

Special Review

**Emergency Medical Services
Regulatory Board
Administration of Grants to Regional
EMS Organizations**



Financial Audit Division

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OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Emergency Medical Services Regulatory Board

Ms. Mary Hedges, Executive Director
Emergency Medical Services Regulatory Board

We have conducted a special review of certain aspects of the Emergency Medical Services Regulatory Board's (state EMS board) administration of grants to regional emergency medical services organizations. We conducted the review as a result of a request to review the state EMS board's process of selecting an organization to administer one of the regional grants and a request from the state board to review the financial management of public funds awarded to another regional board. We initially conducted a preliminary assessment to determine whether the requests warranted further review. Based on the documents submitted by the complainants and discussions with state EMS board personnel, we decided to pursue the matter further and issue this special review report.

The following summary highlights our objectives and conclusions. We discuss the issues involved more fully in the individual chapters of the report.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

Report Signed On: June 28, 2002

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Marla Conroy, CPA, CISA	Director of Investigations
Mike Willis, CPA, CIA	Team Leader
April Snyder	Senior Auditor

Exit Conference

We met with the following representative of the Emergency Medical Services Regulatory Board on June 18, 2002, to discuss this report:

Mary Hedges	Executive Director
JoAnn Champagne	EMS Supervisor
Tim Held	Regional Program Liaison

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Report Summary

Key Findings and Recommendations:

- Although the Emergency Medical Services Regulatory Board (state EMS board) complied with applicable legal provisions, it needs to improve its process for awarding grants to regional emergency medical services (EMS) organizations. The state EMS board did not clarify in its request for proposal the timeframe by when regional EMS grant applicants needed to comply with certain eligibility requirements. In addition, the state EMS board did not adequately identify the evaluation criteria used to award regional EMS grants. We recommended that in future requests for proposals that the state EMS board specify when grant eligibility requirements need to be satisfied. In addition, the board should review and approve the evaluation criteria used in selecting grant recipients.
- We agreed with the EMS board's concerns regarding certain business practices of a regional grant organization and think that the state board should clearly specify in contracts with regional EMS organizations its expectations regarding the use of public funds. For example, one regional EMS organization used funds received from the state board to pay penalties and interest on delinquent payroll taxes, allowed its property insurance to cancel, and did not require its executive director to fully account for all personal mileage associated with the use of the corporate vehicle. We recommended that the state EMS board incorporate these expectations and restrictions in future contracts with regional EMS organizations.
- The state EMS board and two regional EMS organizations did not formalize a fiscal agent arrangement between the two regional organizations. As a result, the compensation for the fiscal agent was unclear. We recommended that in the future the state EMS board ensure all affected parties negotiate a formal agreement to avoid misunderstandings under similar circumstances.

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Chapter 1. Introduction

Background

The Emergency Medical Services Regulatory Board (state EMS board) began operations as an independent board on July 1, 1996. Previously the Department of Health administered the services of the state EMS board. The state board operates under Minn. Stat. Chapter 144E. The board has 19 members, including the commissioners of Health and Public Safety, 2 ex-officio legislators, and 15 members appointed by the Governor.

The board's operations are financed by appropriations and grants. Table 1-1 summarizes the state board's sources of funds for fiscal year 2001.

**Table 1-1
Sources of Funds
Fiscal Year 2001**

General Fund Appropriation	\$2,676,056
Special Revenue Seat Belt Fines	1,301,890
State Police Aid for Ambulance Longevity Awards	1,000,000
Federal Grant Revenue	336,406
Trunk Highway Funds Appropriation Balance	155,095
Interest	22,831
Gifts and Other Sources	<u>9,905</u>
 Total Sources Available in Fiscal Year 2001 ⁽¹⁾	 <u><u>\$5,502,183</u></u>

- (1) The EMS board collected an additional \$55,086 from licensure of ambulance services and vehicles. The board deposited these fees to the General Fund. The funds were not available for the board to use.

Source: Minnesota Laws and Minnesota Accounting and Procurement System.

The state EMS board administers several grant programs including the selection and funding of eight regional EMS organizations that support emergency medical services. In addition, the board funds the comprehensive advanced life support program, the volunteer ambulance training program, the longevity program for volunteer ambulance personnel, and the EMS for children grant program. In fiscal year 2001, the board disbursed approximately \$2.6 million in grants and payments to individuals.

The Office of the Legislative Auditor received two requests to review certain aspects of the state EMS board's administration of regional emergency medical services grants. In June 2001, a complainant alleged the board had not followed a fair and equitable process when awarding the 2002-2003 regional EMS grants. In November 2001, the state EMS board contacted our office

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with concerns regarding a regional EMS grant recipient's business practices and use of public funds.

In response to these requests, we conducted a preliminary assessment to determine whether the complaints warranted further review. Based on the documents submitted by the complainants and discussions with state EMS board personnel, we decided to pursue the matter further and issue this special report.

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Chapter 2. Grant Administration

Chapter Conclusions

Although the state EMS board complied with applicable legal provisions, it needs to improve its process for awarding regional EMS grants. The state EMS board's request for proposal did not specify the timeframe when applicants had to comply with regional EMS grant eligibility requirements. In addition, the board did not adequately identify the evaluation criteria used to award regional EMS grants.

We agreed with the EMS board's concerns regarding certain business practices of a regional EMS organization. We recommended that the board's future contracts with regional EMS organizations specify certain of the board's expectations or restrictions on the use of public funds. Finally, we recommended that the state board ensure that future fiscal agent arrangements between regional EMS organizations be formalized.

The Legislature divides Minnesota into eight geographic emergency medical services (EMS) regions. Every two years, the state EMS board issues a request for proposals (RFP) for the operation of EMS systems in each of the eight regions. The grant program is intended to reduce death and disability due to medical emergencies through the promotion of prevention efforts and the development, maintenance, and improvement of EMS systems on a regional basis throughout Minnesota. The board may award regional grants to one EMS organization from each region, dividing available grant money equally among the grantees.

In fiscal year 2001, the board provided over \$2 million in funding to the eight regional EMS organizations from three sources: appropriations from the General Fund, seat belt fines, and the federal preventive block grant program. (In fiscal year 2002, the board no longer received the federal preventive block grant.) Table 2-1 summarizes the sources of funds for regional EMS service providers for fiscal year 2001.

**Table 2-1
Sources of Regional EMS Funds
Fiscal Year 2001**

Special Revenue Seat Belt Fines	\$1,301,890
General Fund Appropriations	739,328
Federal Funds	137,700
Total	<u>\$2,178,918</u>

Source: Minnesota Accounting and Procurement System.

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The board funds seat belt grants from seat belt fines collected throughout the state. Minnesota statutes require that all seat belt fines be deposited into the emergency medical services relief account. The board receives 90 percent of that money to distribute equally to the organizations awarded regional EMS grants. The Department of Public Safety receives the remaining ten percent.

Minn. Stat. Section 144E.50, Subd. 6 provides that each regional EMS organization be audited either annually or biennially by an independent auditor who is either a state or local government auditor or a certified public accountant. The audits cover all funds received by the regional organizations.

Audit Objectives and Methodology

The primary objectives of our review of grant administration were to answer the following questions:

- Did the state EMS board comply with applicable legal requirements when awarding fiscal year 2002-2003 regional EMS grants?
- Did the state EMS board adequately monitor the regional EMS organization to ensure grant funds were expended in accordance with legal requirements and grant contract provisions?

In conducting our review, we obtained information from the state EMS board, Arrowhead Regional Emergency Medical Services Association, and Greater Northwest Emergency Medical Services. We reviewed certain documents, including grant request for proposals and grant contracts. We did not conduct a complete audit of the books or records of the Arrowhead Emergency Medical Services Association or Greater Northwest Emergency Medical Services.

In January 2002, the Office of the Legislative Auditor issued a special review of Minnesota Grant Administration (Report #02-06). In that report, we concluded that the state should establish general guidelines or requirements for the grant award process. We recommended that the departments of Administration and Finance coordinate these efforts. In the absence of such general guidelines or requirements, we referred to the Department of Administration's general contracting policies and procedures to identify areas in which the state EMS board could improve its grant process.

Conclusions

Although the state EMS board complied with applicable legal provisions, it needs to improve its process for awarding regional EMS grants. As noted in Finding 1, the state EMS board's request for proposal for 2002-2003 grant funds did not specify the timeframe when applicants had to comply with regional EMS grant eligibility requirements. Finding 2 highlights that the board did not adequately identify the evaluation criteria used to award regional EMS grants for 2002-2003.

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We also report in Finding 3 that the board's contracts with regional organizations did not specify certain of the board's expectations or restrictions on the use of public funds. Finally, in Finding 4 we note that the board and two regional EMS organizations did not formalize a fiscal agent arrangement between the two regional EMS organizations.

1. The state EMS board did not specify in its request for proposal the timeframe when the applicants for regional EMS grants had to satisfy the program's eligibility requirements.

The board did not clearly specify the timeframe in which regional EMS applicants had to comply with the program eligibility requirements. In February 2001, the board issued a public notice and a request for proposal (RFP) for the operation of regional EMS systems in each of Minnesota's eight geographic EMS regions during fiscal years 2002-2003. In accordance with state statute, the RFP stated that each regional EMS system must be governed by a body consisting of representatives from each of the counties in that region, including representatives of emergency medical services providers. In May 2001, the state EMS board awarded the central EMS services provider contract to Stearns County Human Services Board (Stearns County), an organization that had not yet met the published eligibility requirements. Although the contract was for the period beginning July 1, 2001, the board did not finalize its agreement with Stearns County until November 2001, after confirming that Stearns County had met the organizational eligibility requirements.

Although the RFP stated the proposals must include specific information concerning the organization and management of the applicant, the state EMS board did not hold applicants to these requirements. The RFP required applicants to describe the regional project's administrative structure and include copies of bylaws, articles of incorporation, or joint powers board agreements. The proposal guidelines also required applicants to provide an organization chart that showed the structure and relationships of its governing body, advisory committees and staff, and how the membership represented each regional county and the emergency medical services community. In response to these requirements, Stearns County's proposal stated that its administrative and governance structure would be in place by September 1, 2001. In order to meet the eligibility requirements, Stearns County had to initiate a Memorandum of Understanding between the 14 counties in the region, draft bylaws, and recruit board and advisory members.

Although the board had some discretion in accepting the Stearns County proposal, the RFP should have clearly identified when the eligibility requirements needed to be satisfied. As a result, the eligibility requirements, as written, may have dissuaded start up organizations from applying for available funds. Board personnel indicated that the RFP's eligibility requirements were not written to infer that the administrative structure had to be in place when an applicant submitted a proposal. The board recognized that most start up organizations would not incur the cost of creating the required administrative structure without the assurance of future funding. However, the public notice and RFP did not accurately reflect the board's discretion as to when an applicant needed to meet these requirements.

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Recommendation

- *The board should ensure its public notices and requests for proposals accurately reflect when applicant eligibility requirements need to be satisfied.*

2. The board did not adequately describe in its request for proposal (RFP) the criteria used to evaluate regional EMS grant proposals.

The board did not adequately describe in its request for proposal the criteria used to evaluate the 2002-2003 regional EMS proposals. The RFP stated that each objective would be evaluated on whether it was specific, measurable, agreed upon by likely stakeholders, realistic, tied to a clear timeframe, and evaluative and on whether other existing options were considered. The RFP, however, did not indicate how each objective would be scored or weighted. The Department of Administration's contract manual (Section 12) recommends RFPs describe the factors, scoring, and weights used to evaluate the proposals. By providing this additional information, the state EMS board would have been in a better position to justify its assessment of the proposals, and applicants could have prepared proposals that better addressed factors identified as important or critical to the board.

Although board personnel developed a point system and criteria, the review panel was not consistent in its use of the point system. Two of the four review panel members found the initial point system too cumbersome and subsequently focused on identifying each proposal's strengths and weaknesses. Other review panel members utilized the point system and also made narrative comments regarding each proposal's strengths and weaknesses. The review panel formed a consensus by discussing each proposal and submitted its analysis and recommendations to the board. The Department of Administration's contract manual (Section 12) provides that the procedures, evaluation process, criteria, and methods be administratively reviewed and approved.

Recommendations

- *The board should ensure RFP documents adequately describe the evaluation process, including the selection criteria and any weights used to indicate relative importance of the criteria being evaluated.*
- *The board should review and approve the procedures, evaluation process, criteria, and methods used to evaluate proposals. The board should also ensure that the review panel members consistently use the evaluation process.*

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3. The state EMS board's regional grant contracts with regional EMS organizations did not adequately identify the board's expectations or restrictions on the use of public funds.

The state EMS board raised specific concerns regarding certain business practices of the Arrowhead EMS Association (Arrowhead). The board was concerned with the Arrowhead executive director's use of the corporate vehicle. In addition, Arrowhead had allowed its building insurance to cancel. Other concerns included the use of public funds to pay fines and penalties and noncompliance with certain regional board policies and procedures.

Arrowhead's executive director did not accurately account for the personal benefits derived from the use of the corporate vehicle. The Arrowhead EMS Association purchased a vehicle for the exclusive use by its executive director. Arrowhead deducted \$50 every two weeks from the executive director's payroll check to reimburse the organization for the personal use of the vehicle. The executive director maintained a log of personal and business mileage. However, we found about 10,000 miles unaccounted for as either business or personal miles. The executive director only recorded personal miles when traveling more than 20 miles from his home. Therefore, the personal miles recorded in the mileage log did not include commute or other local personal miles. Since the mileage logs were incomplete, it was difficult to determine whether Arrowhead's executive director adequately reimbursed the organization for the personal use of the vehicle.

Arrowhead also used the wrong method of determining the value of the personal miles. The organization inappropriately used the Internal Revenue Service (IRS) cents-per-mile valuation method in determining the personal benefits derived from the use of the corporate vehicle. Under the cents-per-mile method, the employee's benefit is determined by multiplying the employee's personal miles by a standard mileage rate. IRS regulations, however, specify using the annual lease value method when a corporate vehicle's fair market value exceeds \$15,400 (for 2000 and 2001). Both methods require an accurate accounting of personal and business miles driven. Arrowhead should review its current practices to ensure compliance with IRS regulations.

Arrowhead Emergency Medical Services Association allowed its building insurance to cancel. State EMS board personnel raised concerns that the loss of the building could impact Arrowhead's ability to fulfill the goals and objectives of the regional EMS program. We confirmed instances where the insurance company had canceled Arrowhead's insurance policy. Although subsequent payment by Arrowhead resulted in the insurance company reinstating the policy without a lapse in coverage, there was still a risk of an uninsured loss occurring between the date of cancellation and the date the insurance company received the late payment and made its reinstatement decision.

The state EMS board did not adequately identify in its contracts with regional EMS organizations unallowable costs that could not be paid for with public funds. Arrowhead Emergency Medical Service Association (Arrowhead) used funds received from the state board to pay penalties and interest related to the late submission of employee payroll taxes. Arrowhead

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incurred over \$7,800 in penalties and interest between March 1997 and September 2001. Based on Arrowhead Emergency Medical Service Association's funding sources, we estimated that the organization used nearly \$300 in federal and \$3,000 in state funds to pay these fines and penalties. Federal guidelines prohibit the use of federal funds to pay penalties or fines. Although not specifically addressed in the EMS contracts or statute, the use of state funds to pay penalties and interest is not a reasonable operating expense under the regional EMS program.

During our review, we found several instances where the Arrowhead and Greater Northwest EMS organizations did not adequately document board policies or decisions. Arrowhead EMS Association's business practice differed from its policy regarding check-signing authority. An association board resolution dated June 27, 2001, stated that all bank withdrawals of any type were to have the authorization of two signatures for amounts of one thousand dollars or more. We found several instances where checks exceeding one thousand dollars contained only the signature of the association's executive director.

Recommendations

- *The state EMS board's contracts with regional EMS organizations should specify the board's expectations regarding compliance with state and federal laws and the regional organization's policies and procedures and the consequence of noncompliance.*
- *The state board should provide in its contracts with regional EMS organizations specific guidance on allowable costs and applicable restrictions on the use of public funds, including prohibiting the use of funds to pay for fines and penalties.*

4. The state EMS board and two regional EMS organizations did not formalize a fiscal agent arrangement between the two regional organizations.

The state EMS board and the northeast and northwest regional EMS providers did not formalize a fiscal agent arrangement between the two regional organizations. As a result of the lack of a formal agreement, we could not answer certain questions about the compensation paid to the fiscal agent and the executive director.

In April 1999, the Arrowhead EMS Association (Arrowhead) agreed to act as the fiscal agent for the Northwest Minnesota EMS Corporation (currently the provider in this region is the Greater Northwest EMS). The two organizations entered into a contract for the period April 1, 1999, through June 30, 1999. The contract provided that Arrowhead would provide financial and fiduciary services to Northwest, which included personnel management, contract management, accounting services, grant facilitation, and board meeting and communications assistance. Northwest agreed to pay Arrowhead between \$21 and \$55 per hour for accounting, indirect assistance, and management services.

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From July 1, 1999, through June 30, 2001, Arrowhead continued as the northwest EMS region's fiscal agent without a contract. During this time, Arrowhead assumed additional responsibilities and the payment terms changed. In November 2001, the state EMS board raised concerns that Arrowhead's executive director may have inappropriately received additional compensation for his role in assisting the northwest region. From the period September 1999 to June 30, 2001, Arrowhead's executive director received \$15,323 in compensation from Greater Northwest EMS in addition to his Arrowhead EMS Association salary.

We found little documentation in either regional organization's board minutes that explained the arrangement and whether board members of each region were fully aware of the amount and method used to pay Arrowhead and Arrowhead's executive director for services provided to the northwest region. Although the regional EMS organizations did not document their fiscal agent relationship, the current chairs of the regional boards confirmed the decisions to provide Arrowhead's executive director with additional compensation.

Recommendations

- *The state board should ensure that formal contracts are negotiated for future fiscal agent arrangements involving two or more regional EMS organizations. The contracts should specify the rights and responsibilities of all parties and include compensation matters.*
- *The state board should ensure that all regional boards formally document in their board minutes significant decisions pertaining to the use of funds received from the state board.*

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June 25, 2002

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Building
St. Paul, MN 55155-1603

Dear Mr. Nobles:

This letter is in reply to the findings of your special review of certain aspects of the Emergency Medical Services Regulatory Board's (EMSRB) administration of grants to regional emergency medical services programs. The review resulted from a request to review the EMSRB's process of selecting Stearns County to administer the Central Regional Emergency Medical Services program over the former grantee, as well as the EMSRB's request for the Office of the Legislative Auditor (OLA) to review financial management of public funds awarded to Arrowhead Emergency Medical Services Association (Arrowhead). The first two findings and responses relate to the Stearns County grant award. The latter two relate to the concerns over Arrowhead's management of public funds.

OLA Finding 1. The state EMS board did not specify in its request for proposal (RFP) the time frame when the applicants for regional EMS grants had to satisfy the program's eligibility requirements.

The OLA noted that the RFP issued by the EMSRB required that grantees meet certain eligibility requirements (e.g., membership from every county in the region) and to provide a copy of its organizational chart, bylaws, articles of incorporation or joint powers board agreements. Although Stearns County Human Services Board (Stearns County) submitted its proposal describing how it intended to form such a structure should it be awarded the grant for a multi-county EMS program, it did not have that structure in place at the time of the award. However, the EMSRB made the grant award *contingent* upon Stearns County meeting the eligibility requirements and did not execute the grant contract until Stearns County had the required organizational structure in place. Furthermore, Stearns County was not reimbursed for any activities that occurred prior to the implementation of the required organizational structure. The EMSRB's intent has been to maintain a competitive grant award process, and felt that requiring a structure to be in place at the time of application would unfairly restrict applicants from otherwise qualified groups who were unable to formalize a structure until they were notified of the award of grant funds. This same procedure was used in the prior grant cycle in which the Minnesota EMS Cooperative was awarded a grant to administer the Greater Northwest EMS Corporation prior to the Northwest board being in place. **To correct this past practice, the EMSRB will specify in all future grant RFPs (beginning with the next one issued in February of 2003) the time frame in which applicants are required to meet the organizational requirements (e.g., six months from the time of the notice of grant award). It will also make the grant award contingent upon meeting those eligibility requirements and no contract will be executed until such requirements are met. The EMSRB staff member who will be responsible for ensuring that the RFP includes this specification is**

"To provide leadership which optimizes the quality of emergency medical care for the people of Minnesota -- in collaboration with our communities -- through policy development, regulation, system design, education, and medical direction"

Timothy Held, Regional Program Liaison. The EMSRB staff member who will be responsible for insuring that no contract is executed until requirements are in place is Donald Hedman, Administrative Supervisor.

OLA Finding 2. The board did not adequately describe in its request for proposal (RFP) the criteria used to evaluate regional EMS grant proposals.

While the OLA found that the EMSRB's RFP indicated that each grant objective would be evaluated on whether it was specific, measurable, agreed upon by likely stakeholders, realistic, tied to a clear time frame, evaluative and on whether other existing options were considered, it did not indicate how each objective would be scored or weighted. In hindsight, the EMSRB realizes that a scoring system should have been included in the RFP. In developing the prior RFP, EMSRB personnel revised it from previous years to include more meaningful and evaluative criteria, and the final document was edited and approved by the board prior to its issuance. Also, EMSRB personnel conducted grant writing workshops for all those who had submitted letters of intent. EMSRB personnel used a panel comprised of internal and outside members experienced in grant evaluation. EMSRB personnel developed a scoring system that most panel members found too cumbersome to use. Instead, the review panel members formed a consensus by discussing each proposal's strengths and weaknesses and submitted its analysis and recommendations to the board for the final decisions. **In future grant RFPs (beginning with the next one issued in February of 2003) the EMSRB will include selection criteria and any weights used to indicate relative importance of evaluation criteria in the RFP. These criteria will be evaluated and approved by the board at the time it approves the proposed RFP. In addition, the EMSRB will ensure that review panel members consistently use the evaluation criteria. Timothy Held, Regional Program Liaison, will be responsible for describing the factors, scoring and weights used to evaluate the proposals in the RFP prior to its submission to the board for approval. Mr. Held will also be responsible for ensuring that all review panel members consistently use the evaluation criteria.**

OLA Finding 3. The state EMS board's regional grant contracts did not adequately identify the board's expectations or restrictions on the use of grant funds.

The EMSRB requested the Legislative Auditor to conduct an audit of Arrowhead EMS Association after EMSRB personnel found questionable business practices in a review of Arrowhead records. The EMSRB questioned the use of the corporate vehicle by the Arrowhead executive director, the lapse of the building insurance by Arrowhead, the use of state funds to pay fines and penalties to the IRS by Arrowhead, and noncompliance with certain policies and procedures by Arrowhead's executive director. The OLA's review of Arrowhead confirmed that all of these questionable business practices did, in fact, occur. The OLA recommended that the EMSRB incorporate into grant contracts the board's expectations that grantees comply with state and federal laws and the grantee's own policies and procedures, as well as the consequence of noncompliance. The OLA also recommended that the EMSRB specify in its grant contracts specific guidance on allowable costs and restrictions on the use of state funds, including the prohibition on the use of state funds to pay fines and penalties. While the EMSRB believes that it is the responsibility of the governing board of each regional EMS program to ensure that its

executive director is complying with the regional board's policies and procedures and complying with applicable state and federal laws, it recognizes that this has not consistently occurred as evident in the OLA's findings with respect to Arrowhead. **The EMSRB will ensure that the recommendations of the OLA with regard to compliance with state and federal laws and the organization's policies and procedures, and consequences of noncompliance, in addition to allowable costs and restrictions on use of state funds, are incorporated into all future regional grant contracts. Donald Hedman, Administrative Supervisor, will be responsible for including these provisions in the grant contracts.**

OLA Finding 4. The state EMS board and two regional EMS organizations did not formalize a fiscal arrangement between the two regional organizations.

The OLA found that during the preceding grant cycle when Arrowhead served as the fiscal agent for the Greater Northwest EMS Corporation, there was no contract nor was there documentation of the agreed upon terms of this arrangement in the meeting minutes of the affected boards. The OLA found that the Arrowhead executive director received an additional \$15,323 in compensation from Greater Northwest in addition to his Arrowhead salary. The OLA recommended that the EMSRB ensure that formal contracts are in place for such fiscal arrangements; further that the EMSRB ensure that all regional boards formally document in their board minutes decisions pertaining to the use of state funds. While the EMSRB believes that this level of monitoring is the responsibility of the governing board of each regional program, it recognizes that this has not consistently occurred as evident in the OLA's findings. **In all future fiscal arrangements between one or more regional grantees, the EMSRB will ensure that contracts are in place outlining the rights and responsibilities of all parties and include compensation matters. To ensure that the recommendations of the OLA are implemented, with respect to documenting use of state funds in the board minutes of each regional program, the EMSRB will distribute copies of the OLA's findings to the executive directors and all board members serving on the governing bodies of the eight regional programs as soon as reasonably possible after the Legislative Auditor's report is made public. In addition, the EMSRB will conduct a training session for the regional boards in the fall of 2002 to ensure that they are fully aware of their responsibilities to oversee internal financial practices. Timothy Held, Regional Program Liaison, will ensure that the recommended contracts are in place in future fiscal arrangements between regional programs. Donald Hedman and Timothy Held will conduct the regional board training. Mary Hedges, Executive Director, will be responsible for distribution of this report.**

I hope this reply has satisfactorily addressed the concerns raised by the findings of your recent review of these matters. Please feel free to contact me at (612) 627-5424 should you have any further questions or concerns.

Sincerely,

Mary Hedges
Executive Director

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NORTHEASTERN MINNESOTA'S REGIONAL EMS PROGRAM

June 20th, 2002

James Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

In response to your recent audit comments, please include this response in any public document.

Thank you for the report summarizing the results of the special review of the financial management of the State grant funds by the Arrowhead Emergency Medical Services Association, Inc. We appreciate your comments and are pleased to know that you found no material deficiencies in our financial management system.

We are further pleased that you found Arrowhead Emergency Medical Services Association, Inc., to have books and records reflecting no instances of financial mismanagement or misappropriation of funds. We, as an organization, take great pride in providing the highest possible quality of our accounting records, as we do our programs, which support the Association's ongoing mission in serving emergency medical services.

We have reviewed the individual points in your report and submit the following comments:

1. Use of the Association's Vehicle by the Executive Director:

We are aware that the method used to charge the executive director for personal use of the vehicle is not currently in compliance with IRS regulations. We are reviewing this issue and will bring our policy into compliance this year.

2. Building Insurance:

We reviewed the situation in its entirety. The insurance company's practice is to notify policyholders of the intent to cancel prior to the actual event. We made payments prior to the actual cancellation of the policy and, therefore, the building insurance remained in effect. We have changed our payment method with this company to avoid this situation in the future.

3. Payroll Taxes:

A number of years ago, we incurred penalties for the late payment of payroll taxes as a result of cash flow problems due to grant funds not being received in a timely manner. Most recently, such penalties have been minor with approximately \$200.00 in penalties being paid in the June 2001 fiscal year.

Since these penalties are included with other expenses in the calculation of our indirect overhead rate, a portion of that expense is accordingly charged to grant dollars along with other programs. It is important to note that the State has not been overcharged under the grant program. The Association has an operating budget in excess of \$500,000.00 and revenues from other sources. The majority of our total expenses qualified for reimbursement from state and federal grants. If we exclude the penalties from the calculation, Arrowhead EMS Association still incurred expenses in excess of the amount of reimbursement under the grant contract.

4. Check Signing:

The policy adopted by the Board is being correctly followed. The wording of the board resolution lead to confusion and has been corrected as of June 19, 2002.

5. The State EMS Board and two regional EMS organizations did not formalize a fiscal arrangement between the two regions.

We agree that there should have been a written fiscal/management document outlining duties and responsibilities and remuneration. It was Arrowhead EMS Association's understanding that the northwest region did not have a legal entity to contract with during the period between dissolution of the old northwest corporation and the formation and IRS approval of the new not-for-profit of Greater Northwest Corporation. However, both boards approved the business practices and functions of the Greater Northwest Corporation organization within the umbrella organization of the Minnesota Regional EMS Cooperative. Salaries paid to the executive director were authorized by the appropriate boards.

Again, we want to thank you for your report and the professionalism of your staff when they conducted the examination of our records. The management of this organization is taken very seriously by our board and we appreciate your comments.

We recognize that a formal response was not requested, however, we would appreciate this letter being incorporated in the final report.

Sincerely,

/s/ Jo Ann Hoag

Jo Ann Hoag
President
Arrowhead EMS Association Inc.