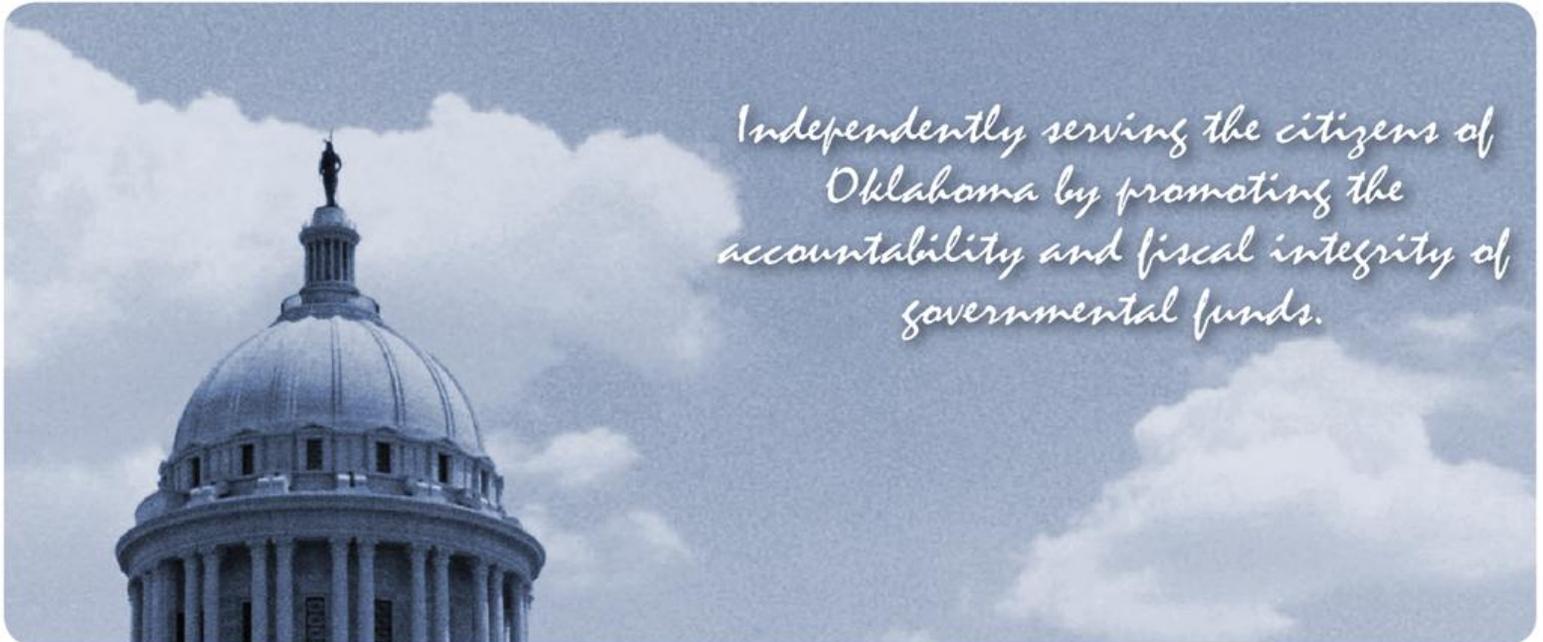


STATUTORY REPORT

McCLAIN/GRADY EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2009 through June 30, 2013



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

**McCLAIN/GRADY EMERGENCY MEDICAL SERVICE DISTRICT
STATUTORY REPORT
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2013**

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Oklahoma State Auditor & Inspector

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December 17, 2014

**TO THE BOARD OF DIRECTORS OF THE
McCLAIN/GRADY EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of McClain/Grady Emergency Medical Service District for the period July 1, 2009 through June 30, 2013.

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, appearing to read "Gary A. Jones".

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



Oklahoma State Auditor & Inspector

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

McClain/Grady County Emergency Medical Service District
211 W. Blanchard Drive
Blanchard, Oklahoma 73010

TO THE BOARD OF DIRECTORS OF THE McCLAIN/GRADY EMERGENCY MEDICAL SERVICE DISTRICT

For the purpose of complying with 19 O.S. § 1706.1, we have performed the following procedures:

- Determined that receipts were properly deposited and accurately reported in the accounting records.
- Determined cash balances were accurately reported in the accounting records.
- Determined whether deposits and invested funds were secured by pledged collateral.
- Determined that disbursements were properly supported, were made for purposes outlined in 19 O.S. § 1710.1, and were accurately reported in the accounting records.
- Determined that all purchases requiring bids complied with 19 O.S. § 1723.
- Determined that payroll expenditures were accurately reported in the accounting records and supporting documentation of leave records was maintained.
- Determined that fixed assets records were properly maintained.
- Determined whether the District's collections, disbursements, and cash balances for FY 2012 and FY 2013 were accurately presented on the estimate of needs.

All information included in the records of the District is the representation of the McClain/Grady Emergency Medical District Service.

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 McClain/Grady 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 McClain/Grady Emergency Medical Service District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in blue ink, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

December 8, 2014

**McCLAIN/GRADY EMERGENCY MEDICAL SERVICE DISTRICT
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SCHEDULE OF FINDINGS AND RESPONSES

Finding 1 – Lack of Segregation of Duties Over Revenue

Condition: While gaining an understanding of the receipting, depositing, and reconciling functions of McClain/Grady Emergency Medical Service District (the District), the following was noted:

- One individual opens the mail, sorts the mail, receipts payments, and prepares the deposit.
- Another individual prepares bank reconciliations that are not reviewed by an individual other than the preparer.

Cause of Condition: The District has not designed and implemented policies and procedures to sufficiently segregate the receipting and reconciling processes.

Effect of Condition: A single employee having responsibility for more than one area of the collection and reconciling processes could result in unrecorded transactions, misstated financial reports, undetected errors, or the misappropriation of funds. This condition could result in inaccurate record, incomplete information or misappropriation of assets.

Recommendation: The Oklahoma State Auditor & Inspector’s Office (OSAI) recommends the District segregate the accounting duties of receiving payments and preparing the deposit. Further, OSAI recommends all bank reconciliations reflect an indication of review and approval by someone other than the preparer.

Management Response: Due to limited funding and availability of personnel this has been a finding for the past 26 years. The Board of Trustees has been aware of this issue since the first audit and understands the inability of this office to meet this requirement. We do try to spread out the duties as determined by the staff available.

Auditor Response: Even with limited personnel, the District should implement mitigating controls to lessen risks associated with the revenue function of the office. The District was provided with the non-authoritative spreadsheet “The Small Office Guide To Segregation of Duties: Receipting” as an example of how this could occur.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls over safeguarding of assets constitute a process, affected by an entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, depositing cash and checks, and reconciliations should be segregated.

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Finding 2 – Lack of Segregation of Duties Over Expenditures

Condition: Based upon inquiry and observation of the disbursement process, the following was noted:

- One individual may order goods/services, receive goods/services, prepare checks, and distribute the checks.

While testing expenditures for the District, the following exceptions were noted:

- For the period July 1, 2009 through June 30, 2010, of the 25 expenditures tested, 20 did not have evidence of a receiving signature or verification of accuracy on the invoice.
- For the period July 1, 2010 through June 30, 2011, of the 25 expenditures tested, 18 did not have evidence of a receiving signature or verification of accuracy on the invoice.
- For the period July 1, 2011 through June 30, 2012, of the 25 expenditures tested 12, did not have evidence of a receiving signature or verification of accuracy on the invoice.
- For the period July 1, 2012 through June 30, 2013, of the 25 expenditures tested 16, did not have evidence of a receiving signature or verification of accuracy on the invoice.

Cause of Condition: The District has not designed and implemented policies and procedures to sufficiently segregate the disbursement process. This includes ensuring invoices/receiving reports are verified for accuracy and signed by the receiving agent.

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: OSAI recommends management be aware of this condition and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risk 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.

OSAI further recommends management develop procedures where a verification of accuracy for all items received occurs by having an individual sign off on the invoice after all items therein depicted are reviewed and accounted for.

Management Response: This finding came up during our last audit (2010). Since then we have changed our procedure where one person orders the goods and records the order in the supply log. A different person verifies the goods when they are received, signs the supply order log, dates it, and signs the packing slip. We have not been signing the invoice when it arrives but this will be done in the future. I was also advised that some of the invoices in question were for utilities. We will not date and sign those as we have no way of verifying how much natural gas, water or electricity we used in a month's time.

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Auditor Response: OSAI would not expect the District to be able to verify usage amount of utilities. However, good business practices would include verifying that the bill is an obligation of the District and the number of utility meters billed was the responsibility of the District.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting. A key factor in this system is having supporting documentation such as itemized invoices attached to all purchase orders and designating a receiving officer to sign a receiving report or the invoice to confirm that goods and/or services were received.

Finding 3 – Lack of Segregation of Duties Over Inventory

Condition: Based on inquiry and observation of the District, the following was noted concerning inventory:

- One employee maintains all inventory records, and a physical verification of inventory is not performed.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure inventory is being properly accounted for, maintained, and updated regularly 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 that policies and procedures be implemented to ensure inventory is being updated on an ongoing basis. Furthermore, OSAI recommends a physical inventory verification, by someone other than the individual in charge of inventory, be completed and documented annually to verify inventory on hand.

Management Response: It is my understanding that this is in regards to the capital assets inventory. This is maintained by two people due to the limited personnel. This is a new finding for the District. New policies and procedures will be implemented to ensure the inventory is inspected each year. This was previously done and verified during past audits.

Criteria: An aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use, or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.

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Finding 4 – Accounts Not Accurately Reconciled

Condition: Based upon inquiry and a review of the reconciliation process, the following was noted:

- Reconciliations are not reviewed and approved by someone other than the preparer.
- On three (3) occasions during the period under review, interest was added to the wrong account during the reconciliation.
- Reconciliations were not performed for the following:

Year	Bank	Account	Amount	Purpose
2010	Financial Institution #1	26674	\$287.11	Un-Reconcilable amount
2011	Financial Institution #1	26674	\$231.81	Un-Reconcilable amount
2011	Financial Institution #2	2019868	\$ 24.99	Un-Reconcilable amount
2012	Financial Institution #2	2019868	\$106.15	Un-Reconcilable amount
2013	Financial Institution #1	26674	\$ 12.84	Un-Reconcilable amount
2013	Financial Institution #3	110042	\$122.72	Un-Reconcilable amount
2013	Financial Institution #2	2019868	\$ 49.86	Un-Reconcilable amount

Cause of Condition: Policies and procedures have not been designed to ensure someone other than the preparer review bank reconciliations, and to ensure reconciliations are done accurately on an ongoing and monthly basis.

Effect of Condition: These conditions could result in incomplete and inaccurate amounts being reported on the ledger.

Recommendation: OSAI recommends the District ensure all accounts and reconcilable documents are maintained and reconciled to the District ledger on a monthly basis. Further, OSAI recommends an individual other than the preparer review the reconciliation for accuracy each month.

Management Response: I have performed reconciliation of the District's funds for 20 years. This is the first finding regarding this process. I understand the issue regarding the interest of accounts listed in the finding to CD's interest having an un-reconcilable amount. I have not been recording the quarterly interest for CD's, but have waited until the CD's matures and then recording the total interest. It has been my thought that if the CD had to be redeemed before maturity, the interest would be lost and a penalty charged for early withdrawal. I have not been given a finding for this in the past but will record all interest on a quarterly basis in order to avoid this finding in the future. Interest for Community Bank cannot be reconciled monthly because they credit interest to the savings account quarterly. The monthly statements are or will be included in the reconciliation file and will reflect the balance used on the reconciliation work sheet. The District cannot do anything to correct or change this as quarterly crediting of interest is a bank policy and out of our control.

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Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from misappropriation. An example of such internal control safeguards could include performing tasks such as maintaining subsidiary ledgers and reconciling them to the general ledger, and having an individual other than the preparer review reconciliations.

Finding 5 – Use of Credit Cards

Condition: Based on the understanding obtained and a review of the expenditures incurred, it was determined the District uses credit cards to make purchases without statutory authority to do so. The following credit cards used by the District were noted:

- Visa credit card through a local bank – Director has one card.
- Wal-Mart - Director has one card and the Operation Assistant has one card.
- Each ambulance has a Fuelman card for fuel purchases.

Cause of Condition: Policies and procedures have not been developed to ensure expenditures are incurred only for the lawful operation of the District. This includes the incurrence of debt through credit cards, which is not permitted per state statute.

Effect of Condition: This condition resulted in noncompliance with state statutes, and the misuse of government funds.

Recommendation: OSAI recommends management suspend the use of all credit cards. Regarding fuel purchases, OSAI recommends the District consider using the state contract through ComData. Using the state contract approved ComData card could serve as a legal alternative to the use of fuel cards.

Management Response: The District does have two credit cards. Use of the cards is limited to two employees. These cards were approved by the Board of Trustees and are used on a very limited basis. These cards were obtained to make purchases for items such as flights for travel and motel reservations when necessary. The Board of Trustees is aware of these cards and understands that they are sometimes necessary for some types of transactions. The Board is made aware anytime a card is used, and reviews and approves all purchases made with the cards.

Fuelman cards were listed as a problem. Each ambulance has its own specific card for fuel purchases. These cards are restricted to diesel fuel only and nothing else can be bought with these cards. The card for the suburban is restricted to fuel and gasoline because the suburban uses gas and since it is used by the Director, he has diesel privileges as a backup if one of the ambulance cards becomes damaged or unreadable. This card must be used with a unique, individual PIN number assigned to each employee. Receipts for fuel purchases are reconciled against a weekly invoice and purchase report. This report lists which unit was fueled and who fueled it, how many gallons were purchased, dated, and time stamped.

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We have used Fuelman for many years and have found it to be accurate with no discrepancies found. Fuelman is also the most widely known and used fuel purchase system in this state and honored by several local service stations as well as stations in neighboring towns. No findings for Fuelman use have been noted in past audits.

The District and its Board is fully aware that Fuelman is no longer on state contract and is exploring the use of ComData which is on state contract.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. A component objective of an effective internal control system is to ensure expenditures are incurred only for the lawful operation of the government entity.

Title 19 O.S. § 1717 (B, C) states in part: “B. It shall be unlawful for any employee or member of the board in any budget year: 1. To create or authorize creation of a deficit in any fund... C. Any obligation that is contracted or authorized by any member or employee of the board in violation of this act shall become the obligation of the member or employee himself and shall not be valid or enforceable against the district. Any member or employee who violates this act shall forfeit his position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure or expenditure made in violation of this act shall be illegal and void.

Finding 6 – Inadequate Internal Controls Over Payroll

Condition: It was determined through discussion with District personnel, observation, and review of documents that controls were not implemented over the payroll process. The following was noted concerning this:

- The Director did not maintain a timesheet for the period under review.

Cause of Condition: Procedures have not been implemented to ensure all employees maintain a timesheet.

Effect of Condition: This condition could result in errors with regard to the accurate reporting of payroll expenditures.

Recommendation: OSAI recommends that the District adhere to their EMS Personnel Handbook concerning the timekeeping and accrual benefits of the Director.

To help ensure such compliance, OSAI recommends the District ensure all employees maintain timesheets and accrue benefits in the same manner as other District employees, and that no employee approves their own time sheet.

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Management Response: The Director did not maintain a timesheet for the period of review. The finding states that procedures have not been implemented to ensure all employees maintain a time sheet. After a previous audit full-time employees began filling out time sheets. Part-time employees and office personnel have always filled out time sheets. As Director, I did not fill out time sheets for two years when I changed my status and did not work a regular 24 hour shift to spend more time in the office performing Director's duties and be available to fill open paramedic shifts when needed. This was addressed in the policy and procedures manual but I was written up on a technicality that this policy stated "All employees shall fill out timesheets." I did keep a log of all time spent working for the two years but it was not admissible. I have since changed my status again and now work 24 hour shifts along with the Director's duties and feel this finding has been corrected and will not appear on future audits. The Board of Trustees was aware of my status and time records during this time period.

Criteria: Effective internal controls include key functions within a process be adequately segregated to allow for prevention and detection of errors and abuse. An important aspect of internal controls is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process affected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and/or misappropriation of funds.

Finding 7 – Inadequate Internal Controls and Noncompliance Over the Bidding Process

Based upon inquiry and observation of the competitive bidding process for the District, the following was noted concerning the two items reviewed:

- During bid processes, bids were not time and date stamped when received, and the bid envelopes were not retained.

Cause of Condition: Policies and procedures have not been designed to ensure all bids received before the deadline are time stamped accordingly to ensure only those timely received bids are considered. Additionally, policies and procedures have not been developed to ensure all relevant bid documents are retained.

Effect of Condition: This condition resulted in the District being in noncompliance with 19 O.S. § 1723 which requires the county purchasing process of 19 O.S. § 1505 to be followed, and it could result in inaccurate records, incomplete information, or misappropriation of assets

Recommendation: OSAI recommends that all bids be time stamped and dated upon receipt to assure competitively bid items are awarded in accordance with state statute. Further, OSAI recommends the district ensure all relevant bid documents be retained as required by statutes.

Management Response: This is the first time this finding has been brought to our attention and we were not aware that this was required. We have always placed bids received in a safe and opened them during a meeting posted to the public. The minutes are kept as to who was present, who submitted bids, and the contents of the bid. In the future all bids received will be time and date stamped to meet this requirement.

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The finding also states that relevant bid documents be retained. All bids are kept as received and held for 10 years. We have not had any findings regarding our bid process for many years and thought we were in compliance.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Effective internal controls are essential to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting and compliance with applicable laws and regulations.

Finding 8 – Estimate of Needs Not Accurately Presented

Condition: While reviewing the District accounting records and comparing them to the Estimate of Needs for the period of July 1, 2011 through June 30, 2013, the following was noted:

June 30, 2012:

- The ending balance contained a variance of \$130,498.18 more depicted on the Estimate of Needs than the District records.
- Total revenue contained a variance of \$69,780.81 more depicted on the Estimate of Needs than the District records.
- Total disbursements contained a variance of \$155,996.44 more depicted on the Estimate of Needs than the District records.

June 30, 2013:

- The ending balance contained a variance of \$500.00 less depicted on the Estimate of Needs than the District records.
- Total revenue contained a variance of \$13,096.33 less depicted on the Estimate of Needs than the District records.
- Total Disbursements contained a variance of \$177,356.57 less depicted on the Estimate of Needs than the District records.

Cause of Condition: Policies and Procedures have not been designed and implemented to ensure the ending balance, revenue, and disbursements on the Estimate of Needs matches the ending balance of the District records.

Effect of Condition: This condition resulted in the District budgeting excess amounts of revenue because the collection were not accurately presented.

Recommendation: OSAI recommends the District implement a review process to ensure the Estimate of Needs reflect what is actually depicted on the accounting records. The ending balance on the Estimate of Needs should coincide with the ending balance of the District records.

Management Response: The Estimate of Needs is a confusing document for anyone not familiar with the terminology. The administration of this District has prepared the Estimate of Needs for 26 years in an

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effort to save money and with the thought that any report due to the State of Oklahoma or any other governing body should be written and be prepared by the administration. We understand the importance of the document in regards to school budgets and the requirement of 522 Districts to submit them to the auditor's office as a condition to receive ad valorem monies. I have sought guidance and information on how to prepare the Estimate of Needs and there is none available. I used to use the old DOS version created by the auditor's office until I found out by accident that there is a newer version on the auditor's website. I attempted to use the newer version the past two years but it is still very confusing and obviously will not pass scrutiny by your office. Although this document is not used to prepare the District's operating budget, in the future I will have this document prepared by an accounting firm for accuracy and to avoid this finding in the future.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. A component objective of an effective internal control system is to ensure that all relevant accounting records are reviewed for accuracy.

Finding 9 – Inadequate Internal Controls and Noncompliance Over Audit Expense Account

Condition: For the period of July 1, 2009 through June 30, 2013, the District did not appropriate the mandatory one-tenth mill to the audit budget account. Further, balances from previous years' were not properly carried forward.

Cause of Condition: Procedures have not been designed to ensure compliance with 19 O.S § 1706.1.

Effect of Condition: This condition resulted in noncompliance with the statute and under funding of the audit expense account.

Recommendation: OSAI recommends that the District implement policies and procedures designed to ensure that one-tenth mill upon the net total assessed valuation be set aside in the audit expense account, and that any unused portion be carried forward into the next year audit expense account in accordance with 19 O.S. § 1706.1.

Management Response: The District did not maintain 1/10th of a mill to the audit budget. I have budgeted \$20,000 in the Operating Funds budget for 4 years to cover the costs of an audit. We have been able to budget this amount without creating a burden or shortage in operating funds. According to the statute this District needs to put aside approximately \$13,000 per fiscal year aside for budget costs. This would have accumulated to a total of \$52,000 being budgeted for the 4 years in arrears plus another \$13,000 for the current fiscal year. The district could not afford to set this much money aside without placing a burden on the operating funds and would have created a shortage of available funds. The District was forced to lay off a full time paramedic due to available funding with the \$20,000 being budgeted. I do plan to budget the required amount for the next fiscal year but will budget with available operating funds for future years if the annual audits fall behind again.

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Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. A component objective of an effective internal control system is to provide accurate and reliable information through proper review and approval.

Further, according to 19 O.S. § 1706.1, the District must appropriate the net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation of the District for audit expenses. This balance is to be carried forward into future years.



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