
Secretary of State

State of Oregon

OREGON BOARD OF DENTISTRY
Special Review



Audits Division

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Auditing for a Better Oregon

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This audit encompasses a review of the Oregon Board of Dentistry (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 review identified an internal control weakness related to receipts processing. 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 2, 1996

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SUMMARY

The Oregon Board of Dentistry (board) operates under *Oregon Revised Statutes* (ORS) Chapter 679. The board consists of nine members appointed by the governor to four-year terms. The members consist of six Oregon active licensed dentists, two Oregon active dental hygienists, and one public member. The board's primary purpose is to examine and regulate the practice of dentistry, dental hygiene and auxiliary personnel. The board also investigates alleged violations of the Dental Practice Act, including disciplining violators and revoking or suspending licenses. The board's activities are carried out by the executive director, who is assisted by five staff members.

The board is financed from the fees it collects for licenses and exams given to dentists and dental hygienists. The licenses are renewed every two years, with some renewing on even-numbered years and others on odd-numbered years. During the period July 1, 1995, to March 31, 1996, the board reported revenues of \$400,093 and expenditures of \$354,560. 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 found no instances of noncompliance with laws and regulations. However, the board can improve the internal controls related to cash receipting to provide better assurance that cash and cash-related transactions will be accounted for properly. The board's response, which is included in our report, agrees with the finding.

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 Oregon Board of Dentistry (board) operates under *Oregon Revised Statutes* (ORS) Chapter 679. The board consists of nine members appointed by the governor to four-year terms. Six members must be Oregon active licensed dentists, two members are Oregon active dental hygienists, and one member from the general public.

The board's primary purpose is to examine and regulate the practice of dentistry, dental hygiene, and auxiliary personnel. The board also investigates alleged violations of the Dental Practice Act, including disciplining violators and revoking or suspending licenses. The board's activities are carried out by the executive director, who is assisted by five staff members.

FINANCIAL ACTIVITIES

For the 1995-97 biennium, the legislature authorized \$1,066,358 of Other Funds expenditure limitation for this board. Revenues include application and licensing fees, initial license issue, renewal of existing licenses, and late filing fees. The licenses are renewed every two years, with some renewing on even-numbered years and others on odd-numbered years.

For the period July 1, 1995, to March 31, 1996, the board reported revenues of \$400,093 and expenditures of \$354,560. As of March 31, 1996, the board reported a cash balance of \$384,822. 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).^{*} This 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.

^{*} 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.

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 July 1, 1995, to March 31, 1996. We tested revenues, personal services expenditures, services and supplies expenditures, and travel expenditures. We also reviewed the board's fixed assets.

Specifically, we performed analytical procedures on the revenues and expenditures recorded for the board. These procedures included actual to budget comparisons of revenues and expenditures to verify that the recorded transactions were consistent with budget projections and auditor expectations. We also compared recorded revenues to the amount generated by multiplying the number of licenses issued by the license fee.

We tested ten receipts from the licensing system by tracing them to the deposit slips and then to the DHR cashiering system. We verified the amount paid was supported by an application or other documentation and the fee charged was appropriate. We also selected three deposit slips and traced some of the licensees from each deposit slip to the supporting documentation.

For the audit period, we developed an estimate of payroll expenditures for comparison to actual expenditures to determine if actual payroll expenditures appeared reasonable. We selected employee time sheets for the months of January and March 1996 for detail testing. We reviewed these documents and personnel records to verify that employees were paid appropriate amounts. We also reviewed payroll exception reports to verify that exceptions were reasonably explained and properly authorized.

We selected 13 services and supplies expenditures during the audit period. We reviewed supporting documentation to verify that expenditures were adequately supported, properly authorized, and correctly recorded in the accounting records; and to ensure that internal controls were operating as designed. Additionally, we tested 15 travel reimbursements for compliance with state policies.

We tested fixed assets by locating all fixed assets included in the property inventory. We also performed a search for unrecorded fixed assets.

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 Oregon Board of Dentistry (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 none of the reportable conditions described is a material weakness. Reportable conditions are reported in the FINDINGS AND RECOMMENDATIONS section of the report. We also noted other matters involving the internal control structure and its operations 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*.

FINDINGS AND RECOMMENDATIONS

CASH RECEIPTS PROCESS

Several weaknesses exist in the cash receipts processing which increase the risk to the board of undetected loss of receipts. We found a lack of segregation of duties. The examination and licensing manager opens the mail, prepares the deposit slips, approves the applications, and occasionally makes the deposits. There is no independent review of any of these functions.

We also found deposits are not always made timely. In our sample of 10 receipts, seven were deposited more than five business days after they were received. Further, the key to the safe, where undeposited receipts are held, is not adequately safeguarded; it is kept in an unlocked drawer.

OAM Chapter 03 states, “it is up to...management to ensure that effective and efficient internal controls exist over cash and cash-related transactions and that these controls are sufficient to control related risk. Controls and safeguards must be adequate to provide management with a reasonable degree of assurance that cash and cash related transactions will be properly accounted for.”

The board’s management indicated they were in the process of developing new procedures for the cash receipting process.

We recommend the board ensure the cash receipting duties are appropriately segregated. **We also recommend** the board ensure the receipts are deposited in a timely manner and are adequately safeguarded prior to deposit.

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 the Department of Human Resources, 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*.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Board of Dentistry, 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 Oregon Board of Dentistry 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
Tomás Flores

AGENCY’S RESPONSE TO THE AUDIT REPORT

March 28, 1997

BOARD OF
DENTISTRY

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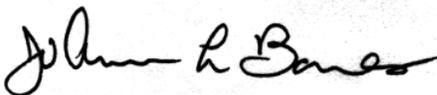
Thank you for the opportunity to review and comment on the Draft Audit that you sent dated March 14, 1997.

We wish to make the following response:

Under 'Findings and Recommendations' the report states: "The examination and licensing manager opens the mail, prepares the deposit slips, approves the applications, and occasionally makes the deposits. There is no independent review of any of these functions." While this is what the auditor observed on the day he was in our offices and was the procedure prior to the arrival of a new Executive Director in April of 1996, in fact the procedure adopted in June 1996 and which we follow (when both staff are available) is that the secretary opens the mail and notes the receipt of funds. The applications are approved by the licensing manager who also prepares the deposit slip. The deposit slip is verified by the Office Manager and either the licensing manager or Office Manager makes the deposit within four days of receipt of the funds. Our written procedure was given to the auditor at the time of his review of our procedures and has since been discussed with your staff. We plan to continue to work with your staff to improve our procedures during the next few months.

In the same section the report also states: "The key to the safe, where undeposited receipts are held, is not adequately safeguarded; it is kept in an unlocked drawer." Undeposited receipts are now kept in a locking file cabinet.

Sincerely,



Jo Ann L. Bones
Executive Director



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