

OPERATIONAL AUDIT

PHYSICIAN MANPOWER TRAINING COMMISSION

For the period January 1, 2010 through December 31, 2014



*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

**Audit Report of the
Physician Manpower Training Commission**

**For the Period
January 1, 2010 through December 31, 2014**



Oklahoma State Auditor & Inspector

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June 30, 2015

TO THE OKLAHOMA PHYSICIAN MANPOWER TRAINING COMMISSION

This is the audit report of the Oklahoma Physician Manpower Training Commission for the period January 1, 2010 through December 31, 2014. 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.

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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

Physician Manpower Training Commission Operational Audit

Background

The Physician Manpower Training Commission (Agency) was originally established by the legislature in 1975 to administer three programs. Subsequently, the legislature added additional responsibilities. Currently the Agency oversees the following programs: Rural Medical Education Scholarship Loan Program, Intern-Resident Cost-Sharing Program, Physician Placement Program, Nursing Student Assistance Program, Family Practice Resident Rural Program, Physician Community Match Program and the Physician Assistant Scholarship Program.

Oversight is provided by seven commission members (the Commission) appointed by the Governor with the advice and consent of the Senate, three of whom are practicing allopathic physicians and two of whom are practicing osteopathic physicians, and said physician members are from throughout the state. Terms of office are five years in duration. In addition, there are twelve nonvoting ex-officio members who only serve in an advisory capacity to the Commission.

Commission members as of June 5, 2015 are:

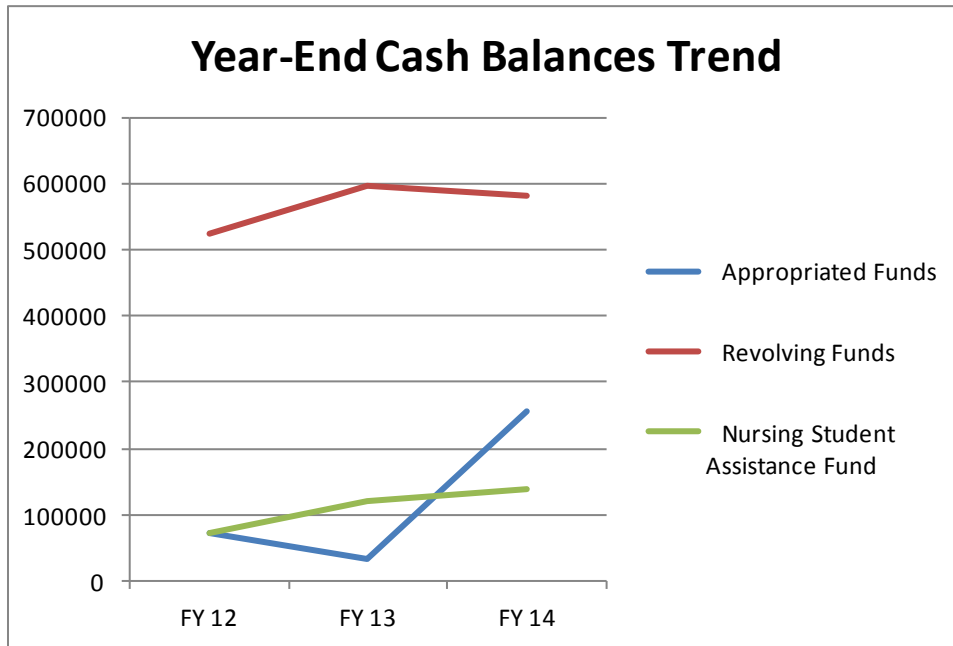
Pamela Spanbauer, RN, BSN, M.Ed.	Chair
Joe L. Leverett, M.D.	Vice-Chair
Jack Beller, M.D.	Member
Harold Z. DeLaughter, D.O.	Member
Ted Haynes	Member
Jason Hill, D.O.	Member
Bruce Storms, M.D.	Member

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The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.¹

BUDGET TO ACTUAL COMPARISON						
REVENUES	FY 2013			FY 2014		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
Appropriations	4,409,135	4,379,254	(29,881)	4,400,188	4,377,043	(23,145)
Other Licenses, Permits & Fees	-	16,815	16,815	-	12,477	12,477
Receipts from Local Government	1,507,993	1,140,743	(367,250)	1,501,993	1,155,593	(346,400)
Other grants, Refunds & Reimbursements	594,709	387,792	(206,917)	563,209	266,451	(296,758)
Total Revenues	6,511,837	5,924,605	(587,232)	6,465,390	5,811,564	(653,826)
EXPENDITURES						
Personnel Expenses	460,935	462,755	1,820	468,538	445,493	(23,045)
Professional Services	3,125,256	27,308	(3,097,948)	43,948	39,175	(4,773)
Travel	17,796	12,177	(5,619)	19,948	9,731	(10,217)
Administrative Expenditures	43,889	38,495	(5,394)	50,657	41,104	(9,553)
Office Furniture & Equipment	15,511	317	(15,194)	3,500	12,733	9,233
Scholarships, Tuition, Incentive Payments	1,932,457	1,273,412	(659,045)	1,866,343	1,367,733	(498,610)
Refunds, Indemnities, Restitution	30,000	45,106	15,106	30,000	23,963	(6,037)
Assistance Payments to Agencies	885,993	3,982,456	3,096,463	3,982,456	3,650,584	(331,872)
Total Expenses	6,511,837	5,842,026	(669,811)	6,465,390	5,590,516	(874,874)
Expenditures Over (Under) Revenues	(82,578)			(221,048)		

Year-End Cash Balances: FY 12 - FY 14			
	FY 12	FY 13	FY 14
Appropriated Funds	71,277.83	33,274.76	255,246.21
Revolving Funds	525,108.65	597,768.07	579,929.87
Nursing Student Assistance Fund	73,400.16	121,322.11	138,236.55
Total Available Cash	669,786.64	752,364.94	973,412.63



¹ This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited. See summary of management's explanation of variances on page 3 of this report.

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Summary of agency responses to budgeted-to-actual variances

This information is a summary of responses obtained from the Oklahoma Physician Manpower Training Commission. It is for informational purposes only and has not been audited.

Revenues

- The variances in Receipts from Local Government were due to the fact that the number of qualified scholarship candidates applying for assistance was lower than projected; as a result, the amount of matching funds received was also lower than projected.
- The variances in Other Grants, Refunds, and Reimbursements were the result of lower revenues from collection efforts with respect to scholarship recipients in breach of contract.

Expenditures

- The variance in Professional Services in FY 2013 was due to a change in coding; the funds were budgeted under Professional Services and expensed under Assistance Payments to Agencies.
- The variances in Scholarships, Tuition, and Incentive Payments were primarily due to the fact that, due to a lack of qualified applicants, fewer scholarships than anticipated were actually awarded.
- The variance in Assistance Payments to Agencies for FY 2014 is attributed to the receipt of a delayed bill from another state agency; as a result, \$331,871.70 that should have been expensed in June (FY 2014) was invoiced and paid in July (FY 2015).

Cash Balances

- The increase in the Appropriated Funds year-end cash balance was due to the fact that \$245,000 in appropriated funds that had been designated toward payment of the \$331,871.80 invoice (mentioned above) was not expensed until FY 2015.

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Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duties it is to collect, disburse, or manage funds of the state.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period January 1, 2010 through December 31, 2014. Detailed audit procedures focused on the period of July 1, 2012 through December 31, 2014, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of Physician Manpower Training Commission operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenue and expenditures were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that non-nursing related expenditures were accurately reported in the accounting records. However, the Agency's internal controls do not provide

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reasonable assurance that revenues or nursing-related expenditures were accurately reported.

Financial operations regarding recuperation of funds from scholarship recipients in breach of contract did not comply with the following statutes:

- 70 O.S. §§ 625.10a, 697.14, and 697.17

FINDINGS AND RECOMMENDATIONS

Lack of Segregation of Duties with Respect to Revenues (Repeat Finding)

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*¹ states that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Duties related to receipts are not properly segregated, creating risk in two distinct areas of the revenue process:

- The receptionist is responsible for opening the mail, preparing the deposit, and providing other staff with copies of checks for collections related to the nursing program. As these copies are used to credit individual payment records, this could allow someone in this position to misappropriate the actual checks without detection.
- The Executive Secretary is responsible for making the deposit, posting the deposit to the state accounting system, and crediting collection records for doctors and physicians' assistants. This could allow someone in this position to misappropriate these check payments without detection.

No independent reconciliation is performed to ensure all funds received by the Agency are deposited.

Recommendation We recommend management consider implementing the following procedures:

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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- Use only the record of checks produced by the check scanner to update collection records; and
- Have the Executive Director or Deputy Executive Director reconcile the deposit slip against the deposit image report produced by the check scanner and the PeopleSoft deposit entry.

Views of Responsible Officials

See views of responsible officials at page nine of this report.

Lack of Segregation of Duties with Respect to Expenditures (Repeat Finding)

The GAO's *Standards for Internal Control in the Federal Government (2014 Revision)* states that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

The agency has not segregated key duties with respect to the nursing scholarship and assistance payment process. The Nursing Scholarship Administrator is responsible for determining who qualifies as a scholarship recipient (with Board approval), maintaining the related database, creating the invoices, and approving the invoices, and therefore appears to have the opportunity to provide scholarship funds to individuals who are not approved to receive them. This category represents approximately 13% of non-payroll expenditures.

Appropriately segregated internal controls appeared to be in place and operating effectively for all other non-payroll expenditures, including expenditures related to doctors and physicians' assistants; in total, these expenditures account for approximately 87% of non-payroll expenditures.

Recommendation

We recommend management consider implementing the following procedures:

- Have the Executive Assistant create the nursing scholarship payment invoices and have these invoices approved by the Nursing Scholarship Administrator.
- Implement a review, performed by an employee independent of the nursing scholarship payment and the expenditure process, on a regular or periodic (unannounced) basis, verifying that all nursing scholarship payments were made to legitimate recipients.

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Views of Responsible Officials

See views of responsible officials at page nine of this report.

Failure to Comply with Laws and Regulations

The GAO's *Standards for Internal Control in the Federal Government (2014 Revision)* provides that internal control should provide reasonable assurance that the objectives of the agency are being achieved in categories including compliance with applicable laws and regulations. In addition, the Agency is required by 70 O.S. §§ 625.10a, 697.14, and 697.17 to identify scholarship recipients that are not in compliance with contractual obligations in order to recover scholarship payments, assess and collect liquidation fees (as determined appropriate by the agency), and assess and collect interest.

The agency's internal controls do not appear to be operating effectively to identify non-compliance with contractual obligations in nursing scholarship recipients. We reviewed the agency's compliance tracking efforts for 14 of 1,367 nursing scholarship recipients active during the audit period and noted that one nurse who had not responded to Agency queries and was potentially out of compliance was not identified.

The agency has not implemented a standardized tracking system to ensure that scholarship recipients not in compliance with contractual obligations are identified in a timely manner. Nursing scholarship recipients not in compliance with contractual obligations may not be identified, impacting the agency's revenues and resulting in noncompliance with all other collections-related laws and regulations.

In addition, the assessment of interest to nursing accounts that are in the collection process is not conducted as required per statute. Total interest is capped at principal or waived and interest does not accumulate if payments are made consistently in order to increase the likelihood of receiving payment (promptly or at all). Statute requires that interest be charged from the date of disbursement and the contract signed by nurses also states that interest shall accrue during the time a recipient is practicing.

The agency's controls appear to be operating effectively to identify physician and physician assistant scholarship recipients that are not in compliance with contractual obligations. However, the assessment of interest to accounts that are in the collection process is not always conducted as required per statute. For some programs, the interest rate applied is not the 12% required per statute. A waiver of interest may

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also occur if payment is immediately made in full yet statutes and contracts require interest to accrue from the time of disbursement.

Statutorily required interest rates are not consistent across programs. The agency stated that they were complying with verbal legal advice from a prior Attorney General representative to set the interest rate at prime plus one percent for all doctors and physician assistants.

The agency is currently not in compliance with state statutes regarding interest assessed to all nursing scholarship recipients and some physician scholarship recipients.

- Recommendation** We recommend management consider implementing the following:
- Update its policies and procedures to comply with regulatory authority regarding interest percentages charged, interest limits, and interest waivers and/or seek legal advice regarding pursuing changes to regulatory authority.
 - Seek written legal advice regarding the conflicting guidance between statutes and administrative rules.
 - Implement a standardized tracking system for verifying scholarship recipient compliance with contractual obligations.

Views of Responsible Officials

See views of responsible officials at page nine of this report.



PHYSICIAN MANPOWER TRAINING COMMISSION

June 23, 2015

PHYSICIAN MANPOWER TRAINING COMMISSION OPERATIONAL AUDIT FOR THE PERIOD OF JULY 1, 2012 THROUGH DECEMBER 31, 2014

AGENCY RESPONSES TO FINDINGS AND RECOMMENDATIONS

Revenues

PMTC accepts these findings and the recommendations of the auditor.

PMTC recently purchased a check scanner to facilitate bank deposits electronically. The record of checks produced by the check scanner will be used to update collection records; and, the Executive Director or the Deputy Executive Director will reconcile the deposit slip against the deposit image report produced by the check scanner and the PeopleSoft deposit entry.

Expenditures

PMTC accepts these findings and the recommendations of the auditor.

The Executive Secretary will create the nursing scholarship payment invoices (as now done with the physician and p.a. programs). These invoices will be reviewed and approved by the Nursing Scholarship Program Coordinator. The Executive Director or the Deputy Executive Director will review on a regular or periodic (unannounced) basis, verifying that all nursing scholarship payments were made to legitimate recipients. These reviews will become part of, and attached to the payment invoices.

Laws and Regulations

Admittedly, we really do have a mishmash on our hands regarding statutes and rules being aligned. We will work with the Attorney General's office to clean up these disparities.

The following will provide an explanation for the interest rates that are guided by our policies and procedures and address what we intend to do to correct the disparities.

Effective July 1, 1993, as directed by House Bill 1383, the interest rate for the Rural Medical Education Scholarship (RMES) was changed from 12% to the current prime rate plus one-percent (1%). Our Assistant Attorney General Representative, at that time, advised us to change all our physician programs to the prime plus 1% formula.

At that time we had two other programs for physicians. As suggested, we changed the Family Practice Resident Rural Scholarship (RRS) and the Physician Community Match (PCM) to the prime plus 1% calculation.

The interest rate justification for each of these programs and two additional programs is shown below:

- RMES - §625.3 -prime plus 1%
 - OAC 540:10-1-3 -prime plus 1%
- RRS - §625.13 allows PMTC to set terms
 - OAC 540:40-1-3 -prime plus 1%
- PCM - §625.13(A) 1-4 –implies PMTC can set terms
 - OAC 540:35-1-4 -Need to change to prime plus 1%. *Currently states "interest shall be made as agreed upon by the Commission and the recipient."*

The two additional programs, mentioned above, are the Physician Assistant Scholarship Program (PAS) and the Oklahoma Medical Loan Repayment Program (OMLRP).

- PAS - §697.21 -prime plus 1%
 - OAC 540:45-1-3 -prime plus 1%
- OMLRP - Title 63, Article 29 (need to add terms)
 - OAC 540:50-1-3 -prime plus 1%

NOTE: Contracts for all 5 programs above reflect that the interest rate, in case of default, is prime plus 1%.

Regarding §697.14, we will work with the Attorney General's office to have it repealed as unnecessary and outdated.

§ 697.14. Failure to comply with provision of contract

If the recipient of these funds does not fully comply with all provisions of contract, that person shall refund all monies plus interest at the rate of twelve percent (12%) from date of disbursement.

Laws 1979, c. 250, § 5.

Regarding §697.17, after meeting with the PMTC Board, we will work with the Attorney General's office to change the Nursing Program interest rate from 12% to a flat 10% liquidated damages charge on the amount received.

Regarding §625.10a, we will work with the Attorney General's office to have this totally repealed. It refers to a defunct program that has not been used for at least 24 years.

In summary, we will work to update policies and procedures regarding interest rates and strive to align statutes and rules.



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