



# HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

## Statutory Report

For the fiscal year ended June 30, 2018

**Cindy Byrd, CPA**  
State Auditor & Inspector

**HUGHES COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
STATUTORY REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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Cindy Byrd, CPA | State Auditor & Inspector

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June 23, 2020

**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, 2018.

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 "Cindy Byrd".

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2018**

	<u>General Fund</u>	<u>G.O. Bond of 2017</u>	<u>Sinking Fund</u>	<u>Total</u>
Beginning Cash Balance, July 1	\$ 214,321	\$ 950,647	\$ -	\$ 1,164,968
Collections				
Ad Valorem Tax	411,738	-	223,637	635,375
Charges for Services	525,666	-	-	525,666
Miscellaneous	25	-	-	25
Bond Interest	-	-	646	646
Total Collections	<u>937,429</u>	<u>-</u>	<u>224,283</u>	<u>1,161,712</u>
Disbursements				
Personal Services	677,003	-	-	677,003
Travel	2,443	-	-	2,443
Maintenance and Operations	329,971	-	-	329,971
Capital Outlay	-	626,174	-	626,174
Audit Expense	27,953	-	-	27,953
Bond Interest Payment	-	-	16,625	16,625
Total Disbursements	<u>1,037,370</u>	<u>626,174</u>	<u>16,625</u>	<u>1,680,169</u>
Ending Cash Balance, June 30	<u>\$ 114,380</u>	<u>\$ 324,473</u>	<u>\$ 207,658</u>	<u>\$ 646,511</u>

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

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**General Obligation Limited Tax Bonds Series 2017**

The voters in Hughes County approved a \$950,000 General Obligation Bond Issue on January 10, 2017 “to be used to acquire emergency medical vehicles and other equipment related thereto and perform maintenance and housing on the same.”

At June 30, 2018 the District had received the proceeds and interest earned on the G.O. Bond Issue in the amount of \$950,647. Expenditures of \$626,174 were made for ambulances and equipment.

Collections of \$223,637 in ad valorem tax to make the bond payments has been apportioned to the Sinking Fund, with \$16,625 in coupon payments made during fiscal year 2017-2018.

The 2018-2019 Estimate of Needs provides for a 1.47 ad valorem tax mill levy to be collected for payment of coupons and interest in fiscal year 2019.

Following is the Bond Schedule related to the payments for bonds and coupons in the future:

<b>Fiscal Year</b>	<b>Bond Payments Due</b>	<b>Coupon Payments Due</b>	<b>Total Due</b>
2018-2019	\$0	\$16,625	\$16,625
2019-2020	\$315,000	\$16,625	\$331,625
2020-2021	\$315,000	\$11,113	\$326,113
2021-2022	<u>\$320,000</u>	<u>\$5,600</u>	<u>\$325,600</u>
Total	<u>\$950,000</u>	<u>\$49,962</u>	<u>\$999,963</u>

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

Hughes Emergency Medical Service District  
114 North Oak Street  
Holdenville, Oklahoma 74848-0671

**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 charges for services were billed and collected in accordance with District Policies.
- 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 for the fiscal year ended June 30, 2018 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 and 61 O.S. §101-139.
- 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 the fiscal year ended June 30, 2018 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.



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR

November 12, 2019

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**SCHEDULE OF FINDINGS AND RESPONSES**

**Finding 2018-001 – Internal Controls and Noncompliance Over the Collection Process (Repeat Finding)**

**Condition:** While gaining an understanding of the collection process of the Hughes County Emergency Medical Service District (the District), it was noted that the Administrative Assistant performed the following duties which were not properly segregated:

- Opening mail,
- Completing the mail log,
- Receiving funds at the office,
- Issuing receipts,
- Preparing the deposit,
- Posting collections to the accounting system, and
- Reviewing the patient account monthly report for payments made.

Additionally, the following internal control weaknesses were noted:

- After returning from the bank, the stamped bank deposit slip receipt amount was not verified to the amount of total receipts issued for that date.
- The monthly bank reconciliation performed by the local third-party bookkeeping service was not reviewed or approved by the District Board.

A test of internal controls over the collection process, reflected exceptions for the deposit dated April 17, 2018:

- The mail log and the cash receipts did not reconcile to the bank deposit slip in the amount of \$65.00.
- One receipt for \$65.00 was not listed on the deposit slip and the mode of payment (cash or check) was not indicated on the receipt. (Receipt #13592)
- One check for \$65.00 was listed on the deposit slip; however, a receipt could not be located for this check. (Check #1366)
- Four (4) checks were listed on the mail log and the deposit slip; however, no receipts were located for these checks. (\$1,287.84, \$50.00, \$139.96, \$10.00 = \$1,487.80)
- One check listed on the deposit slip for April 17, 2018 in the amount of \$50.00 was issued a receipt dated April 12, 2018. (Check #544, Receipt #13581)
- The stamped bank deposit slip receipt for April 17, 2018 indicated the deposit was made on April 23, 2018 which was four days after the deposit slip indicated the deposit was prepared.

**Cause of Condition:** Policies and procedures have not been designed and implemented to sufficiently segregate the collection process, to ensure all funds received are properly receipted and deposited daily, to



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verify deposits are encoded in detail on the deposit slip, and to determine bank reconciliations are reviewed and approved by someone other than the preparer.

**Effect of Condition:** These conditions resulted in noncompliance with state statute regarding the daily depositing of funds. Additionally, a single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions, and lack of issuing receipts, daily depositing, verifying bank encoding of deposits, and review and approval of bank reconciliations 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 District 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 District Board provide segregation of duties so that no one employee can perform all duties of the collection process. If 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 the District 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 bank reconciliations are reviewed and approved of by someone independent of the process.

Furthermore, OSAI recommends the District deposit funds received the same day or the next banking day in accordance with 62 O.S. § 517.3 B.

**Management Response:**

**Chairman of the Board:** The District has been made aware of this finding and the issues found have been addressed with office personnel and appropriate action was taken by the Board. New policies and procedures have been put in place to prevent recurrence of this situation. A third office person has been hired to help ensure proper segregation of duties in the collection process.

**Criteria:** The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version) aided in guiding our assessments and conclusion. Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices and may be applied as a framework for an internal control system for state, local, and quasi-governmental entities.

The GAO Standards – Principle 10 – Design Control Activities – 10.03 states part:

*Segregation of duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities

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for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Title 62 O.S. § 517.3 B states in part, “ the treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer by virtue of the office ...”

**Finding 2018-002 – Internal Controls Over the Disbursements Process (Repeat Finding)**

**Condition:** While gaining an understanding of the disbursement process, it was noted that the Administrative Assistant performed the following duties which were not properly segregated:

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

In addition, the following internal control weaknesses were noted regarding approving purchase orders for payment by the Board:

- The purchase order log was not reviewed for accuracy by office personnel prior to providing it to the Board for approval.
  - Purchase orders were missing from the monthly purchase order log approved by the Board.

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- The Board did not approve a range of checks issued (check #1245-1256) for the November 2017 Board meeting.
- The Board did not meet in an open meeting in July 2018; however, the purchase orders issued for June 2018 and paid in July 2018 were paid without Board approval.

The test of internal controls reflected the following purchase orders were not approved by the Board:

- Purchase order #131 was listed on the September 2017 purchase order log as a Mabrey Bank purchase order.
  - The sequence for purchase order #131 was missing on the purchase orders listed for Mabrey Bank.
  - Purchase order #131 was for check #1042 dated 09/14/17 for \$59.64 and paid from First National Bank but was not on the list approved by the Board for September 2017.
- Purchase order #199 was listed on the October 2017 purchase order log as purchase order #199, but no information was included next to the purchase order number for the Board to approve.
  - The line item on the purchase order log was blank except for the purchase order number.
  - Purchase order #199 was for check #1174 dated 10/24/17 for 865.90 and paid from First National Bank for remittance of payroll deductions with no information listed to be approved by the Board.
- Purchase order #482 was not listed on the April 2018 purchase log.
  - Purchase order #482 was issued to Welch State Bank to pay off the Lease/Purchase for a 2016 Ford Ambulance for check #1026 dated 4/23/18 for \$94,099.00 and was paid from Mabrey Bank. It was not on the list approved by the Board for April 2018.
- Purchase order #533 was not listed on the May 2018 purchase order log.
  - Purchase order #533 appears to be void; however, it was not listed as void on the purchase order log.

The test of forty (40) disbursements reflected the following exceptions:

- Ten (10) disbursements did not contain adequate supporting documentation to determine expenditures were for the lawful operation of the office.
- One disbursement included a past due balance paid from a statement with no invoice attached to the statement.
- Five (5) disbursements did not include packing slips for all invoices paid.
- Four (4) disbursements were paid from statement balances without all invoices attached as supporting documentation.
- Two (2) disbursements did not have a receiving signature or verification of accuracy of the invoices (check #12384 and #12407).
- Five (5) disbursements did not have evidence of Board approval.

The test of twelve (12) credit card disbursements reflected the following exceptions:

- Credit card sales receipts were not signed and dated by the employee that made the purchase.

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- One disbursement tested was paid from the statement balance that included the previous balance of \$384.17, plus interest in the amount of \$5.76.
- Proper supporting documentation was not attached to the claims for fuel purchases, including sales receipts, were not filed with the invoices and were not reconciled to the statement.
- One fuel card disbursement tested did not have a receiving or verification signature of accuracy of the purchase order or invoice.
- The June 2018 payment for the fuel card disbursement was not approved in the Board minutes.

**Cause of Condition:** The District has not designed and implemented policies and procedures to sufficiently segregate the disbursement process. Additionally, policies and procedures have not been designed and implemented to ensure supporting documentation such as invoices and detailed statements are attached to the purchase order to determine the appropriateness of the disbursement and avoid late fees on credit card purchases. Further, policies and procedures for the Board to approve purchases in open meeting and document those actions have not been designed and implemented.

**Effect of Condition:** These conditions resulted in unrecorded transactions and clerical errors, and could result in misstated financial reports, or misappropriation of funds not being detected in a timely manner. Additionally, 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 the Board's oversight of office operations and a periodic review of operations. OSAI recommends the Board direct management to provide segregation of duties so that no one employee can perform all accounting functions. If 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 the Board and 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 to provide evidence the expenditure is for the lawful operation of the District and Board approval of disbursements is completely and accurately documented in the monthly Board meetings by reviewing the purchase order log for completeness and accuracy.

**Management Response:**

**Chairman of the Board:** Policies and procedures have been put into place requiring all receipts and packing slips be signed and dated by the employee who receives and opens a package upon delivery. All packing slips are required to be turned into the accounts payable clerk and are to be verified with attached statements and/or invoices.

**Auditor Response:** The Board did not address all aspects of this finding including the Board's role in reviewing and approving lawful purchase orders for payment, that include all supporting documentation

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and verification of receipt of goods and services. Further, lack of segregation in the disbursement process has not been addressed and accuracy of the purchase log was not addressed by the Board in the response.

**Criteria:** The GAO Standards – Principle 10 – Design Control Activities – 10.03 states part:

*Segregation of duties*

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

*Accurate and timely recording of transactions*

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary record. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Additionally, Principle 10 - Segregation of Duties states:

10.12 – Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 – Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

10.14 – If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

**Finding 2018-006 – 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.

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While gaining an understanding of the billing process, the following weaknesses were noted:

- There was no evidence of reconciliation of monthly collection reports from the third-party billing company to the bank statements to ensure all payments posted agree to the amounts deposited.
- There was no evidence of review of the monthly billing report to the run logs to ensure completeness and accuracy of amounts billed.
- The District did not obtain outstanding patient account balances from the previous third-party billing company to track delinquent accounts and review the status of accounts receivable.
- The District Board approved new billing rates in June 2016; however, the accounting staff and third-party billing company did not use the new rates until August 2017.

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

- In four (4) instances, the amount billed did not agree to the fee schedule.
- In three (3) instances, patient account balances did not appear to be transferred to the new third-party billing company upon the District changing billing providers.
- In two (2) instances, ambulance run records were not located in the third-party billing system; thus, it appears the District has not charged the responsible parties for these services.
- In four (4) instances, the ambulance run number did not agree to the billing records.
- In eleven (11) instances, the outstanding delinquent balance on patient accounts did not appear to be presented to the Board to be written off or sent to a collection agency.

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

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

**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, written off as uncollectable or sent to the collection agency as approved by the District Board, and credited to patient accounts in a timely manner.

**Management Response:**

**Chairman of the Board:** The District has switched to a different third-party billing company which allows us access to all patient billing records at any time and procedures have been put into place to ensure that all records are accurate and accounted for properly. The third-party billing company has been notified that write-off amounts and collections must be submitted on a monthly basis as to ensure that they are presented to the Board for approval in a timely manner.

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**Criteria:** The GAO Standards – Principle 13 –Information and Communication – 13.04 states:

*Relevant Data from Reliable Sources*

Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.

**Finding 2018-008 – Internal Controls and Noncompliance Over Creation of Debt by the District**

**Condition:** Upon inquiry of the District staff and observation of disbursement records, the District incurred unauthorized debt in October 2017 in the following manner:

- The District Board Chairman and Board Secretary entered into a “Business Loan Agreement” with a local financial institution on October 4, 2017, for a loan of \$75,000.00 at an interest rate of 5.75% to be paid by October 3, 2018.
- Further, the loan was secured by using collateral of District owned assets including a 2007 Ford ambulance and a 2008 GMC ambulance.
- Board minutes did not reflect that the loan was discussed, nor the Board’s authorization for the Board Chairman and Secretary to incur debt in the name of the District; however, the District obtained \$50,247.00 in October 2017 and \$24,753.00 in November 2017 of the loan proceeds for operating expenses.
- The loan was paid back to the local financial institution in the amount of \$75,000.00, including interest of \$904.00, on January 5, 2018. (Check #1412)

**Cause of Condition:** The District Board has not designed and implemented policies and procedures to address the creation of debt without the vote of the citizens as authorized by the Oklahoma Constitution.

**Effect of Condition:** This condition resulted in noncompliance with the Oklahoma Constitution in that the District incurred unauthorized debt without the vote of the people and without documented discussion and the decision of the District Board.

**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 as authorized by Oklahoma Constitution Article X § 26a.

**Management Response:**

**Chairman of the Board:** The District Board is working on a solution to prevent the incurrence of debt.

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**Auditor Response:** OSAI recommends the Board avoid incurring unauthorized debt in the form of a business loan that is collateralized with District owned assets as provided by Oklahoma Constitution Article X § 26a.

**Criteria:** The GAO Standards – Section 2 – Objectives of an Entity - OV2.23 states in part:

*Compliance Objectives*

Management conducts activities in accordance with applicable laws and regulations. As part of specifying compliance objectives, the entity determines which laws and regulations apply to the entity. Management is expected to set objectives that incorporate these requirements.

Further, GAO Standards – Principle 6 – Defined Objectives and Risk Tolerances - 6.05 states:

*Definitions of Objectives*

Management considers external requirements and internal expectations when defining objectives to enable the design of internal control. Legislators, regulators, and standard-setting bodies set external requirements by establishing the laws, regulations, and standards with which the entity is required to comply. Management identifies, understands, and incorporates these requirements into the entity's objectives. Management sets internal expectations and requirements through the established standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment.

The 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..."



O·K·L·A·H·O·M·A  
S·A·I  
STATE AUDITOR & INSPECTOR



**Cindy Byrd, CPA | State Auditor & Inspector**

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