
Secretary of State

State of Oregon

DEPARTMENT OF HUMAN RESOURCES

Review of Accounting for Health-Related Licensing Boards



Audits Division

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Auditing for a Better Oregon

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This audit encompasses a review of the accounting services provided by the Office of Administrative Services, Accounting Section of the Department of Human Resources, Office of the Director (DHR), to the various Health-Related Licensing Boards (boards) for the period July 1, 1995, to March 31, 1996. The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

We noted a number of internal control weaknesses in DHR's procedures for processing and recording the individual boards' transactions. These weaknesses were in the areas of cash receipting, accounts receivable, revenues, expenditures, and fixed assets. We did not identify any instances of noncompliance with laws and regulations.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit. Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Sam Cochran
Acting State Auditor

Fieldwork Completion Date:
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SUMMARY

The Office of Administrative Services, Accounting Section of the Department of Human Resources, Office of the Director (DHR), performs various accounting functions for the Health-Related Licensing Boards (boards). DHR processes cash disbursements, maintains the fixed asset records, reconciles the cash suspense account to the cash receipting system, and records transactions on the accounting system (the State Financial Management System). DHR receives and processes cash receipts for all of the boards, other than Dentistry, Optometry, and Pharmacy.

We did not perform a separate audit of DHR's accounting section. However, while performing audits of the health-related licensing boards, we noted several control weaknesses related to DHR's accounting function. The scope of this report only includes DHR's accounting services to the health-related licensing boards. We did not extend our review to include other responsibilities of the accounting section. This report communicates those areas where improvements can be made in providing centralized accounting services for the boards. In addition, we have issued separate reports to each of the 16 health-related licensing boards that include findings and recommendations specific to their operations.

The areas where improvements can be made include controls over cash receipting and reconciliations. DHR is not agreeing subsidiary cash receipt records to the Statewide Financial Management System (SFMS). Some transactions were being processed without clear board approval, and required transfers were not being made between boards. Furthermore, DHR is not adequately updating inventory and accounting records for fixed assets.

In its response, which is incorporated in this report, DHR generally agreed with the audit recommendations.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Office of Administrative Services, Accounting Section of the Department of Human Resources, Office of the Director (DHR) * performs various accounting functions for the Health-Related Licensing Boards (boards). We have reviewed and issued separate reports for each of the following boards:

- Board of Clinical Social Workers
- Board of Dentistry
- Board of Examiners for Speech Pathology and Audiology
- Board of Examiners of Licensed Dietitians
- Board of Examiners of Nursing Home Administrators
- Board of Licensed Professional Counselors and Therapists
- Board of Massage Technicians
- Board of Naturopathic Examiners
- Board of Optometry
- Board of Pharmacy
- Board of Psychologist Examiners
- Board of Radiologic Technology
- State Mortuary and Cemetery Board
- Occupational Therapy Licensing Board
- Physical Therapist Licensing Board
- Veterinary Medical Examining Board

FINANCIAL ACTIVITIES

DHR provides accounting services for the boards. DHR processes cash disbursements, processes accounts receivable, maintains fixed asset records, reconciles the cash suspense account to the cash receiving system (the Daily Cash System), and records revenues and expenditures on the state accounting system (State

* The accounting activity for the health-related licensing boards was formerly performed by the Oregon Health Division. The administrative functions of the Health Division were merged with the Department of Human Resources effective January 1, 1996.

Financial Management System [SFMS]). DHR receives and processes cash receipts for all the health-related licensing boards, except Dentistry, Optometry, and Pharmacy.

SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

We performed expenditure, revenue, and fixed asset testing and reviewed the internal controls over cash receipts and disbursements of each board. We did not perform a separate audit of DHR's accounting section. However, while performing audits of the boards, we noted several conditions that related to DHR's accounting function. The scope of this report only includes DHR's accounting services to the health-related licensing boards. We did not extend our review to include other responsibilities of the accounting section.

In addition, we have issued separate reports to each of the 16 health-related licensing boards that include findings and recommendations specific to their operations.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

REPORT ON THE INTERNAL CONTROL STRUCTURE

The management of the Department of Human Resources (DHR) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operations of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described is a material weakness. Reportable conditions are reported in the FINDINGS AND RECOMMENDATIONS section of the report.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to DHR is the responsibility of management. As part of our audit, we performed tests of compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

**FINDINGS AND
RECOMMENDATIONS****CASH RECEIPTING**

The segregation of duties in the DHR cashier's office could be improved. The cashier's office has two staff members who are responsible for processing both walk-up and mail receipts for the boards and DHR.

While both employees are to open the mail together, interruptions caused by walk-up payments effectively result in one employee opening the mail. This one employee prepares the initial receipt totals, enters the information into DHR's Daily Cash System, and prepares the deposit slip. This same employee also ensures the amounts on the system agree to the initial receipts total and the deposit slip.

Having one employee responsible for receiving, recording, and depositing receipts increases the risk of undetected losses. There are options available to correct this weakness.

For example, time could be set aside for opening the mail when the office will not be available for walk-up payments. This would allow the two employees to jointly open the mail and prepare the initial receipt listing. Alternatively, an employee of one of the other sub-units within DHR could be assigned to assist in the opening of mail and listing of receipts. The initial receipts log produced by this procedure should be compared to the amount deposited by someone outside the cashier function.

We recommend DHR design a method to safeguard mail receipts by segregation of duties and independent review of receipts, deposits, and receivables.

AGENCY RESPONSE:

We disagree with this recommendation given the constraint of limited staffing. Our compensating control for loss of funds is subsequent contact by our customer if their license or vital record is not received. However, we anticipate adding staff positions by June 30, 1997. Then we would be able to assure that mail is opened with two staff present. We will have two staff present but will not list manually.

DEPOSIT TIMELINESS

The cashier does not deposit receipts on the same day they are received. Normally, cash is deposited on the second day following receipt. Thus, payments received on Monday will normally be deposited on Wednesday. Part of the reason for the delay is the entry of the receipt information into the daily cash system. This normally does not occur until the day after the cash is received. To reduce this delay, DHR may need to deposit payments before entering the information into the daily cash system. The delay in depositing receipts increases the risk that payments will be misplaced before deposit.

Interest is lost on the days that DHR holds the receipts and does not deposit them to the bank. Also, because documentation received with the payment is not forwarded to the boards until after the deposit, license applications and renewal processing is delayed. This delay in forwarding licensing documents has caused several boards to bypass the DHR centralized cashier for these types of receipts, so that applications can be processed faster.

We recommend DHR modify its cashiering procedures to deposit payments on the day they are received. The licensing documentation should also be forwarded to the boards daily.

AGENCY RESPONSE:

We agree with the goal of depositing receipts daily with available resources. We also agree that licensing documentation should be forwarded to the boards on a daily basis after the funds have been deposited.

CASH RECONCILIATIONS

The reconciliation between the State Treasury suspense account and the Daily Cash System is not performed timely. As of June 1996, DHR was three months behind in its reconciliations. In addition, the suspense account reconciliations are not reviewed by someone other than the preparer. There is no documentation of a supervisory or quality control review and the preparer indicated that no one else reviews the reconciliations.

Reconciling items are not being properly identified or resolved. Of 16 "Deposits-in-Transit" appearing on the

February 1996 reconciliation, nine were actually accounting adjustments which had been outstanding for more than one month. Additionally, of the 45 reconciling items identified as “Bank Adjustments Outstanding,” 42 were over one month old. The oldest of these reconciling items dated back to January 1995.

The purpose of a cash reconciliation is to verify that transactions are recorded accurately at both DHR and the Treasury, and to allow prompt error correction. Without timely monthly reconciliations, misplaced deposits, posting errors, and other problems will not be detected to allow for timely corrective action. Without independent review, there is less assurance that reconciling items are being properly identified and resolved timely.

We recommend DHR perform timely reconciliations of the suspense account each month. The monthly suspense account reconciliations should be reviewed by someone other than the preparer to verify that the reconciliation has been completed and reconciling items have been properly identified and are being resolved.

AGENCY RESPONSE:

We agree with this recommendation. In the past operational priorities have utilized limited accounting resources. With the addition of staff positions we anticipate catching up and maintaining reconciliations on a timely basis.

**CASH SUBSIDIARY NOT IN
AGREEMENT WITH ACCOUNTING
SYSTEM**

There are unidentified differences between the receipts recorded on the Daily Cash System and the accounting records (SFMS). As of March 31, 1996, there was an unidentified difference of \$33,648 between the two systems.

SFMS serves as the official accounting record for the boards and is for budgeting and reporting purposes. Without a reconciliation between the Daily Cash System and the SFMS records, the potential rises for errors in the accounting system to go undetected.

DHR indicated the two systems are not reconciled because detailed revenue reports are not available from SFMS and exception reports are not available from the Daily Cash System.

We recommend the department reconcile the amounts recorded on the daily cash system to the amounts recorded on the accounting records monthly for each board. If necessary, new reports should be designed to pull the needed information from the two systems. Errors on either system, once identified, should be corrected.

AGENCY RESPONSE:

We agree with this recommendation. It should be noted that with SFMS the cash system doesn't have the flexibility to interface all the changes required by SFMS. Since SFMS is the system of record for accounting transactions, we have ensured that SFMS is accurate. In addition, we have requested that the Office of Information Services (OIS) provide programming assistance in resolving this issue. This request is on their list of projects to complete. When the system has been modified we anticipate completing reconciliations between SFMS and the daily cash system in a timely manner.

**TRANSACTIONS WITHOUT
PROPER APPROVAL**

DHR processed transactions for some boards without proper written authorizations. These improperly authorized transactions were for revenue refunds, personal services, and services and supplies expenditures.

- The Board of Pharmacy submitted requests to DHR to process revenue refunds totaling \$3,705 without clear written documentation of approval by an authorized individual. The refunds we tested appeared to be appropriate, but did not include an authorizing signature to document approval to process the revenue refund. Not having refunds reviewed and approved by a supervisor increases the risk of unauthorized transactions being processed. DHR should not process refunds unless they include a signature of approval by an appropriate person that indicates it has gone through the same review and approval process that expenditure payments go through.

- The Board of Clinical Social Worker's administrator submitted and was paid based on a timesheet that was not signed by the employee or a supervisor. In addition, we noted four Board of Pharmacy employees that were paid based on timesheets that had no supervisory signature.
- Furthermore, DHR made payments and charged the various boards for services and supplies purchases without specific written authorization from them.

DHR is providing an accounting service to the boards and should require authorization from each board to make a disbursement on its behalf. This may be a blanket approval for routine recurring transactions, but otherwise the authorization should be specific to each transaction. Transactions received without proper authorization should not be processed; instead they should be returned to the appropriate board for proper authorization.

We recommend DHR only process transactions with proper written authorization.

AGENCY RESPONSE:

We concur with this recommendation. Each board authorizes transactions differently, and the staff assigned to provide accounting services to the boards is limited. We will get blanket authority for recurring bills such as rent, etc. In addition, we will require the boards to submit a letter of delegating authority which will include authorized signatures, as well as transaction authority.

**ERRORS IN CHARGING
PERSONAL SERVICES**

An employee of the Radiologic Technology Board worked overtime to assist the Occupational Therapy Board. The employee had indicated on the timesheet that the Occupational Therapy Board should be charged the overtime. However, DHR charged the overtime to the wrong board, resulting in the Radiologic Technology Board expending \$110 in personal services expenditures for overtime hours the employee worked for the Occupational Therapy Board. The Radiologic Technology Board management indicated they were not aware of the error, and that it must have been an oversight.

We recommend the payroll section of DHR review the boards' timesheets for unusual transactions and ensure that the proper board is being charged. DHR should also provide the boards with a copy of payroll registers each month to permit them to review the accuracy of their accounting services.

AGENCY RESPONSE:

We agree with these recommendations since this is our current procedure. However, the board in question detected the error, but payroll could not make corrections since that month had already been processed. The board was advised to submit an expense adjustment request, which was not accomplished by the board.

REVENUE TRANSFERS NOT MADE

Three of the boards share one clerical assistant. This employee's payroll costs are charged to the Board of Examiners for Speech Pathology and Audiology. The legislatively approved budgets provide for this board to be reimbursed by transfers from the Board of Radiologic Technology and the Veterinary Medical Examining Board. By informal agreement between the boards and DHR, these transfers are to be made quarterly.

As of June 30, 1996, no transfers had been made to properly distribute these costs for the fiscal year. Thus the State Board of Examiners for Speech Pathology and Audiology paid the entire cost of this employee for a full

year without reimbursement. Approximately \$7,500 was due from each of the other boards to the State Board of Examiners for Speech Pathology and Audiology for the fiscal year 1996.

We recommend DHR and the three boards prepare written authorization for the quarterly transfers to the Board of Examiners for Speech Pathology and Audiology to cover the costs of the shared employee. DHR should then record the necessary transfers to pay the overdue amounts and establish procedures to ensure that future transfers are made quarterly.

AGENCY RESPONSE:

We concur with this recommendation. The revenue transfers are current and the 1997-99 budget request included these items as expenses instead of transfers.

ACCOUNTS RECEIVABLE

The State Mortuary and Cemetery Board receives approximately 35 percent of its revenues from death certificate filing fees. This fee is collected through DHR's invoicing of funeral establishments; DHR maintains the accounts receivable records for these fees. However, DHR does not generate a report showing the delinquent receivables and does not generate subsequent billings for past due amounts.

As a result, the State Mortuary and Cemetery Board is not aware which funeral establishments are delinquent in paying fees. Therefore, the board cannot take subsequent collection action and is unable to identify and write-off uncollectable accounts if necessary.

Due to previously described weaknesses in the cash receipting process, adequate accounts receivable controls are needed to compensate for these weaknesses. Active collection efforts will help ensure receipts are recorded properly and timely.

We recommend DHR provide the State Mortuary and Cemetery Board with a report showing the aging of receivables on a monthly basis. DHR should also work

with the board to develop a procedure for the collection of overdue receivables.

AGENCY RESPONSE:

We agree with the recommendation to provide aging reports and collection of receivables.

**FIXED ASSETS INVENTORY AND
ACCOUNTING RECORDS NOT
UPDATED**

DHR maintains the fixed asset records for the boards. In two instances, we noted boards had notified DHR that a fixed asset had been discarded, but DHR did not update the inventory or accounting records. In addition, DHR is not supplying the boards with fixed asset inventory listings that would allow them to take annual property inventories. The boards need this listing to determine if accounting records require updating and if assets are still on hand.

We recommend DHR update the boards' fixed asset records when the boards report changes. Also, DHR should provide each board with a current inventory listing at least annually.

AGENCY RESPONSE:

We agree with these recommendations. We have updated the fixed asset records and are providing a fixed asset listing to the three boards with fixed assets.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Department of Human Resources' management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Department of Human Resources during the course of our audit were very commendable and sincerely appreciated.

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