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*Auditing for a Better Oregon*

May 12, 2005

Michael Jordan, Board Chair  
Oregon Board of Massage Therapists  
748 Hawthorne Avenue NE  
Salem, Oregon 97301

Dear Mr. Jordan and Members of the Board:

We have completed our review of internal controls over revenues and expenditures of the Oregon Board of Massage Therapists for the period of July 2002 through January 2005 and identified approximately \$6,570 in questionable expenditures, as well as significant internal control weaknesses over reimbursements, payroll processing, and cash receipts and disbursements. We also found that the board's license and cashiering database is unreliable.

#### Questionable Expenditures

We question the appropriateness of the following expenditures:

- Expense reimbursements totaling approximately \$328, including two electronic cash withdrawals. Some of the reimbursements lacked sufficient supporting documentation or were paid twice, or the wrong rates were used when determining the reimbursement amount.
- Merit increases totaling \$6,242 were awarded during the statewide pay freeze, which became effective July 1, 2003.

**We recommend** the board resolve the identified questionable expenditures and recover funds where appropriate. The board should consult the Oregon Accounting Manual, policy number 45.50.00.PO, to recover overpayments made as a result of inappropriately authorized payroll merit increases.

#### Internal Control Weaknesses

We evaluated the board's internal controls to determine if revenues and expenditures were properly accounted for and adequately controlled and identified the following:

- Insufficient supporting documentation, including written justification or receipts, relating to cash disbursements, general journal entries, travel, and meals.

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- Claims were submitted and paid for the expense of another in violation of the Oregon Accounting Manual.
- Inadequate segregation of key functional responsibilities. Specifically, the office manager was responsible for opening mail, receiving/receipting cash, preparing deposits, depositing cash, recording cash receipts/accounts receivable, issuing refunds and other checks, recording disbursements/payables, handling customer complaints, printing licenses, mailing checks and reconciling accounts. In addition, the individual was given check-signing authority.
- The board was unable to account for all duplicate pre-numbered receipts for cash and checks received. In addition, the board only used the pre-numbered receipts as a customer service rather than for control purposes and, therefore, not all cash received was receipted.
- Although account reconciliations were prepared and subsequently reviewed by a member of the board, the reconciliation balances did not always agree to the check register balance and outstanding items were not resolved.
- The board did not always deposit cash daily as required by statute.
- The office manager took three payroll advances, totaling \$1,770, during the last four years. One of the payroll advances did not have supporting documentation to show supervisory approval, and none had sufficient supporting documentation to show that the advances met the “emergency” criteria defined in the Oregon Accounting Manual.

**We recommend** the board revise its internal controls over revenues and expenditures to ensure funds are properly accounted for and controlled as described in the Oregon Accounting Manual. At a minimum, the board should:

- Remove the check signing authority awarded to the office manager.
- Separate key functional responsibilities.
- Use pre-numbered receipts and log all cash received.
- Ensure sufficient supporting documentation, including receipts, is retained in all instances.
- Deposit cash received daily.

**We also recommend** the board consider providing formal accounting training to the office manager.

#### License and Cashiering Database

We found that the board’s license and cashiering database is unreliable, due to a lack of sufficient controls. Specifically, we found:

- Automatically generated batch and cash ID’s were not in numerical sequence. Some batch and cash ID’s were missing and some cash ID’s were used more than once.

- Some cashiering batch totals did not agree to supporting documentation. This situation is due to the ability to edit batches after the batch has been posted.
- Not all active and inactive licenses had current corresponding cash activity due to data entry errors such as posting payments to the wrong licensee account, using the wrong transaction type, or assigning a license the wrong license status (i.e. active when the license should have been inactive).
- Refund data did not always agree with that recorded in the check register; some amounts were different and some refunds were not included in the database at all.
- The database identified the board's Executive Director as an active licensed massage therapist even though she is not a licensed massage therapist in Oregon.

In addition, we found that board staff responsible for data entry also had direct access to the database data increasing the risk that information could be inappropriately altered.

As the board is currently contracting with an outside vendor to modify the database, **we recommend** the board consider the above identified weaknesses in its development effort. In the meantime, the board should establish manual controls that:

- Prohibit employees from deleting and editing batch and cash ID's. In the event that a batch or cash ID is deleted or modified, supporting documentation should be prepared and retained.
- Establish verification checks to ensure cashiering activity is properly recorded to the correct account and the correct transaction type is used.
- Ensure refund data agrees between the check register and cashiering database.

**We also recommend** the board remove data entry users' ability to directly access the database data.

Sincerely,  
OREGON AUDITS DIVISION

Nancy L. Young, CPA, CISA, CFE  
Audit Manager

NLY:bk

c: Patty Glenn, Executive Director  
Laurie Warner, Acting Director, Department of Administrative Services