
Secretary of State

State of Oregon

VETERINARY MEDICAL EXAMINING BOARD

Special Review



Audits Division

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Auditing for a Better Oregon

The Honorable John Kitzhaber
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Salem, Oregon 97310

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This audit encompasses a review of the Veterinary Medical Examining 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, Office of the Director (DHR), maintains the accounting records for the board.

Our audit identified a needed improvement in the internal controls related to the board's processing of revenue transfers. 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 22, 1996

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SUMMARY

The Veterinary Medical Examining Board (board) operates under *Oregon Revised Statutes* (ORS) Chapter 686. The board consists of seven members appointed by the governor for a four-year term. Five members must be licensed to practice veterinary medicine, surgery, and dentistry in Oregon. Two members must be public citizens. The board's duties are to protect animal health, public health, and consumers of veterinary services through the regulation of veterinary professions in Oregon. The board examines and licenses veterinarians, veterinary technicians, and animal euthanasia technicians. The board also imposes disciplinary proceedings against those who violate the laws and rules of the Veterinary Practice Act.

The board is financed from fees it collects for licensing professionals, and from administering national board exams and clinical competency tests. During the period July 1, 1995, to March 31, 1996, the board reported revenues of \$174,561 and expenditures of \$89,128. 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 internal controls could be improved over revenue transfers. Revenue transfers were not made by this board to reimburse another health-related board for its portion of the salary of a clerical position. The Veterinary Medical Examining Board did not ensure that these reimbursements were made. In its response, included in this report, the board agreed with this finding.

We also followed up on three findings from a prior review and noted that two of the findings had been adequately resolved. The third finding related to the board's inadequate cash position at the time of the prior review, which resulted in the board's fees being increased by the legislature. We found that the board's cash position has increased substantially. In fact, the board had a cash balance of \$232,558 as of March 31, 1996, which represents 90 percent of the total expenditure budget for the 1995-1997 biennium. As a result, we recommend that the fee structure be reviewed again. The board's response to this recommendation was that it believes the current fee structure is adequate.

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 Veterinary Medical Examining Board (board) operates under *Oregon Revised Statutes* (ORS) Chapter 686. The board consists of seven members appointed by the governor for a four-year term. Five members must be licensed to practice veterinary medicine, surgery, and dentistry in Oregon. Two members must be public citizens. The board's duties are to protect animal health, public health, and consumers of veterinary services through the regulation of veterinary professions in Oregon. The board examines and licenses veterinarians, veterinary technicians, and animal euthanasia technicians. Furthermore, the board imposes disciplinary proceedings against those who violate the laws and rules of the Veterinary Practice Act.

The board's full-time executive officer is aided by a clerical assistant position that is shared with two other health-related boards. One of the other boards incurs the cost of the position, and this and the third board reimburse that board with revenue transfers.

FINANCIAL ACTIVITIES

The board is funded from licensing and examination fees. The euthanasia licenses renew annually in October; the veterinary and veterinary technician licenses renew annually in December. For the 1995-97 biennium, the legislature authorized an Other Funds expenditure limitation of \$258,879 for this board.

For the period July 1, 1995, through March 31, 1996, revenues totaled \$174,561 and corresponding expenditures totaled \$89,128. As of March 31, 1996, the board had a cash balance of \$232,558. Revenues reported had not been reduced by any revenue transfers as no such transfers were made during the period.

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, and travel expenditures.

Specifically, we performed analytical procedures on the revenues and expenditures recorded for the board. These procedures included actual to budget comparison 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, and by multiplying the number of exams given by the exam fee.

We tested 15 receipts and three revenue refunds that were recorded on DHR's cashiering system for the board. These transactions were traced to the supporting information received from the licensee or examinee to verify that internal controls were operating effectively and receipts were accurately recorded in the accounting records. We verified that the amount paid was supported by an application or other documentation, and that the fee charged was appropriate. We also traced 11 additional applications to the corresponding receipts on the system to verify that all receipts were being recorded, and that licenses issued were supported by fees paid.

^{*} 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.

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 month of December 1995 for detail testing. We reviewed these documents and personnel records to verify that employees were paid appropriate amounts.

We selected six services and supplies expenditures from 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. We also tested seven travel reimbursements for compliance with state policies.

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 Veterinary Medical Examining 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 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 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 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*.

**FINDINGS AND
RECOMMENDATIONS**

**Revenue Transfers
Not Made**

Revenue transfers were not made by the Veterinary Medical Examining Board (board) during the period July 1, 1995, through March 31, 1996, to reimburse the Board of Examiners for Speech Pathology and Audiology for this board's portion of the salary of a shared clerical assistant position. These transfers were to be made on a quarterly basis, initiated by DHR. Without these transfers the board will draw erroneous conclusions about its financial position based on incomplete data.

Though the Department of Human Resources (DHR) maintains the accounting records for all the health-related boards, it does so at the direction of the individual boards. The board's staff are responsible for reviewing accounting and management reports for reasonableness and assuring that all transactions have been processed. Additionally, follow-up should be performed with DHR when this does not occur.

We recommend board management work out a formal agreement with DHR for making quarterly transfers to the Board of Examiners for Speech Pathology and Audiology. In addition, board management should follow up to ensure these overdue transfers and future transfers are made promptly.

**FOLLOW-UP ON PRIOR
AUDIT FINDINGS**

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

| Prior Audit Findings | Disposition |
|--|---|
| The Veterinary Medical Examining Board hired a Health Division employee as an independent contractor to proctor exams. This employee should have been hired as a temporary employee. | Resolved. The executive officer advised that the board now uses employees to proctor exams. |
| Improper travel expenditures were claimed by a contractor and paid by the board. | Resolved. The executive officer advised that the board now follows state policies for expense reimbursement to contractors. No contractors claimed or were paid for travel expenses during the current review period. |
| A review of cash on hand at June 30, 1993, noted that the Veterinary Medical Examining Board had a very small amount of cash on hand at June 30, 1992. | Unresolved. The Emergency Board approved increasing licensing and examination fees at its June 26, 1992, meeting. The cash balance at March 31, 1996, is \$232,558, which is 90% of the total expenditure budget for the 1995-97 biennium. We recommend the board review its fee structure again. |

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 Veterinary Medical Examining 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 Veterinary Medical Examining 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
Mark Winter, CPA
Anne Lawrence

AGENCY'S RESPONSE TO THE AUDIT REPORT

April 21, 1997

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

VETERINARY
MEDICAL
EXAMINING
BOARD

Dear Ms. Goggins:

This letter is in response to the draft audit findings for the Veterinary Medical Examining Board. The Board is satisfied in general with your audit findings and recommendations, except for the recommendation about fee structure.

Revenue Transfer

The position that was established as a revenue transfer has been changed to a permanent position in the 97-99 biennium. The Dept. of Administrative Services set this up as a revenue transfer in the approval process for the 95-97 biennium, and the arrangement was unsatisfactory for a number of reasons including the frustration in handling the revenue transfers in a timely manner by the Health Division (DHR) business services section (mostly due to staff turn-over). We are pleased that this arrangement will cease July 1, 1997, and that a plan has been devised to be sure all the appropriate revenue has been transferred by June 30, 1997.

Cash Balance and Fee Structure

In reference to your comments about excessive cash balances, it is true we raised fees in 1992. Since that time there has been an unanticipated influx of licensees into Oregon, paralleling the growth of the general population. Both the 93-95 and the 95-97 Legislative Approved Budgets were significantly less than the Agency Request and we were unable to hire the staff needed until the 97-99 budget. We will be spending about the same as our projected revenue in the 1997-99 budget (already approved by the Ways and Means Committee at this writing).

Aside from the fact that a budget has been approved, the nature of the expenditures and the unique risks of licensing boards requires sufficient cash reserves. We are a regulatory and enforcement agency. We are involved in legal cases and are always at risk for lawsuits and expensive contested cases. We receive our major revenue, licensing fees, once a year in December. The Board needs cash reserves at the beginning of each biennium for operating expenses until the annual licenses fees are received in December, and to pay for unanticipated legal or other expenses. We do not have access to any other funds when legal expenses exceed our revenue and cash reserves. Other small boards have had to reduce or cease operations because they spent their reserves or cash flow was insufficient. In addition to this, Oregon has experienced growth in

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Letter to S. Goggins, Audits Division
April 21, 1997
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the last few years and this is reflected in the increase in licensed professions. As the economic and population growth slows, then so will our revenue and therefore our cash reserves. The Veterinary Board, therefore, believes its fee structure is adequate for maintaining the program over a long period of time.

I would extend a complement to your audit team who makes the on-site visits. They are professional and understanding of our time constraints, both of which makes the auditing process efficient and somewhat painless. And thank you for considering the financial risks of licensing boards when evaluating cash flow.

Sincerely,

A handwritten signature in cursive script that reads "Molly Emmons".

Molly Emmons
Executive Officer

cc: Board Members