District to incur debt and pay late fees on the unpaid balance in violation of state statute.

The test of twenty five (25) purchase orders for disbursements resulted in the following exceptions:

- One (1) purchase order could not be located.

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- None of the twenty-five (25) purchase orders tested had evidence of a receiving signature or verification of accuracy of the invoice.
- Two (2) purchase orders included late fees on the balance paid.

Cause of Condition: The District has not designed and implemented policies and procedures to sufficiently segregate the disbursement process. Policies and procedures have not been designed to ensure purchase orders include sufficient documentation to support the disbursement. Additionally, policies and procedures have not been designed and implemented to ensure disbursements are incurred for the lawful operation of the District, including prohibiting the incurrence of debt through credit cards.

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

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

Further OSAI recommends the District follow state statutes regarding the bidding of fuel.

Management Response:

Chairman of the Board: This issue has been corrected and a new policy is in place. All invoices will be checked for accuracy, and the person checking will sign and date verifying of all accuracy. All goods and services received will be verified by comparing all receipts and packaging slips to invoices. Management is aware of the concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view, but due to the small size of our agency we have limited staffing and utilize all office staff and an outsources accounting agency to review and assist when possible. The District is also currently in the process of seeking other means of purchasing fuel and other supplies or disbursements besides the use of credit cards.

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. Effective internal controls include

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse. In addition, key factors in this system are having supporting documentation maintained for record keeping and audit needs, and ensuring disbursements are only incurred in accordance with state statute.

Further, 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.

Title 19 O.S. § 1723 requires that the District follow county purchasing procedures for competitively bidding fuel as outlined in Title 19 O.S. § 1501(A)(3)(g) and 19 O.S. § 1505.

Finding 2015-5 – Inadequate Internal Controls Over Timesheets and Payroll Leave Balances

Condition: Upon inquiry of District staff, observation of payroll and leave records, and a test of one payroll period which included fifteen (15) payroll checks, we noted the following exceptions with regard to timesheets and payroll leave balances.

- The Director did complete a timesheet as required by the District Handbook.
- One (1) employee did not sign the timesheet.
- The dates of hire maintained on the leave ledger did not agree with the employees' personnel files for hire date.
- The leave ledger was not properly maintained to show the beginning, used, accrued, and ending balances of leave for each employee.
- Leave ledger balances did not agree to the leave balances listed on the employee's paystub.
- Leave balances were not acknowledged by the employee as evidenced by signature or initials and date.
- One (1) employee accrued vacation leave three (3) months after his anniversary date in conflict with policies established by the District Handbook.
- Three (3) employees accrued sick leave in excess of the amount allowed by the District Handbook.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that employees and supervisors verify the accuracy of timesheets, and all employees complete a timesheet and maintain leave records. In addition, policies and procedures have not been designed and implemented to ensure leave balance reports depict the beginning balance, ending balance, and accrued amounts. Additionally, leave amounts posted on timesheets should reconcile to the leave amounts taken on leave records, and leave should be maintained in accordance with the policies established by the District Handbook.

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

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Recommendation: OSAI recommends the District ensure all employees prepare a timesheet, and 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 the policies established by the District Handbook.

Management Response:

Chairman of the Board: The Director will prepare a timesheet and have it signed by the Chairman of the Board, employees will be required to sign and date their timesheets. Sick and vacation time will no longer be printed on check stubs; however, employees will be given a quarterly notice of their accrued sick and vacation time. The issues noted of the incorrect hire dates are due to part-time staff being moved to full-time. Hire dates have been corrected in personnel files.

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. An important aspect of internal controls is to ensure timekeeping records are accurately prepared to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and/or misappropriation of funds.

Finding 2015-06 – Inadequate Internal Controls Over Equipment Inventory Records (Repeat Finding)

Condition: Based on inquiry, observation, and review of the District's equipment inventory records, the following weaknesses were noted:

- Annual physical inventory verification of equipment was not adequately documented.
- An ambulance owned by the District was not listed on the equipment inventory records.
- The District's insurance policy covered an ambulance that the District no longer owns.

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

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

Recommendation: OSAI recommends annual physical inventory verification by someone other than the individual maintaining equipment inventory records and the physical inventory count be performed and documented. Additionally, OSAI recommends the District ensure that insurance records are updated when purchasing and/or disposing of equipment.

Management Response:

Chairman of the Board: This issue has been corrected by implementing a procedure. An inventory log will be made and two employees will walk through and check off all inventory comparing serial numbers

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

and descriptions, and both will sign off that the inventory is accurate and complete. This inventory log will be performed on a yearly basis.

Criteria: An important 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 2015-07 – Inadequate Internal Controls and Noncompliance Over Creation of Debt by the District (Repeat Finding)

Condition: Upon inquiry of the District staff, observation of disbursement records, and review of Board meetings minutes, we determined the District incurred debt in December, 2014 for payroll and related expenses.

- The District Chairman and Secretary entered into a "Business Loan Agreement" on December 15, 2014, for a loan up to \$75,000.00 from a local financial institution.
- The scheduled District Board meeting of December 18, 2014 was cancelled due to "lack of a quorum"; therefore, the Board was not publically made aware of the loan agreement.
- The loan was paid back to the local financial institution in the amount of \$25,308.68, including interest of \$74.56, on January 15, 2015 after the ad valorem taxes were remitted to the District.

Cause of Condition: Policies and procedures as designed by the Oklahoma Constitution regarding the creation of debt, purchasing, and lease procedures have not been adhered to by the District.

Effect of Condition: This condition resulted in the District becoming indebted without the vote of the people.

Recommendation: OSAI recommends financing not be obtained that would indebt the District without approval of a three-fifths (3/5) vote of the citizens of Hughes County.

Management Response:

Chairman of the Board: The District will comply with Article X § 26a of the State of Oklahoma Constitution.

Criteria: Oklahoma Constitution Article X § 26a, states in part, "... no county city, town, township, school district, or other political corporation, or subdivision of the state, shall be allowed to become indebted, in any manner, or for any purpose, to an amount exceeding, in any year, the income and revenue provided for such year without the assent of three-fifths of the voters thereof, voting at an election, to be held for that purpose, not in cases requiring such assent..."

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Finding 2015-08 – Inadequate Internal Controls and Noncompliance Over Board Meeting and Minutes

Condition: Upon review of the District’s Board meeting agendas and minutes, the following weaknesses existed:

- The Board members did not sign the minutes.
- Board Minutes for March 19, 2015 could not be located.
- Five of the twelve (12) scheduled Board meetings were cancelled due to “lack of a quorum” and were not rescheduled.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure that all relevant discussions in the District Board minutes are properly documented in accordance with 25 O.S. § 312.A of the Open Meeting Act and internal controls have not been implemented to reschedule Board meetings in order to conduct public meetings.

Effect of Condition: Inadequate internal controls over the Board meetings resulted in noncompliance with the Open Meeting Act concerning the existence and retention of Board meeting minutes. Further, lack of Board meetings could lead to ineffective oversight of the daily operations of the District.

Recommendation: OSAI recommends the District maintain written minutes for all board meetings to ensure compliance with Title 25 O.S. § 312.A. Additionally, OSAI recommends the Board meeting minutes should be reviewed for accuracy and signed as verification of this review.

Management Response:

Chairman of the Board: We will ensure better controls to maintain meeting minutes and the present Board members will sign the minutes once they are approved at the next scheduled meeting.

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 documentation of the Board meetings.

Title 25 O.S. § 312.A states, “The proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered by the public body, and all actions taken by such public body. The minutes of each meeting shall be open to public inspection and shall reflect the manner and time of notice required by this act.”



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