



**Auditor of State  
Betty Montgomery**





# Auditor of State Betty Montgomery

## MANAGEMENT LETTER

State Board of Sanitarian Registration  
77 South High Street, 16<sup>th</sup> Floor  
Columbus, Ohio 43215-6108

The State Board of Sanitarian Registration (the Board) is part of the primary government of the State of Ohio. In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the basic financial statements of the State of Ohio as of and for the year ended June 30, 2002, and have issued our report thereon dated January 27, 2003.

*Government Auditing Standards* also require that we describe the scope of our testing of compliance with laws and regulations and internal controls over financial reporting and report any irregularities, illegal acts, other material noncompliance and reportable conditions in the internal controls. We have issued a report on compliance and internal controls over financial reporting required by *Government Auditing Standards* as of and for the year ended June 30, 2002. The procedures we performed at your agency did not result in the identification of any material noncompliance or reportable conditions in internal control that required inclusion in the statewide report described above.

We are also submitting for your consideration the following comments on the Board's internal controls. These comments reflect matters that, while in our opinion do not represent material reportable conditions in internal control, we believe represent matters for which improvements in internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations suggested below. However, these comments reflect our continuing desire to assist your Board. If you have questions or concerns regarding these comments, please do not hesitate to contact us.

### 1. INTERNAL CONTROLS – NONPAYROLL EXPENDITURES AND REVENUE

In order to provide reasonable assurance that transactions are accurate, allowable, recorded properly, and in compliance with applicable laws and regulations, an entity establishes policies and procedures and implements internal controls. These policies and procedures are monitored by management to ensure the designed system of internal controls is operating effectively and achieving the objectives of management. To be effective, the performance of an internal control is evidenced in some manner to provide assurance to other parties involved in the process that the control procedure was performed in accordance with management's directives.

During the review of the expenditure and revenue cycles, the following exceptions were noted:

- Three of twenty (15%) vouchers tested did not contain the Executive Secretary's signature to indicate the voucher's receipt, review, and approval.
- Two of twenty (10%) revenue receipts tested did not contain the signature of the Executive Secretary to indicate their review and approval.

**1. INTERNAL CONTROLS - NONPAYROLL EXPENDITURES AND REVENUE (continued)**

Without proper documentation of approval on pertinent documents, the Board may inadvertently create or process inaccurate payments to vendors or miscode receipts to be deposited with the Treasurer of State. If an invoice or voucher is unapproved, any number of errors could occur: the amounts could be inaccurate, the vendor could be incorrect, or the payment could be miscoded. If a revenue receipt goes without review or approval, the incorrect amount could be deposited or could be recorded in CAS or the Board's internal records according to the incorrect revenue source code. In addition, without documentation to evidence the performance of key control procedures management cannot effectively evaluate whether Board employees are adhering to established policies.

We recommend the Board review and approve all expenditures and receipts prior to processing them through the Central Services Agency. For items that are processed differently than normal invoices or vouchers, approvals made through e-mail should be printed and maintained on file. We further recommend that the Board perform a review of payments made by the Department of Administrative Services on behalf of the Board to ensure accuracy, allowability, and reasonableness. All reviews performed should be documented in some manner to evidence the performance of the internal control procedure.

**2. ANNUAL REPORT ERRORS**

Board members, citizens, and customers of an entity rely on the accuracy of annual reports in order to make decisions and evaluate the Board's performance. It is important that annual reports issued by an entity exhibit financial activity for a specified period are complete and accurate. In order to ensure completeness and accuracy, an entity will establish procedures such as agreeing dollar amounts to independent source documents.

Current procedures for preparation of annual reports are to report expenditures for the budget fiscal year rather than all expenditures for the accounting fiscal year. The Board will display estimated encumbrances that will be paid in the subsequent fiscal year and exclude those amounts from the subsequent report when they are actual expenditures. As such, the annual reports prepared by the Board did not include all cash disbursements for the fiscal year. The annual reports for fiscal years 2001 and 2002 contained the following errors when compared to the Central Accounting System (CAS):

- The 2001 annual report did not include \$4,905.59 (4.61%) in expenditures and encumbrances for the Maintenance Account. The annual report showed \$4,795.36 less in expenditures than what was reported in CAS, which is the exact amount of budget fiscal year 2000 expenditures made during state fiscal year 2001. The Board did identify the estimated encumbrances for the budget fiscal year in the 2000 annual report, but did not report them as expenditures in the 2001 annual report. In addition, the amount of encumbrances reported for budget year 2001 was \$110.23 less than CAS.
- The 2002 annual report did not include \$1,260.78 (4.56%) in expenditures for the Maintenance Account, which is the exact amount of the budget fiscal year 2001 disbursements made during state fiscal year 2002. The Board did identify the estimated encumbrances for the budget fiscal year in the 2001 annual report, but did not report them as expenditures in the 2002 annual report when they were actually incurred.

Incomplete financial data could skew the board members' view of the entity's financial position and the results of their operations for the reporting period. As a result, the board could make critical decisions based on assumptions derived from incomplete or inaccurate data, especially if significant amounts are omitted from the report. Customers or other entities that rely on the information provided in the annual report may not receive an accurate depiction of the entity's performance.

**2. ANNUAL REPORT ERRORS (continued)**

We recommend the Board implement procedures to ensure the annual report is complete and accurately reflects their financial activity. We recommend the Board request additional CAS reports from the Central Services Agency in order to prepare their annual report to include all expenditures incurred for the period, as well as the actual amount of encumbrances entered into CAS. In addition, the Board could include a chart of the cumulative financial activity for the budget fiscal year as supplemental information to show how they spent in comparison to their appropriation. The Board could also perform an independent review of the report to ensure the financial summaries agree to the amounts in CAS prior to publication and distribution. If possible, this procedure should be performed by an individual other than the preparer of the report.

On May 28, 2003 we held an exit conference with Board's management and discussed the contents of this letter. The Board has responded to the issue discussed in this Management Letter. A copy of their response may be obtained from Lynn Jones, Executive Secretary, at (614) 466-1772. This letter is intended for the information and use of State of Ohio management and the Ohio General Assembly and is not intended to be and should not be used by anyone other than these specified parties.



**BETTY MONTGOMERY**  
Auditor of State

May 28, 2003





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Betty Montgomery**

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**STATE BOARD OF SANITARIAN REGISTRATION**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 24, 2003**