
Secretary of State

State of Oregon
BOARD OF PHARMACY
Special Review



Audits Division

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Special Review



Audits Division



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This audit encompasses a review of the Board of Pharmacy (board) 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. The Office of Administrative Services, Accounting Section of the Department of Human Resources (DHR), Office of the Director, maintains the accounting records for the board.

Our audit identified an internal control weakness related to the board's revenue refunds processing. Refunds do not undergo a supervisory review before being issued. We did not identify any instances of noncompliance with laws and regulations. Additionally, issues related to the central processing and reporting of accounting transactions for the health-related licensing boards by DHR could impact this board's operations. These issues are presented in a separate report entitled *Department of Human Resources, Review of Accounting for Health-Related Licensing Boards*.

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:
July 5, 1996

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SUMMARY

The Board of Pharmacy (board) consists of seven members appointed by the governor. The board's primary purposes are to regulate pharmacy practices to assure that only qualified individuals practice pharmacy in this state and to regulate the quality and distribution of controlled substances, prescription drugs, and over-the-counter drugs within the state. Additionally, the board issues and renews all pharmacy licenses and certificates, conducts investigations, takes action on complaints and proposed legislation, and proposes administrative rules and statutory amendments as deemed necessary.

The board is financed from fees for professional licenses, examinations, and disciplinary actions. For the audit period July 1, 1995, through March 31, 1996, the board reported revenues of \$507,177 and expenditures of \$521,772. The Department of Human Resources (DHR) maintains the accounting records for the board.

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. During the audit we noted no instances of noncompliance with laws and regulations. However, the internal controls related to the processing of refunds can be improved. Refunds are not reviewed for approval by a supervisor before being paid. The board agrees with the audit findings and recommendations.

Additionally, issues related to the central processing and reporting of accounting transactions for the health-related licensing boards by DHR could impact this board's operations. These issues are presented in a separate report entitled *Department of Human Resources, Review of Accounting for Health-Related Licensing Boards*.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Board of Pharmacy (board) operates under *Oregon Revised Statutes* (ORS) Chapter 689. The board consists of seven members appointed by the governor to four-year terms. Five members must be practicing pharmacists licensed in Oregon for at least five years. The remaining two members represent the general public. The board's administrative staff is managed by a licensed pharmacist who has been employed by the board to serve as executive director.

The board's primary duties and functions are:

- To regulate pharmacy practices to ensure only qualified individuals practice pharmacy in this state.
- To regulate the quality and distribution of controlled substances, prescription drugs, and over-the-counter drugs within the state.
- To license pharmacists either by examination or through reciprocity with other states.
- To register and inspect hospitals and retail pharmacies, drug wholesalers, manufacturers, and over-the-counter drug outlets, and to investigate violations of its rules.
- To serve as a source of information about drugs and drug law for the public and the legislature.
- To handle all pharmacy license and certificate renewals on an annual basis, conduct investigations, hold meetings and hearings to discuss complaints and proposed legislation, approve continuing education seminars, and propose administrative rules and statutory amendments when necessary.

FINANCIAL ACTIVITIES

For the 1995-97 biennium, the board was authorized \$1,440,721 of Other Funds expenditure limitation. Revenues include fees for licensing, examinations, fines and penalties, and miscellaneous charges.

For the period July 1, 1995, to March 31, 1996, revenues totaled \$507,177 and corresponding expenditures were \$521,772. As of March 31, 1996, the board had an ending cash balance of \$986,442.

The board's accounting records are maintained by the Office of Administrative Services, Accounting Section of the Department of Human Resources, Office of the Director (DHR).^{*} The board receives, processes, and deposits its cash receipts; DHR records the receipts, maintains the accounting records, and processes all other types of accounting transactions for the board.

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 reviewed internal controls and tested transactions for the period of July 1, 1995, to March 31, 1996. We tested revenues, personal services expenditures, services and supplies expenditures, travel expenditures, and fixed assets.

We performed analytical procedures on the revenues and expenditures recorded for the board. These procedures included comparing actual recorded amounts to budgeted amounts and evaluating against auditor expectations. We also compared recorded revenues to our estimate of revenues generated by multiplying the number of licenses issued by applicable license fees.

We verified that revenues received by the board were deposited and recorded on the accounting records by tracing ten revenue transactions to the supporting

^{*} 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.

information received from the licensee to verify internal controls were operating effectively. We also verified the amount paid was supported by an application or other documentation, and the fee charged was appropriate.

For the audit period, we developed an estimate of payroll expenditures for comparison to actual expenditures to determine if actual personal service expenditures appeared reasonable. We also reviewed all employee timesheets for the audit period to verify that they supported payroll expenditures and were approved.

For testing of services and supplies expenditures, we selected fifteen expenditures from the audit period. We reviewed supporting documentation to verify the expenditures were adequately supported by original invoices, properly authorized, and correctly recorded in the accounting records; and to ensure that internal controls were operating as designed. Additionally, we tested six travel reimbursements for compliance with state policies.

We also reviewed the board's controls over its fixed assets by reviewing expenditure transactions for possible unrecorded fixed assets purchased during the audit period. As an additional procedure, we identified items in the board's offices that appeared to meet the asset control requirements and traced them to the accounting records.

We conducted our audit 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 Board of Pharmacy (board) 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 a matter involving the internal control structure and its operation that we consider to be a reportable condition 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 the reportable condition described is not a material weakness. The reportable condition is reported in the FINDINGS AND RECOMMENDATIONS section of the report. We also noted other minor issues we determined were not reportable conditions and communicated these separately to management. We also noted other matters involving the internal control structure and its operation that have been communicated separately to management.

**REPORT ON
COMPLIANCE WITH
LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the board is the responsibility of management. As part of our audit, we performed tests of the board's 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*. However, we did note some minor issues which we communicated separately to management.

**FINDINGS AND
RECOMMENDATIONS**

**REFUND PAYMENTS NOT
REVIEWED**

Refunds issued by the board and processed by the Department of Human Resources (DHR) are not reviewed by a supervisor; rather, they are issued only on the basis of the licensing clerk's authorization. The clerk made \$3,705 in refunds during the audit period with no supervisory review.

If refund checks are processed by the licensing clerk with no supervisory review, the risks associated with issuing inappropriate payments are increased. Refund checks should be processed under the same control procedures as other expenditures.

We recommend an appropriate board supervisor review and approve refund check requests.

We have no other reportable findings specific to the procedures of this board. However, issues related to the central processing and reporting of accounting transactions by DHR, which are common to all the health-related licensing boards, could impact this board's operations. These issues are presented in a separate report entitled *Department of Human Resources, Review of Accounting for Health-Related Licensing Boards*.

**FOLLOW-UP ON
PRIOR AUDIT FINDINGS**

This section reports follow-up action taken by the Board of Pharmacy's management on the findings presented in the Comments and Findings section of our audit report covering the period July 1, 1990, to June 30, 1992.

Prior Audit Findings	Disposition
Supporting documents for revenues were not retained for a sufficient period of time. Per ORS 192.105(2) (a) documents supporting revenue transactions should be retained until after audit.	Resolved.
The board appeared to have a large amount of cash on hand at June 30, 1992. We recommend the cash on hand be reviewed when budgets are prepared and fees are set to avoid excessive amounts.	Unresolved. The board had \$986,442 in cash of March 31, 1996. This amount could support 17 months of expenditures at the current operating level. However, the board plans to request two positions be added in their 1997-1999 budget proposal.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Board of Pharmacy, 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 Board of Pharmacy and the Department of Human Resources during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Stephanie Schutzler, CPA, Audit Administrator
Mark Winter, CPA
Mark Montgomery
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AGENCY'S RESPONSE TO THE AUDIT REPORT

March 27, 1997

Oregon

Secretary Of State
Audits Division
255 Capitol Street NE Suite 500
Salem Oregon 97310

BOARD OF
PHARMACY

Re: Audit for the period July 1, 1995 to March 31, 1997

Gentlemen:

The Board of Pharmacy has reviewed both the 'Special Review' and the 'Review of Accounting for Health-Related Licensing Boards' and agree with the audit findings and recommendations. Board staff appreciates the professional and educational manner in which the audit was conducted.

Corrective Action Taken

Transactions Without Proper Approval:

Revenue Refunds: As of March 20, 1997 a supervisor is reviewing, approving, and signing all refund requests.

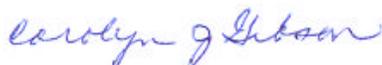
Time Sheets: As of January 1, 1997 all time sheets are signed by the appropriate supervisor. The only time sheet that does not have a supervisory signature is that of the Executive Director since there is no one in the office who supervises her.

Follow-up on Prior Audit Findings:

Large Cash on Hand: Two positions were requested for the 1997-99 biennium. One position was approved as limited duration with instruction to re-evaluate the need for the position during budget preparation for the 1999-2001 biennium. One clerical position is dependent upon passage of current Board legislation. The Board intends to go to the Emergency Board for authorization to hire a second clerical position.

If you have any questions relative to this response, feel free to contact me or Ruth Vandever, Executive Director of the Board.

Sincerely,



Carolyn J. Gibson
Administrative Programs Manager

John A. Kitzhaber
Governor



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