

Report No. 2008-11

April 9, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

State of Oregon

**Patient Safety Commission**

A Semi-Independent Agency

For the Biennium Ended June 30, 2007

Contract Auditor: Merina & Company, LLP

**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

Charles A. Hibner, CPA  
Director

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The Honorable Ted Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

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

This report presents 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, 2007, 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.

Sincerely,  
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, 2007

with

Independent Auditors' Report

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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OREGON PATIENT SAFETY COMMISSION  
For the Biennium Ended June 30, 2007

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**PARTNERS**

**JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA**

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Oregon Patient Safety Commission  
1020 SW Taylor Street, Suite 375  
Portland, OR 97209

Charles Hibner, Director  
Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 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, 2007, 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 opinions 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of the Oregon Patient Safety Commission, as of June 30, 2007, and the 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 January 16, 2008, on our consideration of the Oregon Patient Safety Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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 considered in assessing 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  
January 16, 2008

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF NET ASSETS**  
**June 30, 2007**

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	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 177,251
Total assets	<u>\$ 177,251</u>
<b>LIABILITIES:</b>	
Accounts payable	\$ 3,398
Compensated absences	<u>8,936</u>
Total liabilities	<u>12,334</u>
<b>NET ASSETS:</b>	
Restricted	37,000
Unrestricted	<u>127,917</u>
Total net assets	<u>164,917</u>
Total liabilities and net assets	<u>\$ 177,251</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, 2007**

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	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
<b>EXPENSES:</b>		
Governmental activities:		
General government:	504,813	(504,813)
Total program expenses		<u>(504,813)</u>
<b>GENERAL REVENUES:</b>		
General revenues:		
Fees		354,545
Contributions and donations		37,500
Other Income		<u>8,458</u>
Total general revenues and transfers		<u>400,503</u>
Change in net assets		(104,310)
<b>NET ASSETS, BEGINNING</b>		<u>269,227</u>
<b>NET ASSETS, ENDING</b>		<u><u>\$ 164,917</u></u>

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**BALANCE SHEET - GOVERNMENTAL FUND**  
**June 30, 2007**

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	Total Governmental Fund
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 177,251
Total assets	<u>\$ 177,251</u>
<b>LIABILITIES AND FUND BALANCE:</b>	
Accounts payable	\$ 3,398
Total liabilities	<u>3,398</u>
<b>FUND BALANCE:</b>	
Reserved	37,000
Unreserved	<u>136,853</u>
Total fund balance	<u>173,853</u>
Total liabilities and fund balance	<u>\$ 177,251</u>
<b>RECONCILIATION TO THE STATEMENT OF NET ASSETS</b>	
Total fund balance	\$ 173,853
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(8,936)</u>
Net assets of governmental activities	<u>\$ 164,917</u>

**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, 2007**

	Total Governmental Fund
<b>REVENUES:</b>	
License and fees	\$ 354,545
Contributions and donations	37,500
Miscellaneous income	8,458
	<hr/>
Total revenues	400,503
	<hr/>
<b>EXPENDITURES:</b>	
Personal service	380,541
Service and supplies	95,564
Capital outlay	19,772
	<hr/>
Total expenditures	495,877
	<hr/>
Net change in fund balance	(95,374)
	<hr/>
<b>FUND BALANCE, BEGINNING</b>	269,227
	<hr/>
<b>FUND BALANCE, ENDING</b>	<u>\$ 173,853</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Net change in fund balance	\$ (95,374)
Change in compensated absences	<hr/> (8,936)
Change in net assets	<hr/> <u>\$ (104,310)</u>

**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, 2007**

	Biennial	Actual			Variance
	Budget Original & Final	FY 2006	FY 2007	Biennial	Positive (Negative)
<b>REVENUES:</b>					
License and fees	\$ 675,961	\$ 173,000	\$ 181,545	\$ 354,545	\$ (321,416)
Contributions and donations	-	-	37,500	37,500	37,500
Miscellaneous income	-	3,693	4,765	8,458	8,458
Total revenues	675,961	176,693	223,810	400,503	(275,458)
<b>EXPENDITURES:</b>					
Personal service	533,457	153,847	226,694	380,541	152,916
Service and supplies	339,842	32,096	63,468	95,564	244,278
Capital outlay	72,000	16,593	3,179	19,772	52,228
Total expenditures	945,299	202,536	293,341	495,877	449,422
Net changes in fund balances	(269,338)	(25,843)	(69,531)	(95,374)	173,964
<b>FUND BALANCES, BEGINNING</b>	269,338	269,227	243,384	269,227	(111)
<b>FUND BALANCES, ENDING</b>	\$ -	\$ 243,384	\$ 173,853	\$ 173,853	\$ 173,853

The accompanying notes are an integral part of these financial statements

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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***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's Board of Directors is comprised 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.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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*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 account for the Commission's activities. Revenues during the biennium ended June 30, 2007 were from contributions and from the assessment of fees on participants in the voluntary reporting program. Beginning July 1, 2007, the Oregon legislature authorized the assessment of fees on all health care organizations eligible to participate in the Commission's reporting program, regardless of participation status. The same legislation also capped the fees the Commission may collect from these organizations at \$1,500,000 per year, indexed for inflation.

*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 Commission are organized on the basis of a special revenue fund. Revenues during the biennium ended June 30, 2007 consisted primarily of assessed fees for participants in the voluntary reporting program and contributions/grants.

*Government-wide Statements*

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

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.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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*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.

*Cash and Cash Equivalents*

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with an original maturity of three months or less from the date of acquisition.

*Cash and Investments*

The Commission's 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, 2007.

*Supplies*

Supplies are charged as expenditures when purchased.

*Compensated Absences*

Full-time, permanent employees will be granted paid time off and benefits of varying amounts to specified maximums depending on tenure with the Commission. The Commission had three full-time, permanent employees and one part-time, permanent employee as of June 30, 2007.

*Fixed Assets*

Fixed assets with a cost of more than \$5,000 are depreciated over their useful life using the straight-line method. 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, 2007, the Commission had no assets with a cost of over \$5,000 and therefore no depreciation expense for the biennium ended June 30, 2007.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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*Net Assets and Fund Equity*

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. The Commission had no net assets invested in capital assets, net of related debt as of June 30, 2007. Restricted net assets represent net assets restricted by parties outside the Commission (such as creditors, grantors, contributors, laws, and regulations of other governments). The Commission's restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

In the fund financial statements, governmental funds report reservations of fund balance that are legally restricted by outside parties for use for a specific purpose.

*Use of Restricted Resources*

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources, as they are needed.

*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.

*Concentration of credit risk*

All investments of the Commission shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus finds 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).

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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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, 2007, the Commission's bank balance was \$188,250. Of this amount, \$100,000 was covered by Federal Depository Insurance. The remaining balance was covered by a collateral certificate held in the pledging financial institution's trust department or agent, in the Commission's name.

***PENSION PLAN***

Commission employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) which is a part of the Public Employees Retirement System (PERS). Employees hired on, or before, this date are PERS members. All Commission employees who work over 600 hours per year are eligible to participate in the plans after completing six months of employment with a PERS/OPSRP covered employer. Both plans require an actuarially determined contribution from the employer and an employee contribution of 6 percent of covered salary. The Commission pays the employee's contribution as allowed by law. Both plans are administered by the Public Employees Retirement Board under the guidelines of *Oregon Revised Statutes*, Chapter 238 and 238A. Both plans provide retirement benefits and cost-of-living adjustments, as well as disability, post-employment healthcare, and death benefits to plan members and beneficiaries. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained by writing to the Oregon Public Employee Retirement System, PO Box 23700, Tigard, Oregon 97281-3700.

The Commission's contributions for the biennium ended June 30, 2007 equaled what was required.

*Defined Benefit Plans*

Oregon Public Service Retirement Plan (OPSRP): The Pension Program of OPSRP is a cost-sharing multiple-employer defined benefit pension plan. The Commission is required by statute to contribute actuarially computed amounts as determined by the PERS Board. Rates are subject to change as a result of actuarial valuations. The rate for a covered employee's salary for fiscal year 2007 was 8.04 percent.

Public Employees Retirement System (PERS): PERS plan members also participate in a cost-sharing multiple-employer defined benefit pension plan. The Commission is required by

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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statute to contribute actuarially computed amounts as determined by the PERS Board. The rates are subject to change as a result of subsequent actuarial valuations. During fiscal year 2007, the Commission contributed 12.30 percent of covered salary.

*Defined Contribution*

Individual Account Program (IAP): The Individual Account Program (IAP) is the defined contribution portion of OPSRP. The IAP is administered by the PERS Board. It is applicable to non-PERS members as of August 29, 2003, and applicable to active PERS members as of January 1, 2004. Contributions made prior to establishment of the IAP remain in the members' PERS accounts. Covered employees are required by State statute to contribute 6% of their salary to the IAP. The Commission paid the amounts for the employees' contributions for the biennium ending June 30, 2007.

Total pension expense for the Commission was \$26,631 for the Year ended June 30, 2007; \$9,893 for the year ended June 30, 2006; and \$0 for the year ended June 30, 2005.

*Other Charges*

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 amounts paid by the Commission for the years ended June 30, 2007, June 30, 2006, and June 30, 2005 were \$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 three eligible employees as of June 30, 2007. Liability for accumulated paid time off, based upon current salary rates, was \$8,936 at June 30, 2007.

The Commission does not record a liability for accrued sick leave as usage is impossible to predict and employees are not paid for unused accrued sick leave upon termination of their employment with the Commission. Sick leave is recorded as an expenditure in the period when the amounts are actually used.

***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.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2007**

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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.

***LITIGATION***

The Commission is a defendant in one lawsuit. It is the opinion of the State Attorney and the Commission that the resolution of these matters will not have a material adverse effect of the financial condition of the Commission.

***CONTINGENCIES AND COMMITMENTS***

The Commission entered into a two year extension of its original rental lease agreement for office space on January 1, 2007. The lease calls for payments of \$1,380 monthly beginning January 1, 2007, and provides for a percentage increase of the base rent on January 1, 2008 equal to the Consumer Price Index (as reported by the U.S Bureau of Labor Statistics) for U.S. City average (all urban consumers) as of October 2007, subject to a minimum of 3% and a maximum of 5%.

**PARTNERS**

**JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA**

**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 Commissioners  
Oregon Patient Safety Commission  
1020 SW Taylor Street, Suite 375  
Portland, Oregon 97205

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

We have audited the financial statements of the governmental activities and the special revenue fund of the Oregon Patient Safety Commission, as of and for the two years ended June 30, 2007, which collectively comprise the Oregon Patient Safety Commission's basic financial statements and have issued our report thereon dated January 16, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon Patient Safety Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon Patient Safety Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Patient Safety Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oregon Patient Safety Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Oregon Patient Safety Commission's financial statements that is more than inconsequential will not be prevented or detected by the Oregon Patient Safety Commission's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. These deficiencies are listed as 2007-1 and 2007-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements

will not be prevented or detected by the Oregon Patient Safety Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Patient Safety Commission's financial statements are free of material misstatement, we performed tests of its 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Oregon Patient Safety Commission, in a separate letter dated January 30, 2008.

Oregon Patient Safety Commission's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Oregon Patient Safety Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Board of Commissioners, the Governor of the State of Oregon, and the Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

  
Merina & Company, LLP  
West Linn, Oregon  
January 16, 2008

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Biennium Ended June 30, 2007**

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**Financial Statement Findings**

2007-1

Condition-

A Board member is reviewing the bank reconciliations however an adequate review is not being performed as specific information relating to the bank reconciliation is not being provided. In addition, there is no evidence of a review as the bank reconciliation was not initialed by a Board member.

Criteria

The bank reconciliation should contain all the information needed to perform an adequate review, such as the bank statement. In addition, the Board member should initial and date the reconciliation.

Effect

Lack of a proper review potentially increases the risk that cash could be misstated.

Cause

A completed review process has not been fully implemented due to the small size of the organization.

Recommendations

Bank reconciliation should be reviewed and signed off by a member of the Finance Committee. In addition, all information supporting the bank reconciliation should be provided, such as the bank statement.

Response

Since the Commission's creation we have steadily improved our internal controls. For example, the Board created a finance committee and the position of Treasurer. The Board developed and adopted a standardized accounting manual. Every month the Administrator provides the Treasurer with updated financial information. We hired an office manager and established clear policies to help maximize segregation of duties in the day-to-day handling of our finances. As a next step, the Commission will incorporate the recommendations of 2007-1.

2007-2

Condition-

Journal entries made during the year were not approved by a Board member or someone other than person making the journal entry.

Criteria

To minimize the risk of management override of controls all material journal entries should include supporting documentation and be approved by someone other than the individual making the entry.

Effect

Lack of journal entry approval potentially increases the risk of management override of controls.

**OREGON PATIENT SAFETY COMMISSION  
(A Semi-Independent Agency of the State of Oregon)  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Biennium Ended June 30, 2007**

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Cause

A journal entry approval process has not been implemented due to the small size of the organization.

Recommendations

We recommend that a list of journal entries be provided at all Board meetings to be reviewed and approved by a member of the Commission's Finance Committee.

Response

The only journal entries we currently make are monthly payroll entries. However, in the future we will include a journal entry approval process that will be overseen by the Commission's Treasurer.

# **ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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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phone: 503-986-2255

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