

Report No. 2008-10

April 9, 2008



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

Secretary of State Audit Report

State of Oregon

Board of Optometry

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

255 Capitol Street NE, Suite 500
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

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

Board of Directors
Oregon Board of Optometry
1900 Hines Street SE
Salem, Oregon 97302

This report presents audited financial statements of the Oregon Board of Optometry, 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

Charles A. Hibner, CPA
Director

OREGON BOARD OF OPTOMETRY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA**

For the Biennium Ended

June 30, 2007

with

Independent Auditors' Report

**MERINA
& COMPANY, LLP**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

5499 AMY STREET • WEST LINN, OR 97068

PHONE: (503) 723-0300 • FAX: (503) 723-9946 • WWW.MERINACPAS.COM

OREGON BOARD OF OPTOMETRY
For the Biennium Ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Board of Optometry
1900 Hines Street SE
Salem, OR 97302

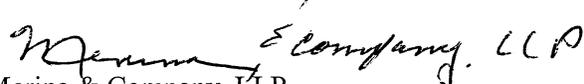
Charles Hibner, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Oregon Board of Optometry, 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 Board of Optometry'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 Board of Optometry, 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 18, 2008, on our consideration of the Oregon Board of Optometry'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 18, 2008

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 196,397
Total assets	<u>\$ 196,397</u>
LIABILITIES:	
Accounts payable	\$ 3,763
Compensated absences	<u>18,255</u>
Total liabilities	<u>22,018</u>
NET ASSETS:	
Unrestricted	<u>174,379</u>
Total net assets	<u>174,379</u>
Total liabilities and net assets	<u>\$ 196,397</u>

The accompanying notes are an integral part of these financial statements

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
STATEMENT OF ACTIVITIES
For the Biennium Ended June 30, 2007

	<u>Expenses</u>	<u>Net Revenue (Expenses) and Changes in Net Assets</u>
EXPENSES:		
Governmental activities:		
Licensing	\$ 516,668	\$ (516,668)
Total program expenses		<u>(516,668)</u>
GENERAL REVENUES:		
General revenues:		
Licenses and fees		548,865
Civil penalties		1,000
Interest income		1,168
Miscellaneous		<u>8,407</u>
Total general revenues		<u>559,440</u>
Change in net assets		42,772
NET ASSETS, BEGINNING		<u>131,607</u>
NET ASSETS, ENDING		<u><u>\$ 174,379</u></u>

The accompanying notes are an integral part of these financial statements

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2007

	Total Governmental Fund
ASSETS:	
Cash and investments	<u>\$ 196,397</u>
Total assets	<u><u>\$ 196,397</u></u>
LIABILITIES AND FUND BALANCE:	
Accounts payable	<u>\$ 3,763</u>
Total liabilities	<u>3,763</u>
FUND BALANCE:	
Unreserved	192,634
Total fund balance	<u>192,634</u>
Total liabilities and fund balance	<u><u>\$ 196,397</u></u>
RECONCILIATION TO THE STATEMENT OF NET ASSETS	
Amounts reported in the statement of net assets are different because:	
Total fund balance	\$ 192,634
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(18,255)</u>
Net assets	<u><u>\$ 174,379</u></u>

The accompanying notes are an integral part of these financial statements

OREGON BOARD OF OPTOMETRY
(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
REVENUES:	
License and fees	\$ 548,865
Civil penalties	1,000
Interest income	1,168
Miscellaneous	<u>8,407</u>
Total revenues	<u>559,440</u>
EXPENDITURES:	
Personal service	388,942
Service and supplies	106,097
Expendable Property	<u>3,374</u>
Total expenditures	<u>498,413</u>
Revenues over (under) expenditures	61,027
FUND BALANCE, BEGINNING	<u>131,607</u>
FUND BALANCE, ENDING	<u><u>\$ 192,634</u></u>

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

Excess of revenues over (under) expenditures	\$ 61,027
Change in compensated absences	<u>(18,255)</u>
Change in net assets	<u><u>\$ 42,772</u></u>

OREGON BOARD OF OPTOMETRY
(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)
REVENUES:					
License and fees	\$ 525,125	\$ 274,122	\$ 274,743	\$ 548,865	\$ 23,740
Civil penalties	8,000	-	1,000	1,000	(7,000)
Interest income	2,500	912	256	1,168	(1,332)
Miscellaneous	3,300	2,690	5,717	8,407	5,107
Total revenues	538,925	277,724	281,716	559,440	20,515
EXPENDITURES:					
Personal service	415,767	196,107	192,835	388,942	26,825
Service and supplies	132,957	52,795	53,302	106,097	26,860
Capital outlay	5,000	1,168	2,206	3,374	1,626
Total expenditures	553,724	250,070	248,343	498,413	55,311
Revenues over (under) expenditures	(14,799)	27,654	33,373	61,027	75,826
FUND BALANCES, BEGINNING		131,607	159,261	131,607	131,607
FUND BALANCES, ENDING		\$ 159,261	\$ 192,634	\$ 192,634	192,634

The accompanying notes are an integral part of these financial statements

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

NATURE OF THE ORGANIZATION

The Board's mission is to protect the people of the State of Oregon from the dangers of unqualified and improper practice of optometry. The Board prescribes qualifications for the practice of optometry, setting standards for the examination of applicants for licensure and certification, continuing education, and enforcement of the laws and regulations governing the practice. The Board issues licenses to those who do qualify, and has the authority to revoke licenses, and assess civil penalties against unlicensed individuals practicing optometry without authority, and against those licensed professionals practicing improperly.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Oregon Board of Optometry (Board) is a semi-independent agency of the State of Oregon. The Board was created in 1905 and operates under Oregon Revised Statutes (ORS) Chapter 683. The Board consists of five members appointed by the governor for three-year terms. Four members are licensed doctors of optometry, and the fifth member is a public citizen representing health consumers. The Board examines applicants for licensure and imposes disciplinary proceedings against those who violate statutes. The Board also makes rules and enforces professional standards for the practice of optometry in Oregon.

Pursuant to Oregon Senate Bill 1127 adopted in 1999, the Board was granted permanent semi-independent status by the Legislature.

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 Board are organized in a single special revenue fund which is used to account for the Board's activities. Revenues are primarily from license fees, civil penalties and investment income.

Government-wide Statements

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 measurable and available, except for license fees which are recognized when received. Revenues are considered to be available when they are collectable within the current period or soon

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

enough thereafter to pay liabilities for 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 Board is required to adopt budgets on a biennial basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all licensees.

Unlike most budgets in state government where the agency budgets are enacted into law by the legislature, the Board'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 Board are considered to be non-appropriated budgets. The budgetary statement included herein compares the total non-appropriated biennial budget to actual expenditures for the biennium ended June 30, 2007.

Cash and Investments

The Board'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. Investments are carried at fair value. Cash and cash equivalents are combined with investments and displayed as Cash and investments on the financial statements.

Supplies

Supplies are charged as expenditures when purchased.

License Fees

License fees are billed monthly for an annual period based upon anniversary dates and are recognized when received.

Compensated Absences

Full-time, permanent employees are granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Board.

Equipment

Equipment with a cost of more than \$5,000 is depreciated over its useful life. Currently, the Board does not have any equipment with a cost basis greater than \$5,000.

Accounting 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

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

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

Interest rate risk

The Board currently does not have a formal investment policy that limits investments as a means of managing its exposure to fluctuating interest rates. However, the Board approves all investments on an individual basis and has invested in certificates of deposit in order to reduce interest rate risk as once the investment is made, the interest rate does not change.

Credit risk

State statutes authorize the Oregon Board of Optometry 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 Board shall be made in accordance with Oregon Revised Statutes ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revision 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 Board's bank balance was \$40,470, all of which was covered by Federal Depository Insurance.

The Board has purchased certificates of deposit through Fidelity Investments of varying amounts. As of June 30, 2007 the Board had \$155,000 in certificates, all of which was insured by the FDIC.

PENSION PLAN

The Board employees participate in the Oregon Public Employees Retirement System (PERS), a cost sharing multiple-employer defined benefit pension plan. All Board employees are eligible to participate in the system after completing six months of service. Total payroll was \$268,237 and covered payroll was

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
NOTES TO FINANCIAL STATEMENTS
For the Biennium Ended June 30, 2007

\$267,171 for the two years ended June 30, 2007. PERS is administered by the Public Employees Retirement Board (PERB) under the guidelines of Oregon Revised Statutes, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P. O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by State statute to contribute 6.0 percent of their salary to the defined contribution portion of the plan. The Board is required by statute to contribute actuarially computed amounts as determined by PERB. Rates are subject to change as a result of subsequent actuarial valuations. At June 30, 2007, the rate was 8.7 percent of each covered employee's salary. The amount contributed by the Board for the Biennium ended June 30, 2007 was \$40,425. The amount contributed by the Board for the Biennium ended June 30, 2005 was \$26,791.

During the biennium ending June 2005, Oregon General Obligation Pensions Bonds were issued to fund the States' share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to PERS. Over the next 22 years the state will be obligated to make the principal and interest payments on these pension obligation bonds. All benefitting agencies will be charged the same rate to pay this debt service. The amount paid by the Board for the two years ended June 30, 2007 was \$17,055.

EMPLOYEE LEAVE

Vacation and sick leave paid time off are earned monthly at an annual rate of 24 to 35 days, depending upon length of service, with a maximum accumulation of 60 days for any one employee. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based upon current salary rates, was \$18,255 at June 30, 2007.

INSURANCE

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

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

LEASE COMMITMENT

The Board's present office location is at 1900 Hines Street, SE, Salem, Oregon, 97302. Total lease payments for the two years ended June 30, 2007 were \$40,200. Future annual minimum lease payments for the years beginning July 1, 2007 through June 30, 2010 are \$22,675.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Directors
Oregon Board of Optometry
1900 Hines SE
Salem, Oregon 97302

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 Board of Optometry, as of and for the two years ended June 30, 2007, which collectively comprise the Oregon Board of Optometry's basic financial statements and have issued our report thereon dated January 18, 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 Board of Optometry'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 Board of Optometry's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Board of Optometry'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 Board of Optometry'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 Board of Optometry's financial statements that is more than inconsequential will not be prevented or detected by the Oregon Board of Optometry's internal control. 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 Board of Optometry's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be significant a deficiency in internal control over financial reporting. This deficiency is listed as 2007-1

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 the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Board of Optometry'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 Board of Optometry, in a separate letter dated January 28, 2008.

The Oregon Board of Optometry's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Oregon Board of Optometry'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 Directors, 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 18, 2008

OREGON BOARD OF OPTOMETRY
(A Semi-Independent Agency of the State of Oregon)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2007

Financial Statement Findings

2007-1:

Condition

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

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

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

Cause

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

Recommendation

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

Response

The Board agrees with this recommendation and will institute the recommended procedure at the next Board meeting.

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

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

Directory of Key Officials

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

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

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310