
Secretary of State

State of Oregon
STATE MORTUARY AND CEMETERY BOARD
Special Review



Audits Division

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Auditing for a Better Oregon

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This audit encompasses a review of the State Mortuary and Cemetery Board (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.

The results of our review identified two internal control weaknesses related to cash receipting and fixed assets accounting. We did not identify any instances of noncompliance with laws and regulations. However, 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:
August 8, 1996

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SUMMARY

The State Mortuary and Cemetery Board (board) operates under *Oregon Revised Statutes* Chapter 692. The board, which was established in 1921, consists of 11 members appointed by the governor. The board's purpose is to provide oversight of the state's funeral service industry. The board is responsible for licensing funeral service industries practitioners and establishments. The board has the power to adopt and enforce rules relating to the practice of funeral service practitioners, embalmers, apprentices, funeral establishments, crematoriums, and cemeteries. Additionally, the board inspects facilities and records of funeral establishments, cemeteries, and crematoriums for compliance with its rules.

Fees for professional licenses, establishment licenses, death certificates, examinations, and disciplinary actions finance the board's operations. During the period July 1, 1995, through March 31, 1996, the board reported revenues of \$344,762 and expenditures of \$229,458. The Department of Human Resources (DHR) maintains the board's accounting records.

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 internal controls over revenue processing procedures and accounting for fixed assets. Also, the board did not properly document the disposal of its two computer systems. As a result, the board's fixed assets are overstated by \$24,650. In its response, which is included in this report, the board generally agreed with the findings.

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 State Mortuary and Cemetery Board (board) operates under *Oregon Revised Statutes* Chapter 692. The board, which was established in 1921, consists of 11 members appointed by the governor. The board's purpose is to provide oversight of the state's funeral service industry. The board is responsible for licensing funeral service industries practitioners and establishments. The board has the power to adopt and enforce rules relating to the practice of funeral service practitioners, embalmers, apprentices, funeral establishments, crematoriums, and cemeteries. Additionally, the board inspects facilities and records of establishments for compliance with rules. The board's activities are carried out by the executive director and four additional staff members.

FINANCIAL ACTIVITIES

For the 1995-97 biennium, the legislature authorized \$669,639 of Other Funds expenditure limitation for the board. Revenues include death certificate filing fees and fees for applications and licensing of funeral service practitioners, embalmers, apprentices, preneed salespersons, funeral establishments, crematoriums, and cemeteries.

For the period July 1, 1995, to March 31, 1996, the board recorded revenues of \$344,762. It transferred \$38,624 of this amount to the Indigent Burial Fund. Expenditures were \$229,458 for the same period. As of March 31, 1996, the board had a cash balance of \$327,946 and reported receivables of \$26,395.

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 office is responsible for processing and recording all cash receipts and disbursements as directed by the board, as well as maintaining the records and supporting documentation for the accounting system.

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, travel expenditures, accounts receivable, and fixed assets.

Specifically, we performed analytical procedures on the board's recorded revenues and expenditures. These procedures compared the recorded amounts to budgeted amounts. We also compared recorded revenues to an estimate of revenues generated by multiplying the number of licenses issued by the applicable license fees.

We tested 14 licensing transactions. These transactions were traced to the supporting information received from the licensee to verify internal controls were operating effectively and receipts were recorded in the accounting records. We verified the amount paid was supported by an application or other documentation, and the fee charged was appropriate.

We obtained an understanding of the board's internal control procedures for accounts receivable. We tested five receivable transactions to verify that the amounts collected agreed with the invoices and were accurately recorded.

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

^{*} 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.

appropriately prepared and approved. We also reviewed payroll exception reports to verify that exceptions were reasonably explained and properly authorized.

For testing of services and supplies expenditures, we selected 12 expenditures. We reviewed the supporting documentation to verify these 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 selected six travel reimbursements and tested for compliance with state policies.

We reviewed the listing of fixed assets and attempted to verify their existence. We also reviewed expenditure transactions for possible unrecorded fixed assets purchased during the audit period. As an additional procedure, we searched the board's facilities for items that appeared to meet the fixed asset requirements and verified they were included on the fixed asset listing, if appropriate.

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 State Mortuary and Cemetery Board (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 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 operation 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

Revenue Processing Procedures

The Department of Human Resources' cashiers office in Portland (DHR) is responsible for processing and recording cash receipts for the State Mortuary and Cemetery Board (board). However, because of the significant amount of time it takes for DHR to process the application materials and checks, the board requires all initial applications and fees be sent directly to the board. Once the applications are received by the board, the money is forwarded to DHR for deposit and recording into the accounting records. The board indicated that there can be more than a two-week delay in processing if the application and payments are sent directly to DHR prior to the board's seeing the application. The board stated that by having the initial applications and payments sent directly to the board, it is able to process them faster and keep applicants better informed on their status.

The board has one employee who is responsible for opening the mail, processing the payments, and also issuing the licenses. The board has made a decision to receive cash in its office; therefore, the board should ensure that proper controls are in place to limit the risk of misappropriation and error in the process. One way the board can do this is to have an independent person perform a reconciliation of the cash that is received by the board to the licenses that are issued.

We recommend the board put into place appropriate controls to ensure they are limiting the risk of misappropriation and error in the cash receipting process.

Accounting for Fixed Assets

The board's fixed asset listing is kept by DHR. The board has not ensured the listing accurately documents and accounts for its fixed assets.

The fixed asset records indicate the board owned two computer systems (microprocessors and monitors). Board management indicated the first computer system was traded in on the purchase of another computer system. However, the invoice for this purchase did not show a trade-in credit. We verified with the vendor verbally that the board did trade in the computer equipment; however, the board has

not obtained adequate documentation to support the transaction.

Components of the second computer system are being stored, used, or were given to other state boards. However, the Mortuary and Cemetery Board did not complete the appropriate documentation to show the transferring of fixed assets to the other boards.

As a result, the board's fixed asset records are overstated by \$24,650.

We recommend the board prepare documentation necessary for DHR to update the board's fixed asset record. The board should periodically review its fixed asset record to verify that only the assets currently owned by the board are included.

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*.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the State Mortuary and Cemetery Board, 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 State Mortuary and Cemetery Board 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
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AGENCY'S RESPONSE TO THE AUDIT REPORT

April 29, 1997

Secretary of State Audits Division
255 Capitol Street N.E., Suite 500
Salem, OR 97310

To Whom it May Concern:

RE: Audit findings for the Mortuary and Cemetery Board

Thank you for the opportunity to respond to your audit findings. I will respond to the areas reported on by the report.

Revenue Processing Procedures:

With regard to the Board's revenue processing procedures, we will review our in-house procedures in an effort to address your concerns.

Accounting for Fixed Assets:

With regard to the fixed assets portion of your report, the Board has completed all the necessary paperwork to remove the past two computer systems from the inventory list. These items should not have appeared on an inventory list to begin with since none of the components were valued at \$5,000 or more. Please refer to my previous letter to you dated April 17, 1997 and the attachments for a more detail explanation of the history and eventual outcome of the previous two computer systems.

If you have any questions, please feel free to contact me.

Sincerely,



Lucinda J. Potter
Executive Director

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