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Secretary of State

State of Oregon

**BOARD OF NURSING**

**Special Review**

July 1, 1995, to June 30, 1996



Audits Division

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**Audits Division**





Secretary of State

Audits Division

*Auditing for a Better Oregon*

The Honorable John Kitzhaber  
Governor of Oregon  
State Capitol Building  
Salem, Oregon 97310

Katrina D. Susi, Chair  
Oregon State Board of Nursing  
1236 NW Johns Avenue  
Pendleton, Oregon 97801

Joan Bouchard, Executive Director  
Oregon State Board of Nursing  
800 NE Oregon St., Suite 465  
Portland, Oregon 97232

This audit encompasses a review of the Oregon State Board of Nursing (board) for the period of July 1, 1995, to June 30, 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.

Though we did not identify any instances of noncompliance with laws and regulations, our audit disclosed internal control weaknesses related to the board's revenue processing, follow up on accounts receivable, and tracking of fixed assets.

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

John N. Lattimer  
State Auditor

Fieldwork Completion Date:  
January 16 , 1997

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## SUMMARY

The Oregon State Board of Nursing (board) operates under *Oregon Revised Statutes* Chapter 678. The board consists of nine members appointed by the governor for three-year terms. Six of the board members must be registered nurses, two must be licensed practical nurses, and one must be a member of the public who is otherwise not eligible for appointment to the board. The board's duties are to establish professional standards for licensure, issue licenses, and assess and collect fees. The board also prescribes essential curricula and standards for nursing education programs. In addition, the board is responsible for investigating and disciplining licensees and for conducting a diversion program for chemically dependent licensees who are under its jurisdiction. The board manages a licensee population of approximately 49,200 registered nurses, licensed practical nurses, nurse practitioners, and certified nursing assistants. The administrative activities of the board are managed by an executive director.

The board is financed from fees it collects from licensing and regulating registered nurses, licensed practical nurses, and nurse practitioners. The licenses are for a two-year period, payable on the birth date of the applicant. The board also has the statutory authority to certify and regulate nursing assistants in Oregon. Funding for the Certified Nursing Assistant Program is received from Medicare and Medicaid grants through an agreement with the Senior and Disabled Services Division. During the period July 1, 1995, to June 30, 1996, the board reported \$1,607,991 in revenues and \$1,903,726 in expenditures.

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 revenue processing, timely follow-up on accounts receivable, and tracking fixed assets.

The board generally agrees with the audit findings.



## INTRODUCTION

### ORGANIZATION AND FUNCTIONS

The Oregon State Board of Nursing (board) operates under *Oregon Revised Statutes* Chapter 678. The board consists of nine members appointed by the governor for three-year terms. Six of the board members must be registered nurses, two must be licensed practical nurses, and one must be a member of the public who is otherwise not eligible for appointment to the board. The board's duties are to establish professional standards for licensure, to issue licenses, and assess and collect fees and prescribe essential curricula and standards for nursing education. In addition, the board is responsible for investigating and disciplining licensees and for conducting a diversion program for chemically dependent licensees who are under its jurisdiction. The board manages a licensee population of approximately 49,200 registered nurses, licensed practical nurses, nurse practitioners and certified nursing assistants. The administrative activities of the board are managed by an executive director.

### FINANCIAL ACTIVITIES

For the 1995-97 biennium, the legislature authorized \$3,932,156 of other funds expenditure limitation for this board. The board is financed from fees it collects from licensing and regulating registered nurses, licensed practical nurses, and nurse practitioners. The licenses are for a two-year period, payable on the birth date of the applicant. The board also has the statutory authority to certify and regulate nursing assistants in Oregon. Funding for the Certified Nursing Assistant Program is received from Medicare and Medicaid grants through an agreement with the Senior and Disabled Services Division.

For the period July 1, 1995, to June 30, 1996, the board reported revenues of \$1,607,991 and expenditures of \$1,903,726 and ended the period with a cash balance of \$723,117.

## **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 June 30, 1996. We tested revenues, personal services expenditures, service and supplies expenditures, travel expenditures, accounts receivable, accounts payable, and 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 12 cash receipts to ensure that the amount agreed to the fee schedule, the receipt was correctly recorded in the accounting records, and the deposit was made timely. We also tested three refunds for proper authorization, application to the appropriate license type and proper recording.

We reviewed accounts receivable records to assure that outstanding amounts were being followed up on in a timely manner and that amounts were properly recorded in the accounting records.

For payroll expenditures, we reviewed the December 1995 payroll, assuring that all time reports were properly signed and approved, leave time was documented, and the payroll register agreed to time sheets. We also reviewed the December 1995 payroll exception report to assure that exceptions were properly authorized.

For testing of services and supplies expenditures, we selected 12 expenditures from the audit period and reviewed supporting documentation to verify they were properly authorized, complied with state purchasing regulations and were recorded correctly in the accounting records. We also tested seven travel reimbursements for compliance with state policies.

We reviewed the board's fixed asset records to assure capitalizable items were being properly tagged and dispositions were being properly removed from the 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 INTERNAL CONTROL

The management of the Oregon State Board of Nursing (board) is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control 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 general-purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control 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. With respect to the internal control, 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. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control 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 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 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 internal control would not necessarily disclose all matters in the internal control 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. The matters we consider to be reportable conditions are included in the FINDINGS AND RECOMMENDATIONS section of this report. We also noted other matters involving the internal control 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 PROCESSING PROCEDURES

It is not possible to trace amounts deposited and recorded in the accounting records to supporting documentation. The Oregon State Board of Nursing (board) uses a cash receipt validation system which assigns a unique transaction number to each transaction. This number is printed on the transaction documentation at the time the documents are validated. However, detail reports that are produced by the system display only the dollar amounts of the transactions-not the validation numbers for each transaction. Since the board processes so many receipts of the same dollar amount, in the absence of the validation numbers, many of the transactions look identical. The validation number is necessary on the detail reports to facilitate the reconciliation of the daily receipts to the reports and to assist in identifying deposits to address questions that arise from licensees about license renewals and other payment issues. At a minimum, the board should consider manually recording the beginning and ending validation numbers for each batch on the validation reports to facilitate the reconciliation and assist in identifying deposits.

Board management has advised us that they are pursuing funding to replace the current system because they recognize the system's inadequacies.

**We recommend** the board consider recording each batch's validation numbers manually on the validation reports. If a new accounting system is obtained, it should allow for identifying individual receipts or batches.

### ACCOUNTS RECEIVABLE

The board needs to strengthen controls over accounts receivable processing. When we reviewed amounts receivable at June 30, 1996, we found the following:

- Follow-up letters on unpaid civil penalty assessments were generally not sent for six to 19 months after the penalties were assessed.
- Formal follow-up activities were not performed for nine months on an unpaid amount owing from another state agency.
- The board does not record accounts receivable in the general ledger for small services they provide such as mailing lists and publication subscriptions.

Receivables must be recorded and aggressively collected.<sup>1</sup> The chances of collection are diminished if collection efforts are not timely. Furthermore, the board is providing some services for which it is not being paid. For receivables related to penalties and fines, the public policy benefit may justify collection costs, and aggressive collection efforts are warranted.

**We recommend** all accounts receivable be recorded in the accounting records and aggressively collected within the extent and means provided by law and state policies.

## **ACCOUNTING FOR FIXED ASSETS**

As was similarly noted in a prior audit, the board's controls over fixed assets need strengthening. State policies addressing fixed assets require certain items (valued over \$5,000) to be recorded in the accounting records and tracked with property tags.<sup>2</sup> By definition, the board only has eight assets to track. We reviewed the eight assets and noted the following:

- The board's listing of fixed assets does not include the date items were acquired, the acquisition voucher numbers, or the location of the items.
- The board's current file server was not included on the list and the old computer that was replaced by the server was not transferred. Both items were corrected

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<sup>1</sup> Oregon Accounting Manual 03 03 00.PO.102

<sup>2</sup> Oregon Accounting Manual 01 02 00.PO.4

when this was brought to management's attention. The board has now disposed of the older computer in accordance with Department of Administrative Services policy.

- Three of the fixed assets are not properly identified with state property tags.

The Oregon Accounting Manual requires state agencies to maintain a system (manual or automated) which will assure that the state's investment in fixed assets is safeguarded and accounted for properly, accurately and systematically. Given the small number of assets maintained by the board, this would be neither a difficult nor time-consuming task.

**We recommend** the board update its listing of fixed assets to include all required information and appropriate assets in accordance with state policy. The board should also tag those items requiring state property tags.

## FOLLOW UP ON PRIOR AUDIT FINDINGS

This section reports follow up action taken by the Oregon State Board of Nursing management on the findings presented in the Review Comments section of our audit covering the period July 1, 1989, to December 31, 1990.

| Prior Audit Findings  | Disposition  |
|---|--|
| Some travel expense claims were inadequately supported or appeared to include excessive amounts.  | <b>Resolved.</b> We reviewed travel expenditures and found the board is complying with state travel policies.  |
| Inadequate segregation of duties in cash receipting and disbursement procedures.  | <b>Resolved.</b> The board's cash receipting and cash disbursement procedures are now adequately separated.  |
| Inadequate control over cash receipts and petty cash transactions.  | <b>Partially Resolved.</b> The internal control over cash receipts and petty cash transactions has been strengthened, although there are still some weaknesses. See comment on REVENUE PROCESSING PROCEDURES.  |
| The board did not perform a physical inventory of non-expendable property during 1990. Several items were not properly tagged. The general ledger control account was not supported by a subsidiary ledger. | <b>Partially Resolved.</b> The board has performed physical inventories, but still needs to strengthen controls over accounting for fixed assets. See comment on ACCOUNTING FOR FIXED ASSETS.  |
| Expenditures were improperly authorized and misclassified, and payments were made without supporting documentation. In addition, invoices were not canceled to preclude duplicate payments.                 | <b>Partially Resolved.</b> All of the expenditures we tested were properly authorized, classified, and had adequate supporting documentation. However, the board still does not cancel invoices after they are paid. To strengthen controls, <b>we recommend</b> the board adopt a policy of canceling invoices to prevent duplicate payments. |
| Inadequate segregation of duties over payroll transactions and inadequate controls to insure compliance with personnel policies.  | <b>Resolved.</b> The board now adequately separates payroll duties.  |
| Poor controls over license stock.   | <b>Resolved.</b> The board now maintains two logs of issued licenses--one for RN/LPN/NP licenses and one for CNA certificates. The logs include starting and ending numbers for the day's license run, voided numbers and replacement numbers.   |
| The board recorded reimbursements from SDS D as ordinary revenue instead of operating transfers in accordance with OAM 06.33.25 (4).  | <b>Resolved.</b> The board now records fees transferred to and reimbursement for expenditures from SDS D as operating transfers.   |

## **REPORT DISTRIBUTION**

This report is a public record and is intended for the information of the Oregon State Board of Nursing, the Department of Administrative Services' 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 State Board of Nursing during the course of our audit were very commendable and sincerely appreciated.

## **AUDIT TEAM**

Stephanie Schutzler, CPA, Audit Administrator  
Anne Lawrence



**AGENCY'S RESPONSE TO THE AUDIT REPORT**



June 9, 1997

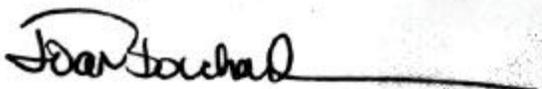
Audits Division  
Secretary of State  
255 Capitol Street, Suite 500  
Salem, OR 97310

Thank you for your staff's time and effort in reviewing the Oregon State Board of Nursing's accounting procedures and in helping the Board to refine its controls. Attached is the Board's response to the audit report of your Special Review for the period of July 1, 1995 to June 30, 1996.

We have carefully reviewed all of the problem areas in the report, and as of this date have either corrected them or have a plan for correction within the near future. We feel that the audit comments reflect the basic areas where management has had the greatest concerns, and where we have already begun efforts to correct the underlying problems; namely adequate staffing/expertise and shortcomings in the two databases (scheduled to be combined during the 1997-99 biennium.)

If you have any questions concerning our response, please contact Pat Miles, our fiscal coordinator.

Sincerely,



Joan Bouchard  
Executive Director

JCB:plm  
Attachments



John A. Kitzhaber  
Governor

800 NE OREGON ST. STE 46  
PORTLAND OR 97232-216  
(503) 731-4745  
FAX (503) 731-4755  
E-Mail:  
Oregon.BN.INFO@state.or.u

OREGON STATE BOARD OF NURSING  
RESPONSE TO AUDIT COMMENTS  
DIVISION OF AUDITS SPECIAL REVIEW REPORT  
For Period of July 1, 1995 to June 30, 1996

REVENUE PROCESSING PROCEDURES

AUDIT FINDING - Detail reports from the cash processing system do not show any identifying information that would enable a reconciliation from the total deposited for the day to the individual transactions.

AUDIT RECOMMENDATION - That the board record each batch's validation numbers manually on the validation reports. If a new accounting system is obtained, it should allow for identifying individual receipts or batches.

AGENCY RESPONSE - We concur that a detailed listing of the daily deposit is an important control, but currently do not have staffing available to create such a list of the 100 to 300 checks received daily. We do have controls in place that ensure the control of cash and checks from the time they enter the agency until deposited.

Currently, each transaction is validated on the application form and can be traced to the date and amount received, but not in the reverse. The validation number, however, is not used in any other way than in matching the check to the application, and is always printed with the date, which is just as accurate in matching to a deposit as the validation number. Although we will comply with the recommendation, we find no additional value to the process through recording of the validation numbers.

With the new accounting assistant position established for the 1997-99 biennium and the database consolidation scheduled for the next two years, we propose the following plan:

1. When the accounting assistant begins processing cash (July 1997), she/he will type either a social security number, license number, or name in the description field using the existing software.
2. The user support analyst on staff will develop an interface to convert the data capture file produced by the cash processing system into an Excel spreadsheet that can then produce daily listings that match the deposit, as well as providing an avenue for searching for individual transactions.
3. As the new database is developed, features will be incorporated that will limit data entry access to financial data for individual records, allow upload of the data capture file to the database, and provide reports that reconcile daily deposit information to licensee data files.

ACCOUNTS RECEIVABLE

AUDIT FINDING - The board needs to strengthen controls over accounts receivable processing.

**AUDIT RECOMMENDATION** - That all accounts receivable be recorded in the accounting records and aggressively collected within the extent and means provided by law and state policies.

**AGENCY RESPONSE** - We concur with the recommendation, with the following actions to address the specific areas mentioned:

1. Civil penalties. The assessment and collection of civil penalties is the responsibility of the Nursing Practice, Investigations, and Compliance Department. This department is in the process of finalizing the entire civil penalty procedure, including collection letters and notification to fiscal services of any actions to receivables.

2. Formal follow-up on an unpaid amount from another state agency. The other state agency was informed during the SFR process, through a listing of payments made and owing, that the amount had not been paid. They have also been contacted multiple times by telephone.

3. Mailing lists and publication subscription receivables. Because of the small dollar amount of these transactions in proportion to the time required to collect or follow up on receivables, the board now only accepts payment in advance. Our acceptance of credit cards seems to have mitigated any adverse effects on customer service.

#### ACCOUNTING FOR FIXED ASSETS

**AUDIT FINDING** - The board's controls over fixed assets need strengthening. The board's listing of fixed assets does not include the date items were acquired, the acquisition voucher numbers, or the location of the items. Three of the fixed assets were not properly identified with state property tags.

**AUDIT RECOMMENDATION** - That the board update its listing of fixed assets to include all required information and appropriate assets. That the board should tag all items requiring property tags.

**AGENCY RESPONSE** - We concur with the findings and recommendations. These specific discrepancies arose during a change in staffing. Staff has already disposed of unused equipment and has updated the fixed asset inventory. All fixed asset items have been tagged and accounted for. We have discontinued using the old state fixed asset system (FAPC), which did not track the above information, and have set up an in-house spreadsheet that includes the date items were acquired, the acquisition voucher number, and the location of the items.

#### FOLLOW UP ON PRIOR AUDIT FINDINGS

**AUDIT RECOMMENDATION** - That the board cancels invoices to prevent duplicate payments.

**AGENCY RESPONSE** - This recommendation is not based on a current finding as the audit found no exceptions in its testing of expenditures. At the time the processed batch of vouchers is released, the invoice will be stamped "paid" with the date. The agency has always carefully reviewed all invoices submitted for payment, as we have found the highest likelihood of duplicate payment arises from duplicate invoices sent by vendors and not identified as copies.