

STATUTORY REPORT

# McCLAIN/GRADY COUNTY EMERGENCY MEDICAL SERVICE DISTRICT

For the fiscal year ended June 30, 2016



*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

**McCLAIN/GRADY COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
STATUTORY REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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# Oklahoma State Auditor & Inspector

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

October 4, 2017

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

Transmitted herewith is the audit report Of McClain/Grady County Emergency Medical Service District for the fiscal year ended June 30, 2016.

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

**McCLAIN/GRADY COUNTY EMERGENCY MEDICAL SERVICE DISTRICT  
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**Presentation of Collections, Disbursements, and Cash Balances of District Funds for FY 2016**

	<u>FY 2016</u>
Beginning Cash Balance, July 1	\$ <u>587,834</u>
Collections	
Ad Valorem Tax	501,030
Charges for Services	468,343
Miscellaneous	<u>50,562</u>
Total Collections	<u>1,019,935</u>
Disbursements	
Personal Services	766,892
Maintenance and Operations	149,194
Capital Outlay	7,182
Audit Expense	<u>7,984</u>
Total Disbursements	<u>931,252</u>
Ending Cash Balance, June 30	\$ <u><u>676,517</u></u>

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



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

## **TO THE BOARD OF DIRECTORS OF THE McCLAIN/GRADY COUNTY 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 2016 were accurately presented on the estimate of needs.

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

Our emergency medical service district statutory engagement was limited to the procedures performed above and was less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on any basic financial statement of the McClain/Grady County Emergency Medical Service District.

Based on our procedures performed, we have presented our findings in the accompanying schedule.

This report is intended for the information and use of the management of the McClain/Grady County 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 that reads "Gary A. Jones". The signature is written in a cursive style with a long horizontal stroke at the end.

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

August 15, 2017

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

**Finding 2016-1 - Inadequate Internal Controls and Noncompliance Over the Audit Budget Expense Account (Repeat Finding)**

**Condition:** The McClain/Grady Emergency Medical Service District (the District) did not carry forward the proper amount for the audit expense budget account from the previous year's remaining balance. The following exceptions were noted:

- The audit budget expense account amount, per the Estimate of Needs on June 30, 2016, was \$15,878, but the amount calculated and carried over from the prior years' appropriations should have been \$88,621. As a result, the budget was underfunded by \$72,743.
- The District did not report audit expenses of \$7,984.00 in the audit budget expense account as incurred and paid on the Estimate of Needs.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure that the Estimate of Needs was prepared in accordance with 19 O.S. § 1706.1

**Effect of Condition:** This condition resulted in noncompliance with the state statute and the underfunding of the audit expense budget account. Further, balances from previous years were not properly carried forward.

**Recommendation:** The Oklahoma State Auditor and Inspector's Office (OSAI) recommends 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 budget expense account, and that any unused portion be carried forward into the next year's audit expense budget account in accordance with 19 O.S. § 1706.1.

**Management Response:**

**Chairman of the Board:** The District has hired an accounting firm to complete the Estimate of Needs. The accounting firm is supposed to calculate the 1/10<sup>th</sup> mill to include in the budget. The District will look at this very closely again this year when the Estimate of Needs is completed to be sure the correct amount is budgeted.

**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, Title 19 O.S. § 1706.1 states in part, "The net proceeds of the one-tenth mill annual ad valorem levy upon the net total assessed valuation in any emergency medical service district for any year which shall be authorized and mandatorily required to be appropriated and dedicated to emergency medical service district audit...."

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**Finding 2016-2 - Inadequate Internal Controls Over Collection Process (Repeat Finding)**

**Condition:** While gaining an understanding of the receipting, depositing, and reconciling functions of the District, it was noted that the following duties are not properly segregated:

- One employee processed mail-in payments, issued all receipts, and took the deposit to the bank.
- The bank statement reconciliations were not reviewed for accuracy by someone other than the preparer.

**Cause of Condition:** Policies and procedures have not been designed and implemented to sufficiently segregate the receipting process. Additionally, policies and procedures have not been designed and implemented to ensure all bank accounts are reconciled and approved by someone other than the preparer.

**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 Board be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in the Board's oversight of office operations and a periodic review of operations. OSAI recommends the Board 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 with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having the Board review and approve accounting functions.

Additionally, OSAI recommends the District ensure bank reconciliations are being performed and reviewed by someone other than the preparer.

**Management Response:**

**Chairman of the Board:** The District is aware of the fact there is a limited number of employees involved in the receipt of mail, and deposit of funds. Management desires to have more than one person responsible for the execution of transactions and several people are involved on most days; however, the service is limited as to the number of employees it can afford to work in the office to perform these tasks.

**Auditor Response:** This finding is a repeat finding from the FY 2015 audit. OSAI continues to recommend the Board provide oversight to reduce the risk of the lack of segregation of duties. Such oversight would include mitigating controls of documenting the review of bank statements in the monthly Board meetings and appointing someone to make the daily deposit of funds that is not associated with the receipting and reconciling of those funds. We believe adding these mitigating controls will serve to reduce the risk associated with the limited number of employees within the office.



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**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.

**Finding 2016-3 - Inadequate Internal Controls and Noncompliance Over the Disbursement Process (Repeat Finding)**

**Condition:** While gaining an understanding of the disbursement process of the District, we noted that the accounting clerk performed the following duties:

- Orders supplies,
- Prepares purchase orders,
- Prepares checks, and
- Disburses checks.

Additionally, petty cash receipts or invoices were not initialed or signed as received or verified for accuracy.

We also noted the following noncompliance with state statutes:

- Fuel purchases were not made in accordance with the competitive bidding requirement.

**Cause of Condition:** The District has not designed and implemented policies and procedures to sufficiently segregate the disbursement process. Additionally, policies and procedures have not been designed and implemented to ensure purchases for fuel are made in accordance with the competitive bidding requirement. Policies and procedures have not been designed and implemented regarding the use and replenishment of petty cash.

**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. Further, fuel purchases resulted in noncompliance with the state statutes and could result in inaccurate records, incomplete information or misappropriation of assets.

**Recommendation:** OSAI recommends the Board be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in the Board's oversight of office operations and a periodic review of operations. OSAI recommends the Board 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 with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having the Board review and approve accounting functions. Also, OSAI

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recommends the District consider using the state contract to obtain fuel cards. Further, OSAI recommends petty cash receipts or invoices are initialed or signed as received and verified for accuracy.

**Management Response:**

**Chairman of the Board:** The District is aware of the fact there is a limited number of employees involved in the ordering of supplies, preparing purchase orders, reviewing invoices, preparing checks and disbursing checks. Ordering, receiving and logging of all goods ordered is performed by several people when available. All invoices and checks are reviewed by and signed off by the Board at its regular monthly meeting before payments are approved and checks signed.

The Board desires to have numerous people responsible for the execution of these duties, but is limited as to the number of employees it can afford to work in the office to perform these tasks.

In the matter of bidding for fuel purchases; the District has used the same fuel purchasing company for 20 or more years without incident. It was not brought to our attention until recent audits that bidding fuel was required. Due to the nature of our business and the broad area we travel, we are not sure how to ensure that we can purchase fuel 24 hours a day in convenient locations. However, this will be researched in an effort to find a solution that is suitable to your office and meets purchasing requirements.

**Auditor Response:** This is a repeat finding from FY 2015. OSAI continues to recommend the Board provide oversight by establishing in compensating controls to include separating key processes and/or critical functions of the office, and documenting review and approval of accounting functions in monthly Board meetings. Also, OSAI continues to recommend the District consider using the state contract to obtain fuel cards or the nationally approved fuel cards to provide ease in obtaining fuel and comply with the state statutes. Further, OSAI recommends petty cash receipts or invoices are initialed or signed as received and verified for accuracy. We believe adding these mitigating controls will serve to reduce the risk associated with the limited number of employees within the office.

**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.

Title 19 O.S. § 1723 requires EMS Districts to make equipment purchases in accordance with the county purchase procedures as outlined in 19 O.S. § 1501 and 1505.

**Finding 2016-4 - Inadequate Internal Controls Over the Verification of Fixed Assets Inventory (Repeat Finding)**

**Condition:** Based on inquiry, observation, and review of the District's inventory records, the following was noted:

- Inventory records were not maintained.

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- An annual physical count of inventory was not performed.

**Cause of Condition:** Policies and procedures have not been designed and implemented to ensure fixed assets inventory is properly maintained and updated through a periodic review 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 inventory records are updated and annual physical inventory verifications be performed by someone other than the individual maintaining inventory records and documentation of the physical inventory count be retained.

**Management Response:**

**Chairman of the Board:** The District is aware of the fact there is not an annual physical review of inventory. We are in the process of developing a policy that requires the inventory to be performed annually. District management has employees assigned to this task to ensure it is not performed by the office management.

**Criteria:** An important 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 timely detection of unauthorized acquisition, use, or disposition of the entity's assets and safeguarding assets from loss, damage, or misappropriation.



**OFFICE OF THE STATE AUDITOR & INSPECTOR**  
2300 N. LINCOLN BOULEVARD, ROOM 100  
OKLAHOMA CITY, OK 73105-4896

**[WWW.SAI.OK.GOV](http://WWW.SAI.OK.GOV)**