

# Physician Manpower Training Commission

JULY 1, 2004 THROUGH JUNE 30, 2007

# MANAGEMENT AUDIT



Jeff A. McMahan

Oklahoma State Auditor  
& Inspector

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

**For the Period  
July 1, 2004 through June 30, 2007**



January 14, 2008

**TO THE EXECUTIVE DIRECTOR OF THE  
PHYSICIAN MANPOWER TRAINING COMMISSION**

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Physician Manpower Training Commission for the period July 1, 2004 through June 30, 2007. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

JEFF A. McMAHAN  
State Auditor and Inspector

### **Mission Statement**

To enhance medical care in rural and underserved areas of Oklahoma by administering residency, internship, and scholarship incentive programs that encourage medical and nursing personnel to practice in rural and underserved areas. Further, PMTC is to upgrade the availability of health care services by increasing the number of practicing physicians and nurses in rural and underserved areas of Oklahoma and to increase the total number of primary care physicians and nurses in the state.

### **Board Members**

Edward C. Warren.....	Chairman
Duane G. Keohler, D.O.....	Vice Chairman
JoAnn Carpenter, M.D. ....	Member
J. Clifton Coffey, M.D. ....	Member
Troy L. Harden, D.O. ....	Member
Don Hill .....	Member
Michael R. Talley, M.D.....	Member

### **Key Staff**

Rick Ernest.....	Executive Director
Cindy Carter.....	Executive Secretary



**TO THE EXECUTIVE DIRECTOR OF THE  
PHYSICIAN MANPOWER TRAINING COMMISSION**

We have audited the Physician Manpower Training Commission (Commission) for the period July 1, 2004 through June 30, 2007. The objectives of this audit were to determine if:

- The Commission's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Commission complied with the Department of Central Services' Purchase Card Procedures;
- Recommendations included in prior engagements were implemented.

As part of our audit we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

JEFF A. McMAHAN  
State Auditor and Inspector

January 10, 2008

## **Background**

The Physician Manpower Training Commission (Commission) was created in 1975 to increase the number of practicing physicians in rural and underserved areas of Oklahoma. The Commission administers the Oklahoma Rural Medical Education Program, Physician Placement Program, Physician/Community Match Program, Internship and Residency Programs, Nursing Student Assistance Program, and the Physician Assistant Program. Operations are governed by 70 O.S. § 697.1 through 697.21, as well as Title 540 of the Oklahoma Administrative Code. Oversight is provided by a seven-member commission appointed by the Governor with three members required to be practicing allopathic physicians and two required to be practicing osteopathic physicians. The Commission pays for its operations through state appropriations.

Table 1 summarizes the Commission's sources and uses of funds for fiscal years 2005, 2006, and 2007.

<b>Table 1-Sources and Uses of Funds for FY 2005, 2006, and FY 2007</b>				
Sources:	2005	2006	2007	
State Appropriations	\$5,024,607	\$5,322,076	\$5,460,593	
Co-Operative Projects	515,569	462,790	416,875	
Federal Grants In-Aid	12,500	65,000	42,500	
Repayment of Loans	313,464	218,155	282,984	
Total Sources	<u>\$5,866,140</u>	<u>\$6,068,021</u>	<u>\$6,202,952</u>	
Uses:				
Personnel Services	\$345,960	\$378,291	\$396,663	
Professional Services	3,749,123	3,756,601	3,756,365	
Travel	22,219	22,737	17,385	
Misc. Administrative	19,484	25,767	30,239	
Rent	18,432	20,342	21,617	
Scholarships, Tuition, Incentive Payments	1,569,852	1,996,298	1,851,450	
Other	33,108	42,324	37,067	
Total Uses	<u>\$5,758,178</u>	<u>\$6,242,360</u>	<u>\$6,110,786</u>	

Source: Oklahoma CORE Accounting System.

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**Objective 1** – Determine if the Board's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations

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## **Conclusion**

Based on the procedures performed, the Commission's internal controls related to receipts, expenditures, and capital assets need to be strengthened.

## **Methodology**

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1;
- Documented internal controls related to the receipting, expenditure, and capital assets process;
- Tested controls which included:
  - Determining if checks are endorsed upon receipt;
  - Reviewing 60 deposits from the period to ensure the deposit slip was supported by copies of the checks;
  - Determining if receipts are stored in a secure location prior to deposit;
  - Reviewing 60 deposits to ensure the deposit was posted into CORE within one day of being deposited at the bank;

- Reviewing a deposit report for the period to ensure funds are being transferred from the Board's clearing account to the revolving funds at least once per month;
- Reviewing nine OSF-Form 11 reconciliations to ensure the preparer and reviewer are independent of each other and the reconciling items are adequately supported;
- Determining if expenditure claims were properly authorized which includes ensuring the invoice supported the payment, the invoice was mathematically accurate, and the correct account code was used;
- Determining if the employee responsible for receiving warrants from OSF is independent of the posting and approval process;
- Determining if an inventory listing is maintained and contains the items' inventory tag number, description, cost, serial number (if applicable), and date sent to surplus (if applicable);
- Reviewing 10 assets from the inventory listing to verify their existence on the floor, ensuring they are identified as property of the State, and ensuring the inventory tag number and serial number agree to the listing;
- Reviewing 10 assets from the floor to verify they are identified on the inventory listing, ensuring they are identified as property of the State, and ensuring the inventory tag number and serial number agrees to the listing;
- Determining all items surplused during the period had an approved DCS form 001 supporting their removal.
- Reviewing an expenditure report for the period and judgmentally selecting 13 claims to ensure the vendor was valid and the expense appeared consistent with the Commission's mission;
- Selecting 12 physicians and 18 nurses from the period who had made a payment to the Commission on outstanding debt. We determined if the payment posted to each physician's/nurse's file had been deposited at the bank;

## **Observations**

### **Inadequate Segregation of Duties**

An effective internal control system provides for adequate segregation of duties. Based on conversation with the executive secretary, she is responsible for the following:

- Receiving and endorsing checks delivered through the mail and walk-in;
- Posting checks to a deposit log;
- Preparing the deposit without the review of another employee;
- Delivering the deposit to the bank;
- Posting the entry into the CORE system;
- Performing the clearing account reconciliation without a detailed review from another employee;
- Posting payments received from physicians to their files reducing their outstanding debt balances. A reconciliation between what is posted to the physician's file and the amount deposited on their behalf is not performed.
- Posting disbursements into CORE, receiving warrants from the Office of State Finance (OSF), and mailing warrants to the vendors.

Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

**Recommendation:** We recommend:

- Someone other than the executive secretary deliver the deposit to the bank. This person should also review the deposit in detail prior to delivery to the bank, which includes agreeing each check to the deposit log. The reviewer's initials on the deposit slip would indicate their formal approval;
- Someone other than the executive secretary or the nursing scholarship administrator reconcile the payments posted to the physicians' and nurses' files to payments deposited. This should occur at least on a monthly basis. For example, assume Dr. X sent a check to the Commission for \$50. A reconciliation should be performed to ensure the \$50 was posted to Dr. X's file reducing his/her outstanding debt balance and the \$50 was deposited at the bank within one day of receipt;

- The executive director provide a detailed review of each claim prior to approval. This should include ensuring the invoice is mathematically accurate and agrees with the claim amount, as well as ensuring the correct account code and fund were used. Additionally, an employee other than the executive secretary should receive the warrants from OSF, match them to the appropriate invoices, and mail them to the vendors.

**Views of Responsible Officials:** PMTC will segregate the duties of the Executive Secretary to other employees.

- The agency will have the Executive Director review, initial deposit slip and deliver to the bank.
- The agency will appoint an employee (other than the executive secretary or the nursing coordinator) to reconcile the payments posted to the physician and nurse database to what was deposited.
- The receptionist will receive the warrants from OSF, match to the invoice and mail them to the vendors.

#### **Formal Approval of Reconciliations**

An effective internal control system provides for adequate review of reconciliations. Based on observation of an OSF-Form 11 reconciliation for each month of the period, the Commission staff reconciles the clearing account to the State Treasurer's Office. However, only a cursory review of the reconciliation is performed by the executive director. Additionally, staff informally reconciles the clearing account and revolving funds to CORE records without the review of someone other than the preparer.

**Recommendation:** We recommend management develop a formal process for ensuring all reconciliations include a detailed review by someone other than the preparer.

**Views of Responsible Officials:** The Executive Director will review the reconciliations each month.

#### **Incomplete Data on Inventory Listing**

Oklahoma Administrative Code (OAC) 580:70-3-1 (a) and (c) states in part

- (a) **Report due date.** All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Department by August 15...
- (c) **Inventory report contents.** The inventory report shall be signed by the agency inventory control officer and shall include for each tangible asset:
- (1) the agency number;
  - (2) the asset tag number;
  - (3) the model and serial number, if any;
  - (4) the manufacturer;
  - (5) the description;
  - (6) product name;
  - (7) physical location;
  - (8) acquisition date and cost;...

An effective internal control system provides for adequate segregation of duties.

During our procedures, we noted the following:

- The Executive Secretary is responsible for requisitioning goods, creating the purchase orders, purchasing the goods, receiving the goods, and maintaining inventory records;
- The Commission's inventory listing is incomplete. Asset tag numbers and item descriptions were provided; however, serial numbers (when applicable) are not identified on the listing. The serial numbers are typically maintained on the claim supporting the purchase of the item;
- An annual physical inventory count is not performed. Each employee is provided a listing of their assets based on previous history and they are to confirm the assets' existence and report any necessary changes to the executive secretary;
- One item from the list to floor testwork did not have the serial number recorded on the inventory listing or the claim supporting its purchase. Another item did not have an asset tag identifying it as property of the State;

- Seven items surplusd during the period did not have their serial numbers identified on the surplus form; therefore, we could not verify the identity of the item on the inventory listing or the claims supporting the purchases;
- Two surplusd items had the serial number identified on the surplus form, but the number was not recorded on the inventory listing or the claims supporting the purchases;
- Items identified on one surplus form did not appear to have been approved by DCS.

**Recommendation:** We recommend:

- One Commission employee be designated to maintain the inventory listing as well as perform a complete, physical inventory of all tangible items. If discrepancies are noted, the executive director should investigate and resolve them.
- The employee responsible for initiating inventory transactions (purchasing and disposal) should not be the same person responsible for maintaining the inventory listing and conducting the inventory count;
- The inventory listing should be updated to reflect the required information identified in OAC 580: 70-3-1 (c);
- A copy of the DCS Form 001 approved by DCS should be maintained for property surplusd.

**View of Responsible Officials:** The agency will designate an employee to maintain the inventory listing and perform a complete physical inventory on all items.

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**Objective 2** – Determine if the Commission complied with the Department of Central Services’ (DCS) Purchase Card Procedures.

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### **Conclusion**

Based on procedures performed, it appears the Commission is not in compliance with DCS’s Purchase Card Procedures.

### **Methodology**

To accomplish our objective, we performed the following:

- Reviewed DCS’ Purchase Card Procedures;
- Reviewed 15 purchase card transactions

### **Observations**

#### **Compliance Issues with DCS’s Purchase Card Procedures**

Section 3.10 of DCS’s Purchase Card Procedures states, “Entity p/card administrators...authorized signers, approving officials, and cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards...”

Section 6.1.3 of DCS’s Purchase Card Procedures states, “The Entity p/card administrator shall maintain the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement...”

Section 6.2.3 of DCS’s Purchase Card Procedures states in part, “The p/card...shall NOT be used for the following types of purchases...food and beverages...any goods or services for personal use and not for official state use...”

Section 6.4 of DCS’s Purchase Card Procedures states in part, “Cardholders shall maintain a transaction log of all p/card purchases...A separate log shall be maintained for each p/card for each cycle...”

Section 6.9.1 of DCS’s Purchase Card Procedures states in part, “...After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the

purchases. The cardholder shall also sign and date the memo statement verifying that the transaction logs and memo statement have been reconciled...”

Section 6.9.2 of DCS’s Purchase Card Procedures states in part, “...To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement...”

Section 6.7.1 of DCS’s Purchase Card Procedures states in part, “...The receiving document should be annotated “Received” and signed and dated by the receiving employee...”

Section 6.2.5.1 of DCS’s Purchase Card Procedures states in part, “State entities shall make p/card purchases from merchants on the State Use Committee procurement schedule unless the State Use Contracting Officer has issued a waiver prior to the purchase. State Use Committee statewide contracts are mandatory...”

Section 6.2.5.2 of DCS’s Purchase Card Procedures states in part, “State entities shall make purchases from OCI pursuant to 57 O.S. § 549.1, if the vendor is deemed lowest and best.”

Section 6.2.5.3 of DCS’s Purchase Card Procedures states in part, “State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.”

Based on procedures performed on 15 transactions and conversation with management, the following was noted:

- The signed State of Oklahoma Purchase Card Employee Agreements for the p/card administrator and the p/card holder were not maintained;
- Three transactions were food or beverages;
- One transaction was for a refrigerator;
- Four transactions were not recorded on a cyclical transaction log but on one log for the entire fiscal year. Additionally, the log was not dated.
- The memo statement for seven transactions was not dated by the cardholder or approving official;
- The memo statement for two transactions was not signed and dated by the cardholder;
- The memo statement for one transaction was not signed and dated by the approving official;
- The memo statement for three transactions was not dated by the approving official;
- Fifteen transactions’ receiving documents were not annotated “received” while fourteen of these were also not dated;
- Merchant preference (statewide contract, state use committee, and OCI) was not utilized on five transactions.

**Recommendation:** We recommend the p/card holder and the p/card approving official review DCS’s Purchase Card Procedures to ensure they comply with these procedures on future p/card transactions.

**Views of Responsible Officials:**

- The agency will review DCS’s Purchase Card Procedures manual;
- The agency will sign the Purchase Card Employee Agreement form;
- The agency will design a Memo Statement for each month;
- The agency will sign, date and annotate “received” by the cardholder and Administrator;
- The agency will review the State Use Committee and the Statewide contracts.

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**Objective 3 – Determine if recommendations from prior engagements were implemented.**

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**Conclusion**

Based on review of the prior engagement report issued by the State Auditor’s Office on June 23, 2006, there was one finding noted. Based on follow up procedures, the condition has not been corrected and the Commission remains in non-compliance with 62 O.S. § 7.1 C.

## **Methodology**

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 C.;
- Reviewed the State Auditor's Office's prior engagement report dated June 23, 2006;
- Documented internal controls over the receipting process as discussed under Objective 1 in this report;
- Tested the control by reviewing 15 deposits from the period to ensure the bank deposit date was within one day of the deposit slip date.

## **Observations**

### **Daily Deposits Are Not Occurring**

62 O.S. § 7.1 C states, "All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefor: 1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received..."

Based on conversation with management and procedures performed on 15 deposits, four deposits of \$100 or more were not deposited within one day of being received. Checks could be lost, altered or stolen prior to deposit.

**Recommendation:** We recommend receipts of \$100 or more be deposited within one day of being received to ensure compliance with 62 O.S. § 7.1 C.

**Views of Responsible Officials:** The agency will deposit receipts of \$100 or more within one day of receipt.

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## **Other Items Noted**

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It is an agency's responsibility to create a culture of honesty and ethics and to clearly communicate acceptable behavior and expectations of each employee. Such a culture is rooted in a strong set of core values that provides the foundation for employees as to how the agency conducts its business. During our assessment of internal controls, we noted the Commission has not developed and implemented an official policy addressing ethical behavior in the workplace. Without a written policy and procedure in place, employees may not be aware of management's expectations regarding ethical behavior.

**Recommendation:** We recommend the Commission develop and implement a policy and procedure regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring.

**Views of Responsible Officials:** The agency will include an ethics policy in the Personnel Handbook.



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