Secretary of State
AUDIT REPORT

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Physical Therapist Licensing Board: Change of Director Audit

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Summary

PURPOSE

The Secretary of State is required by Oregon Revised Statute 297.210 to audit or review state agencies when the executive head leaves his or her position. The purpose of this audit was to examine the Physical Therapist Licensing Board (agency) transactions and accounts directly under the control of the executive director for compliance with applicable laws and regulations, as well as determining if appropriate steps were taken when the director separated from the agency.

Patricia Gustafson was hired as the Executive Director of the agency effective July 12, 2000, and departed effective December 31, 2002.

RESULTS IN BRIEF

During our review, we found that the agency oversight board delegated significant authority to the director without providing adequate review of her activities. We also found that the agency did not adequately control financial transactions and had put itself at risk of loss by using a debit card. In addition, we noted that the agency did not have adequate controls over payroll and personal service contracts, and did not adequately regulate the personal use of computers and the telephone system.

RECOMMENDATIONS

We recommend that the agency oversight board increase its oversight of the activities of the director and ensure that the director:

- Establish controls over financial transactions and discontinue the use of a debit card.
- Establish controls over payroll processing.
- Review agency rules and controls for personal services contracts and suggest revisions to the oversight board as necessary.
- Develop policies covering the personal use of agency computers and telephone system.

AGENCY'S RESPONSE

The Physical Therapist Licensing Board generally agrees with the recommendations.

Introduction

The Physical Therapist Licensing Board (agency) was created in 1971 to regulate the practice of physical therapy in Oregon. The agency is comprised of three employees and contracts with an investigator to perform professional investigation services. The agency's purpose is to protect the public and to establish professional standards of practice, which assure that physical therapists and their assistants are properly educated, hold valid licenses and continue to receive ongoing training throughout their careers. The agency is self-supporting and activities are financed solely from licensure and related fees.

The agency is managed by an oversight board comprised of seven volunteer board members, who are appointed by the governor for a four-year term, with a maximum of two terms. The board issues licenses, promulgates rules, monitors continuing education, investigates complaints, issues civil penalties for violations and may revoke, suspend or impose probation on a licensee or limit his or her practice.

The 1999 Legislature enacted Senate Bill 1127 into law, granting certain small boards and commissions, including the agency, semi-independent status. This designation exempts these entities from various state rules governing personnel relations, public contracting and purchasing, the use of interagency services, salaries and expenses of state officers and employees, and the administration of public funds. In addition, the agency is exempt from the budgetary control of the legislature.

Audit Results

We found that the board delegated significant authority to the director without providing adequate oversight. Small agencies are often challenged in being able to properly segregate important financial activities due to the limited number of staff resources. When an agency has a limited number of staff, the agency should have compensating controls in place to safeguard assets and the oversight board should take an active role to fulfill its oversight responsibilities.

Insufficient board oversight allowed inadequate internal controls to exist over financial transactions. The board did not have a process in place to review the activities of the director. We also identified a need for stronger controls over payroll, personal service contracts, and personal use of the agency's computers and telephone system.

Insufficient Financial Controls

The agency had not established a system of control over financial transactions. Although the agency is small, which makes segregation of key duties difficult, it had not adopted controls over financial activities to compensate for this situation.

Specifically, we noted:

- The former director authorized expenditures, signed checks, recorded accounting entries, and reconciled the bank account.
- The bank account reconciliations were not always performed in a timely manner.
- Questionable purchases totaling approximately $521 were made that do not appear to serve the agency's mission. For example, we found one purchase related to a cancelled carpet installation for $442. In this case, the agency was not able to provide proof that the charge was properly reversed.
- Travel expenditures were inconsistently reported in the agency accounting system, and supporting documentation for at least one reimbursement was inadequate.
- The accounting system was not set up to maintain a proper audit trail over accounting transactions.

We recommend that the agency adopt policies and procedures and establish controls over financial activities. Specifically, the agency should:

- Separate the duties of authorizing expenditures, reconciling bank statements, and recording accounting entries. If adequate segregation is not possible, then compensating controls should be established by having a designated board member review expenditures and reconciliations.
- Prepare timely reconciliations.
- Limit expenditures to necessary items and maintain adequate support for all expenditures.
- Properly account for all travel related expenditures.
- Activate and maintain the audit trail function in the accounting system.

Agency's Response:

We are a small agency with 2 fulltime employees and one .80 FTE employee. Our licensure base and associated administrative work remains relatively constant. However, through recent efforts in our public awareness programs, over the past biennium, our complaints and the need to investigate have more than quadrupled, from 22 cases two years ago to 90 active cases today. Although each board employee has strengths in their own field of expertise, with the exception of the Executive Director, neither of the other two employees have strong aptitude in the area of accounting and finance.

Given the size of the agency, the volume of existing work, and the lack of applied skill in the area of accounting and finance, it would be very difficult to adequately segregate the financial activities within the group. We can assign the processing of payables, but the initial authorization and the signing will still be done by the Director.

We will compensate for this lack of control by assigning the Director approval parameters on the front end of the process. We will schedule a monthly oversight review and signoff of the payables process and the timely bank reconciliation with the Board Chair or their designated board member.

By June 30, 2003 formal policy and procedures will be written and in practice for this oversight process.

By June 30, 2003 formal policy and procedures will also be written and in practice for the reimbursement of all expenses, including travel, to staff and Board members.

The audit trail function in the QuickBooks system has been activated. An audit trail report is available upon request and can be selected to run current, and/or, historical data.

Exposure to Loss From Debit Card Use

The agency is putting itself more at risk by using a debit card rather than a petty cash system.

According to the Federal Reserve website, under current federal law, there is substantial risk related to the loss of theft of a debit card. On lost or stolen credit cards, loss is limited to $50 per card. The liability for unauthorized use on a debit card can greatly exceed this amount, however, depending on when the misappropriation is reported to the financial institution. The agency does not have any additional loss protection from its bank.

We recommend that the agency discontinue its use of a debit card and implement a petty cash system.

Agency's Response:

The debit card was retrieved and destroyed in December of 2002. The reserve account is no longer setup to handle electronic transactions via a debit card. By June 30, 2003 a petty cash fund will be setup to handle miscellaneous operating expenditures.

From time to time it may be necessary to incur impromptu expenses. If so, a personal credit card will be used with *reimbursement to the purchaser upon submission and approval of an authorized expenditure. The approvals and reimbursement will follow the written policies and procedures as noted above.*

Inadequate Control Over Payroll

The agency had inadequate controls over payroll processing. Good business practices require controls to be in place to ensure that payroll information is calculated accurately and timely. Specifically, we found:

- The former director increased her salary by 5 percent without board approval during the last six months of her employment. She also periodically increased her salary for cost-of-living increases without board approval. These unauthorized salary and cost-of-living increases amounted to a total of $2,605.
- The agency had not prepared reconciliations among payroll reports, bank statements and accounting records in order to detect and correct payroll errors. We found a cumulative unresolved reconciliation error of $578 between electronic withdrawals of payroll expenses by the payroll processor and reported payroll for 2002.
- Even though the agency had adopted policies covering the accrual and use of vacation leave, we noted that the director's reported accrued vacation leave exceeded the 350-hour limit adopted by the board. The director, however, was paid the appropriate amount of vacation leave upon her departure.
- The agency was unable to provide copies of the former director's timesheets.
- The agency did not have a process to request and authorize the use of leave time.

We recommend the following:

- The board to review and approve any cost-of-living or salary increases for staff, and review and compare the director's timesheets to monthly payroll reports.
- The director or a designated staff member to reconcile the payroll, employee deductions, and employer taxes reported in the payroll reports to the electronic withdrawals in the bank statement and resolve any errors on a timely basis.
- The payroll processor to track accrued vacation hours, enforce the limits and notify agency employees when those limits are about to be reached.
- Timesheets be prepared and maintained for all employees.
- A written process for requesting and authorizing the use of leave time.

Agency's Response:

Effective immediately, the Board Chairperson or their designated board member will be the only authority to provide written approval for change adjustments to administrative staff salary structure. This includes merit step increases, cost of living increases, promotion/demotion increase/decrease, change in status increase/decrease and miscellaneous adjustments.

Upon receipt, the Executive Director is currently checking payroll for accuracy. Hours worked, time off with pay, deduct time, overtime, are all being reconciled back to the timesheets and gross pay. Times off accruals are verified. Health and welfare benefit calculations are all being reconciled to elections. Upon satisfactory review, gross pay, the payroll tax entries, and the health and welfare payments are being posted to the general ledger. The Executive Director is signing off on the payroll reconciliation.

Accountability directions will be written and published for our payroll processor. Noted will be the authority for salary adjustment and the maximum accruals on paid time off benefits i.e. vacation, sick and personal accruals.

All employees are currently completing timesheets. The timesheet records are kept as part of the applicable payroll period documentation file.

By June 30, 2003 formal policy and procedures will be written and in practice regarding the request for personal leave time and the other processes as noted above.

Personal Service Contracts

The board has adopted state contracting and purchasing policy. We found, however, two instances in which the agency did not follow these policies by not having a valid contract in place.

The contract that the agency entered into with a private firm to provide accounting services expired on June 30, 2001. This firm continued, however, to provide services to the agency without a valid contract.

In addition, the agency did not have a formal personal service contract with the payroll processor, but had signed only standardized forms provided by the processor.

Without a personal services contract, no statement of work existed detailing the requirements and expectations for service. In these cases, the lack of valid personal service contracts put the agency at risk of not receiving the desired services.

We also noted that a contract for investigative services contained two specific items in the statement of work that were added after the contract was approved by the board and without the board's knowledge. Inclusion of these provisions subsequent to board approval made it possible for a contractor to hold the agency liable for work performed that the board did not intend.

We recommend that the agency review its contracting rules and uniformly apply them to all personal services contracts. We also recommend that the agency rules prohibit the director from making changes to contracts after they have been approved by the board.

Agency's Response:
The Board recognizes and agrees with the importance of consistency and uniformity in the application of its personal service contract rules. At this time, the Board holds in abeyance its decision relative to its policies and procedures regarding personal service contracts.

In the interim, the Board will review its current contracts for consistency and uniformity relative to the current rules. This process will be completed by June 30, 2003.

Personal Use of Computers and Telephone Systems

The agency did not regulate how employees use agency computers and its telephone system. The former director benefited by using the agency's computers and telephone system for her personal use.

For example, during the last eight months of her employment at the agency, the former director made 51 long-distance calls totaling six hours to a single phone number belonging to personal acquaintances. The agency was not able to provide evidence indicating that the agency was reimbursed for the cost of these personal calls.

We recommend that the agency adopt policies covering the personal use of the agency's computers and its telephone system.

Agency's Response:
By June 30, 2003 formal policy and procedures will be written and in practice regarding the business/personal use of PT Board computers, e-mail, and telephone system.

Separation Controls

Finally, our audit included a review of standard employee separation controls such as verifying that all assets assigned to the former director had been returned, building access had been terminated, access to credit and bankcards had been terminated, and access to computer systems had been revoked. We found that all of the above activities were completed in a timely manner.

Objectives, Scope and Methodology

This audit was conducted in compliance with Oregon Revised Statute 297.210, which requires the Audits Division to perform an audit or review when the executive head leaves that position for any reason. Our audit objective was to ensure that the agency took appropriate actions to protect agency assets upon the former director's separation. Specifically, we:

- Reviewed relevant statutes and laws;
- Determined if assets assigned to the former director had been returned to the board;
- Determined whether the former director's access to the agency, its bank and credit cards, and its computer systems was revoked;
- Reviewed travel transactions payable to the former director and payroll transactions payable to or authorized by the former director, for the last year of her employment, to determine if payments were reasonable and in accordance with policy; and
- Reviewed contracts entered into by the former director, for the last year of her employment, to determine whether the former director entered into any related party contracts and whether the contracts entered into were for amounts and services that appeared reasonable, and were for valid business purposes.

We conducted this audit according to generally accepted government auditing standards. We conducted our audit during January through April of 2003. We limited our audit to the areas specified above.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us *and* http://www.sos.state.or.us/audits/audithp.htm.

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The courtesies and cooperation extended by the officials and staff of the Physical Therapist Licensing Board were commendable and much appreciated.

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