OKLAHOMA SAI STATE AUDITOR & INSPECTOR

JOHNSTON COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Statutory Report

For the fiscal year ended June 30, 2018

Cindy Byrd, CPA

State Auditor & Inspector

JOHNSTON 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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January 23, 2020

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

Transmitted herewith is the audit report of Johnston 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,

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR AND INSPECTOR

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

	FY 2018
Beginning Cash Balance, July 1	$ 1,059,047
Collections	
Ad Valorem Tax	291,417
Charges for Services	497,298
Sales Tax Reimbursements	61,621
Intergovernmental Revenue	50,912
Interest Income	9,276
Change in Investment Value	-
Donations	6,878
Miscellaneous	67,705
Total Collections	985,107
Disbursements	
Personal Services	556,566
Maintenance and Operations	285,886
Capital Outlay	136
Audit Expense	-
Total Disbursements	842,588
Ending Cash Balance, June 30	$ 1,201,566

Note 1 County Sales Tax

The Johnston County Emergency Medical Service District (the District) receives 8% of a 1% sales tax that was approved by the citizens of Johnston County on August 26, 2014. The sales tax expires on December 31, 2019.

The sales tax is budgeted within the "1-cent 2: Ambulance" account in the Johnston County General Fund. The District submits payroll reports and a requisition to the Johnston County Clerk for reimbursement. The Johnston County Clerk issues a purchase order that is approved by the Johnston County Board of County Commissioners for reimbursement to the District. During the fiscal year, the District was reimbursed $58,371 for payroll expenses.

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Johnston County Emergency Medical Service District
604 E. 24th Street
Tishomingo, Oklahoma 73460

TO THE BOARD OF DIRECTORS OF THE
JOHNSTON 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 compliance with contract service providers.
- 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 Johnston 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 Johnston 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 Johnston 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

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

August 28, 2019

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2018-002 – Internal Control and Noncompliance Over the Collection Process (Repeat Finding)

Condition: Based upon inquiry the Johnston County Emergency Medical Service District (the District) staff and observation of the collection process, the following internal control weaknesses in the segregation of duties was noted:

One District employee performed the following duties:
- issued most of the receipts,
- manually entered the billing information from patient care reports into the billing software,
- billed patients,
- received the explanation of benefits for payments from the computer system, and
- posted payments to the patient accounts.

There was no evidence of independent review or approval of these documents by management or the Board; however, the Director did provide a Monthly Summary Report of accounts receivable, collections, and amounts contractually written-off to the Board for review at monthly Board meetings.

Another part-time District employee performed the following duties:
- issued some receipts occasionally,
- prepared the deposit,
- reconciled all bank accounts to the accounting records,
- deposited collections in the bank,
- posted the deposits to the District's accounting records, and
- made changes in the accounting records.

There was no evidence of independent review or approval of these documents by management or the Board. However, the Director did reconcile the total amount deposited monthly to the collections for the month.

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

Effect of Condition: A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner.

Recommendation: The Oklahoma State Auditor and Inspector's Office (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 can 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 evidence of management review and approval of accounting functions.

Management Response:
Chairman of the Board: Management will work to ensure that deposits are made in a timely manner.

Auditor Response: The Chairman of the Board's response did not address separating key processes and/or critical functions of the office and providing evidence of management review and approval of accounting functions. OSAI continues to recommend the Board provide oversight over the review and approval of the collection process and management design and implement procedures to document segregation of duties over receipting, depositing, and reconciling collections the financial records.

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 – Principal 10 – Design and Control Activities – 10.03 states in 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.
>
> *Appropriate documentation of transactions and internal control*
> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

Finding 2018-003 – Internal Controls Over Bank Reconciliations and Information Systems

Condition: Upon inquiry of District staff and re-performance of the June 2018 bank reconciliation, the following exceptions were noted:

- Bookkeeping software information was not locked down from further data inclusion after the fiscal year end information was completed.

- Checks issued on August 9, 2017, January 17, 2018, and March 12, 2018 for $43.00, $551.00, and $502.00 respectively, were voided after the fiscal year end information was completed.
- An outstanding deposit for $63.00 dated April 27, 2018 did not have supporting documentation. Additionally, the deposit was no longer included on the general ledger due to the bookkeeper deleting the transaction after the fiscal year end date of June 30, 2018.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure financial information is locked down from further data inclusion after the end of the fiscal year and reconciling items are supported by adequate documentation.

Effect of Condition: These conditions resulted in inaccurate financial reporting information, clerical errors, and could result in misappropriation of funds not being detected in a timely manner.

Recommendation: OSAI recommends policies and procedures be designed and implemented to provide internal controls over software information so that the information is synchronized from further data inclusion at the end of each fiscal year, reconciling items are supported by adequate documentation, and any amended financial information after the fiscal year is documented and presented to the Board for approval.

Management Response:
Chairman of the Board: Management will implement procedures to ensure year end reconciliation are complete and locked down.

Criteria: The GAO Standards states the following,

The GAO Standards – Principal 12 – Internal Control Activities – 12.04

> *Documentation of Responsibilities through Policies*
> Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

Finding 2018-004 – Internal Controls Over Disbursements (Repeat Finding)

Condition: Based on inquiry of the District staff and observation of the disbursement process, the following exception was noted regarding segregation of duties:

The part-time finance officer creates the purchase order in QuickBooks, prints the check, and posts checks to the accounting records. Additionally, this part-time employee is also one of the signors on the checks for payroll checks, recurring bills, and all other checks.

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

- Three (3) disbursements did not have the proper supporting documentation attached to the claims.
- Eight (8) disbursements did not have evidence of receiving signatures/verification of accuracy of the invoices or signed receiving reports.
- Two (2) disbursements were not supported by a purchase order but were approved by the Board for payment.

The test of thirteen (13) credit card disbursements reflected the following exceptions:

- Two (2) credit card disbursements did not have evidence of receiving goods and/or services with a signature and date present.

The test of twenty-four (24) petty cash disbursements reflected the following exceptions:

- One (1) disbursement and its supporting documentation could not be located.
- Thirteen (13) disbursements did not have evidence of receiving signatures/verification for accuracy of the invoices.

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 evidence of receiving signatures to ensure accuracy.

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. 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 management 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.
OSAI recommends the District implement a system of internal controls to ensure that all disbursements have proper supporting documentation and evidence of receiving goods and/or services.

Management Response:
Chairman of the Board: The Board has designed the following policies and asked management to implement the following procedures:

- Management will work to ensure that all supporting documentation and evidence of receiving goods and/or services is attached to all claims.

Auditor Response: The Chairman of the Board's response did not address separating key processes and/or critical functions of the office and providing evidence of management review and approval of accounting functions. OSAI continues to recommend the Board provide oversight over the review and approval of the disbursement process and management design and implement procedures to document segregation of duties over creating purchase orders, signing checks and posting transactions to the financial records.

Criteria: The GAO Standards – Principal 10 – Design and Control Activities – 10.03 states in 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.
>
> *Appropriate documentation of transactions and internal control*
> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

Finding 2018-005 – Internal Controls Over the Payroll and Leave Process (Repeat Finding)

Condition: Based upon inquiry of the District Director and staff, observation of the payroll and leave process, and a review of sixteen (16) payroll documents, the following exceptions were noted:

- The Director did not prepare a timesheet nor sign a payroll document verifying time worked unless accrued leave was used.
- Additionally, verification of the Director's time worked was not verified by a supervisory or Board signature.
- The Office Manager's timesheet was not signed by a supervisor as evidence of review and approval of time worked.

A review of eight (8) full-time employees' accrued leave balances for the payroll period of June 2018, reflected the following weaknesses:

- Four (4) employees reported accrued leave balances were documented as in excess of the maximum accumulated hours allowed as stated in the Leave Policy.

Cause of Condition: Policies and procedures have not been completely designed and implemented to ensure all employees' timesheets are prepared, signed, and reviewed for approval. Further, policies and procedures have not been designed and implemented to ensure accrued leave balances are no more than the maximum amount allowed as stated in the Leave Policy.

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

Recommendation: OSAI recommends all employees complete and sign a timesheet to adequately document the payroll disbursements. Additionally**,** OSAI recommends the District ensure that the accrued leave balances are verified to timesheets and the timesheets and leave ledgers are reviewed and approved for accuracy.

Management Response:
Chairman of the Board: The Board has designed the following policies and asked management to implement the following procedures:

- Management will implement procedures to assure the signatures are obtained on time sheets.
- Management will ensure that accrued leave balances are maintained as policy mandates.

Criteria: The GAO Standards – Principal 12 – Internal Control Activities – 12.04 states:

> *Documentation of Responsibilities through Policies*
> Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

Finding 2018-006 – Inadequate Internal Controls and Noncompliance Over the District's Investments (Repeat Finding)

Condition: Upon inquiry of the District's staff and review of investment confirmations, the following was noted:

- The District has not designed and implemented a written investment policy that addresses liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management in accordance with O.S. 62 § 348.3.

- The District's has invested funds in Federal Home Loan Bank bonds, Federal National Mortgage Association bonds, and Federal Home Loan Mortgage Corporation. These investments are not authorized for governmental units in conformity with O.S. 62 § 348.1.
- Further, these investments were collateralized with the Securities Investor Protection Corporation (SIPC) which is not in accordance with O.S. 62 § 517.4.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the District is in compliance with the state statutes regarding a written investment policy. Additionally, policies and procedures have not been designed and implemented to ensure investments are authorized by state statutes and are secured with statutorily authorized securities.

Effect of Condition: These conditions resulted in inadequate internal controls over the District's investments and noncompliance with state statutes.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends the District Board implement a system of internal controls to provide reasonable assurance that the District complies with state statutes regarding the investment of District funds and the security of those funds in compliance with 62 O.S. § 348.1 and § 348.3 and § 517.4.

Management Response:
Chairman of the Board: Management will work to implement policies for investments in accordance with state statutes.

Criteria: The GAO Standards – Section 2 – Objective 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. .Some entities may set objectives to a higher level of performance than established by laws and regulations.

Title 62 O.S. § 348.1 states, A. Except as otherwise provided for by law, a county treasurer, when authorized by the board of county commissioners by a written investment policy, ordinance or resolution or the treasurer of any city or town, when authorized by the appropriate governing body by a written investment policy, ordinance or resolution, shall invest monies in the custody of the treasurer in:

> 1. Direct obligations of the United States Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;

2. Collateralized or insured certificates of deposits of savings and loan associations, banks, savings banks and credit unions located in this state, when the certificates of deposit are secured by acceptable collateral as provided by law, or fully insured certificates of deposit at banks, savings banks, savings and loan associations and credit unions located out of state;

3. Savings accounts or savings certificates of savings and loan associations, banks, and credit unions, to the extent that the accounts or certificates are fully insured by the Federal Deposit Insurance Corporation;

4. Investments as authorized by Section 348.3 of this title which are fully collateralized in investments specified in paragraphs 1 through 3 of this section, and where the collateral has been deposited with a trustee or custodian bank in an irrevocable trust or escrow account established for such purposes; or

5. County, municipal or school district direct debt obligation for which an ad valorem tax may be levied or bond and revenue anticipation notes, money judgments against such county, municipality or school district ordered by a court of record or bonds or bond and revenue anticipation notes issued by a public trust for which such county, municipality or school district is a beneficiary thereof. All collateral pledged to secure public funds shall be valued at no more than market value. The income received from that investment may be placed in the general fund of the governmental subdivision to be used for general governmental operations, the sinking fund, the building fund, or the fund from which the investment was made.

B. The provisions of this section shall not apply to investments made by organizations of municipalities created for the purpose of securing benefits and services relating to insurance for Oklahoma municipalities or other political subdivisions.

Further, Title 62 O.S. § 348.3 states in part, "A. In addition to the investments authorized by Section 348.1 of this title, the governing body of a city or of a county may adopt a written investment policy directing the investment of the funds of the city or county and any of its public trusts or authorities. If such a policy is adopted by the governing body, such funds shall be invested pursuant to the provisions of the policy. The written policy shall address liquidity, diversification, safety of principal, yield, maturity and quality and capability of investment management, with primary emphasis on safety and liquidity.

C. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Further, Title 62 O.S. § 517.4 states, A. A treasurer of a public entity shall require that financial institutions deposit collateral securities or instruments to secure the deposits of the public entity in each such institution. The amount of collateral securities or instruments to be pledged for the security of public deposits shall be established by the treasurer of the public entity consistent with the provisions of the Security for Local Public Deposits Act; provided, such amount shall not be less than the amount of the deposit to be secured, less the amount insured.

B. Upon authorization by the treasurer of a public entity, a financial institution shall place required collateral securities in a restricted account at a Federal Reserve Bank which serves Oklahoma, a Federal Home Loan Bank which serves Oklahoma or with another financial institution located in this state that is not owned or controlled by the same institution or holding company. The State Treasurer shall designate a number of such financial institutions authorized to serve as safekeeping or custodial institutions. The financial institution depositing collateral securities shall deliver to the treasurer of the public entity a power of attorney authorizing the treasurer to transfer or liquidate the securities in the event of a default, financial failure or insolvency of a public depository. The State Treasurer must approve any forms or pledge agreements used by public entities and financial institutions in securing public deposits of public entities.

C. Securities eligible for collateral shall be valued at market value. The treasurer shall review and determine the market value of collateral pledged for security not less than quarterly. The market value of pledged securities shall be provided to the treasurer by either the financial institution holding the deposit or the financial institution holding the collateral securities, which market value must have been obtained from an independent, recognized and documented source. The State Treasurer shall promulgate rules to provide for the valuation of collateral if the market value is not readily determinable. The State Treasurer shall prescribe reporting requirements and forms for financial institutions to list collateral securities pursuant to this section.

D. The State Treasurer shall promulgate rules for the acceptance of collateral instruments described in Section 12 of this act, to secure deposits of the public entity. Such rules shall require that sufficient documentation exists to establish that the provider of the collateral instrument will protect the public entity in the event of a default, financial failure or insolvency of a public depository.

E. All securities purchased by a treasurer of a public entity or held in custody for other departments of the public entity by the treasurer shall be held in financial institutions not involved in such transactions and shall not be held by the treasurer or a broker.

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