

Oregon Board of Dentistry: Internal Control Review



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Secretary of State Audit Report

Summary

PURPOSE

This audit was conducted to determine if the Oregon Board of Dentistry (board) had established effective internal controls to safeguard assets and ensure compliance with state laws, rules and policies relating to cash handling, payroll, contracting, travel, and procurement of goods and services.

We limited our review to key procedures that existed and transactions that occurred from July 1, 2005, through December 31, 2007.

BACKGROUND

The board administers the rules of the governing board, establishes standards for licensure, and examines and licenses dentists and dental hygienists. The board's operations are financed by fees from licensees, including application, license, permit and certification fees, and disciplinary fines.

Under an interagency agreement, the Department of Human Services provides the board with budgeting, cash receipting and depositing, and accounting services.

RESULTS IN BRIEF

The Department of Human Services' controls were generally effective for safeguarding the board's assets and ensuring transactions were properly and accurately recorded. The board also generally had controls to safeguard assets and ensure compliance with policies governing payroll and procurement. However, we identified some instances where the board could improve controls over cash handling and contract monitoring. In addition, the board could improve compliance with state travel policies. Finally, we identified cost savings the board could potentially realize in relation to ground travel.

In summary, we identified:

- \$1,610 of unallowable and questioned travel, contract, and parking expenditures the board incurred;
- \$4,073 in cost overruns on one contract before the contract was amended and extended; and
- \$411 of cost savings the board could potentially have realized.

RECOMMENDATIONS

We recommend board management:

- recover identified overpayments and unallowed expenditures;
- improve controls to better safeguard cash receipts processed at the board's office;
- improve controls over contract monitoring to help ensure contract payments are accurate and do not exceed contract limitations;
- ensure compliance with state travel policies; and
- consider the most economical option for ground transportation when planning business travel.

AGENCY'S RESPONSE

The Oregon Board of Dentistry generally agrees with the recommendations.

Introduction

The Oregon Board of Dentistry (board) administers the rules of the governing board, establishes standards for licensure, and examines and licenses dentists and dental hygienists. The board regulates the use of anesthesia in the dental office and certifies dental assistants in radiologic proficiency and expanded functions. In addition, the board investigates alleged violations of board rules and dental regulations and may discipline violators.

The governing board consists of nine members: six dentists, one of whom must be a specialist, two dental hygienists, and one public member. All members are appointed by the Governor and confirmed by the Senate. Members serve on the governing board for four-year terms.

The board's operations are financed from fees received from licensees, including application, license, permit and certification fees, and disciplinary fines. For the 2007-09 biennium, the legislature authorized \$1.86 million of Other Funds expenditure limitation for the board's activities.

Under an interagency agreement, the Department of Human Services (DHS) provides the board with budgeting, cash receipting and depositing, and accounting services.

This audit was conducted to determine whether controls were in place to safeguard assets and ensure compliance with pertinent laws, rules, and policies relating to cash handling, payroll, contracting, travel, and procurement of goods and services. We limited our review to key procedures that existed and transactions that occurred from July 1, 2005, through December 31, 2007.

Audit Results

We found that DHS's controls were generally effective for

safeguarding the board's assets and ensuring transactions were properly and accurately recorded. The board also had generally established controls and complied with state laws, rules and policies related to payroll and procurement. However, we identified some instances where the board could improve controls over cash handling, contract monitoring, and travel. In summary, we identified:

- \$1,610 of unallowable and questioned travel, contract, and parking expenditures the board incurred;
- \$4,073 in cost overruns on one contract before the contract was amended and extended; and
- \$411 of cost savings the board could potentially have realized.

Cash Handling Controls Could Be Improved

Most of the board's cash receipts are received and processed by DHS; however, the board receives disciplinary fines and occasionally other cash and checks that staff receipts and sends to DHS for depositing and recording.

Management is responsible for providing adequate controls and safeguards to ensure that cash receipts are properly accounted for and controlled. State statutes and policies provide requirements and guidelines for effective cash handling controls. These include a combination of controls to help ensure adequate separation of key responsibilities, proper treatment and recording of cash receipts, timely deposits, periodic reconciliations of cash accounts, and physical security of cash receipts. In addition, state policy recommends agencies document cash controls in their policies and procedures.

Controls at DHS related to the board's cash receipts were generally effective except for cash reconciliations as discussed below. In addition, we noted the following

weaknesses in the board's cash handling procedures:

- Responsibilities for cash handling and recording were not adequately separated. For example, the licensing manager prepared the deposit slip, maintained licensing records, and approved and issued license renewals. There was no independent review of any of these functions. This condition was previously reported to the board in Secretary of State Report No. 97-45, *Oregon Board of Dentistry: Special Review*.
- Checks were not restrictively endorsed upon receipt to deter the potential for theft or other loss. A restrictive endorsement did not occur until the checks arrived at DHS.
- A cash receipts log or other summary document listing the number and total dollar amount of daily cash receipts received at the board's office was not prepared.
- The board did not always comply with the state's next day deposit statute. For example, we reviewed 14 cash receipt transactions that averaged \$816 per transaction and found the board took an average of three days to deposit these receipts. This condition was previously reported to the board in Secretary of State Report No. 97-45.
- Neither the board nor DHS performed monthly reconciliations of cash accounts between the Statewide Financial Management Application (the state's accounting system) and Oregon State Treasury records.
- Physical security over undeposited receipts was not adequate at the board's office or during transport to DHS.

- The board had not documented cash handling controls in its policies and procedures.

Weak controls over cash handling could allow the board to suffer losses and hinder detection and correction of those losses.

We recommend board management improve controls over cash handling. Specifically, management should:

- separate responsibilities for handling and recording of cash receipts, or provide independent review of these functions as a compensating control;

Agency's Response:

The OBD Management has made every effort to separate responsibilities for the handling and recording of cash receipts.

First the OBD Management has put into place a process where all forms of payments should not be sent to the OBD Office. All applicants, licensees and members of the general public are informed that all forms of payment are to be sent to the OBD contracted US Bank Lock Box. The OBD Management has made it a policy that no cash will be accepted at the OBD Office. Unfortunately, the reality is that some applicants, licensees or members of the general public do not read or follow instructions and still send forms of payment to the OBD Office. For those forms of payment that do arrive, a procedure for the handling of those payments that involve three different staff persons and internal controls have been put in place to monitor the processing of these payments.

- ensure checks are restrictively endorsed when received;

Agency's Response:

Once OBD Management was made aware of this issue a deposit stamp was ordered and has been used to endorse all forms of payments received at the OBD Office.

- implement the use of a daily cash receipts log or other summary listing of receipts to account for all receipts received;

Agency's Response:

Once OBD Management was made aware that a summary listing of receipts was required, a password protected Excel Log was created for the use by the staff that process all receipts received at the OBD Office.

- ensure compliance with the state's next day deposit statute;

Agency's Response:

OBD Management makes every effort to comply with the Oregon next day deposit statute, however as previously mentioned, staffing issues sometimes make this impossible if the OBD Management is to follow strict internal control policies regarding the processing of receipts.

Once again reality has to be looked at; there are only three primary individuals who handle these payments and when one of the three is not present at work, there are two individuals who can provide back up to the internal control process. However, if three people are gone from the office then no processing of payments will take place and all payments will be placed in the OBD's Safe until the proper staff level is returned so that internal control measures can be reestablished. Unfortunately, this sometimes places the OBD out of compliance with the Oregon next day depositing statute.

One solution to this problem would be to increase the number of staff that can process payments and the cost to do so would be cost prohibitive to the OBD.

The OBD Management on August 6, 2008 requested a letter of exemption, regarding the inability on some occasions to deposit funds the next day, from the Director of the Secretary of State Audit Division pursuant to ORS 293.265.

- ensure cash accounts are reconciled monthly;

Agency's Response:

OBD Management was not aware that the Department of Human Services Financial Service Division was not reconciling the OBD Cash Accounts on a monthly basis. The OBD has recently moved the fiscal operation from the Department of Human Services Financial Services Division to the Department of Administrative Services Shared Client Services and has received assurances that this will take place on a monthly basis.

- improve the physical security over undeposited receipts; and

Agency's Response:

OBD Management has put into place procedures to secure the receipts that are now transferred to the contracted US Bank Lock Box; these include an envelope that is made of a more secure material, a special seal for the envelope and a signature of the employee preparing the envelope for delivery.

- document controls over cash handling in the board's policies and procedures.

Agency's Response:

OBD Management has developed internal procedures that will be incorporated into Board Policies and it is expected that the Board will adopt such policies in late 2008 or early 2009.

Contract Monitoring Could Be Improved

Effective controls for contract monitoring are an essential part of the contracting process. Monitoring helps ensure that contractors comply with contract terms and achieve performance expectations. Contract monitoring procedures would include, but are not limited to, assigning a contract administrator to oversee the work performed and comparing invoices and charges to contracted terms and

conditions. In addition, monitoring can help ensure problems are identified early and resolved in a timely manner.

The board could improve its processes to monitor contracts. Specifically, we found the board overpaid a contractor by \$1,224 because staff did not notice that the contractor submitted invoices with inaccurate billing rates. In addition, the board paid \$110 for a contractor's parking expenses when those costs were not included as an allowable cost under the contract. Moreover, the board allowed one contractor to exceed the contract limitation by \$4,073 before the board amended and extended the contract to authorize payment for services provided.

According to board management, these exceptions resulted primarily from oversight errors. However, without effective contract monitoring, there is an increased risk that additional inaccurate contract payments were made or could be made. In addition, there is an increased risk that the board and contractors are not in compliance with all contracting provisions.

We recommend board management improve contract monitoring controls to help provide assurance that contract payments are accurate and in compliance with contract terms. In addition, management should pursue recovery of the \$1,224 of overpayments made to one contractor. Moreover, if management continues to choose to reimburse parking expenses as part of the compensation to contractors, it should ensure the associated contract includes a provision for this type of expense.

Agency's Response:

OBD Management has reviewed all contracts currently in place and will make all efforts to see that all aspects of the contract are reviewed before any payments are made. The vendor found to have been overpaid \$1,224.00 has been

contacted and an official request for repayment or a credit to the OBD Account will be sent in writing. The Vendor has already indicated verbally that this will happen as soon as the written request is received by them.

OBD Management has adjusted the contract for the Dental Consultant to reflect that the contracted amount does include the reimbursement of parking expenses.

Compliance with Travel Policies Could Be Improved

State policy provides guidelines for agencies to follow in managing travel and processing travel reimbursements. These guidelines include the following:

- Standard per diem rates are established for meals and lodging to help ensure travel reimbursements are appropriate and accurately calculated.
- Instructions are provided for proper handling of travel expenses paid by outside sources. These are to be paid directly to vendors or to agencies to help prevent duplicate payments.
- Employees are required to report to the Department of Administrative Services (DAS) all travel awards, such as frequent flyer miles and preferred guest points from hotels, earned while on state business travel. These awards become the property of the State once earned and must be used only to reduce the cost of future state business travel.
- Agency heads may make exceptions to policy for subordinates on a case-by-case basis to meet business needs. Sufficient written documentation of these exceptions must be prepared by the agency and signed by the agency head.

- If not specifically noted in a state policy or procedure, exceptions to policies are to be approved by the State Controller.
- Employees are required to sign a "Use of Personal Vehicle on State Business" form before using a private vehicle for state business travel. This form helps ensure that personnel understand their responsibilities for insurance coverage should they be involved in an accident while traveling on state business.

We found instances in which the board did not fully comply with state travel policies. For example, the board overpaid three individuals a total of \$60 because unallowable meal per diems were claimed on travel reimbursement forms and were not detected by staff that processed the claims.

In addition, we found an instance where one individual received a travel expense reimbursement of \$387 directly from an outside organization. The payment should have gone directly to the board or to vendors in accordance with state policy. Also, two individuals received travel awards that were not reported to DAS. Furthermore, the department could improve documentation of the director's approval of travel policy exceptions. For example, we identified a number of instances when the department paid employees to park at the board location, an expense normally borne by the employee. These instances, however, occurred on days the employees were required to travel elsewhere on state business for at least part of the day. The documentation supporting these expenditures did not contain evidence of the director's approval.

We identified another example where the board could more fully comply with state policies. The director authorized a member of the governing board to travel between two out-of-state conferences

scheduled on consecutive weeks. The individual had a two-day layover waiting for the second conference to begin. The board paid the individual's meals and lodging expenses during this time; expenses that normally would have been personal expenses and not allowed under state policy. Board management asserted that it was more cost effective to have the individual stay the two extra days than return to Oregon. However, the travel approval documentation did not contain a cost comparison supporting this decision. Based on our analysis of costs for the two travel options, we determined the board paid approximately \$300 more for the individual to stay on travel status. In addition, while the director has authority granted by state policy to approve travel policy exceptions for subordinates, he did not have explicit authority to approve exceptions for a board member. State policy requires approval of exceptions be made by the State Controller if that authority is not specifically granted elsewhere in policy.

Finally, board management did not require personnel to complete a "Use of Personal Vehicle on State Business" form in accordance with state policy.

According to board management, personnel were not fully aware of all the guidelines within the state's travel policy, and oversight errors were made when reimbursement claims were processed.

We recommend board management ensure compliance with the state's travel policy. Specifically, management should:

- recover all identified overpayments and unallowed expenditures;

Agency's Response:

OBD Management has reviewed the auditor's actual report regarding one employee and two Board Members and letters/memos requesting reimbursements of \$12.00, \$16.00 and \$32.00

respectively will be sent out shortly. These three items were unintentional oversights on the part of the OBD Staff that assist and review all travel vouchers, along with those that actually requested the reimbursement. All three individuals have been contacted and none has objected to making the reimbursement for overpaid expenses.

OBD Management and the OBD Members have reviewed the auditor's report in regards to a board member's travel to a national board conference one day early.

OBD Board Members feel that OBD Management made an appropriate decision given the facts of the situation at the time of the request, and further feel it was within the authority conveyed to the Executive Director by the Board. To require a Board Member to travel back to Portland and then leave the following day and travel back across the country resulting in the Board Member traveling again through three different time zones in a 48 hour period, and then expect that Board Member to participate fully in the national conference would not have been a good decision.

OBD Board Members feel that the additional cost of approximately \$100.00 is a minor expense and that under the circumstances common sense should prevail when dealing with a person's well being and that no reimbursement to the Board should take place.

- implement procedures to ensure compliance with the state's travel policy, including requiring travel expense reimbursements paid by outside sources to be paid directly to the board or to vendors;

Agency's Response:

OBD Management had not interpreted the State's Travel Policy in the same way as the auditors, a review of that policy

along with input from the Department of Administrative Services has clarified the correct interpretation of the State Travel Policy regarding reimbursement of expenses by OBD Staff who attend a meeting at the request of an outside source and the reimbursement of those expenses. All expenses are now run through the OBD and OBD Staff will receive reimbursement directly from the OBD and the OBD will seek direct reimbursement from the specific organization or vendor.

- ensure all travel awards personnel receive are reported;

Agency's Response:

OBD Management has developed a specific form for the reporting of any and all travel awards that may be received by OBD Staff or Board Members. All Staff and Board Members have been made aware of the form and the Oregon State Policy on travel awards. All past awards have been reported to the State Controller's Office per Oregon State Policy.

- improve documentation of the director's approval of travel policy exceptions;

Agency's Response:

A computerized form has been designed and all employees have been given access to the form and are aware that no reimbursement of expenses will be authorized unless this form is first completed by the employee and signed by the agency head.

- submit travel policy exceptions to the State Controller for approval when required;

Agency's Response:

OBD Management will in the future submit all policy exceptions that do not fall under the authority of the Board or OBD Management for review and approval by the State Controller.

- ensure employees complete a "Use of Personal Vehicle on State Business" form in

accordance with state policy;
and

Agency's Response:

OBD Management has developed an "OBD Use of Personal Vehicle on State Business" form and all OBD employees have signed the form and it has been placed in the Employee's Personnel File.

- provide training to staff to ensure they are familiar with state travel policy.

Agency's Response:

OBD Management plans to work with Department of Administrative Services Shared Client Services to implement any training that will be needed for OBD Staff regarding all Oregon State Travel Policies.

Economies in Travel Expenses Could be Realized

Board employees periodically travel throughout the state as part of their job duties. To provide for employees' travel needs, the board allows employees to use their personal vehicles for ground travel and, upon appropriate approval, obtain mileage reimbursement.

State policy outlines that agencies are responsible for using the most cost-effective means of transportation, which for ground travel of generally 100 miles or more is accomplished by using vehicles available through the state's motorpool.

We found the board had opportunities to reduce travel costs associated with mileage reimbursements for ground transportation. Based on our analysis, the board potentially could have saved \$411 if employees had used a state vehicle for seven trips of 100 miles or more that occurred during the audit period.

Board management indicated that employees do not use state vehicles for ground travel because the nearest state motor pool is six miles away, and it is not always

convenient for employees to pick up a state vehicle at that location.

We recommend board management consider the most economical option for ground transportation when planning business travel.

Agency's Response:

OBD Management and Board Members agree that the most economical option for ground transportation should be reviewed and in most cases used when planning business travel.

However, if increased staff time is necessary to retrieve and return state vehicles or time constraints require employees to retrieve a state vehicle the night before leaving on an OBD approved business trip, and the use of this state vehicle will cause employees to have to reimburse the state for the personal use of a vehicle, as their only personal vehicle was left at the state Motor Pool, then Board Management and Board Members do not agree that this is an effective and efficient way to conduct business.

Objectives, Scope and Methodology

The purpose of this audit was to determine whether the board had established effective internal controls to safeguard assets and ensure compliance with state laws, rules and policies relating to selected administrative functions.

We focused our internal control review on key procedures that included cash handling, payroll, contracting, and procurement of goods and services. In addition, our review focused on transactions that occurred from July 1, 2005, through December 31, 2007.

To obtain an understanding of the board's internal controls and processes, DHS's controls over the board's assets and financial transactions, and to test their effectiveness, we performed the following procedures:

- reviewed governing statutes, administrative rules, state policies and procedures, and best practices other state agencies had established;
- conducted interviews with board members, management and staff, and other personnel and organizations that had an impact on the internal controls and/or transactions we selected for review;
- conducted analytical procedures on board expenditures and revenue transactions;
- completed a risk assessment of key areas applicable to our audit objectives;
- conducted substantive, control, and compliance testing on a sample of board expenditures, contracts, cash receipts and deposits, timesheets, and performance evaluations; and
- obtained and reviewed supporting documentation of board transactions and contracts.

We performed our fieldwork from January 2008 through May 2008. We conducted our audit according to generally accepted government auditing standards.



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Courtesies and cooperation extended by officials and staff of the Oregon Board of Dentistry and the Department of Human Services were commendable and much appreciated.

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

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