

Report No. 2006-26

August 31, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Oregon Patient Safety Commission

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

Contract Auditor: Merina & Company, LLP

State of Oregon

Oregon Patient Safety Commission

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State



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Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301

Board of Directors
Oregon Patient Safety Commission
1020 SW Taylor Street, Suite 375
Portland, Oregon 97205-2554

This report contains audited financial statements of the Oregon Patient Safety Commission, a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2005, and a report on its internal control over financial reporting and on compliance with applicable laws, regulations and contracts. The audit was performed by Merina & Company, LLP for the Secretary of State Audits Division.

OREGON AUDITS DIVISION

A handwritten signature in blue ink, appearing to read 'C.A. Hibner', is written over a light blue rectangular background.

Charles A. Hibner, CPA
Director

OREGON PATIENT SAFETY COMMISSION

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA**

For the Biennium Ended

June 30, 2005

with

Independent Auditors' Report

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Oregon Patient Safety Commission
1020 SW Taylor St., Suite 375
Portland, Oregon 97205

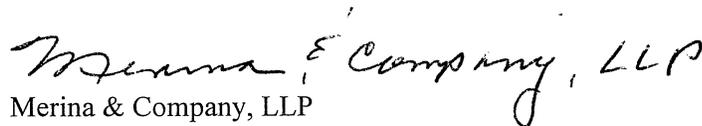
Charles A. Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

We have audited the accompanying financial statements of the governmental activities, and the special revenue fund of the Oregon Patient Safety Commission, a semi-independent agency of the State of Oregon, as of and for the two years ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Oregon Patient Safety Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the Oregon Patient Safety Commission as of June 30, 2005, and the respective changes in financial position, and the respective budgetary comparison statement for the special revenue fund for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2006, on our consideration of the Oregon Patient Safety Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report is separately presented in the Other Reports section as listed in the table of contents.



Merina & Company, LLP
West Linn, Oregon
May 19, 2006

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF NET ASSETS
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 269,227</u>
Total assets	<u><u>\$ 269,227</u></u>
NET ASSETS:	
Unrestricted	<u>269,227</u>
Total net assets	<u>269,227</u>
Total liabilities and net assets	<u><u>\$ 269,227</u></u>

The accompanying notes are an integral part of these financial statements

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2005

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
EXPENSES:		
Governmental activities:		
Service and supplies	\$ 111	\$ (111)
Total program expenses		<u>(111)</u>
GENERAL REVENUES AND TRANSFERS:		
General revenues:		
Donations		<u>269,338</u>
Total general revenues and transfers		<u>269,338</u>
Change in net assets		269,227
NET ASSETS, BEGINNING		<u>-</u>
NET ASSETS, ENDING		<u><u>\$ 269,227</u></u>

The accompanying notes are an integral part of these financial statements

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2005

	Total Governmental Fund
ASSETS:	
Cash and cash equivalents	<u>\$ 269,227</u>
Total assets	<u><u>\$ 269,227</u></u>
 FUND BALANCE:	
Unreserved	<u>269,227</u>
Total liabilities and fund balance	<u><u>\$ 269,227</u></u>

The accompanying notes are an integral part of these financial statements

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
For the Biennium Ended June 30, 2005

	Total Governmental Fund
REVENUES:	
Donations	<u>269,338</u>
Total revenues	<u>269,338</u>
 EXPENDITURES:	
Service and supplies	<u>111</u>
Total expenditures	<u>111</u>
Revenues over (under) expenditures	269,227
 FUND BALANCE, BEGINNING	<u>-</u>
 FUND BALANCE, ENDING	<u><u>\$ 269,227</u></u>

The accompanying notes are an integral part of these financial statements

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Biennium Ended June 30, 2005

	Biennial	Actual			Variance
	Budget Original & Final	FY 2004	FY 2005	Biennial	Positive (Negative)
REVENUES:					
Donations	-	15,000	254,338	269,338	269,338
Total revenues	-	15,000	269,338	269,338	269,338
EXPENDITURES:					
Service and supplies	-	-	111	111	(111)
Total expenditures	-	-	111	111	(111)
Revenues over (under) expenditures	-	15,000	269,227	269,227	269,227
FUND BALANCES, BEGINNING	-	-	-	-	-
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 269,227</u>	<u>\$ 269,227</u>	<u>\$ 269,227</u>

The accompanying notes are an integral part of these financial statements

NATURE OF THE ORGANIZATION

The Oregon Patient Safety Commission (the Commission) was formed by the Oregon Legislature in July 2003. The Commission's mission is to improve patient safety by reducing the risk of serious adverse events occurring in Oregon's healthcare system and by encouraging a culture of patient safety in Oregon. The Commission is charged with establishing a confidential, voluntary adverse event reporting system. Six types of organizations are eligible to participate in this voluntary reporting program: hospitals, long-term care facilities, pharmacies, ambulatory surgical centers, outpatient renal dialysis facilities, and free-standing birthing centers. The Commission also works to establish quality improvement techniques to reduce errors in the healthcare system, and to share evidence-based prevention practices to improve patient outcomes. The Commission is not a regulatory body and has no authority to review licenses, permits, certifications, or registrations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Oregon Patient Safety Commission is a semi-independent agency of the State of Oregon. The Commission operates under Oregon Revised Statutes (ORS) Chapter 686. The Commission consists of seventeen members appointed by the governor for four-year terms. Under the terms of ORS 442.830, the Commission's membership is required to include the Public Health Officer, one faculty member (not involved in direct delivery of health care) from the Oregon University system or a private Oregon university, two representatives of group health care (one of whom must be employed by the State government and neither of whom can be involved in the direct delivery of health care or have an immediate family member who is directly involved in providing health care), two representatives of consumers of health care consumers (neither of whom can be involved in the direct delivery of health care or have an immediate family member who is directly involved in providing health care), two representatives of health insurers (including either a representative of a domestic, not-for-profit health care services contractor, a domestic insurance company licensed to transact health insurance, or a representative of an HMO), one representative of a state or national labor organization, two physicians licensed under ORS 677, two hospital administrators or their designees, one pharmacist licensed under ORS 689, one representative of either an ambulatory surgical center or an outpatient renal dialysis facility, one nurse licensed under ORS 678 in clinical practice, and either a nursing home administrator or a nursing home director of nursing services licensed under ORS 678.

Pursuant to Oregon Senate Bill 1127 (adopted in 1999), the Commission was granted semi-independent status by the Legislature in 2003.

Basis of Presentation

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Commission are organized in a single special revenue fund which is used to

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

account for the Commission's activities. Revenues during the biennium ended June 30, 2005 were entirely from contributions. In future periods, the Commission contemplates the assessment of fees on participants in the voluntary reporting program as an additional source of revenues to fund operations.

Basis of Accounting

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Board are organized on the basis of a special revenue fund. Revenues during the biennium ended June 30, 2005 consisted entirely of contributions.

Government-wide Statements

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include all the financial activities of the Board.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available except for contributions which are recognized when received. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

Budget

The Commission is required to adopt budgets on a biennial basis. The Commission may adopt or modify a budget only after holding a public hearing.

Unlike most budgets in state government where the agency budgets are enacted into law by the Legislature, the Commission's budget is not subject to review and approval by the Legislature or to future modification by the Legislature or the Emergency Board. For this reason, the budgets adopted by the Commission are considered to be non-appropriated budgets. For the 2003-2005 biennium, the Commission was in an organizational phase during which it had no formal budget and only one expenditure. For this reason, no budget data is presented for the period.

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits.

Cash and Investments

The Board of Directors has adopted the State of Oregon's investment policies which restrict investment types and maturities. The Commission had no investments as of June 30, 2005.

Supplies

Supplies are charged as expenditures when purchased.

Compensated Absences

Full-time, permanent employees will be granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Commission. The Commission had no full-time, permanent employees as of June 30, 2005.

Fixed Assets

Fixed assets with a cost of more than \$1,000 are depreciated over their useful life. Depreciable lives of assets are up to 10 years for furniture and fixtures, 5 years for general office equipment, 3-5 years for computer hardware and peripherals, and 2-3 years for software. The Commission's policy is to depreciate leased assets over the lease life, and leasehold improvements over the remainder of the lease term. As of June 30, 2005, the Commission did not have any equipment with a cost basis greater than \$1,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CASH AND INVESTMENTS

Credit risk

State statutes authorize the Oregon Patient Safety Commission to invest in general obligations of the U.S. Government and its agencies, certain debt obligations of Oregon, California, Washington, and Idaho, bank repurchase agreements, bankers' acceptances, and certain corporate debt obligations, among others.

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

Concentration of credit risk

All investments of the Board shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

Custodial credit risk – deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. As of June 30, 2005, the Commission's bank balance was \$269,227. Of this amount, \$100,000 was covered by Federal Depository Insurance. The remaining balance of \$169,227 was uninsured and uncollateralized. Upon learning of the requirement and its non-compliance, the Commission took immediate steps to obtain the necessary collateral to secure the amounts in excess of federal insurance limits.

PENSION PLAN

Oregon Public Employee Retirement System (PERS)

Employees who were plan members before August 29, 2003, participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board (PERB) under the guidelines of Oregon Revised Statutes, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits.

The Board is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for employees at fiscal year 2005 was 4.71%.

OREGON PATIENT SAFETY COMMISSION
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2005

Oregon Public Service Retirement Plan (OPSRP)

The pension program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). The pension program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. The pension program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200 or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

The Board is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. The rate for employees at fiscal year 2005 was 8.04%.

The Individual Account Program (IAP)

IAP is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6% of their salary to the plan. Current law requires employers that had been paying the member contributions into PERS to pay employee contributions to the IAP until at least December 31, 2005.

The Board made no contributions to PERS and OPSRP for the two years ended June 30, 2005, as it was in an organizational phase and had no covered employees.

During the biennium, Oregon General Obligation Pension Bonds were issued to fund the States' share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to PERS. Over the next 24 years the state will be obligated to make the principal and interest payments on the pension obligation bonds. All benefiting agencies are charged the same rate to pay this debt service, which fluctuated during this biennium. The amount paid by the Board for the two years ended June 30, 2005 was \$0.

EMPLOYEE LEAVE

The Commission has adopted the State's policies concerning compensated absences with regards to both accrual of sick leave and vacation time. The Commission had no employees as of June 30, 2005 and, according, had no accrued liability for compensated absences as of that time.

INSURANCE

Insurance programs are administered for the Commission by the Risk Management Division of the Oregon Department of Administrative Services, which provides insurance coverage to all state agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program.

The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based upon its share of services provided in a prior period.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Directors
Oregon Patient Safety Commission
1020SW Taylor St., Suite 375
Portland, Oregon 97205

Charles A. Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

We have audited the financial statements of Oregon Patient Safety Commission as of and for the two years ended June 30, 2005, and have issued our report thereon dated May 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we have considered the Oregon Patient Safety Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might constitute material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oregon Patient Safety Commission's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. ORS Chapter 295 requires that amounts deposited in bank accounts in excess of the limits of federal deposit insurance be secured by collateral. The Commission had not obtained the required collateral during the two years covered by our audit.

We noted certain matters that we reported to the management of Oregon Patient Safety Commission, in a separate letter dated May 19, 2006.

This report is intended solely for the information and use of Oregon Patient Safety Commission, the Governor of the State of Oregon, and Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Merina & Company, LLP
Merina & Company, LLP
West Linn, Oregon
May 19, 2006

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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Auditing to Protect the Public Interest and Improve Oregon Government