



MARSHAL COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

Statutory Report

For the fiscal year ended June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**MARSHALL 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

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

June 23, 2020

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

Transmitted herewith is the audit report of Marshall 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



**MARSHALL EMERGENCY MEDICAL SERVICE DISTRICT
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Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2018

	<u>FY 2018</u>
Beginning Cash Balance, July 1	<u>\$ 294,500</u>
Collections	
Ad Valorem Tax	405,621
Charges for Services	681,430
Total Collections	<u>1,087,051</u>
Disbursements	
Personal Services	891,317
Maintenance and Operations	207,903
Capital Outlay	35,010
Audit Expense	12,651
Total Disbursements	<u>1,146,881</u>
Ending Cash Balance, June 30	<u>\$ 234,670</u>

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

Marshall County Emergency Medical Service District
4 Hospital Drive
Madill, Oklahoma 73446

**TO THE BOARD OF DIRECTORS OF THE
MARSHALL 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(s) 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 Marshall 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 Marshall 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 Marshall 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

May15, 2020

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

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

Condition: While gaining an understanding of the reconciling process of the Marshall County Emergency Medical Service District (the District), the following weaknesses were noted:

- The Office Manager performs the duties of the disbursement process and prepares the bank statement reconciliations.
- There was no evidence of someone other than the preparer reviewing the bank statement reconciliations.
- There was no evidence that the bank reconciliations were reviewed and approved by the Board in an open meeting.

Cause of Condition: Policies and procedures have not been designed and implemented to sufficiently segregate the duties of disbursing funds, preparing the bank statement reconciliation, and documenting verification that the bank statement reconciliation is reviewed by someone other than the preparer and approved by the Board.

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. Additionally, not reconciling the accounting ledger or reviewing the bank statement reconciliations could result in unrecorded transactions, misstated financial reports, undetected errors, and misappropriation of funds.

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 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 management review and approve accounting functions including approving disbursements and reconciling to accounting ledgers and reviewing bank statement reconciliations.

Management Response:

Board of Directors: Part of our current restructuring process included reviewing and realigning administrative staff’s responsibilities to ensure that we adequately segregate duties.

The Board of Directors has issued a directive that copies of the bank statement & reconciliation report be included in the monthly Board information packet.

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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 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.

The GAO Standards – Principle 10 – Design Control Activities – 10.12 through 10.14 states:

Segregation of duties

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 2018-003 – Internal Controls and Lack of Management Oversight Over Delinquent Patient Accounts and the Billing Process (Repeat Finding)

Condition: While gaining an understanding of the billing process of the District, reviewing documentation from the outsourced billing company, and performing a test of forty (40) patient accounts, the following exceptions were noted:

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- No evidence was provided that the Board or District staff monitored or reviewed patient account documentation from the outsourced billing company to determine the status of outstanding balances.
- No evidence was provided that the Board reviewed delinquent patient accounts to consider uncollectable accounts to be written-off.
- No evidence was provided of second billing for five (5) past due patient accounts.

Cause of Condition: Policies and procedures have not been designed and implemented by the Board to sufficiently monitor the billing process to ensure delinquent patient accounts are reviewed and approved to be written-off as uncollectable or sent to the collection agency for payment. Further, policies and procedures have not been designed and implemented to ensure delinquent patient accounts are sent to the patient or private insurance company for payment, and/or filed within the time guidelines to be paid by Medicare.

Effect of Condition: These conditions could have resulted in loss of revenue from ambulance runs, and in unrecorded transactions, misstated financial reports, undetected errors, and could result in misappropriation of funds.

Recommendation: OSAI recommends the Board be proactive and address these conditions with the District staff to design and implement a system of internal controls as follows:

- File claims timely and appropriately with Medicare,
- Obtain reports and monitor the claims filed with the billing company,
- Review delinquent accounts for subsequent billing, and
- Take necessary action by Board approval on uncollectable accounts.

Management Response:

Board of Directors: The Board of Directors outsourced the collection process during the fiscal year 2019-2020. We are working through some unexpected challenges in that process. We are also working to develop a write-off policy which will address handling of indigent patient claims to reduce accounts receivable aging.

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

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.

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Finding 2018-004 – Internal Controls Over the Disbursement Process (Repeat Finding)

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

- Orders office supplies,
- Receives invoices,
- Prepares purchase orders and prints checks,
- Posts warrants to the disbursement ledger, and
- Distributes checks to vendors.

Additionally, the test of forty (40) purchase orders reflected the following:

- Purchase orders were incomplete and not signed by the Director, or Board members. Further, the District discontinued the use of purchase orders during fiscal year 2018.
- Thirty-one (31) purchase orders did not have evidence of a receiving signature/verification of accuracy of the invoice.
- Eight (8) purchase orders did not have supporting documentation of goods or services received.
- Five (5) disbursements did not have documentation to determine the that the purchases were for the lawful operation of the District.

Furthermore, a test of (12) twelve credit card payments reflected the following weaknesses:

- Twelve (12) statements did not have cash register/fuel pump receipts attached.
- Twelve (12) statements did not have any evidence of reconciliation/verification of accuracy of the fuel statement.
- Five (5) fuel statements did not have enough documentation to determine the purpose of the credit card charge; therefore, it could not be determined that the purchases were for the lawful operation of the District.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure the verification of receipt of goods and/or services, to document the Board approval of purchases issued for payment of disbursements, to sufficiently segregate the duties of disbursements.

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

Recommendation: OSAI recommends the Board be aware of these conditions and realize that a 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

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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 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 following:

- Verification of the receipt of all goods and/or services.
- Board approval of each purchase and the approval should be listed in the minutes by purchase order number and amount.

Management Response:

Board of Directors: Part of our current restructuring process included reviewing and realigning administrative staff's responsibilities to ensure that we adequately segregate duties. We are reviewing and implementing changes to all purchasing/disbursement related processes to ensure appropriate internal controls have been designed and implemented.

The Board of Directors has issued a directive that a purchase order system be implemented for FYE 2021.

Criteria: The GAO Standards – Principle 10 – Design 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.

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 records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

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The GAO Standards – Principle 10 – Design Control Activities - 10.12 through 10.14 states:

Segregation of duties

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 Payroll Process (Repeat Finding)

Condition: Based on inquiry of District staff and observation of payroll records, the following weaknesses were noted:

- One employee inputs employee payroll information and maintains payroll and leave records.
- The Director, at the date of our audit, prepared a timesheet for hours worked as a medic; however, administrative hours worked were not recorded on a timesheet.

Additionally, a test of the payroll period October 19, 2017 to November 1, 2017, for fourteen (14) employees reflected the following exception:

- In six (6) instances timesheets lacked evidence of a supervisor review.

A test of the timesheets and District’s payroll leave records for the period July 1, 2017 to June 30, 2018, reflected the following exceptions:

- One (1) employee’s sick leave balance was not calculated correctly resulting in an overstatement of 30 hours.
- One (1) employee’s sick leave balance reflected accrued hours in excess of the District policy limits.
- Two (2) employees did not receive accrued vacation leave for one month; therefore, the leave balance shown on District records was understated by 4 hours.

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- One (1) employee’s timesheet reflected 24 hours of vacation leave used; however, District records reflected no vacation hours used, resulting in an overstatement of 24 hours of vacation leave.
- One (1) employee’s timesheet reflected 92.5 hours of vacation leave used; however, the District’s records reflected 95 hours used resulting in an overstatement of 2.5 hours reported on vacation leave records.

Furthermore, the District Policy and Procedures Manual states,
“Full-time employees are required to complete a six-month initial evaluation period, during which time, vacation time is accrued but may not be utilized.”

The following exception to the District’s policy was noted:

- One employee utilized vacation leave during the six-month initial evaluation; however, the leave hours used were not reported on the District’s records, resulting in the employee’s leave balance being overstated by 24 hours.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all employees complete a timesheet, evidence that employees and supervisors verify the accuracy of timesheets, and leave balances are accurately monitored and reported.

Effect of Condition: These conditions resulted in inaccurate recordkeeping, incorrect payroll disbursements and inaccurate leave accruals. Further, inaccurate recordkeeping of leave benefits could expose the District to liabilities for payment of leave balances

Recommendation: OSAI recommends the District ensure all employees prepare a timesheet, and that each timesheet has evidence of an employee signature and evidence of review and approval of the supervisor. Additionally, leave balances should be tracked by the District to ensure compliance with the District’s leave policies. Further, inaccurate recordkeeping of leave benefits could expose the District to liabilities for payment of leave balances.

Management Response:

Board of Directors: During FYE 2020, the Board of Directors outsourced all payroll functions to a third party. Policies and procedures have been put in place to appropriately segregate the payroll and leave approval functions.

Criteria: The GAO Standards – Principle 10 – Design 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.

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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 records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Finding 2018-007 – Internal Controls Over Fixed Assets Inventory Records (Repeat Finding)

Condition: Based on inquiry of District employees and observation of accounting records, the following exceptions regarding the maintenance and verification of fixed assets records was noted:

- Although the District has been repeatedly advised to maintain and verify fixed assets at least annually, a fixed assets listing was not maintained, nor was a physical verification performed.
- The District has not designed and implemented formal policies and procedures to safeguard fixed assets from misappropriation or loss.
- The District has not established a dollar amount for the inclusion of fixed asset items on a fixed assets inventory listing.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure fixed assets inventory is properly maintained, a dollar amount established for the inclusion of fixed assets and updated through an annual verification by the District.

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

Recommendation: OSAI recommends annual physical inventory verifications be performed by someone other than the individual maintaining fixed assets inventory records to ensure accurate records are properly maintained, updated, and documented. OSAI further recommends the Board establish a dollar limit for the inclusion of fixed assets and design and implement policies and procedures over fixed assets for the safeguarding those assets from unauthorized acquisition, use or disposition.

Management Response:

Board of Directors: As part of our restructuring process, we are working to develop and implement adequate fixed asset inventory controls as well as complete a full inventory verification of all District property.

Criteria: The GAO Standards – Section 2 – Objectives of an Entity - OV2.24 states in part:

Safeguarding Assets

A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or

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prompt detection and correction of unauthorized acquisition, use or disposition of an entity's assets.

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