

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY
HODGEN, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2023 and 2022

RALPH OSBORN, CPA LLP
500 SOUTH CHESTNUT
P.O. BOX 1015
BRISTOW, OK 74010-1015

RALPH OSBORN, CPA LLP

500 S. Chestnut
P.O. Box 1015
Bristow, OK 74010

(918) 367-2208
(888) 413-2208
Fax (918) 367-1034
or (888) 261-6468

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District Number 17
Leflore County
Hodgen, Oklahoma

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Business-type activities of Rural Water District Number 17, Leflore County, Oklahoma, which comprise the balance sheets as of and for the years ended December 31, 2023 and 2022, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position - modified cash basis of the business-type activities of Rural Water District Number 17, Leflore County, Oklahoma as of December 31, 2023 and 2022, and the respective changes in financial position - modified cash basis, thereof, for the years ended, in accordance with the basis of accounting as described in Note A.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water District Number 17, Leflore County, Oklahoma and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District Number 17, Leflore County, Oklahoma's ability to continue as a going concern for twelve months beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or

error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District Number 17, Leflore County, Oklahoma's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District Number 17, Leflore County, Oklahoma's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2024, on our consideration of Rural Water District Number 17, Leflore County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water District Number 17, Leflore County's internal control over financial reporting and compliance.

Ralph Osborn, CPA LLP

Ralph Osborn, CPA LLP
Bristow, Oklahoma
July 15, 2024

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2023 and 2022

ASSETS	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 89,057	\$ 50,160
Total current assets	<u>89,057</u>	<u>50,160</u>
Non-current assets:		
Capital assets:		
Land	5,000	5,000
Other capital assets, net of accumulated depreciation	<u>994,030</u>	<u>897,411</u>
Total non-current assets	<u>999,030</u>	<u>902,411</u>
Total assets	<u>1,088,087</u>	<u>952,571</u>
NET ASSETS		
Invested in capital assets, net related debt	999,030	902,411
Unrestricted	<u>89,057</u>	<u>50,160</u>
Net assets	<u>\$ 1,088,087</u>	<u>\$ 952,571</u>

The notes to financial statements are an integral part of this statement.

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

<u>OPERATING REVENUES</u>	<u>2023</u>	<u>2022</u>
Charges for services:		
Water Revenue	\$ 172,933	\$ 142,750
Other	<u>1,218</u>	<u>-</u>
Total operating revenues	<u>174,151</u>	<u>142,750</u>
<u>OPERATING EXPENSES</u>		
Water purchases	31,378	30,836
Utilities	3,043	2,890
Repair, Maintenance and fuel	30,802	47,957
Meter reader	773	2,531
Office supplies and postage	6,191	4,486
Insurance and bonds	4,276	4,435
Auditing, accounting and legal fees	5,934	6,387
Personnel Costs	48,650	59,516
Depreciation	35,307	32,663
DEQ Fees	4,237	2,387
Dues, memberships and fees	363	-
Telephone	1,347	457
Engineering	30,000	-
Other expenses	<u>8,277</u>	<u>2,336</u>
Total operating expenses	<u>210,578</u>	<u>196,881</u>
Operating income (loss)	<u>(36,427)</u>	<u>(54,131)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Interest income	68	7
Insurance proceeds	380	270
Gain on sale of assets	-	2,409
Residential line Installations	13,780	16,270
Grants	<u>157,715</u>	<u>-</u>
Total non-operating revenue (expenses)	<u>171,943</u>	<u>18,956</u>
Change in net assets	135,516	(35,175)
Total net assets, beginning	<u>952,571</u>	<u>987,746</u>
Total net assets, ending	<u>\$ 1,088,087</u>	<u>\$ 952,571</u>

The notes to financial statements are an integral part of this statement.

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Cash received from customers	\$ 174,151	\$ 142,750
Cash payments to employees	(48,650)	(59,516)
Cash payments to suppliers for goods and services	<u>(126,621)</u>	<u>(104,702)</u>
Net cash provided (used) by operating activities	<u>(1,120)</u>	<u>(21,468)</u>
Cash flows from capital and related financing activities		
Acquisition of fixed assets	(131,926)	(1,026)
Sale of assets	-	10,026
Insurance proceeds	380	270
Residential line installations	13,780	16,270
Grants	<u>157,715</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>39,949</u>	<u>25,540</u>
Cash flows from investing activities		
(Increase) decrease in restricted assets	-	-
Interest earned	<u>68</u>	<u>7</u>
Net cash provided by investing activities	<u>68</u>	<u>7</u>
Net increase/(decrease) in cash and cash equivalents	38,897	4,079
Cash and cash equivalents, beginning	<u>50,160</u>	<u>46,081</u>
Cash and cash equivalents, ending	<u>\$ 89,057</u>	<u>\$ 50,160</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (36,427)	\$ (54,131)
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation	<u>35,307</u>	<u>32,663</u>
Net cash provided (used) by operating activities	<u>\$ (1,120)</u>	<u>\$ (21,468)</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Leflore County Rural Water District Number 17 (the "District") was created by the Board of County Commissioners of Leflore County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by property owners paying connection fees for the use of benefit units (meters). The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Equity Classifications

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets
- Restricted net position - Consists of net position with constraints placed on the use either by 1) external groups, such as creditors, grantors, contributors or laws and regulations of other governments or 2) law through constitutional provisions or enabling legislation
- Unrestricted net position - All other net position that does not meet the definition of restricted or net investment in capital assets

In the fund financial statements, governmental fund equity is classified as fund balance. Fund balance is classified as nonspendable, restricted, committed, assigned and unassigned.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery),

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are *not recorded* in these financial statements. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

Estimated useful lives, in years, for depreciable assets are as follow:

Water line system	50
Building and improvements	20
Fencing	10
Equipment and truck	5

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2023 and 2022, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$89,057 at December 31, 2023. The bank balance of the deposits at December 31, 2023 was approximately \$89,455.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2023.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2023 and 2022, the District's deposits consisted of demand deposits.

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 and 2022

NOTE C - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

<u>2023:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Waterline System	1,520,020	117,196	-	1,637,216
Office Building	28,500	-	-	28,500
Office Equipment and Tools	1,887	4,730	-	6,617
Vehicles and Machinery	-	10,000	-	10,000
Total Capital Assets	\$ 1,555,407	\$ 131,926	\$ -	\$ 1,687,333
Depreciation	(652,996)	(35,307)	-	(688,303)
Total Net Capital Assets	<u>\$ 902,411</u>	<u>\$ 96,619</u>	<u>\$ -</u>	<u>\$ 999,030</u>
 <u>2022:</u>	 <u>Beginning Balance</u>	 <u>Additions</u>	 <u>Retirements</u>	 <u>Ending Balance</u>
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Waterline System	1,520,020	-	-	1,520,020
Office Building	28,500	-	-	28,500
Office Equipment and Tools	861	1,026	-	1,887
Vehicles and Machinery	22,697	-	(22,697)	-
Total Capital Assets	\$ 1,577,078	\$ 1,026	\$ (22,697)	\$ 1,555,407
Depreciation	(635,412)	(32,663)	15,079	(652,996)
Total Net Capital Assets	<u>\$ 941,666</u>	<u>\$ (31,637)</u>	<u>\$ (7,618)</u>	<u>\$ 902,411</u>

NOTE D - COMPENSATED ABSENCES

The District has not reported an amount for accrued compensated absences. Under the modified cash basis of accounting, payments for vacation and sick leave are expensed as paid.

NOTE E - PENSION

The District does not participate in a retirement plan.

NOTE F - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss, including workers' compensation.

Note G - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 15, 2024, the date on which the financial statements were available to be issued.

RALPH OSBORN, CPA LLP

500 S. Chestnut
P.O. Box 1015
Bristow, OK 74010

(918) 367-2208
(888) 413-2208
Fax (918) 367-1034
or (888) 261-6468

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Water District Number 17
Leflore County
Hodgen, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the business-type activities of Rural Water District Number 17, Leflore County, Hodgen, Oklahoma, as of and for the year ended December 31, 2023 and December 31, 2022, and the related notes to the financial statements, which collectively comprise Rural Water District No. 17's basic financial statements and have issued our report thereon dated July 15, 2024 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water District No. 17's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 17's internal control. Accordingly, we do not express an opinion of the effectiveness of Rural Water District No. 17's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2023-1 to be significant deficiencies.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2023-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District Number 17, Leflore County, Hodgen, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 2023-1, 2023-2 and 2023-3.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

Ralph Osborn, CPA LLP

Ralph Osborn, CPA LLP
Bristow, Oklahoma
July 15, 2024

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

2023-1 Segregation of Duties

Condition: Presently the same individual that is responsible for billing and adjustments; posts payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Cause/Effect: The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner. Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the Identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

2023-2 Failure to Maintain Record of Minutes

Condition: The District did not follow the Open Meetings Act (O.S. §25-312A) requiring proper record keeping of minutes.

Criteria: The written meeting minutes "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."

Cause/Effect: The District's minutes are not in compliance with the Open Meetings Act. The minutes indicated that motions were made and approved prior to the meeting being called to order and after the meeting was adjourned. The minutes did not record the meeting being called to order in one instance.

Recommendation: The District should review and comply with the Open Meetings Act.

2023-3 Failure to Maintain Supporting Documents

Condition: The District failed to maintain support documentation for a significant expense as required by Records of Receipts and Expenditures (O.S. §51-24A.4).

Criteria: The District is required to retain all documents supporting financial transactions. These documents include notice for revenue received and invoices for expenditures.

Cause/Effect: The District was unable to provide sufficient support documentation for a significant expense of \$10,000.

Recommendation: The District should maintain support documents for all financial transactions.

RURAL WATER DISTRICT NUMBER 17
LEFLORE COUNTY, OKLAHOMA
STATUS OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

2022-1 Segregation of Duties

Condition: Presently the same individual that is responsible for billing and adjustments; posts payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Cause/Effect: The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner. Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the Identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

Status: This was noted during the current year. See finding 2023-1.