

Financial Audit

**Board of Architecture, Engineering,
Land Surveying, Landscape Architecture,
Geoscience, and Interior Design**
July 1, 1996, through December 31, 1999



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Report Summary

Financial Audit Report

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

July 1, 1996, through December 31, 1999

Key Findings and Recommendations:

- The board did not set its fees to recover costs as required by statute, although it has received approval to increase its fees effective June 2000. The board also needs to improve controls in order to safeguard receipts and ensure that receipts are properly accounted for. The board collected about \$645,000 in fiscal year 1999. We recommended that the board restrictively endorse checks “for deposit only” immediately upon receipt, summarize daily receipts for comparison to the amount deposited by the Department of Commerce, and periodically reconcile deposits to the number of licenses issued and examinations given. (Finding 1, page 6)
- The board exceeded its appropriation authority for fiscal years 1998 and 1999. As a result, the board received administrative transfers from the General Fund contingent account totaling \$76,000 to cover operating deficits. The board incurred the deficits because of cost overruns incurred in implementing a new licensing system. The board did not have a comprehensive spending plan for the new licensing system and did not effectively monitor the status of the computer project. The board also needs to address certain weaknesses associated with the new licensing system, including the lack of adequate security over access to the system, and lack of system documentation and disaster recovery procedures. (Findings 2 and 3, pages 9 and 10)
- The board did not comply with several state laws and policies when incurring expenditures. The board did not always ensure that sufficient funds were available prior to incurring obligations. The board also exceeded its purchasing authority limits. In addition, the board did not execute professional/ technical services contracts with its primary vendors and did not comply with other requirements. We recommended that board staff obtain training in state laws and policies and procedures governing expenditure of state funds. (Finding 4, page 11)

Other Key Audit Conclusions:

- The board’s payroll expenditures were properly authorized and recorded in the state’s accounting system. For the payroll transactions tested, the board paid its employees in accordance with applicable legal provisions.

Agency Response:

- In its response, the board agreed with the audit findings and recommendations and has developed an action plan to address the issues.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Patrick Phillips, CPA	Auditor-in-Charge

Exit Conference

The following staff from the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design participated in the exit conference held on May 24, 2000, to discuss the contents of this report:

Doreen Frost	Executive Director
Michael O-Hara	Board Chair



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Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Michael O'Hara, Chair,
Board of Architecture, Engineering, Land Surveying, Landscape Architecture,
Geoscience, and Interior Design

Members of the Board of Architecture, Engineering, Land Surveying, Landscape
Architecture, Geoscience, and Interior Design

Doreen Frost, Executive Director
Board of Architecture, Engineering, Land Surveying, Landscape Architecture,
Geoscience, and Interior Design

We have audited the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included license and examination revenues and expenditures including payroll.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the board complied with provisions of laws, regulations, and contracts that are significant to the audit. Management of the board is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the board. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 8, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 31, 2000

Report Signed On: June 5, 2000

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

Chapter 1. Introduction

The Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design examines, certifies, licenses, and regulates individuals employed in those professions. The board's operations are governed by Minn. Stat. Section 326.02 to 326.15, Minn. Stat. Chapter 214 generally, and Minn. Rules 1800 and 1805. The board is comprised of 21 members appointed by the Governor. The board employs seven individuals. Doreen Frost became the acting executive director of the board on January 8, 1999, and was appointed executive director July 1, 1999. George Iwan was the executive secretary from September of 1995 to January 8, 1999, when he retired.

The board administers license examinations and processes complaints filed against licensees. The board also processes applications for original and renewal licenses. The board administers each examination twice a year. Examination fees range from \$65 to \$560. The board administered 18 examinations during fiscal year 1998 to approximately 450 candidates. Candidates that successfully complete an examination are eligible for licensure. The cost to obtain a license is \$70; license fees will increase to \$104 beginning in June 2000. Licenses are renewable on June 30 of each even-numbered year. Approximately 15,500 licenses had been issued at the end of fiscal year 1998.

Pursuant to Minn. Stat. Section 214.04, the Department of Commerce provides administrative support to the board. The Department of Commerce provides services such as processing payroll and personnel transactions, allotting and disbursing funds, and depositing receipts into the state treasury. The board receives legal and investigative services from the Attorney General's Office.

The board receives a General Fund appropriation for operations. Table 1-1 summarizes the board's sources and uses of funds during fiscal years 1997, 1998, and 1999. As noted in the table, the board received administrative transfers from the General Fund contingent account in fiscal year 1998 and 1999 to cover budget deficits. The deficits resulted from cost overruns associated with the implementation of a new licensing system. The deficit appropriations prompted a review of the board by the Senate Counsel and Research that resulted in a report dated September 27, 1999. The report highlighted some regulatory concerns the board must address and recommended additional fiscal oversight and scrutiny by the Department of Finance and the Department of Commerce.

**Board of Architecture, Engineering, Land Surveying, Landscape
Architecture, Geoscience, and Interior Design**

**Table 1-1
Sources and Uses of Funds by Fiscal Year**

Sources:	<u>1997</u>	<u>1998</u>	<u>1999</u>
Appropriations	\$705,000	\$684,000	\$701,000
Less: Cancellations	<u>(198,622)</u>	<u>0</u>	<u>(6,229)</u>
Net Appropriations	\$506,378	\$684,000	\$694,771
Balance Forwarded In	292,521	0	0
Transfers In ⁽¹⁾	<u>8,481</u>	<u>45,000</u>	<u>31,000</u>
Total Sources	<u>\$807,380</u>	<u>\$729,000</u>	<u>\$725,771</u>
Uses:			
Payroll and Per Diem	\$367,831	\$395,507	\$379,059
Rent, Maintenance, and Utilities	46,285	41,719	43,520
Supplies	157,454	54,022	38,042
Travel	33,596	40,094	29,361
Other Operating Costs	13,971	27,872	81,062
Printing and Advertising	11,967	28,180	12,542
Professional/Technical Services	31,250	56,381	75,660
Computer and Systems Services	72,256	0	0
Employee Development	7,793	13,016	4,882
Communications	35,750	56,358	36,258
Equipment	25,998	14,096	23,005
Miscellaneous	<u>3,229</u>	<u>1,755</u>	<u>2,380</u>
Total	<u>\$807,380</u>	<u>\$729,000</u>	<u>\$725,771</u>

Note (1): The board received administrative transfers from the General Fund contingent account of \$45,000 in fiscal year 1998 and \$31,000 in 1999 to cover budget deficits.

Source: Minnesota Laws and Minnesota Accounting and Procurement System.

Table 1-2 summarizes the board's revenues, expenditures, and indirect costs for the three years ended June 30, 1999. The board collects nondedicated revenue that is deposited in the state's General Fund. The board is not required to pay indirect costs for services provided by the Attorney General, the Department of Commerce, or the Department of Finance. According to Minn. Stat. Section 214.06, however, the board must set its fees to recover both its direct and indirect costs during the fiscal biennium. As shown in Table 1-2, the board did not recover its costs during the biennium ending in fiscal year 1999. However, the board received authorization in the 2000-2001 Department Earnings Report to adjust its license fees to \$104 effective June 2000.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

**Table 1-2
Revenues, Expenditures, and Indirect Costs by Fiscal Year**

	1997	1998	1999
Revenues			
License fees	\$221,260	\$696,890	\$486,400
Examination fees	111,751	116,738	112,808
Fines, penalties, and filing fees	<u>33,352</u>	<u>14,185</u>	<u>45,570</u>
Total Revenues ⁽¹⁾	<u>\$366,363</u>	<u>\$827,813</u>	<u>\$644,778</u>
Direct Expenditures			
Payroll and Per Diem	\$367,831	\$395,507	\$379,059
Administrative Expenditures	<u>439,549</u>	<u>333,493</u>	<u>346,712</u>
Total Direct Expenditures	<u>\$807,380</u>	<u>\$729,000</u>	<u>\$725,771</u>
Indirect Costs ⁽²⁾			
Attorney General Services	\$ 39,056	\$ 43,137	\$ 75,745
Department of Commerce	23,186	24,948	24,948
Statewide Indirect Costs	<u>15,693</u>	<u>20,103</u>	<u>21,693</u>
Total Indirect Costs	<u>\$ 77,935</u>	<u>\$ 88,188</u>	<u>\$122,386</u>
Total Direct and Indirect Costs	<u>\$885,315</u>	<u>\$817,188</u>	<u>\$848,157</u>

(1) The board renews licenses in even-numbered years which results in fluctuations in revenues between fiscal years.

(2) Indirect costs for the board are waived; however, the board considers these costs when setting fees. Indirect cost data obtained from respective agencies.

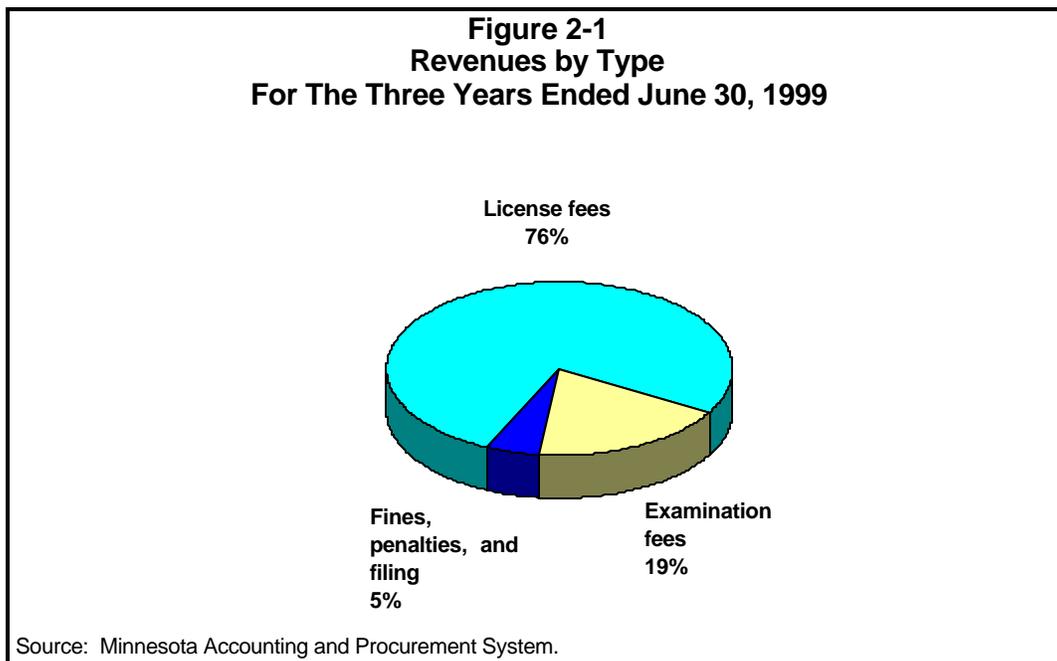
Source: Minnesota Accounting and Procurement System.

Chapter 2. Revenues

Chapter Conclusions

The board needs to improve controls in order to safeguard receipts and ensure that receipts are properly accounted for. The board assessed the approved license and examination fees, but those fees were not sufficient to enable the board to recover its costs as required by statute. The board will increase its license fees in June 2000 in order to recover required costs. Also, the board had inappropriately assessed application fees for interior designers from April 1994 to March 1999; however, it developed a corrective action plan to remedy the overcharges.

The board collects examination and licensing fees and fines and penalties. The Department of Commerce deposits the fees for the board in the General Fund as nondedicated revenue. Biennially, the board and the Department of Finance review the fee structure to determine if fees are sufficient to cover board expenditures. The board reviewed the fee structure in January 1999. Figure 2-1 shows the types and percentage of revenues collected by the board for fiscal years 1997, 1998, and 1999.



Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

Objectives, Methodology, and Conclusions

We focused our review of receipts on the following objectives:

- Did the board collect and record the appropriate license and examination revenue based on licenses issued and examinations administered?
- Did the board adequately safeguard receipts?
- Did the board record receipts properly on the accounting system?

The methodology we used to audit revenues included interviewing the board's employees and personnel at the Department of Commerce to determine how the board processed receipts. We performed analytical review procedures to determine the trend of revenues during the audit period. We also selected a sample of deposits and traced them through the accounting system and to the license and examination records.

Conclusions

The board assessed the approved license and examination fees, but those fees were not sufficient to enable the board to recover its costs as required by statute. The board and the Department of Finance approved a license fee increase from \$70 to \$104 effective June 2000 to recover the required costs. Also, the board erroneously collected application fees totaling nearly \$32,000 for the interior design profession from April 1994 to March 1999. Upon detection of this error, the board established a refund account and has refunded \$26,450 as of March 31, 2000. We also concluded that the board needs to improve internal controls over receipts to ensure that it collects and deposits the appropriate amount of revenue. We discuss these issues in Finding 1.

1. The board did not adequately safeguard receipts.

The board did not have certain internal controls in place to safeguard receipts and ensure that all receipts were deposited. The board collected approximately \$645,000 in license and examination fees and fines and penalties in fiscal year 1999. The board did not restrictively endorse checks "for deposit only" immediately upon receipt and prior to submitting them to the Department of Commerce for processing. The board also did not summarize daily receipts in order to verify the amount deposited by Commerce. Finally, the board did not reconcile receipts to the number of licenses issued or the number of examinations given. This type of reconciliation would provide overall assurance that the board collected and deposited the correct amount of revenue. Absent these controls, the board assumes the risk that receipts may be lost, misappropriated, or not properly recorded on the accounting system.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

Recommendations

- *The board should:*
 - *restrictively endorse checks “for deposit only” immediately upon receipt;*
 - *summarize daily receipts for comparison to the amount deposited by the Department of Commerce; and*
 - *periodically reconcile deposits to the number of licenses issued and examinations given.*

Chapter 3. Expenditures

Chapter Conclusions

The board exceeded its appropriation authority for fiscal years 1998 and 1999. As a result, the board received administrative transfers from the General Fund contingent account totaling \$76,000 to cover operating deficits. The board incurred the deficits because of cost overruns incurred in implementing a new licensing system. We found that the budget deficits were exacerbated by the lack of a comprehensive spending plan for the new system and inadequate monitoring of the project. In addition, the board needs to address certain weaknesses associated with the new licensing system, including unrestricted access to the system, and the lack of adequate system documentation and disaster recovery procedures.

We also found that the board did not comply with several state laws and policies governing expenditures. The board did not always ensure that sufficient funds were available prior to incurring obligations and exceeded its purchasing authority limits. In addition, the board did not execute professional/technical services contracts with its primary vendors, and failed to comply with other requirements pertaining to expenditures.

Finally, we found that the board's payroll expenditures were properly authorized and recorded in the state's accounting system. For the payroll transactions tested, the board paid its employees in accordance with applicable legal provisions.

The board finances operations with appropriations received from the Legislature. The board received appropriations of \$705,000, \$684,000, and \$701,000 for fiscal years 1997, 1998, and 1999, respectively. Payroll is the board's most significant expenditure. The board employs seven individuals. The executive director approves the employees' timesheets and submits them to the Department of Commerce for processing. Various bargaining unit agreements cover employees of the board.

The board's largest nonpayroll expenditure is for examination services purchased from the national councils. Other administrative expenditures include travel, supplies, equipment, and rent. The board's staff approve purchases and disbursements. The Department of Commerce prepares the purchase orders and records the disbursements on MAPS.

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Audit Objectives and Methodology

We focused our review of expenditures on the following objectives:

- Did the board comply with its appropriation authority during the audit period?
- Were expenditures properly authorized by the board, paid in the correct amount, and in compliance with the board's purpose and governing statutes?
- Were board staff paid at the proper amounts in accordance with applicable bargaining unit agreements and management's authorization?
- Were employee expense reimbursements and per diem paid in compliance with applicable requirements?
- Were disbursements properly recorded in the accounting system?

To answer these questions, we interviewed employees from the board and the Department of Commerce to gain an understanding of the processes for payroll and other expenditures. We performed analytical review procedures to highlight increases in pay rates and the basis for those changes. We traced selected pay rates to the applicable bargaining units. We also selected a sample of disbursement transactions and tested compliance with applicable statutes and other rules and regulations. In addition, we reviewed the contract to upgrade the computer system and the board's decisions to address the budget deficits in fiscal year 1998 and 1999.

Conclusions

The board's payroll expenditures were properly authorized and recorded in the accounting system. For the payroll transactions tested, the board paid its employees in accordance with applicable legal provisions. However, the board exceeded its appropriation authority and received administrative transfers from the General Fund contingent account to remedy the deficits in fiscal years 1998 and 1999. We address this issue in Finding 2. The board also needs to address certain weaknesses with the new licensing system as discussed in Finding 3. Finally, in Finding 4 we discuss several violations of state laws and other policies governing the expenditure of state funds.

2. The board overspent its fiscal year 1998 and 1999 operating appropriations.

The board did not adequately monitor its budget during fiscal years 1998 and 1999. This is a violation of Minn. Stat. Section 16A.138, which makes it unlawful to incur indebtedness in excess of the appropriation made for such purpose. The majority of the overspending resulted from computer system development costs. The board received additional funding of \$76,000 to resolve the budget deficits. In discussing the budget deficits with board staff, we were concerned that an overall financing plan for the new computer system had not been prepared. The computer system was designed in several stages and each stage had a budget. The vendor also prepared periodic reports that highlighted cost overruns. We did not find any evidence that the

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

board addressed those variances. Although it is not unusual for organizations to experience cost overruns in implementing new computer systems, the lack of a comprehensive spending plan and inadequate monitoring of progress reports exacerbated the board's budget problems.

On July 1, 1996, the board entered into a contractual agreement with Shared Resource Management (SRM) to upgrade the board's computer technology and create a new database to facilitate the licensing process. The board undertook this initiative to ensure that its licensing system would be year 2000 compliant. SRM billed generally on a time and materials basis. The board paid about \$242,000 to the vendor. The new licensing system accounted for \$191,000 and personal computer upgrades totaled \$51,000 through November 29, 1998.

In addition to requesting additional funding to deal with the deficits, the board implemented a corrective action plan to control costs and operate within its revised budget. This included eliminating one employee position, reducing the acting executive director's salary, postponing licensing examinations, and curbing discretionary spending. In January 2000, the board also began to provide additional oversight by regularly addressing fiscal operations during board meetings.

Recommendations

- *The board should ensure that it develops a comprehensive strategic plan when it undertakes major initiatives in the future. The spending plan should include all dimensions of the project, identify available funding sources and obstacles to financing the project, incorporate effective monitoring of the project budget, and timely resolution of negative budget variances.*
- *Board members should continue to formally monitor financial operations on a regular basis to ensure that expenditures do not exceed appropriation limits.*

3. The board's new computer system did not have adequate computer system access controls, system documentation, or backup procedures to safeguard accounting data.

The board did not take adequate precautionary measures to safeguard data on its new licensing system. The board implemented the new system in January 2000. Our review of the new system disclosed the following concerns that the board will need to address.

The board did not have sufficient documentation on its new licensing system from either a design perspective or a user perspective. Due to lack of funds, the board could not obtain the technical system information that would document design features and an understanding of how the system processes data. Such information would be critical to rebuild the licensing system in the event of a disaster or to modify the system in the future. Similarly, the lack of user manuals and training resulted in the board being unable to generate data from the system in report format, thereby decreasing the functionality of the system.

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The board also did not provide off-site storage of its records, and did not back-up existing data in a readable format. The conversion of data from the previous licensing system to the new licensing system resulted in back-up information that is not usable by the board. These weaknesses create the potential for the complete loss of records essential for board operations. Effective disaster recovery procedures provide for off-site storage of back-up files in the event that existing records are destroyed.

Finally, the board has not reviewed access controls over the licensing system. The board needs to restrict access to the system to only those employees who need to use the system to complete their job responsibilities. By not restricting access to the system, the board increases the risk that unauthorized transactions could occur, or that data could be lost or destroyed.

The board has a responsibility to ensure that only authorized personnel have access to its electronic data, and that it can recover data and resume operations in the event of a computer system failure.

Recommendations

- *The board should develop a plan to obtain (1) technical computer system documentation for the new licensing system that includes system design and detailed descriptions of processes and data flows; and (2) user manuals and training to facilitate effective use of the licensing system by board staff.*
- *Board staff need to arrange for off-site storage of computer records and backup all data to ensure that computer operations can be restored if necessary.*
- *The board needs to limit system access to only those individuals who need to use the system to fulfill their job responsibilities.*

4. The board did not comply with several state laws and policies governing expenditures.

The board did not comply with state laws and policies when making some of its spending decisions. We noted several instances where the board did not follow established laws and policies, including the following:

- The board made disbursements to vendors for certain professional/technical services without complying with applicable state policies. The board made disbursements to four national councils that provide services for scoring examinations without executing contracts with the vendors. One of the national councils received over \$176,000. Minn. Stat. Section 16C.08, Subd. 2, requires that state agencies enter into contracts when professional or technical services are in excess of \$5,000. Written contracts provide assurance that the contracting parties have reached agreement on their respective rights and responsibilities, and serve to protect the interests of both parties if disputes arise.

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- The board approved purchases prior to ensuring that sufficient funds were available to meet the obligations. Minn. Stat. Section 16A.15, Subd. 3, requires that funds be encumbered or that sufficient funds are available prior to incurring obligations. The intent of the statute is to ensure that state agencies do not exceed their appropriation authority. We found in excess of \$13,500 of expenditures where the board had not ensured that sufficient funds were available prior to incurring the obligation. Noncompliance with this budgetary procedure contributed to the budget shortfall the board experienced as discussed in Finding 2.
- The board did not comply with the Authority for Local Purchase. The Department of Administration's Materials Management Division delegates purchasing authority to agency personnel who have been trained in purchasing policies and procedures. Administration certifies employees to purchase goods up to certain limits. The board's staff purchasing limit is \$5,000. We found numerous purchases that exceeded this limit, including one purchase for \$29,000.
- The board did not properly record expenditure transactions in the accounting system. For 15 out of 21 expenditure transactions we tested, the board did not properly record the occurrence date (the date the vendor provided the goods or services). The occurrence date determines the fiscal year the expenditure is charged to. The Department of Finance also uses the occurrence date at year-end to report liabilities for financial reporting purposes. In one instance, the board charged an expenditure of \$23,000 to an incorrect fiscal year. The expenditure should have been charged to fiscal year 1997 but was erroneously charged to fiscal year 1998. The effect of the coding error was that in 1997 the board canceled unspent funds back to the General Fund. This expenditure should have been paid from those excess funds. Instead, the expenditure was paid from fiscal year 1998 funds, the year when the board began experiencing budget shortfalls.
- The board did not comply with the 30-day prompt payment of state agency bills as required by Minn. Stat. Section 16A.124. During fiscal year 1999 the board paid only 81.3 percent of all invoices within 30 days.
- The board did not follow its written policies regarding payment of per diem. Board members are entitled to receive per diem payments in accordance with Minn. Stat. Section 15.0575, Subd. 3. The board also has a written policy that states "per diem will be paid for those meetings of two or more hours duration." The board policy is more restrictive than the statutory provision. We found five examples when the board paid per diem to members for meetings that lasted less than two hours. In addition, two board members received per diem payments for a special half-hour teleconference.

The board has a small staff and suffered from lack of continuity throughout the audit period. Because of this, the board was unfamiliar with certain state procedures for processing some of its transactions, resulting in violations of laws and policies. The board relies on the Department of Commerce to process its accounting transactions. The board must, however, apply the necessary control procedures to ensure that Commerce processes the board's transactions correctly.

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

Recommendations

- *The board should obtain training in state laws and policies governing the expenditure of state funds to ensure that it complies with all applicable financial related legal provisions.*
- *The board should clarify the intent of its policy on per diems and either comply with the guidelines or modify the policy.*

Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design

Status of Prior Audit Issues As of March 31, 2000

Most Recent Audit

Legislative Audit Report 97-28, issued in May 1997, examined the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design's financial activities for the period July 1, 1995, through December 31, 1996. The scope included license and examination revenues and administrative expenditures. The audit report contained one finding that the board did not maintain an adequate separation of duties over disbursements. The board implemented our recommendation to reassign some responsibilities over these duties to another individual.

State of Minnesota Audit Follow-up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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BOARD OF ARCHITECTURE, ENGINEERING, LAND SURVEYING, LANDSCAPE ARCHITECTURE, GEOSCIENCE AND INTERIOR DESIGN

June 5, 2000

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar St, Room 140
St. Paul, MN 55155

Dear Mr. Nobles:

The Board appreciates the thoroughness of the audit and the guidance provided to enable the Board to improve its policies and procedures to meet the current requirements: The Board recognizes the importance of concerns expressed in this audit and is committed to a resolution of the items identified.

The following is a response to each of the observations identified in the Audit Report.

1. The board did not adequately safeguard receipts.

Recommendations

- *The board should:*

-- *restrictively endorse checks "for deposit only" immediately upon receipt;*

RESPONSE: The Board has implemented the procedure to restrictively endorse checks "for deposit only" by purchasing a restrictive stamp being placed on checks received.

-- *summarize daily receipts for comparison to the amount deposited by the Department of Commerce; and*

RESPONSE: The Board has implemented a process to summarize daily receipts for comparison to the amount deposited by Commerce. This process was implemented on May 15, 2000 using our new licensing system reports for tracking all license renewals. This is especially useful during the high volume renewal period. A report is generated daily to summarize the receipts for Commerce.

-- periodically reconcile deposits to the number of licenses issued and examinations given.

RESPONSE: *Because the Board employs a small number of employees that are involved with various job functions, the Board has not had staffing resources to periodically reconcile deposits. The Board in September of 1999 hired Christine Shaw. Ms. Shaw previously was employed at the Department of Commerce in the Financial Division as a clerk. Ms. Shaw's current position description is being modified to include the duties of reconciling deposits sent to the Department of Commerce.*

2. The board overspent its fiscal year 1998 and 1999 operating appropriations.

Recommendations

- *The board should ensure that it develops a comprehensive strategic plan when it undertakes major initiatives in the future. The spending plan should include all dimensions of the project, identify available funding sources and obstacles to finance the project, incorporate effective monitoring of the project budget, and timely resolution of negative budget variances.*
- *Board members should continue to formally monitor financial operations on a regular basis to ensure that expenditures do not exceed appropriation limits.*

RESPONSE: *The Board members currently receive monthly budget reports that include the monthly Budget versus Expenditures report and the amount of the uncommitted balance. Additionally, monthly, the Board is informed to upcoming anticipated expenditures in order to closely monitor that expenditures do not exceed the given appropriation. Additionally, the Executive Committee and full Board will discuss and develop a comprehensive strategic plan prior to commitment to any major initiatives in the future.*

3. The board's new computer system did not have adequate computer system access controls, system documentation, or backup procedures to safeguard accounting data.

Recommendations

- *The board should develop a plan to obtain (1) technical computer system documentation for the new licensing system that includes system design and detailed descriptions of processes and data flows; and (2) user manuals and training to facilitate effective use of the licensing system by board staff.*
- *Board staff need to arrange for off-site storage of computer records and backup all data to ensure that computer operations can be restored if necessary.*
- *The board needs to limit system access to only those individuals who need to use the system to fulfill their job responsibilities.*

RESPONSE: The Board's General Licensing System (GLS) created by Shared Resource Management did not provide the written system design documentation to the Board. However, the Board has obtained a stand alone testing data base that is not linked to the network server. It allows for testing and, if needed, modification of system design. The Board's future IT plan will need to evaluate whether or not resources are to be dedicated to obtain detailed descriptions of processes and data flows.

The Board recognizes the need for user manuals and training to facilitate effective use of the licensing system. The current Board staff has been trained on the new system. (Final version installed on 1/2/2000) in a "hands-on" manner. The Board will develop a GLS user manual to facilitate effective use and minimize inadvertent alteration of licensing data. This is currently an ongoing project.

The Board is currently identifying various options to address off-site storage of computer records and backup of all data. The Board, upon completion of the evaluation, will request the necessary resources to complete the task. This will be included in the Board's comprehensive strategic plan for technology requirements. The Board will institute the policy of employees only having computer system authority necessary for their job responsibilities. Employees with administrative authority will be given additional appropriate user access.

4. The board did not comply with several state laws and policies governing expenditures.

Recommendations

- *The board should obtain training in state laws and policies governing the expenditure of state funds to ensure that it complies with all applicable financial related legal provisions.*

RESPONSE: The Board has undergone significant turnover in staff. The staff will obtain training on State Laws and procedures as the courses become available.

- *The board should clarify the intent of its policy on per diems and either comply with the guidelines or modify the policy.*

RESPONSE: The Board Executive Committee will evaluate and clarify the intent on its policy on per diems and make recommendations to the Board staff should they choose to modify said policy. In the interim, the Board will comply with the current guidelines.

Sincerely,

/s/ Doreen Frost

*Doreen Frost
Executive Director*

DF:jr