

Financial-Related Audit

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**Board of Architecture, Engineering Land  
Surveying Landscape Architecture,  
Geoscience, and Interior Design**  
July 1, 1999, through June 30, 2002



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## 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.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



## OFFICE OF THE LEGISLATIVE AUDITOR

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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, 1999, through June 30, 2002. Our audit scope included license and examination revenues and administrative expenditures, including payroll. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *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 require that we design the audit to provide reasonable assurance that the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The executive director of the board is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the members of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 23, 2003.

/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, 2003

Report Signed On: May 19, 2003

# 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
George Deden, 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 8, 2003, to discuss the contents of this report:

Doreen Frost	Executive Director
William Sutherland	Board Chair
James O'Brien	Board Vice Chair

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

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## Report Summary

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### Overall Conclusion:

The board made significant progress in improving its financial management since the last audit. For the items tested, the board complied with significant finance-related legal provisions. The board's controls provided reasonable assurance that payroll and administrative expenditures were made with management's authorization, revenue was collected in compliance with applicable legal provisions, assets were safeguarded, and transactions were accurately recorded in the accounting system with the following exception.

### Key Finding:

- The board has not verified the accuracy and completeness of its financial information recorded in the state's accounting system since March 2002. We recommended that the board verify detailed accounting transaction reports and periodically reconcile deposits to the number of licenses issued and examinations given. (Finding 1, page 6)

### Agency Background:

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 administers license examinations and processes complaints filed against licensees. It also processes applications for original and renewal licenses. The board charges fees to its licensees and examination candidates. These fees are deposited in the General Fund as non-dedicated receipts. The board received a General Fund appropriation of \$951,000 to fund its operations in fiscal year 2002.

**Financial-Related Audit Reports** address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design included licensing and examination revenue, as well as administrative expenditures, including payroll, for the three years ended June 30, 2002. The board's response to our recommendations is included in the report.

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

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## **Chapter 1. Introduction**

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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 consists of 21 members appointed by the Governor. The board employs eight individuals. Doreen Frost is the board's executive director.

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 \$75 to \$360. The board administered 14 examinations during fiscal year 2002 to approximately 610 professional license candidates. Candidates that successfully complete an examination are eligible for licensure. The cost to obtain a license is \$120. Licenses are renewable on June 30 of each even-numbered year. Approximately 17,100 licenses had been issued at the end of fiscal year 2002.

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 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 2000, 2001, and 2002. As noted in the table, the board received additional monies as part of the small agency infrastructure appropriation to the Office of Technology. The appropriation funded the acquisition of technology infrastructure that would enable the board to preserve its archives in the event of a disaster. The board accounted for these monies in the State Government Special Revenue Fund.

During fiscal year 2002, the board began enforcement of the continuing education requirements for the professions it licenses, as outlined in Minn. Stat. 326.107. These provisions require licensees to earn a minimum of 24 hours of continuing professional education during each licensing biennium. The statute specifies types of professional education programs and activities and prescribes reporting standards.

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

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Sources:</b>			
Appropriations <sup>(1)</sup>	\$770,000	\$924,000	\$951,000
Less: Cancellations	<u>0</u>	<u>(341,381)</u>	<u>0</u>
Net Appropriations	\$770,000	\$582,619	\$951,000
Balance Forwarded In (Out)	(182,342)	182,342	(187,944)
Transfers In <sup>(2)</sup>	<u>0</u>	<u>0</u>	<u>21,000</u>
<b>Total Sources</b>	<b><u>\$587,658</u></b>	<b><u>\$764,961</u></b>	<b><u>\$784,056</u></b>
<b>Uses:</b>			
Payroll and Per Diem	\$331,962	\$392,540	\$441,517
Administrative Expenditures	<u>255,696</u>	<u>372,421</u>	<u>342,539</u>
<b>Total Uses</b>	<b><u>\$587,658</u></b>	<b><u>\$764,961</u></b>	<b><u>\$784,056</u></b>

Notes: (1) The FY 2001 appropriation amount includes a \$130,000 special appropriation for enforcement activities.

(2) During FY 2002, the Office of Technology transferred \$21,000 to the board for small agency infrastructure projects, pursuant to Minn. Laws 2001, 1<sup>st</sup> Special Session, Ch. 10, Art. 1, Subd. 3. The board accounted for this appropriation in the State Government Special Revenue Fund.

Source: Minnesota Laws and Minnesota Accounting and Procurement System.

## **Chapter 2. Financial Operations**

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### *Chapter Conclusions*

*The board designed and implemented internal controls to provide reasonable assurance that payroll and administrative expenditures were made with management's authorization, revenue was collected in compliance with applicable legal provisions, assets were adequately safeguarded, and transactions were properly recorded in the accounting system, with the following exception: The board has not verified the accuracy and completeness of its financial information as processed in the state's accounting system since March 2002.*

*For the expenditure and revenue items tested, the board complied with material finance-related legal provisions concerning expenditures and revenues.*

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### **Expenditures**

Payroll is the board's largest expenditure. The board employs eight individuals and has used temporary clerical employees during license renewal periods. The executive director approves the employees' time sheets and leave slips and submits them to the Department of Commerce for processing. Employees of the board are covered by three different compensation plans or bargaining unit agreements.

The board's largest non-payroll expenditure is for examination services purchased from national councils. Other administrative expenditures include travel, supplies, equipment, and rent. The board's staff approve purchases and invoices and forward documentation to the Department of Commerce for processing. During fiscal year 2002, the board received small agency infrastructure funding to purchase software and equipment related to an imaging system that would store all historical information including applications, examinations, and licenses processed since the board's inception in 1921. Although significant progress has been made to date, the project is not expected to be completed for two to three years.

### **Revenues**

The board collects examination and licensing fees, as well as fines and penalties. There is only one individual who handles receipts collected and records the transactions in the board's financial database, which generates the deposit form. Once a batch is complete, board employees forward it to the Department of Commerce, which makes the deposit to the state's bank account and records the revenue in the state's accounting system as non-dedicated receipts in the General Fund.



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

Beginning in fiscal year 1999, the Legislature set the board's fees in statute (Minn. Stat. Section 326.105), but the board, the Legislature, and the Department of Finance review the fee structure on a biennial basis to determine whether fees are sufficient to recover the entity's direct and indirect costs during the fiscal biennium. With total revenues of \$2,160,282 and total direct and indirect costs of \$1,799,704 for the two years ending June 30, 2001, the board recovered its costs during that fiscal biennium. Table 2-1 summarizes the board's revenues, expenditures, and indirect costs for the three years ended June 30, 2002.

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

	2000	2001	2002
<b>Revenues</b>			
License Fees	\$1,222,550	\$570,919	\$1,122,235
Examination Fees	146,350	194,420	210,760
Fines, Penalties, and Filing Fees	10,983	15,060	14,718
Total Revenues <sup>(1)</sup>	<u>\$1,379,883</u>	<u>\$780,399</u>	<u>\$1,347,713</u>
<b>Direct Expenditures</b>			
Payroll and Per Diem	\$ 331,962	\$392,540	\$ 441,517
Rent, Maintenance, and Utilities	42,092	57,489	51,695
Supplies	37,773	61,085	60,757
Travel	27,983	30,566	27,286
Other Operating Costs	59,893	80,518	88,399
Printing and Advertising	11,073	24,276	20,234
Professional/Technical Services	24,069	19,542	25,630
Employee Development	6,444	11,802	10,501
Communications	30,818	56,264	35,901
Equipment	13,478	28,681	21,215
Miscellaneous	2,073	2,198	921
Total Direct Expenditures	<u>\$ 587,658</u>	<u>\$764,961</u>	<u>\$ 784,056</u>
<b>Indirect Costs <sup>(2)</sup></b>			
Attorney General Services	\$ 78,268	\$ 37,817	\$ 24,617
Department of Commerce	35,000	35,000	35,000
Statewide Indirect Costs	141,000	120,000	120,000
Total Indirect Costs	<u>\$ 254,268</u>	<u>\$192,817</u>	<u>\$ 179,617</u>
Total Direct and Indirect Costs	<u>\$ 841,926</u>	<u>\$957,778</u>	<u>\$ 963,673</u>

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

(2) The board does not pay these indirect costs. However, the Legislature considers these costs when setting fees. Indirect cost data obtained from respective agencies.

Source: Minnesota Accounting and Procurement System.

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

## **Audit Objectives and Methodology**

We focused our review of the board's financial operations on the following objectives:

- Did the board adequately safeguard its assets, and were its expenditures properly authorized by management, paid in the correct amount, and consistent with the board's purpose and statutes?
- Did the board collect the appropriate license and examination revenue based on licenses issued and examinations administered?
- Did the board record disbursements and receipts properly on the accounting system?
- For items tested, did the board comply with applicable finance-related legal provisions concerning revenues and expenditures?

To answer these questions, we interviewed board employees and personnel at the Department of Commerce regarding the processes in place. We performed analytical review procedures to determine the composition and trends of revenues and expenditures during the audit period. We also obtained samples for selected transaction classes, such as payroll, administrative expenditures, and receipts, traced them through the accounting system, and examined source documentation, as applicable for each class.

## **Conclusions**

The board designed and implemented internal controls to provide reasonable assurance that payroll and administrative expenditures were made with management's authorization, revenue was collected in compliance with applicable legal provisions, assets were adequately safeguarded, and transactions were properly recorded in the accounting system, with the following exception: Since March 2002, the board has not verified the accuracy and completeness of its financial information as processed in the state's accounting system. We discuss this issue in Finding 1.

For the expenditure and revenue items tested, the board complied with material finance-related legal provisions concerning expenditures and revenues.

### **1. PRIOR FINDING PARTIALLY RESOLVED: The board needs to strengthen its controls for ensuring the accuracy and completeness of its financial information.**

The board had not ensured that disbursements and receipts were accurately processed by Department of Commerce employees since March 2002. The Department of Commerce provides accounting support to the board by processing its disbursement, payroll, and receipt transactions in MAPS, as well as by processing its daily deposits. Until March 2002, the Department of Commerce generated detail disbursement and deposit reports and forwarded them to the board. The board would then review these reports to ensure that transactions were

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

appropriate, accurate, and complete. Beginning in March 2002, the board no longer received detail information on its transactions and was not able to perform that key control. Specifically, as of March 2003:

- The board did not review its receipt and disbursement detailed transactions as processed in the state's accounting system to ensure the propriety of that activity. These controls would be necessary to ensure the appropriateness of the disbursements charged to the board's budget, as well as the completeness and appropriate accounting treatment of the board's revenue recorded in the accounting system. Absent these controls, erroneous or inappropriate disbursements may be processed, and revenue generated by the board could be inaccurately recorded in the state's accounting system.
- The board did not perform periodic reconciliations between the total number of licenses issued and examinations given to the receipts it collected over the same time frame. During the audit period, the board made some significant steps in attaining the objective of that control. In particular, it has segregated the duties of receipt collection and license issuance, it has established a daily process designed to ensure that licenses are issued only after the appropriate receipt has been collected, and it has established a financial database for tracking payments made. However, it did not compare the number of licenses issued and examinations administered to the fees generated from these activities for a given period. Such control would provide additional assurance that the board collected all the revenue it should be collecting, and that licensing activity is appropriate. Lacking this measure, the board runs the risk that licenses have been issued without the appropriate payment, that fees charged are inappropriate, and that licensing and examination activity performed was not in compliance with board standards.

### *Recommendations*

- *The board should:*
  - *obtain access to detailed receipt and disbursement transactions processed by the Department of Commerce and review these transactions for appropriateness, accuracy, and completeness; and*
  - *periodically reconcile deposits to the number of licenses issued and examinations given.*

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

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## Status of Prior Audit Issues As of March 31, 2003

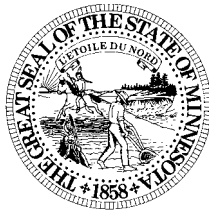
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### Most Recent Audit

**Legislative Audit Report 00-25**, issued in June 2000, examined the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience, and Interior Design's financial activities for the period July 1, 1996, through December 31, 1999. The scope included license and examination revenues and administrative expenditures. The audit report contained four findings that (1) the board did not adequately safeguard receipts; (2) that it exceeded its appropriation authority for the FY 1998-1999 biennium; (3) that its computer system did not have the appropriate controls, documentation, and backup procedures; and (4) that it did not comply with several state laws and regulations concerning expenditures. The board made significant progress in addressing these control issues. It has not, however, implemented the recommendation of performing a periodic reconciliation of the total number of licenses issued and examinations given to the total receipts collected over the same time frame. We repeat that finding in this report.

#### 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.



THE MINNESOTA BOARD OF ARCHITECTURE, ENGINEERING, LAND SURVEYING,  
LANDSCAPE ARCHITECTURE, GEOSCIENCE & INTERIOR DESIGN

May 16, 2003

Jim Riebe, CPA, Audit Manager  
Office of the Legislative Auditor  
Centennial Building  
658 Cedar Street, Room 140  
Saint Paul, MN 55155-1603

Dear Mr. Riebe:

The Minnesota Board of Architecture, Engineering, Land Surveying, Landscape Architecture, Geoscience and Interior Design 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 Board has addressed the need for ensuring the accuracy and completeness of its financial information by obtaining from the Department of Commerce the detailed disbursement and deposit reports from March 2002 to the present date. The Board reviewed the details entered into the accounting system to ensure the appropriateness of the transactions. Further, the Board will obtain written reports from Department of Commerce on a monthly basis for reconciliation.

On behalf of the Board, thank you for the opportunity to continue to serve the public.

Very Truly Yours,

*/s/ Doreen Frost*

Doreen Frost  
Executive Director