

OPERATIONAL AUDIT

# GRADY EMERGENCY MEDICAL SERVICE DISTRICT

For the period July 1, 2008 through June 30, 2011



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



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

**GRADY EMERGENCY MEDICAL SERVICE DISTRICT  
OPERATIONAL AUDIT  
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2011**

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This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by Article 10, § 9C (i) of the Oklahoma Constitution and as defined by 19 O.S. § 1704.3, has not been printed, but is available on the agency's website ([www.sai.ok.gov](http://www.sai.ok.gov)) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



# Oklahoma State Auditor & Inspector

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April 24, 2012

## **TO GRADY EMERGENCY MEDICAL SERVICE DISTRICT**

Transmitted herewith is the audit report of Grady Emergency Medical Service District for the period July 1, 2008 through June 30, 2011.

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 "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

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**Background**

Article 10, § 9C of the Oklahoma Constitution authorized the formation of emergency medical service districts and initially authorized a tax levy not to exceed three (3) mills for the purpose of providing funds for the purpose of support, organization, operation, and maintenance of district ambulance services.

Emergency medical service districts are governed by a district board of trustees. The board of trustees has the power to hire a manager and appropriate personnel, contract, organize, maintain, or otherwise operate the emergency medical services within said district and such additional powers as may be authorized by the Legislature.

The trustees must act as a board when entering into contracts or other agreements affecting the district's welfare. Thus, actions taken by the board are voted on and approved by a majority of the trustees. The board's business meetings are open to the public.

The board of any district shall have capacity to sue and be sued. Provided, however, the board shall enjoy immunity from civil suit for actions or omissions arising from the operation of the district. Such districts shall be empowered to charge fees for services, and accept gifts, funds or grants from sources other than the mill levy, which shall be used and accounted for in a like manner.

**Board of Trustees:**

Ed Cox .....	Chairman of the Board
Bob Martin.....	Vice-Chairman
James Burney.....	Board Member
Alton Rawlins .....	Board Member
Don Richard Scott, Jr.....	Board Member
Cathy Groseclose .....	Board Member
David Hale .....	Board Member

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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2011**

Beginning Cash Balance, July 1, 2010	<u>\$ 279,501</u>
Collections	
Ad Valorem Tax	838,809
Charges for Services	-
Intergovernmental Revenues	-
Sales Tax	-
Miscellaneous	9,811
Total Collections	<u>848,620</u>
Disbursements	
Personal Services	51,634
Maintenance and Operations	55,488
Capital Outlay	20,488
Intergovernmental	647,000
Total Disbursements	<u>774,610</u>
Ending Cash Balance, June 30, 2011	<u>\$ 353,511</u>

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

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**Purpose, Scope, and  
Sample Methodology**

This audit was conducted in response to Article 10, § 9C (i) of the Oklahoma Constitution and as defined by 19 O.S. § 1704.3, which requires the State Auditor and Inspector’s Office to audit the books and accounts of the District.

The audit period covered was July 1, 2008 through June 30, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

<b>Objective 1:</b>	To determine the District’s collections, disbursements, and cash balances for FY 2011 were accurately presented on the Estimate of Needs.
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**Conclusion**                      With respect to the items reconciled and reviewed; collections, disbursements, and cash balances were not accurately presented on the District’s Estimate of Needs.

**Methodology**                      To accomplish our objectives, we performed the following:

- Gained an understanding of internal controls related to the process of accurately presenting collections, disbursements, and cash balances through discussions with District personnel, observation, and review of documents.

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- Tested accuracy of the District’s Estimate of Needs to ensure collections, disbursements, and cash balances were accurately presented on the District’s Estimate of Needs:
  - Reconciled collections presented on the Estimate of Needs to the District’s Statement of Assets, Liabilities and Fund Balance prepared by the Accountant.
  - Reconciled checks issued presented on the Estimate of Needs to the District’s disbursements on the General Ledger.
  - Reviewed beginning and ending cash balances presented on the Estimate of Needs and reconciled to the District’s Statement of Assets, Liabilities and Fund Balance prepared by the Accountant and to the General Ledger in total.

**Inadequate Internal Controls Over the Estimate of Needs**

<b>Condition</b>	Upon inquiry and observation of the recordkeeping process, it was noted that there is no independent oversight of the accuracy of collections, disbursements, and cash balances on the Estimate of Needs by the Executive Director or the District Board. It was also noted that the beginning balance at July 1, 2010 on the Estimate of Needs showed \$279,501.06 less than the District’s beginning balance on the Statement of Assets, Liabilities and Fund Balance prepared by the Accountant.
<b>Cause of Condition</b>	Procedures have not been designed to review the Estimate of Needs for accuracy and ensure the Estimate of Needs reconciles to the District’s accounting records.
<b>Effect of Condition</b>	These conditions could result in unrecorded transactions and undetected errors.
<b>Recommendation</b>	OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that collections, disbursements, and cash balances are accurately presented on the District’s Estimate of Needs.
<b>Management Response</b>	Documentation will be maintained to reconcile the June 30 <sup>th</sup> ledger to the Estimate of Needs.
<b>Criteria</b>	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.

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**Objective 2:** To determine if the District's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records.

**Conclusion** The District's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

**Methodology** To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the revenue process through discussions with District personnel, observation, and review of documents.

**Inadequate Segregation of Duties Over the Receipting Process**

**Condition** Upon inquiry and observation of the receipting process, the following was noted:

- The District Office has one employee who opens the mail, reconciles the bank accounts, posts to the General Ledger/Check Ledger, makes changes to the General Ledger/Check Ledger, maintains the bank statements, writes the receipts, prepares the deposit, takes the deposit to the financial institution, does the investing of certificates of deposits, and records the minutes of the EMS Board Meetings.
- The District does not maintain a mail log.

**Cause of Condition** Procedures have not been designed to adequately segregate the duties regarding the revenue process.

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

**Recommendation** OSAI recommends that the District separate the duties of receipting, depositing, and maintaining ledgers. Further, a mail log should be maintained for all collections received in the mail. The mail log should be reviewed with the deposit ticket to ensure all collections were deposited. 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 management review and approval of these accounting functions.

**Management Response** Independent oversight will be performed by a board member.



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**Criteria**                      Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

**Objective 3:**                      To determine if the District’s internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

**Conclusion**                      The District’s internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

**Methodology**                      To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the expenditure process through discussions with District personnel, observation, and review of documents.

**Inadequate Segregation of Duties Over the Expenditures Process**

**Condition**                      The District Office has one employee who initiates the purchase, prepares the purchase order, checks invoice for accuracy, receives goods/services, requisitions goods/services, prepares the checks, signs the checks as one of the two required signatures, and mails the checks to the vendors. Additionally this employee performs all bidding procedures, records minutes of the EMS Board Meetings, posts to the accounting records, and makes changes to the accounting records.

**Cause of Condition**                      Procedures have not been designed to adequately segregate the duties regarding the expenditures 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**                      OSAI recommends the duties of maintaining accounting records, issuing checks, and distributing checks for payment be adequately segregated. Procedures should be designed to review reconciliations for accuracy. The duties of requisitioning and receiving should be segregated. The most effective controls lie in management’s overseeing of office operations and a periodic review of operations. OSAI recommends management provide segregation of duties so that no one employee is able to 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

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with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions.

**Management  
Response**

Independent oversight will be performed by a board member.

**Criteria**

Accountability and stewardship are overall goals of management in the accounting of funds. To help ensure a proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

**Objective 4:**

To determine if the District's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

**Conclusion**

The District's internal controls do not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

**Methodology**

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the payroll process through discussions with District personnel, observation, and review of documents.

**Inadequate Segregation of Duties Over Payroll Expenditures**

**Condition**

The District Office has one employee who prepares the payroll claim, prepares the checks (from the information prepared by the Accountant), signs the checks as one of the two required signatures, distributes the checks, enrolls new employees, posts payroll information to the accounting records, maintains the timesheets after they are paid, and maintains the unissued checks.

**Cause of Condition**

Procedures have not been designed to adequately segregate the duties regarding the payroll 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**

OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not

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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 approval of accounting functions.

The following key accounting functions of the payroll process should be adequately segregated:

- Enrolling new employees and maintaining personnel files.
- Reviewing time records and preparing payroll.
- Distributing payroll warrants to individuals.

**Management  
Response**

Independent oversight will be performed by a board member.

**Criteria**

Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions. To help ensure a proper accounting of funds, the duties of processing, authorizing, and payroll distribution should be segregated.

**Objective 5:** To determine if the District's internal controls provide reasonable assurance that fixed asset inventory was accurately reported in the accounting records.

**Conclusion**

The District's internal controls do not provide reasonable assurance that fixed asset inventory was accurately reported in the accounting records.

**Methodology**

To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to the fixed asset inventory process through discussions with District personnel, observation, and review of documents.

**Inadequate Internal Controls Over Fixed Asset Inventory**

**Condition**

Upon inquiry and observation of the recordkeeping process regarding fixed asset inventory, the following was noted:

- The District does maintain a Fixed Asset Listing; however, an annual physical count of all inventory items is not performed.
- One new purchase (Laerdal VitalSim S/N 0211 and Grady EMS District ID #00182) was not on the inventory listing.

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**Cause of Condition** Procedures have not been designed to perform an annual physical inventory and ensure all items are accounted for and included on the inventory records.

**Effect of Condition** Failure to provide adequate internal controls over fixed asset inventory could result in inaccurate inventory records, unauthorized use of inventory, or misappropriation of inventory.

**Recommendation** OSAI recommends that the District implement controls for the safeguarding of fixed assets. OSAI recommends management maintain a complete and up-to-date Fixed Asset Inventory Listing to include description, serial number, model number, date of purchase, and cost. OSAI also recommends that an annual physical count of fixed assets be performed and documentation be retained to verify that the physical count was performed.

**Management Response** Independent oversight will be performed by a board member.

**Criteria** 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 acquisition, use, or disposition of the entity's assets and safeguard assets from loss, damage, or misappropriation.

**Objective 6:** To determine if the District's financial operations complied with 62 O.S. §517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

**Conclusion** With respect to the days tested, the District did not comply with 62 O.S. §517.4, which requires District deposits with financial institutions be secured with collateral securities or instruments.

**Methodology** To accomplish our objective, we performed the following:

- Gained an understanding of internal controls related to pledged collateral through discussions with the District, observation, and review of records and documentation.
- Judgmentally selected the day with the highest balance for each month at all banks containing District funds from July 1, 2008 through June 30, 2011, to determine if the District's funds were adequately secured as required by 62 O.S. §517.4.

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**Inadequate Internal Controls Over Pledged Collateral**

**Condition** The District does not have procedures designed to monitor pledged collateral daily. The District was underpledged at First National Bank and Trust Company 11 of the 36 days tested.

**Cause of Condition** Procedures have not been designed to monitor daily bank balances and ensure funds are safeguarded against loss.

**Effect of Condition** Failure to monitor pledged collateral amounts could result in unsecured District funds and possible loss of District funds.

**Recommendation** OSAI recommends that the District implement a system of internal controls to provide reasonable assurance the District funds are adequately secured. Amounts of pledged collateral should be compared to bank balances on a daily basis to ensure that District funds are safeguarded against loss.

**Management Response** Bank balances will be monitored on a daily basis.

**Criteria** Title 62 O.S. § 517.4 requires collateral securities to secure the deposits of public funds. Furthermore, 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.

**Objective 7:** To determine the District’s financial operations complied with the service contract provision, which states that the District will provide to the service provider the sum of \$120,000 to be used toward the purchase of an ambulance and that the service provider will provide the District a copy of the invoice, proof of payment and a copy of the titles.

**Conclusion** With respect to items tested, the District’s financial operations complied with the service contract provision which states that the District will provide to the service provider the sum of \$120,000 to be used toward the purchase of an ambulance and that the service provider will provide the District a copy of the invoice, proof of payment, and a copy of the titles.

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**Methodology**

To accomplish our objective, we performed the following:

- Summarized the payments to the service provider and compared to the amount as indicated by the contract.
- Agreed specifications as indicated by the contract including copy of invoice, proof of payment, and copy of titles, to the copies maintained by the District.

All Objectives:

The following observations are not specific to any objective, but are considered significant to all of the audit objectives.

**Inadequate District-Wide Controls**

**Condition**

District-wide controls regarding Control Environment, Risk Assessment, Information and Communication, and Monitoring have not been designed.

**Cause of Condition**

Procedures have not been designed to implement district-wide controls.

**Effect of Condition**

This condition could result in unrecorded transactions, undetected errors, or misappropriation of funds.

**Recommendation**

OSAI recommends that the District implement a system of internal controls to provide reasonable assurance regarding the achievement of goals and objectives.

**Management Response**

Grady EMS will implement procedures to monitor controls and document the review process.

**Criteria**

Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being made. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. District management is responsible for designing a district-wide internal control system comprised of Control Environment, Risk Assessment, Information and Communication, and Monitoring for the achievement of these goals.

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Control Environment is the foundation for all other components of internal control. When management believes that internal controls are important to meeting its goals and objectives and communicates this belief to its employees at all levels, internal controls are more likely to be functioning well. However, if management views internal controls as unrelated to achieving its goals and objectives, or even as an obstacle, it is almost a certainty that this attitude will be held by all employees, despite official statements or policies to the contrary. This understanding of internal controls and the communication of this importance to its employees are key elements of the control environment.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the District faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives.

Information and Communication is a component of internal control which should provide for a District to run and control its operations. A District must have relevant, reliable information, both financial and nonfinancial. That information should be recorded and communicated to management and others within the District who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the District needs to make sure that the forms of communications are broad-based and that information technology management assures useful, reliable, and continuous communication.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

**Disaster Recovery Plan**

**Condition**

A Disaster Recovery Plan is not in place for the Grady Emergency Medical Service District. There is not a procedure addressing how critical information and systems would be restored in the event of a disaster. In addition, back-up information is stored on flash drives and external hard drives that remain in the Executive Director's possession at all times. The drives are not stored in a safe, secure location.

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**Cause of Condition** Management has not implemented procedures to address risks of the District in the event of a disaster.

**Effect of Condition** Failure to have a current Disaster Recovery Plan could result in the District being unable to function in the event of a disaster. The lack of a procedure addressing how critical information and/or systems would be restored could cause significant problems in ensuring that District business could continue without interruption.

**Recommendation** OSAI recommends the District develop a Disaster Recovery Plan that has a procedure that addresses how critical information and systems would be restored in the event of a disaster. OSAI further recommends the District store their back-up tapes in a safe, secure location, away from the District Office, where information could be easily retrieved in the event of a disaster.

**Management Response** Steps will be taken to correct this issue.

**Criteria** A Disaster Recovery Plan is an integral part of operations to ensure that business can be continued as usual in the event of a disaster. The District should have a current, detailed Disaster Recovery Plan on file and should be aware of its content.

According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 4), information services function management should ensure that a written disaster recovery plan is documented and contains the following:

- Guidelines on how to use the recovery plan;
- Emergency procedures to ensure the safety of all affected staff members;
- Rules and responsibilities of information services function, vendors providing recovery services, users of services and support administrative personnel;
- Listing of systems requiring alternatives (hardware, peripherals, software);
- Listing of highest to lowest priority applications, required recovery times and expected performance norms;
- Various recovery scenarios from minor to loss of total capability and response to each in sufficient detail for step-by-step execution;
- Specific equipment and supply needs are identified such as high speed printers, signatures, forms, communications equipment, telephones, etc. and a source and alternative source defined;
- Training and/or awareness of individual and group roles in continuity plan;
- Listing of contracted service providers;



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- Logistical information on location of key resources, including backup site for recovery operating systems, applications, data files, operating manuals and program/system/user documentation;
- Current names, addresses, telephone/pager numbers of key personnel;
- Business resumption alternatives for all users for establishing alternative work locations once IT resources are available.

Other Item Noted:

Although not considered significant to the audit objectives, we believe the following issue should be communicated to management.

**Inadequate Internal Controls Over the Audit Expense Account**

**Condition** Upon inquiry and observation of the budgeting process, it was determined that controls have not been designed and implemented to ensure the amount required by statute is correctly budgeted for the audit budget account. As a result, the correct amount was not budgeted by the District. The District budgeted \$26,250 and should have budgeted \$27,352. It was further noted, that the budget maker included this amount in maintenance and operations rather than in the audit budget account audit expense category in the Estimate of Needs filed with the Excise Board.

It was further noted, that the District Board does not review and approve the Estimate of Needs and Financial Statement that is filed with the Excise Board.

**Cause of Condition** Procedures have not been designed to ensure the audit account is accurately budgeted in accordance with statutory requirements.

**Effect of Condition** This condition resulted in noncompliance with state statutes.

**Recommendation** OSAI recommends that the District implement a system of internal controls to provide reasonable assurance that one-tenth mill upon the net total assessed valuation be set aside in the audit account and that any unused portion be lapsed into the next year audit account in accordance with 19 O.S. § 1706.1. OSAI further recommends that the District Board review and approve the Estimate of Needs that is filed with the County Excise Board.

**Management Response** Steps will be taken to correct this issue.

**Criteria** Accountability and stewardship are overall goals of management in the accounting of funds. A component objective of an effective internal control

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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.



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