

**STATE BOARD OF ARCHITECTURE, ENGINEERING,
LAND SURVEYING, LANDSCAPE ARCHITECTURE,
AND INTERIOR DESIGN**

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1992

JULY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-37

**STATE BOARD OF ARCHITECTURE, ENGINEERING,
LAND SURVEYING, LANDSCAPE ARCHITECTURE
AND INTERIOR DESIGN**

**FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1992**

Public Release Date: July 2, 1993

No. 93-37

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** License and examination fee revenue; payroll; supplies and materials expenditures.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The Board should separate duties and initiate an independent reconciliation of license issuances to receipts.

We found one area where the Board had not complied with finance-related legal provisions:

- The Board charged inappropriate fees during fiscal year 1992.

Contact the Financial Audit Division for additional information.
296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

John Sweet, Chair
Board of Architecture, Engineering, Land Surveying, Landscape Architecture,
and Interior Design

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

Pamela Smith, Executive Secretary
Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and
Interior Design

Audit Scope

We have conducted a financial related audit of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design as of and for the the three years ending June 30, 1992. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design in effect at February 1993.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
John Sweet, Chair
Members of the Board of Architecture, Engineering, Land Surveying,
Landscape Architecture, and Interior Design
Pamela Smith, Executive Secretary
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Management Responsibilities

The management of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- license and exam fee revenue,
- payroll, and
- supply and materials expenditures

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
John Sweet, Chair
Members of the Board of Architecture, Engineering, Land Surveying,
Landscape Architecture, and Interior Design
Pamela Smith, Executive Secretary
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Conclusions

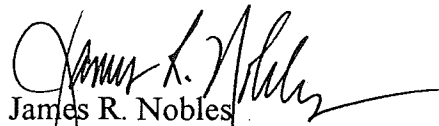
Our study and evaluation disclosed the condition discussed in finding 2 involving the internal control structure of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.


A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable condition described above is a material weakness.

The results of our tests indicate that, except for the issues discussed in finding 1, with respect to the items tested, the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1993.

We thank the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 20, 1993

Report Signed On: June 24, 1993

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

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Audit Participation

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Tony Toscano	Auditor

Exit Conference

The findings and recommendations included in this report were discussed with the following staff of the Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design at the exit conference held on May 19, 1993:

Pamela Smith	Executive Secretary
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Board of Architecture, Engineering, Land Surveying Landscape Architecture, and Interior Design

Introduction

The Board of Architecture, Engineering, Land Surveying, Landscape Architecture, and Interior Design examines, licenses, and regulates the practice of the professions of architects, engineers, land surveyors, landscape architects and interior designers. A person must be licensed before being permitted to offer these professional services to the public. The Board renews licenses every two years and receives and investigates consumer complaints. The Board has the power to revoke or suspend licenses.

The Board consists of 17 members appointed by the Governor. Pamela Smith became the executive secretary in September of 1992. Prior to that, Lowell Torseth served as the executive secretary.

The Board received appropriations of \$411,000, \$403,000, and \$442,000 for fiscal years 1990, 1991, and 1992, respectively. Licenses are renewed every two years. The fiscal year 1991 license revenue is for new licenses. Financial activity for the Board for fiscal years 1990-1992 was as follows:

	<u>1990</u>	<u>1991</u>	<u>1992</u>
Revenue:			
Licenses	\$558,811	\$161,173	\$619,045
Exams	161,267	168,373	147,940
Other	<u>3,364</u>	<u>9,604</u>	<u>2,878</u>
Total Revenue	<u>\$723,442</u>	<u>\$339,150</u>	<u>\$769,863</u>
Expenditures:			
Payroll	\$202,330	\$219,785	\$231,172
Supplies/Materials	124,388	107,752	84,986
Other	<u>122,276</u>	<u>154,589</u>	<u>177,523</u>
Total Expenditures	<u>\$448,994</u>	<u>\$482,126</u>	<u>\$493,681</u>

Sources: Minnesota Laws and Managers Financial Reports and Estimated/
Actual Receipts Reports as of September 1, 1990, August 31, 1991,
and September 5, 1992.

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

Current Findings and Recommendations

1. The Board of Architecture charged inappropriate fees during fiscal year 1992.

The Board of Architecture (Board) billed license renewal and examination applicants inappropriate rates in fiscal years 1992 and 1993. In April 1992, the Board began billing licenses \$70 for renewals due June 30, 1992. However, the \$70 rate did not actually become effective until October, 1992. The Board also began charging a higher exam fee for exams given in June of 1992.

Board personnel mistakenly thought that the new fees had become effective in April, 1992. Therefore, all licensees that submitted renewals were billed \$70 rather than \$58. The Board estimates that about \$140,000 in additional revenue was collected as a result of billing the incorrect fees. Minnesota Rules 1800.0500, establishes the fees to be charged by the board for licenses and exams. The Board increased the fees before the fees had been formally increased in the rules using the administrative rule making process.

The Board is currently working on a plan to determine which licensees have been overcharged and refund the overpayment. The Board expects to begin refunding the overpayments in July or August 1993.

Recommendation

- *The Board should take steps to refund fees that were inappropriately collected, and ensure that future fees are charged in accordance with the Minnesota Rules.*

2. Prior recommendation not implemented: Controls over licensing need improvement.

The duties over the issuance of new licenses are not adequately separated. The Board licenses architects, engineers, land surveyors, landscape architects, and interior designers. The Board did not reconcile new licenses issued to fees collected. Good internal control requires a independent reconciliation to ensure that only individuals paying the proper fee receive licenses.

Board staff currently review applications and verify payment of the correct fee. However, the same individual also enters data into the computer system used to print licenses, and maintains control over the blank licenses. These duties are incompatible and should be performed by separate individuals. The Board could further improve the process by having someone independent of the data entry function reconcile license issuances to receipts deposited.

Recommendation

- *The Board should establish a proper separation of duties and initiate an independent reconciliation of license issuances to receipts.*

STATE OF MINNESOTA



BOARD MAILING ADDRESS
133 7th STREET EAST
SAINT PAUL, MINNESOTA 55101-2333

OFFICE OF THE BOARD
85 EAST 7th PLACE, SUITE #160
SAINT PAUL, MINNESOTA 55101

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

June 11, 1993

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This letter is in response to the preliminary audit report for the State Board of Architecture, Engineering, Land Surveying, Landscape Architecture and Interior Design for the three years ended June 30, 1992.

1. The Board of Architecture charged inappropriate fees during fiscal year 1992.

The Board intends to refund inappropriately charged fees to licensees and exam candidates. (Candidates who fail the examination, may have the additional funds held over until the next examination.)

Board Staff has consulted with the Department of Finance for assistance in developing and implementing the plan for refunding the fees. The Department of Natural Resources has agreed to the use of their subsystem for processing refunds.

Board Staff will begin working on the project during July of 1993 and hopes to have all refunds processed by the end of the calendar year, 1993.

In the future no fees will be assessed until they have been adopted through the Minnesota rule making process.

2. **Prior recommendation not implemented: Controls over licensing need improvement.**

The Board Staff immediately established a separation of duties and initiated an independent reconciliation of license issuances to receipts.

One staff member maintains the inventory of all blank licenses. A second staff member inputs all data into the computer and prints the licenses. The staff person who maintains the inventory reconciles the printed licenses on a weekly basis. In addition that staff person maintains a file of damaged or voided licenses which will be included in the weekly reconciliation.

If you have any questions with regard to this response please feel free to contact me at 296-2388. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Pamela K. Smith". The signature is written in dark ink and is positioned above the typed name and title.

Pamela K. Smith
Executive Secretary

PKS:jr

cc: John F. Sweet, P.E.