

Report No. 2009-33

December 2009



Kate Brown, Secretary of State  
Gary Blackmer, Director, Audits Division

# Secretary of State Audit Report

State of Oregon

## Patient Safety Commission

A Semi-Independent Agency

For the Biennium Ended June 30, 2009

Contract Auditor: Moss Adams LLP

**STATE OF OREGON**  
**PATIENT SAFETY COMMISSION**  
**INDEPENDENT AUDITOR'S REPORT**  
  
**AND**  
  
**FINANCIAL STATEMENTS**  
**(With Supplemental Information)**  
  
**FOR THE BIENNIUM ENDED**  
  
**JUNE 30, 2009**

---

# Contents

|                                     |   |
|-------------------------------------|---|
| <b>INDEPENDENT AUDITOR'S REPORT</b> | 1 |
|-------------------------------------|---|

---

## **FINANCIAL STATEMENTS**

|   |      |
|---|------|
| Balance Sheet - General Fund / Statement of Net Assets  | 2    |
| Statement of Revenues, Expenditures, and Changes in Fund Balance /<br>Statement of Activities | 3    |
| Notes to Financial Statements   | 4-12 |

---

## **REQUIRED SUPPLEMENTAL INFORMATION**

|  |    |
|--|----|
| Statement of Revenues, Expenditures, and Changes in Fund Balance -<br>Budget to Actual | 13 |
|--|----|

---

## **OTHER REPORTS**

|   |       |
|---|-------|
| Report on Internal Control Over Financial Reporting and on Compliance and Other<br>Matters Based on an Audit of Financial Statements Performed in Accordance with<br><i>Government Auditing Standards</i> | 14-15 |
| Schedule of Findings and Responses  | 16-17 |

---

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Oregon Patient Safety Commission

We have audited the accompanying financial statements of the governmental activities and the general fund of the Oregon Patient Safety Commission (Commission), a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide 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 and changes in financial position of the governmental activities and the general fund of the Oregon Patient Safety Commission, as of June 30, 2009, and for the biennium then ended in conformity with accounting principles generally accepted in the United States of America.

The Oregon Patient Safety Commission has not presented *Management's discussion and analysis* (MD&A) that accounting principles generally accepted in the United States of America have determined necessary to supplement, but are not required, to be part of the basic financial statements. The budgetary comparison information on page 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009 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 Audit Standards* and should be considered in assessing the results of our audit. That report is separately presented in the Supplemental Information section as listed in the table of contents.

Moss Adams LLP

Eugene, Oregon  
December 17, 2009

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**BALANCE SHEET - GENERAL FUND/STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

---

|   | <u>General<br/>Fund</u> | <u>Adjustments<br/>(Note 3)</u> | <u>Statement of<br/>Net Assets</u> |
|---|-------------------------|---------------------------------|------------------------------------|
| <b>ASSETS:</b>                                  |                         |                                 |                                    |
| Cash and cash equivalents                       | \$ 340,642              | \$ -                            | \$ 340,642                         |
| Accounts receivable                             | 19,799                  | -                               | 19,799                             |
| Prepaid assets                                  | -                       | 1,423                           | 1,423                              |
| Capital assets, net                             | -                       | 27,985                          | 27,985                             |
|   | <u>          </u>       | <u>          </u>               | <u>          </u>                  |
| Total assets                                    | <u>\$ 360,441</u>       | <u>\$ 29,408</u>                | <u>\$ 389,849</u>                  |
| <b>LIABILITIES:</b>                             |                         |                                 |                                    |
| Accounts payable                                | 34,217                  | -                               | 34,217                             |
| Deferred revenue                                | 3,944                   | (3,944)                         | -                                  |
| Compensated absences                            | -                       | 18,547                          | 18,547                             |
| Pension obligation                              | -                       | 44,512                          | 44,512                             |
|   | <u>          </u>       | <u>          </u>               | <u>          </u>                  |
| Total liabilities                               | <u>38,161</u>           | <u>59,115</u>                   | <u>97,276</u>                      |
| <b>FUND BALANCE</b>                             |                         |                                 |                                    |
| Unreserved                                      | <u>322,280</u>          | <u>(322,280)</u>                | <u>-</u>                           |
|   | <u>          </u>       | <u>          </u>               | <u>          </u>                  |
| Total net assets                                | <u>322,280</u>          | <u>(322,280)</u>                | <u>-</u>                           |
|   | <u>          </u>       | <u>          </u>               | <u>          </u>                  |
| Total liabilities and net assets                | <u>\$ 360,441</u>       |                                 |                                    |
| <b>NET ASSETS:</b>                              |                         |                                 |                                    |
| Invested in capital assets, net of related debt |                         | 27,985                          | 27,985                             |
| Unrestricted                                    |                         | 264,588                         | 264,588                            |
|   |                         | <u>          </u>               | <u>          </u>                  |
| Total net assets                                |                         | <u>\$ 292,573</u>               | <u>\$ 292,573</u>                  |

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE / STATEMENT OF ACTIVITIES**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

|  | <u>General<br/>Fund</u> | <u>Adjustments<br/>(Note 3)</u> | <u>Statement<br/>of Activities</u> |
|--|-------------------------|---------------------------------|------------------------------------|
| <b>REVENUES</b>                              |                         |                                 |                                    |
| License and fees                             | \$ 964,874              | \$ 3,944                        | \$ 968,818                         |
| Interest income                              | 4,172                   | -                               | 4,172                              |
| Contributions and donations                  | 950                     | -                               | 950                                |
|  | <hr/>                   | <hr/>                           | <hr/>                              |
| Total revenues                               | \$ 969,996              | 3,944                           | 973,940                            |
|  | <hr/>                   | <hr/>                           | <hr/>                              |
| <b>EXPENDITURES/EXPENSES</b>                 |                         |                                 |                                    |
| Personal services                            | \$ 690,898              | 54,123                          | 745,021                            |
| Service and supplies                         | 98,171                  | (1,423)                         | 96,748                             |
| Depreciation                                 | -                       | 4,515                           | 4,515                              |
| Capital outlay                               | 32,500                  | (32,500)                        | -                                  |
|  | <hr/>                   | <hr/>                           | <hr/>                              |
| Total expenditures/expenses                  | \$ 821,569              | \$ 24,715                       | \$ 846,284                         |
|  | <hr/>                   | <hr/>                           | <hr/>                              |
| Excess of revenues over (under) expenditures | \$ 148,427              | \$ (20,771)                     | \$ 127,656                         |
|  | <hr/>                   | <hr/>                           | <hr/>                              |
| <b>OTHER FINANCING SOURCES</b>               |                         |                                 |                                    |
|  | <hr/>                   | <hr/>                           | <hr/>                              |
|  | -                       | -                               | -                                  |
| <b>NET CHANGE IN FUND BALANCE/NET ASSETS</b> |                         |                                 |                                    |
| Fund balance/Net assets - June 30, 2007      | 173,853                 | (8,936)                         | 164,917                            |
| Fund balance/Net assets - June 30, 2009      | <u>\$ 322,280</u>       | <u>\$ (29,707)</u>              | <u>\$ 292,573</u>                  |

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 1 - 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity** - The Oregon Patient Safety Commission is a semi-independent agency of the State of Oregon and considered a related organization. Pursuant to Oregon Senate Bill 1127 (adopted in 1999), the Commission was granted semi-independent status by the Legislature in 2003. The Commission operates under Oregon Revised Statutes (ORS) Chapter 686. The Commission's Board of Director's 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 consumers (neither of whom can be involved in the direct delivery of health care), two representatives of 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.

**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 governmental fund, consisting of one general fund, which is used to account for the Commission's activities. Revenues during the biennium ended June 30, 2009 were from contributions and from the assessment of fees on participants in the voluntary reporting program. The Commission presents both governmental fund financial statements and government-wide financial statements which report using separate measurement focuses. Due to these differences, certain adjustments are necessary to reconcile between them. Those adjustments are described in Note 3.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***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.

***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.

***License and fee revenue*** - 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 legislature also capped the fees the Commission may collect from organizations at \$1,500,000 per year, indexed for inflation.

***Accounts receivable*** - Accounts receivable consist of fees assessed by the Commission which are due from participating organizations. Management of the Commission evaluates the ability to collect accounts receivable based upon a combination of factors. As of June 30, 2009 accounts receivable were considered fully collectible and no allowance for uncollectible amounts was recorded.

***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.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Capital 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 amortize leased assets over the lease life, and leasehold improvements over the remainder of the lease term. As of June 30, 2009, the Commission had one asset with a cost of over \$5,000. Software was put into service in February 2009. The asset has a three-year estimated useful life. The straight-line method of depreciation has been used resulting in depreciation expense of \$4,515 for the biennium ended June 30, 2009.

*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, 2009.

*Fund balance* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific future use. Fund balance reported as of June 30, 2009 was unreserved.

*Net assets* - Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Commission's or through external restriction imposed by creditors, grantors, laws, or regulation of other governments. Net assets as of June 30, 2009 were unrestricted except for net assets invested in capital assets, net of related debt. Invested in capital assets, net of related debt represents the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt directly attributable to the acquisition, construction, or improvement of those assets.

*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.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

*Balance Sheet – General Fund / Statement of Net Assets* - The governmental fund balance sheet includes reconciliations between the fund balance and net assets as reported in the government wide statement of net assets for the following:

Prepaid expenses are not financial assets in governmental fund, but are reported in the statement of net assets \$ 1,423

Capital assets are not financial resources in governmental funds, but are reported in the statement of net assets:

Software and equipment, net of accumulated depreciation \$ 27,985

Certain assets will be collected after year-end but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in governmental funds:

Deferred revenue \$ (3,944)

Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds:

Compensated absences \$ 18,547

Pension obligation \$ 44,512

*Statement of Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities* - The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between the government-wide statement of activities for the following:

Certain revenues may not be collected for several months after year end; they are not considered available and are deferred in governmental

License and fees \$ 3,944

Change in compensated absences 9,611

Pension obligation 44,512

Total \$ 54,123

Governmental funds report capital outlays as expenditures; in the statement of activity the cost of those assets is allocated over their estimated useful lives as depreciated expense:

Software and equipment (32,500)

Depreciation expense 4,515

Governmental funds do not report prepaid expenses; in the statement of activities prepayments are expensed when incurred. (1,423)

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 4 - CASH AND INVESTMENTS**

*Credit risk* - State statutes authorize the 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. As of June 30, 2009 the Commission did not hold any outside investments. Cash and cash reserves were held in either a money market account or in a demand deposit account.

*Concentration of credit risk* - All investments of the Commission are made in accordance with Oregon Revised Statutes (ORS): 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*.

*Custodial credit risk - deposits* - HB 2901, which passed during the 2007 Legislative Session, significantly revised ORS 295 (Depositories of Public Funds and Securities) which governs the collateralization of public funds deposits. The changes streamline the collateralization process and eliminate the need to request and maintain Certificates of Participation (COP's). The Bill created a shared liability structure of the qualified depositories. Under the new law, government entities no longer have to request and maintain the issuance of a COP for balances over the \$100,000 FDIC insured amount when using a qualified depository. Government entities only need to verify that the bank they use as a depository appears on the list of qualified depositories with the State Treasurers Department. The Commission's depository institution is Umpqua Bank. Umpqua Bank appears on the State Treasurer Department's list of qualified depositories.

**NOTE 5 - CAPITAL ASSETS**

The following is a summary of changes in the Commission's capital assets during the biennium ended June 30, 2009:

|                                  | Balance<br>6/30/2007 | Additions | Disposals | Balance<br>6/30/2009 |
|----------------------------------|----------------------|-----------|-----------|----------------------|
| <b><i>Depreciable assets</i></b> |                      |           |           |                      |
| Software                         | \$ -                 | \$ 32,500 | \$ -      | \$ 32,500            |
| Accumulated depreciation         | -                    | (4,515)   | -         | (4,515)              |
| Total                            | \$ -                 | \$ 27,985 | \$ -      | \$ 27,985            |

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 6 - DEFINED BENEFIT PENSION PLAN**

**Plan description** - The Commission is a participating employer in the Oregon Public Employees Retirement System (PERS). Commission employees hired after August 28, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP). 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 actuarially determined contributions from the employer and an employee contribution of six 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 from PERS Fiscal Services Division, 11410 SW 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

**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 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.

**Oregon Public Service Retirement Plan (OPSRP)** - OPSRP is a cost-sharing multiple-employer defined benefit and defined contribution pension plan created by the Oregon Legislative Assembly in 2003 as a successor plan for PERS.

- The defined benefit pension plan is provided to members who were hired on or after August 29, 2003. Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the PERB.
- The defined contribution pension plan (called the Individual Account Program or IAP) is provided to all members or their beneficiaries who are PERS or OPSRP eligible. State statutes require covered employees to contribute 6% of their annual covered salary to the IAP plan effective January 1, 2004. PERS members retain their existing PERS accounts; however, member contributions have been deposited in the member's IAP since the beginning of 2004 rather than into the member's PERS account.

**Other charges** - 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 23 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. The rate is applied to subject salaries and during this biennium the rate fluctuated from 6.20% at the beginning of the biennium to 5.95% effective January 1, 2008. The Commission's total Oregon General Obligation Pension Bond expense for the biennium ended June 30, 2009 was \$44,512.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (Continued)**

*Actuarial assumptions* - Required contributions are determined using the projected unit credit actuarial cost method. Under this method, the Tier 1/Tier 2 regular UAL and Retiree Healthcare UAL as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed 20-year period. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. Amortization of a change in Tier 1/Tier 2 UAL and Retiree Healthcare UAL due to a change in the actuarial cost method is amortized as a level percentage of combined valuation over a rolling three-year period. Contributions are credited toward the payment of this change in UAL beginning July 1, 2007. For OPSRP UAL, amortization for gains and losses between odd-year valuations are amortized as a level percentage of combined payroll over 16 years from the odd-year valuation in which they are first recognized. The actuarial value of OPERS assets is reported at fair market value. In order to reduce year-to-year volatility in contribution requirements due to changes in asset value, new contribution rates are confined to a collar based on the prior contribution rate. New contribution rates will not increase or decrease by more than the greater of 3 percentage points or 20 percent of the current rate. If the funded percentage drops below 80% or increases above 120%, the size of the collar doubles.

*Annual pension cost* - Contributions actually made are equivalent to the annual pension cost. The Commission's contributions were equal to the annually required contributions. The following table presents three-year information related to funding of the Commission's defined benefit pension plans:

|  | 2007       | 2008       | 2009       |
|--|------------|------------|------------|
| Board contribution rates - PERS          | 8.27%      | 7.97%      | 7.14%      |
| Bond debt contribution rate - PERS       | 0.00%      | 5.95%      | 5.95%      |
| Employee contribution paid by Commission | 6.00%      | 6.00%      | 6.00%      |
| Payroll covered by PERS                  | \$ 153,166 | \$ 187,904 | \$ 252,806 |
| Annual pension cost                      | \$ 21,863  | \$ 55,537  | \$ 48,442  |

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS**

The Commission's employees may be eligible to participate in health insurance plans and other benefit plans after retirement, collectively known as Other Postemployment Benefit Plans (OPEB). OPEB plans are offered through the Public Employees Retirement System (PERS) as established by Oregon Revised Statutes (ORS) 238.410 and the Public Employees Benefit Board (PEBB) as established by ORS 243.302. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS Fiscal Services Division, 11410 SW 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFIT PLANS (Continued)**

***Retirement Health Insurance Account*** – The Retirement Health Insurance Account (RHIA) is a cost-sharing multiple-employer OPEB plan which provides a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidiary, the member must have eight years of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, receive both Medicare parts A and B coverage, and enroll in a PERS sponsored health insurance plan. The Commission is required by statutes to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as the result of subsequent actuarial valuations. The rate of each covered employee's salary for the biennium ended June 30, 2009 was .41%.

***Retiree Health Insurance Premium Account*** – The Retiree Health Insurance Premium Account (RHIPA) is a single-employer OPEB plan that provides for payment of the average difference between the health insurance premiums paid by retired state employees, under contracts entered into by the PERS Board and health insurance premiums paid by state employees who are not retired. Retired state employees are qualified to receive the RHIPA subsidy if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving disability pension calculated as if they had eight or more years of qualifying services, but are not eligible for federal Medicare coverage. The Commission is required to contribute actuarially computed amounts as determined by PERS. Rates are subject to changes as the result of subsequent actuarially determined valuations. The rate of each covered employee's salary for the biennium ended June 30, 2009 was .08%.

Commission contributions to the plans for the years ended June 30, 2007, 2008 and 2009 were \$749, \$596, and \$733 respectively, equal to the required contributions each year.

**NOTE 8 - COMPENSATED ABSENCES**

***Sick leave*** - Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2009 can be used in case of an employee's extended illness or injury. When the employee retires, any sick leave accrual terminates and no compensation made for such hours. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

***Vacation leave*** - Vacation time is earned, subject to a maximum accumulation of 250 to 350 hours depending on employee classification, at a rate of 8.0 hours per month to 17.34 hours per month depending on employee classification and length of service. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based on current salary rates, was \$18,547 at June 30, 2009.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

---

**NOTE 9 - 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 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.

**NOTE 11 - SUBSEQUENT EVENTS**

*Federal award* – Recently the Commission partnered with the Oregon Department of Human Services Office of Disease Prevention and Epidemiology and the Oregon Office of Healthcare Policy and Research to submit a federal grant application. In August, 2009 the Commission was granted a federal award from the Center for Disease Control under CFDA Number 93.717, totaling approximately \$300,000. The grant’s purpose is to build and sustain programs which prevent healthcare acquired infections.

*Operating lease* - The Commission entered into an operating lease agreement for the rental of office space with a third in October, 2009. The agreement calls for monthly rent payments of \$2296 beginning December 12, 2009 and expires in November, 2012. Future minimum lease payments required under the new agreement with a third party are as follows:

| <u>YEAR ENDED</u>               |                         |
|---------------------------------|-------------------------|
| 2009                            | \$ 16,000               |
| 2010                            | 28,000                  |
| 2011                            | 28,900                  |
| 2012                            | <u>12,264</u>           |
| Total minimum payments required | <u><u>\$ 85,164</u></u> |

**REQUIRED SUPPLEMENTAL INFORMATION**

---

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE - BUDGET TO ACTUAL**  
**FOR THE BIENNIUM ENDED JUNE 30, 2009**

|                             | Biennial                      | Actual            |                   |                   | Variance               |
|-----------------------------|-------------------------------|-------------------|-------------------|-------------------|------------------------|
|                             | Budget<br>Original &<br>Final | FY 2008           | FY 2009           | Biennial          | Positive<br>(Negative) |
| <b>REVENUES</b>             |                               |                   |                   |                   |                        |
| License and fees            | \$1,044,375                   | \$ 516,047        | \$ 448,827        | \$ 964,874        | \$ (79,501)            |
| Interest income             | -                             | 159               | 4,013             | 4,172             | 4,172                  |
| Contributions and donations | -                             | (1,600)           | 2,550             | 950               | 950                    |
| <b>Total revenues</b>       | <b>\$1,044,375</b>            | <b>\$ 514,606</b> | <b>\$ 455,390</b> | <b>\$ 969,996</b> | <b>\$ (74,379)</b>     |
| <b>EXPENDITURES</b>         |                               |                   |                   |                   |                        |
| Personal service            | \$ 776,063                    | \$ 347,078        | \$ 343,820        | \$ 690,898        | \$ 85,165              |
| Service and supplies        | 172,870                       | 52,881            | 45,290            | 98,171            | 74,699                 |
| Capital outlay              | 49,000                        | -                 | 32,500            | 32,500            | 16,500                 |
| <b>Total expenditures</b>   | <b>\$ 997,933</b>             | <b>\$ 399,959</b> | <b>\$ 421,610</b> | <b>\$ 821,569</b> | <b>\$ 176,364</b>      |
| Net change in fund balance  | \$ 46,442                     | \$ 114,647        | \$ 33,780         | \$ 148,427        | \$ 101,985             |
| FUND BALANCE, BEGINNING     | \$ -                          | \$ 173,853        | \$ 288,500        | \$ 173,853        | \$ 173,853             |
| FUND BALANCE, ENDING        | <u>\$ 46,442</u>              | <u>\$ 288,500</u> | <u>\$ 322,280</u> | <u>\$ 322,280</u> | <u>\$ 275,838</u>      |

**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***

We have audited the financial statements of the governmental activities and the general fund of the Oregon Patient Safety Commission, as of and for the biennium ended June 30, 2009, which collectively comprise the Oregon Patient Safety Commission's basic financial statements, and have issued our report thereon dated December 17, 2009. 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 deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting. This deficiency is listed as 2009-1.

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. We believe that the significant deficiency 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*.

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.

Moss Adams LLP

Eugene, Oregon  
December 17, 2009

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2009**

---

**Financial Statement Findings**

2009-1

Condition

The internal control structure of the Commission has focused primarily on the objective of effectiveness and efficiency of operations. However, the system of internal control over the objectives of reliability of financial reporting contains certain deficiencies. A key element of financial reporting is the ability of management to select and apply appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles.

Management of the Commission maintains accounting records primarily on a cash basis of accounting. Preparation of a GAAP-based financial statement for the Commission requires sufficient knowledge about full accrual, modified accrual, and budgetary basis accounting. As a result, certain adjustments were required to be made to the financial statements subsequent to the start of the audit process. Adjustments included the recognition of differences between the government wide financial statements and the fund financial statements. Management required assistance with certain disclosures that included the pension plans and other post employment benefits. Also, as described in the *Independent Auditors Report*, Management has not presented *Management's discussion and analysis* (MD&A) that accounting principles accepted in the United States of America have determined necessary to supplement, the basic financial statements.

The cumulative effect of these observations regarding internal control over the financial close and reporting process could result in a material misstatement of the financial statements; this deficiency is deemed to be a material weakness.

Criteria

To minimize the risk of material errors in the financial statements, management should possess sufficient understanding of the basic reporting requirements as required under generally accepted accounting practices in the United States.

Effect

Lack of internal controls and management education about GAAP significantly increases the risk of material accounting errors in Commission financial statements.

**OREGON PATIENT SAFETY COMMISSION**  
**(A Semi-Independent Agency of the State of Oregon)**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2009**

---

**Financial Statement Findings (Continued)**

Cause

Semi-independent State agencies such as the Oregon Patient Safety Commission are required to produce GAAP financial statements on a biennium basis. The infrequent nature of financial reporting creates conditions which diminish the significance for possessing a thorough understanding about GAAP reporting requirements.

Recommendations

Management and the Commission's governing body should assess the adequacy of the design of its policies and procedures related to preparation of financial statements and design appropriate controls as necessary to rectify inadequacies.

Response

Given existing cost/benefit constraints (limited resources, small number of staff) the Commission used a cash basis of accounting during its start-up years (2003-2009). The board believes this 'common sense' approach met the Commission's day-to-day operational needs for prudent and efficient financial controls during this period. However, since auditing standards have changed in the last few years, the Commission will make every effort to improve these controls further.