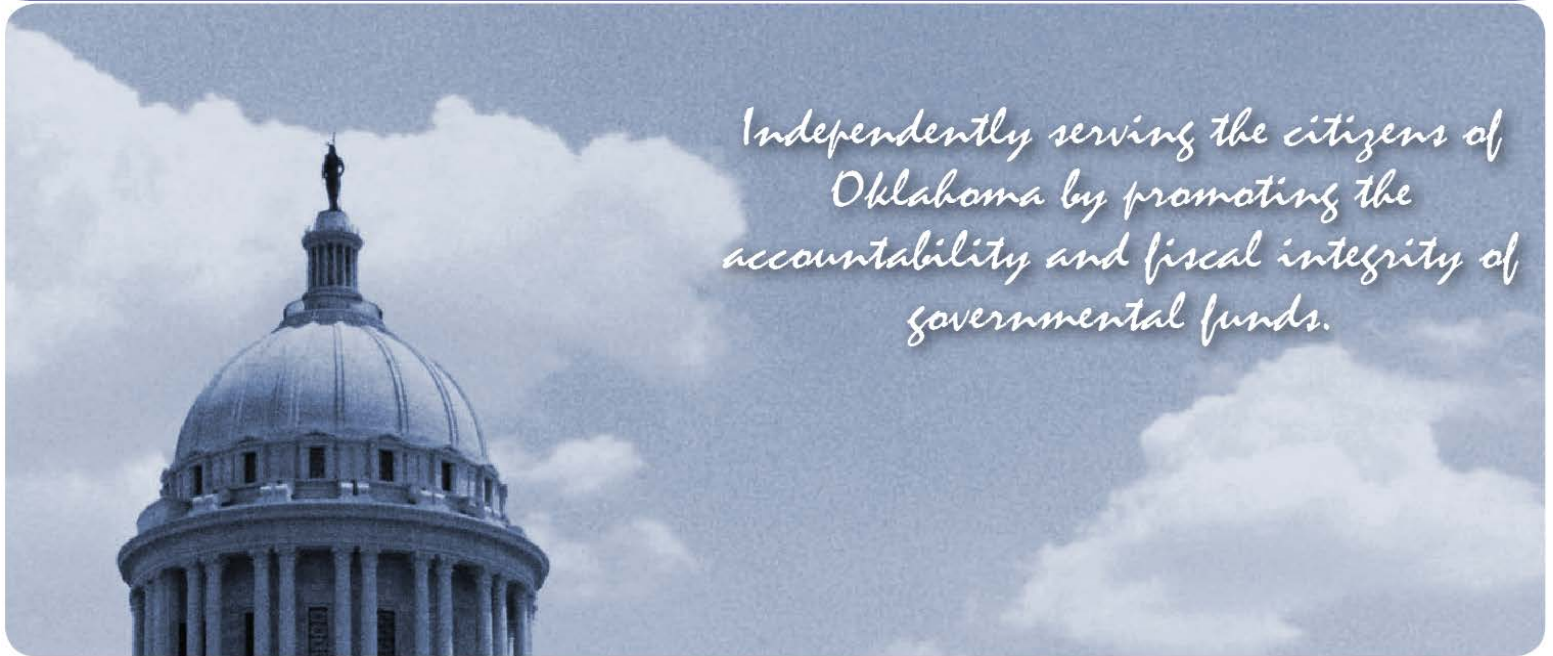


STATUTORY REPORT

# HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the fiscal year ended June 30, 2016



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



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

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
STATUTORY REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 19 O.S. § 1706.1, has not been printed, but is available on the agency's website ([www.sai.ok.gov](http://www.sai.ok.gov)) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Prairie Collection (<http://digitalprairie.ok.gov/cdm/search/collection/audits/>) pursuant to 65 O.S. § 3-114.



# Oklahoma State Auditor & Inspector

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

June 30, 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, 2016.

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 written in a cursive, flowing style.

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

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
STATUTORY REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2106**

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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2016**

	<u>FY 2016</u>
Beginning Cash Balance, July 1	\$ 209,607
Collections	
Ad Valorem Tax	406,477
Charges for Services	582,566
Miscellaneous	104
Total Collections	<u>989,147</u>
Disbursements	
Personal Services	855,781
Travel	630
Maintenance and Operations	154,581
Capital Outlay	2,064
Total Disbursements	<u>1,013,056</u>
Warrants Estopped or Cancelled	8,180
Ending Cash Balance, June 30	<u>\$ 193,878</u>

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



# Oklahoma State Auditor & Inspector

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Hughes 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 2016 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 written in a cursive style with a long horizontal stroke at the end.

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

May 1, 2017

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
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**SCHEDULE OF FINDINGS AND RESPONSES**

**Finding 2016-1 – Inadequate Internal Controls Over the Collection Process (Repeat Finding)**

**Condition:** While gaining an understanding of the receipting, depositing, and reconciling functions of Hughes County Emergency Medical Service District (the District), it was noted that the following duties were not properly segregated:

- Opening, separating, and issuing receipts for mailed payments,
- Receiving funds and issuing receipts for payments made in the office,
- Posting transactions,
- Preparing the deposit, and
- Reviewing the monthly activity log for verification of payments made on accounts.

Also, we noted the following internal control weaknesses:

- The District did not maintain a mail log.
- The bank did not encode the amount of cash and checks on the deposit slip. The bank only encodes the total amount deposited.
- No one verified the deposit slip encoded amount to the deposit/receipts issued.
- The District received a monthly activity log from their vendor that performs third party billing on behalf of the District; however, it was not reviewed and verified to determine the vendor is billing patients at the Board approved rates.
- Receipts were not issued for all monies received.
- Deposits were not made daily.

**Cause of Condition:** Policies and procedures have not been designed and implemented to sufficiently segregate the collection process, to ensure that all funds received are properly receipted and deposited on a daily basis, deposits are encoded in detail on the deposit slip, and the monthly activity log is verified for accurate billing regarding Board approved billing rates.

**Effect of Condition:** A single person having responsibility for more than one area of recording, authorization, custody of assets, execution of transactions, and receipts, daily depositing, verifying bank encoding of deposits, and verification of Board approved billing rates could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

**Recommendation:** The Oklahoma State Auditor and Inspector's Office (OSAI) recommends the Board 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 the Board's oversight of office operations and a periodic review of operations. OSAI recommends the Board 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

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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 the Board review and approve accounting functions.

Additionally, OSAI recommends the District ensure that receipts are issued for all funds received, deposits are made in a timely manner, deposits are verified to bank encoded amounts on the deposit slips, and monthly activity logs are verified for Board approved billing rates.

**Management Response:**

**Chairman of the Board:** Management is aware of these conditions and the following adjustments have been made to correct these findings:

- A mail log has been created and mail is being picked up, opened, and dispersed by different personnel and all mail is being logged and signed off on by those individuals.
- Deposit slip receipts from the bank are being attached to the deposit slip for each deposit made. Each deposit made is reviewed for accuracy by another office personnel and the deposit is taken to the bank by third office personnel.
- Deposit slips are now being verified against the deposit receipt to ensure the amount is correct.
- The District is changing to a new billing company and will have access to all patient accounts on a daily basis. Office personnel will be able to check patient accounts for accuracy of charges to ensure accurate billing is done at the Board approved billing rates.
- All receipts are now being checked on a daily basis by two different office personnel to ensure that receipts are written for all monies received.
- Deposits are being made every day that money is received.
- All office duties have now been divided among the four office personnel to segregate the duties as much as possible.

**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 funds being receipted, deposits being made in a timely manner and encoded accurately, and Board approved billing rates being verified to monthly activity logs.

**Finding 2016-2 – 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,



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- Prepared purchase orders,
- Prepared checks,
- Posted disbursements to accounting records, and
- Mailed checks to vendors.

In addition, we noted the following internal control weaknesses and noncompliance:

- The purchase order ledger was not reviewed for accuracy.
  - Two purchase order numbers (10989 and 11071) were not posted to the ledger.
  - One check number was posted to the incorrect purchase order (10709) on the ledger.
- A review of purchase orders indicated that the District utilized a fuel card for the purchase of fuel; however, the District did not follow state statutes and utilize the bid process for the purchase of fuel.
- The District utilized a credit card, of which interest was charged on the unpaid balance.

The District did not provide adequate documentation for the replenishment of the petty cash fund.

- No evidence for receiving of goods and/or services purchased using petty cash was maintained.

While performing the test of forty (40) disbursements, the following exceptions were noted:

- Purchase orders and supporting documentation could not be located for two (2) disbursements.
- Four (4) disbursements did not have an invoice or adequate supporting documentation; therefore, we were unable to verify the accuracy of the disbursements and evidence of a receiving signature or verification of accuracy on the invoice.
- Ten (10) disbursements did not have evidence of receiving signature or a verification of accuracy of the invoice.
- Two (2) disbursements did not appear to be appropriate disbursements of the District.
  - The District purchased flowers and paid for flags to be displayed for a local fundraiser.

**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 all claims are filed with sufficient supporting documentation for recordkeeping and audit related needs.

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

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**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 practice of paying interest or late fees on credit cards with unpaid balances.

Further, OSAI recommends the District consider using the state contract in lieu of the competitive bidding process to obtain fuel cards.

**Management Response:**

**Chairman of the Board:** Management is aware of these conditions and the following adjustments have been made to correct these findings:

- The purchase order ledger is being checked for accuracy each time checks are written and at the end of each month by a second office personnel other than the personnel who printed the ledger and checks to ensure accuracy.
- The District is no longer using this type of fuel cards to purchase fuel. We have switched to the state contract for all fuel purchases.
- The District has cancelled our credit cards that incur interest and late fees and started using government approved credit cards with no interest or late fees incurred.
- Documentation will be maintained for replenishment and disbursements made from and to the petty cash fund.
- The District is working on policies and procedures to ensure all claims are filed with supporting documentation for record keeping and audit related needs and to ensure disbursements are incurred only for the lawful operation of the District. All invoices will be signed and dated for all deliveries and invoices will be checked for accuracy.

**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 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 expenditures are only incurred in accordance with state statute.

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,

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designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and/or misappropriation of funds.

Further, 19 O.S. § 1723 requires Districts to make purchases in accordance with the county purchase procedures as outlined in 19 O.S. § 1501 and 1505.

**Finding 2016-3 – Inadequate Internal Controls Over Timesheets and Payroll Leave Balances (Repeat Finding)**

**Condition:** Upon inquiry of District staff, observation of payroll and leave records, and a test of one payroll period which included twelve (12) payroll checks, we noted the District uses a local accounting firm to prepare payroll using computer software provided by the District. We also noted the accounting firm maintains a leave balance ledger that is handwritten. Following are internal control weaknesses that were noted with regard to timesheets and payroll leave balances:

- The Director prepared a timesheet; however, the timesheet was incomplete and was not signed by a Supervisor or a Board member.
- One (1) employee did not sign a timesheet.
- Supporting documentation of withholdings could not be located to verify the deductions for six (6) employees.
- The leave balance ledger was not properly maintained to reflect the beginning balance, leave accrued and used, and ending balances for each employee.
- Leave ledger balances did not agree to the leave balances listed on the employees' paystubs.
  - Paystubs for five (5) employees reflected negative leave balances.
  - One (1) employee was not listed on the leave balance ledger.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure that both employees and supervisors verify the accuracy of timesheets, and to ensure all employees complete a timesheet. In addition, policies and procedures have not been designed and implemented to ensure leave balance reports depict the beginning, ending, leave accrued and used amounts.

**Effect of Condition:** These conditions resulted in inaccurate and incomplete recordkeeping and incorrect reporting of 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 agree to 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.

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**Management Response:**

**Chairman of the Board:** Management is aware of these conditions and the following adjustments have been made to correct these findings:

- Director's timesheets are now being completed accurately and signed by a Supervisor or a Board member.
- The Supervisor and/or the Director are checking all timesheets for accuracy and ensuring that employees are signing and dating them.
- Supporting documentation of employee withholdings will be kept on file in each employee's personnel file with the employee's signature and each employee will be given a copy of the withholding documentation.
- New accounting software has been purchased for payroll which will allow all leave balances to be accurate on employee check stubs.

**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 2016-4 – Inadequate Internal Controls and Noncompliance Over the 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 has an open line of credit and incurred debt in November, 2015 for payroll and related expenses as noted:

- The District Chairman and Secretary entered into a "Business Loan Agreement" on December 15, 2014, for up to \$75,000.00 from a local financial institution. This agreement was valid during the fiscal year audited, ending June 30, 2016.
- A loan of \$30,000.00 was made to the District in November, 2015 and was paid back to the local financial institution in the amount of \$30,288.33, including interest of \$288.33, on January 12, 2016 after the ad valorem taxes were collected by the County and 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:** These conditions did result in the District becoming indebted without the vote of the people.

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

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
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**Management Response:**

**Chairman of the Board:** Management is aware of this condition and the following adjustments have been made to correct this finding: No monies have been borrowed as of the date of our audit.

**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..."

**Finding 2016-5 – Inadequate Internal Controls and Noncompliance Over the Audit Expense Budget Account (Repeat Finding)**

**Condition:** The District did not carry forward the proper amount for the audit expense budget account from the previous years remaining balance. The following exceptions were noted:

- The audit expense budget account amount, per the Estimate of Needs on June 30, 2016, was \$23,911.61, but the amount calculated and carried over from the prior years' appropriations should have been \$69,132.74. As a result, the budget was underfunded by \$45,221.13.
- The District did not report audit expenses totaling \$1,829.00 in the audit expense budget account as incurred and paid on the Estimate of Needs.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure that 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 the underfunding of the audit expense budget account. Further, balances from previous years were not properly carried forward.

**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 budget account, and that any unused portion be carried forward into the next year's audit expense budget account in accordance with 19 O.S. § 1706.1.

**Management Response:**

**Chairman of the Board:** Management is aware of these conditions and the following adjustments have been made to correct these findings:

- The new budget maker has been hired to prepare our Estimate of Needs and corrections will be made to ensure the budget is not underfunded.
- A separate account has been created for the audit expense budget account and the District will ensure that one-tenth mill upon the net total assessed valuation be set aside in the audit expense

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
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budget account and that any unused portion be carried forward into the next year's audit expense budget 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, 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 2016-6 – 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 that the District staff does not have access to billing information to ensure runs have been billed or determine the payment status of the patient accounts.

Additionally, the test of forty (40) ambulance runs resulted in the following exceptions:

- Twenty-one (21) ambulance runs were overcharged for a total of \$4,200.00 due to the third party billing company charging incorrect fees as documented on the ambulance run information. Patients were billed at a rate of \$700.00 instead of a rate of \$500.00
- One (1) patient was charged incorrectly at a rate of \$500.00; however, the patient should have been charged at a rate of \$700.00 resulting in the patient being charged \$200.00 less than the approved rate.
- One (1) patient was charged incorrectly at a rate of \$325.00; however, the patient should have been charged at a rate of \$700.00 resulting in the patient being charged \$375.00 less than the approved rate.
- Five (5) ambulance run records were not located by the third party billing company; thus it appears the District has not charged the responsible parties for these services.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure all services provided are billed, that the amounts billed for services are based on the Board approved rates as provided on the ambulance run information sent to the third party billing company, and that the District Board monitors the amounts billed by the third party billing company.

**Effect of Condition:** These conditions resulted in unrecorded and inaccurate transactions, with regard to accounts receivable and collections, and could result in misstated financial reports, clerical errors, misappropriation of funds not being detected in a timely manner, or loss of funds.

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
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**Recommendation:** OSAI recommends the District actively review the billing statements to ensure all services provided are charged and that the amounts charged for services are accurate. In addition, OSAI recommends patient accounts be reviewed by the District staff to ensure payments are received, properly receipted, and credited to patient accounts in a timely manner.

**Management Response:**

**Chairman of the Board:** Management is aware of this condition and the following adjustments have been made to correct this finding: The District is currently in the process of changing our third party billing company. With the new billing company we will have access to all patient accounts and billing records on a daily basis allowing us to ensure accuracy of billing rates, payments, and account balances.

**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 charged are based upon the Board approved rates and policies adopted by the Board, and the billing process is monitored by the District staff for accuracy and completeness.

**Finding 2016-07 – Inadequate Internal Controls Over Board Meetings and Minutes (Repeat Finding)**

**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 May 19, 2016 could not be located.

**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.

**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.

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

**Management Response:**

**Chairman of the Board:** Management is aware of these conditions and the following adjustments have been made to correct these findings:

- Board members are now signing Board minutes upon approving them at the Board meeting.
- All Board meeting minutes are being kept and are being reviewed for accuracy.

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**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.”

**Finding 2016-08 – Inadequate Internal Controls Over the Control Environment**

**Condition:** As part of our audit, we tested collections, disbursements, cash balances, and the Estimate of Needs. Upon inquiry and observation of the District’s internal controls and statutory compliance, we identified the following areas of concern regarding lack of internal controls and lack of management oversight.

**Lack of Management Oversight:**

- Numerous errors were noted when reconciling the District’s Financial Statements to the Estimate of Needs. Monthly financial reports were not reviewed properly to discover these errors.
  - In March 2016, a disbursement was issued regarding a lease purchase agreement for a new ambulance in the amount of \$151,523.00, the disbursement was then reimbursed by the lessor in April, 2016 for the same amount. The deposit was coded as commercial insurance, rather than reimbursement for the lease payment made in error. The deposit was included on the fiscal year 2016 financial statements as “charges for services” and a “reduction in notes payable”. Thus, the financial statements as prepared for the District were overstated in collections for charges for services. Disbursements in the maintenance and operations account category on the Estimate of Needs were also overstated.
  - During fiscal year 2016, several disbursements totaling \$16,978.55 were posted to the District’s bookkeeping system in error or as duplicate entries. This amount has been attributed to accounts payable as unpaid on the fiscal year 2016 Financial Statements.
- Policies and procedures of the District do not include financial related aspects of operation.
- The District has not updated the bylaws of the District to provide guidance with respect to the financial activities of the 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 with regard to the reliability of financial data and the approval of this information by the Board on the monthly financial reports and annual financial statements.



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

**Recommendation:** OSAI recommends the District's Board Members clearly communicate the responsibilities and duties expected of management. Additionally, OSAI recommends that 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. Finally, OSAI recommends management ensure operations adhere to policies and procedures and updated bylaws.

**Management Response:**

**Chairman of the Board:** Management is aware of these conditions and the following adjustments have been made to correct these findings:

- Monthly financial reports are now being reviewed properly by our third party accountant to ensure there are no errors.
- Policies and procedures have been put in place to include financial related aspects of the operation.
- The District has updated the bylaws of the district to provide guidance with respect to the financial activities of the district.

**Criteria:** Effective internal controls are essential to provide 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.



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