
Secretary of State

State of Oregon

BOARD OF ARCHITECT EXAMINERS

and

LANDSCAPE ARCHITECT BOARD

Special Review? Change of Administrator

July 1, 1995, to July 31, 1996



Audits Division

Secretary of State

State of Oregon

BOARD OF ARCHITECT EXAMINERS

and

LANDSCAPE ARCHITECT BOARD

Special Review? Change of Administrator

July 1, 1995, to July 31, 1996



Audits Division



Secretary of State

Audits Division

Auditing for a Better Oregon

The Honorable John Kitzhaber
Governor of Oregon
State Capitol Building
Salem, Oregon 97310

John O. Sachs, Chair
Board of Architect Examiners
2330 NW Birkendene
Portland, Oregon 97229

James W. Figurski, Chair
Landscape Architect Board
2300 Glen Haven
Lake Oswego, Oregon 97034

Gil Bellamy, Administrator
Board of Architect Examiners
Landscape Architect Board
750 Front St. NE No. 260
Salem, Oregon 97310

This audit encompasses a review of the Board of Architect Examiners and the Landscape Architect Board for the period July 1, 1995, to July 31, 1996. The current administrator assumed his duties on August 1, 1996. The two boards share offices and administrative staff; therefore, the audit included both agencies. The purposes of the review were as follows:

- Review issues identified in a request for audit submitted by the director of the Department of Administrative Services (DAS);
- Comply with *Oregon Revised Statutes 297.210(2)* which requires the Secretary of State to audit or review any state agency when the executive head leaves his or her position.

The objectives of the audit were to address issues raised by DAS and to test selected transactions during the period to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules,

and regulations. DAS maintains the accounting records for the Board of Architect Examiners and the Landscape Architect Board.

We conducted our audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant records, and evaluated management controls as required to accomplish the objectives of our audit.

Though we did not identify any material instances of noncompliance with laws and regulations, the Board of Architect Examiners has a small checking account outside the State Treasury, funded with donations and used to pay additional expenses of board members. The Attorney General has recently advised that the funds in the account are considered public funds that must be deposited with the State Treasurer and expended only pursuant to appropriations made by law.

We also identified several weaknesses in internal control. Areas for improvement included more timely cash receipting and recording, more in a timely manner expense reimbursements, more equitable cost allocation between the boards, and more accurate financial reporting.

Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Sam Cochran
Acting State Auditor

Fieldwork Completion Date:
December 31, 1996

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT.....	iii
SUMMARY.....	vii
INTRODUCTION	
ORGANIZATION AND FUNCTIONS.....	1
FINANCIAL ACTIVITIES.....	1
SCOPE AND METHODOLOGY.....	2
AUDIT RESULTS	
REPORT ON THE INTERNAL CONTROL STRUCTURE.....	5
REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS.....	6
FINDINGS AND RECOMMENDATIONS	
Outside Checking Account.....	7
Cash Receipts Were Not Deposited in a Timely Manner.....	8
Travel Claims of Board Members and Administrator Were Not Submitted in a Timely Manner.....	9
Common Costs Were Not Allocated Consistently.....	10
DAS Accounting and Financial Reporting.....	11
REPORT DISTRIBUTION.....	15
COMMENDATION.....	15

SUMMARY

The Board of Architect Examiners (BAE) and the Landscape Architect Board (LAB) each operate under separate sections of *Oregon Revised Statutes* (ORS) chapter 671. Each board is charged with regulating their respective professions, conducting examinations to qualify applicants, registering those who qualify, and issuing annual licenses. The boards are legally separate entities but occupy the same location and share a common director and administrative staff.

Registration and examination fees finance the boards' operations. During the period July 1, 1995, to July 31, 1996, the BAE reported revenues of \$244,700 and expenditures of \$245,700; the LAB reported revenues of \$73,400 and expenditures of \$60,560. The boards' accounting activities are performed by the Department of Administrative Services (DAS), Internal Support Division, but the boards maintain a database system for cash receipting and the recordkeeping associated with license registrants and examinees.

The purposes of the audit were to review issues contained in a request for audit made by the director of the Department of Administrative Services and to comply with ORS 297.210(2), which requires the Secretary of State to audit or review any state agency when the executive head leaves his or her position. The director of the boards changed as of August 1, 1996.

Transactions were tested to evaluate the effectiveness of internal controls and compliance with pertinent laws, rules, and regulations. The BAE has a small checking account outside the State Treasury funded with donations and used to pay additional expenses of board members. The Attorney General had advised that the funds in the account are considered public funds and must be deposited with the State Treasurer and expended only pursuant to appropriations made by law.

We noted the following internal controls which could be improved:

- Cash receipts were not processed in a timely manner by the boards.
- Travel expense reimbursement forms were not submitted in a timely manner by board members or the boards' former administrator.
- Shared costs were not consistently and equitably distributed between the two boards.
- Financial reports prepared by DAS for the boards were incomplete and transactions were not processed in a timely manner.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Board of Architect Examiners (BAE) and the Landscape Architect Board (LAB) each operate under separate sections of *Oregon Revised Statutes* (ORS) Chapter 671. The BAE consists of seven members appointed by the governor to serve a maximum of three four-year terms. Five of the members are resident architects and two are from the general public. The LAB consists of five members appointed by the governor, three of whom are registered landscape architects, and two from the general public. The boards are legally separate entities but occupy the same location and share a common director and administrative staff.

The Board of Architect Examiners prescribes qualifications for the practice of architecture, conducts examinations to qualify applicants, and issues certificates to those who qualify. The Landscape Architect Board conducts examinations to qualify applicants and registers landscape architects who qualify. Approximately 2,100 architects and 245 landscape architects are registered in Oregon either by examination or by reciprocity. The architect certificates of registration are renewed on or before July 1 each year; landscape architect registration renewals are due on or before October 31 each year.

FINANCIAL ACTIVITIES

The boards collect fees from registering licensed architects and landscape architects and fees from applicants taking the qualifying examinations. These fees finance the boards' operations. For the 1995-1997 biennium, the legislature authorized \$465,335 and \$166,400 of other funds expenditure limitation for the Board of Architect Examiners and the Landscape Architect Board, respectively.

During the audited period of July 1, 1995, to July 31, 1996, the BAE reported revenues of \$244,700, expenditures of \$245,700, and an ending cash balance of \$170,501. During the same period, LAB reported revenues of

\$73,400, expenditures of \$60,560, and an ending cash balance of \$67,500.

The boards' accounting records are maintained by the Department of Administrative Services, Internal Support Division (DAS). The boards use a database system for cash receipting and recordkeeping associated with license registrations and examinations. Reports from the boards' system are provided to DAS monthly as the basis for updating the accounting records. DAS also processes all the boards' expenditures and generates monthly financial reports for the boards' use.

SCOPE AND METHODOLOGY

We conducted a limited review of the Board of Architect Examiners and the Landscape Architect Board for the period July 1, 1995, to July 31, 1996, to comply with ORS 297.210(2) which requires a review of any state agency when the executive head leaves his or her position. We also reviewed concerns identified by the Department of Administrative Services in a request for audit. Transactions were tested to evaluate the effectiveness of internal controls and compliance with laws and regulations.

Change of Administrator

The former administrator of the boards retired as of July 31, 1996. To review the transition, we interviewed staff and the new administrator to determine whether procedures were followed to close out the former administrator's access to state resources, processes, and systems. We also reviewed accountability for physical assets that might have been in her custody. We scanned disbursement records for the period and several months thereafter for payments to the former administrator and performed follow-up tests when deemed necessary. No exceptions were noted from the procedures performed.

Use of Suspense Accounts

We interviewed staff and summarized the activity in the suspense accounts for the period under review. We traced selected transactions to supporting documentation and reviewed the transactions for propriety and compliance with state regulations. We reconciled the activity in the

accounts to the accounting records and researched unusual differences. We also compared total receipts deposited in the accounts to estimates of revenues that were developed from numbers of licensees to determine the reasonableness of recorded revenues.

Allocation of Costs Between Boards

To determine whether common costs were distributed equitably between the two boards, we interviewed staff regarding the current methodology for charging operating costs. Since DAS processes the boards' expenditures, we also interviewed DAS accounting personnel. We then summarized and reviewed the boards' disbursement records for the period. We analyzed this information, made inquiries about unusual trends, and reviewed supporting documents. We determined whether payments were applicable to each board and whether payments were in compliance with state fiscal and budgetary regulations.

BAE's Use of Outside Checking Account

We interviewed board staff about the use and purpose of the account. We identified where the account was being maintained, the activity flowing through the account, and which persons were signing the checks. We also researched applicable laws and attorney general opinions to determine if funds in the account are public funds and therefore subject to the state laws, rules and regulations applicable to such.

In addition to the procedures specified above, we also reviewed financial information reflected in the boards' accounting records maintained by DAS and the reports generated by the accounting system. DAS advised us that the manner in which the boards used the suspense accounts caused problems in converting the boards' accounting records from the former accounting system (EAS? Executive Accounting System) to the current system (SFMS? Statewide Financial Management System). The new administrator of the boards indicated that he was unfamiliar with SFMS and was not getting the financial management information needed to adequately manage the boards' activities and budgets. We therefore performed additional procedures to determine if the information reflected in SFMS and the reports generated by

the system provided an accurate reflection of the boards' accounts, transactions, and budgetary status.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.

AUDIT RESULTS

REPORT ON THE INTERNAL CONTROL STRUCTURE

The management of the Board of Architect Examiners and the Landscape Architect Board is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of an internal control system are to provide management with reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit, we obtained an understanding of the internal control structure. With respect to the internal control system, we obtained an understanding of the design of relevant controls and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the 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 internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data. The matters we consider to be reportable conditions are included in the FINDINGS AND RECOMMENDATIONS section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control or its operations that we consider to be material weaknesses as defined above.

**REPORT ON COMPLIANCE
WITH LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the Board of Architect Examiners and the Landscape Architect Board is the responsibility of the boards' management. As part of our audit, we performed tests of the Board of Architect Examiners' and the Landscape Architect Board's compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no material instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance by BAE related to the existence of a small checking account outside the control of the State Treasury. This matter is included in the FINDINGS AND RECOMMENDATIONS section of this report.

**FINDINGS AND
RECOMMENDATIONS**

The administration and support functions for the Board of Architect Examiners and the Landscape Architect Board are carried out by the same personnel. Unless otherwise noted, the following comments apply to both boards.

**Outside Checking
Account**

Since 1979, the BAE has maintained a business checking account at a local bank outside the control of the Oregon State Treasury entitled the "Architect Examiners Travel Fund." The new administrator became concerned about the existence and use of the account when he assumed management of the boards. The account has always reflected the former administrator's home address as its mailing address.

The account was funded by board members endorsing warrants for their travel expense and per diem reimbursements for deposit into the account. We were advised that the account was intended to act as a reserve of funds to cover additional travel costs for board members to attend seminars and conventions that were not otherwise provided for in the board's budget. Checks were signed by board members. The account reflects little activity since 1992 and had a balance of about \$2000 at the time of our review.

We requested advice from the Attorney General about the status of the account and its funds. The Attorney General stated, based on the facts presented, the moneys in the account are public funds subject to ORS 293.265. That law states such funds must be deposited with the State Treasurer and expended only pursuant to appropriations made by law.

We recommend the outside checking account be closed and the funds in the account be deposited with the State Treasurer.

AGENCY'S RESPONSE:

The board members believe the money in the account belongs to them and is not state money because the money in the account was derived from their private donations. The board members instructed the administrator to obtain guidance from the assistant attorney general assigned to the agencies on "proper disposition" of the account.

Cash Receipts Were Not Deposited in a Timely Manner

Cash receipts were not deposited in a timely manner by the boards. We reviewed deposit records and found many receipts were held between 30 and 40 days before deposit. On December 4, 1996, the boards' safe contained 31 undeposited checks totaling nearly \$3,700. Two of the checks had been received prior to May 4, 1996; the rest were received between September 25, 1996, and November 26, 1996.

Board staff indicated that inadequacies of the boards' database system used for processing cash receipts are the primary reasons receipts are not processed in a timely manner. Our observations confirmed the system was extremely slow. The boards have recently purchased computers and a new licensing database that should speed up the receipting process, provided the receipts are not held by the boards' staff for extended periods of time.

The Oregon Accounting Manual requires that cash receipts be deposited usually daily but at least weekly.¹ Timely deposits generate maximum interest earnings for the state, reduce the chance of receipts being lost or stolen, reduce the likelihood of a receipt being returned for insufficient funds, and facilitate timely updating of the accounting records. The manual provides extensive guidance on the handling of state funds and should be referred to when questions arise.

We recommend the boards deposit all receipts daily if possible and at least weekly as specified in the Oregon Accounting Manual.

AGENCY'S RESPONSE:

We agree. A new receipting system that facilitates making more timely deposits has been installed. During periods of renewals, deposits will be made daily. During other periods deposits will be made at least weekly.

**Travel Claims of Board
Members and Former
Administrator Were Not
Submitted in a Timely Manner**

Board members and the boards' former administrator did not timely submit their travel expense claims in accordance with procedures set forth in the *Oregon Accounting Manual*. Of 32 travel claims submitted for reimbursement by board members and staff during the period July 1, 1995, to July 31, 1996, we found 19 reflected travel dates between six and 25 months old.

The *Oregon Accounting Manual* states that travel expense detail claims are to be submitted not more frequently than twice monthly nor less frequently than quarterly, and must be paid from funds appropriated for the applicable biennium.² In August 1995 members of both boards submitted claims for reimbursement of expenses covering the preceding fiscal year. At that time, the former administrator advised DAS that the boards had previously decided to hold the expense claims until the end of the biennium (June 30, 1995) to assure adequate funds were available. A memorandum from the former administrator stated that if funds had not been available, no requests for reimbursement would have been made.

Although the idea was commendable, the expenses were incurred by board members creating a claim against the state which was not recorded at the time it was owed. If transactions are not timely recorded, the financial condition and status of the boards' budgets are misstated and management's ability to make sound business decisions may be impaired.

We recommend that all board transactions be processed in a timely manner as required by DAS administrative policies and prudent business practices.

¹ Procedure 03.01.00 PR, Cash Controls Procedure, dated July 1, 1993, paragraph .106.

² Policy 06.00.00 PO, Travel Policy, dated August 1, 1995, paragraph .167.

AGENCY'S RESPONSE:

We agree. Since the current administrator has been on board, travel request forms have been passed out at board meetings and filled out then. Accordingly, board members are now reimbursed within two weeks of the meeting.

Common Costs Were Not Allocated Consistently

Some common costs were not allocated between the two boards, while other costs similar in nature were allocated. Costs not allocated were generally paid out of BAE funds, according to the current board administrator. When costs were allocated, the percentage of costs charged to each board was not always the same. For example, payroll costs of each of the three shared staff were allocated in different percentages. Also, the office specialist position, which according to the legislatively adopted budget was to be funded equally by both boards, was charged entirely to BAE after November 1995. Prior to that date, the position was charged as specified in the budget.

As noted previously, the two boards are legally separate entities with separate legislatively adopted budgets. The budget for each board recognizes that the BAE will provide services to the LAB for which the LAB will reimburse the BAE.³ This includes the half-time office specialist position funded by the LAB.⁴

We were unable to identify a rationale for most of the percentages used in allocating costs. The present administrator indicated that historically an 85:15 split was used for BAE and LAB, respectively, because at one time this was the approximate ratio of licensees between the two boards. We question whether an equitable distribution of costs has been achieved given the outdated or unspecified allocation processes used.

Because each board is a separate state agency, common costs are currently processed as two separate transactions. DAS must manually calculate the amount payable from each board and enter the data separately for each board to process these split costs. As a result, two warrants are

³ Budget Report of the Joint Committee on Ways and Means, 1995-97, SB 5527, page 3 of 6.

⁴ 1995-97 Legislatively Adopted Budget, Schedule N: Number of Full-Time Equivalent Positions by Program Area, by Agency.

generated to pay one invoice. Manual calculations and double data entry increases the chance for errors to occur. Furthermore, generating two warrants for the same invoice is more expensive and may confuse vendors if the payments are not received at the same time.

We recommend board management improve the allocation of costs between the two boards by doing the following:

- Periodically review operations and activities to determine if the current allocation percentages are appropriate.
- Determine if an adjustment is needed to reallocate the current office specialist's payroll during this biennium to comply with the boards' legislatively adopted budgets.
- Allocate costs consistently. Work with DAS to identify options to allocate costs appropriately without increasing the chances of errors occurring.

AGENCY'S RESPONSE:

We agree. The prior administrator did not always use the same allocation basis. Since the new administrator took over, a consistent allocation basis has been used. The current allocation process will be documented (85% and 15% for everything except charges that only affect one board, such as travel). The allocation process was reviewed subsequent to the audit and will be revisited as part of the budget process once a biennium.

DAS Accounting and Financial Reporting

During our review, we noted areas where the boards' operations can be improved through services provided by the Department of Administrative Services, Internal Support Division (DAS). DAS can assist the boards by assuring that cash receipts are posted in a timely manner to the accounting records, payroll costs are reimbursed in a timely manner, and accounting reports produced by DAS are accurate.

Cash Receipts Were Not Recorded in a Timely Manner

Board staff makes deposits to the bank and provides deposit reports to DAS. During the review period, one or

both boards made deposits in 12 of the 13 months. DAS posted those deposits to the accounting records only three times during this period. Thus, deposits were often unrecorded in the accounting records.

The posting delays, according to DAS, were caused by the boards' use of suspense accounts. Suspense account deposits were not recorded until the related suspense account transfers moved the money to the boards' operating accounts. Even though DAS waited for the transfers before recording revenues, we still noted delays in posting transactions. For example, a transfer made by BAE on August 15, 1995, was not posted by DAS until November 27, 1995. A transfer made on June 21, 1996, was not recorded until August 20, 1996.

The boards ceased using suspense accounts and started depositing all receipts directly into their operating accounts as of August 1, 1996, thus eliminating complications caused by the use of suspense accounts.

Payroll Costs Were Not Reimbursed in a Timely Manner

DAS did not initiate reimbursements in a timely manner to the Board of Architect Examiners from the Landscape Architect Board for shared payroll costs. During the review period, DAS prepared reimbursement transactions only four times. One of the reimbursements covered a seven-month period, one covered a three-month period, and the other two were for single months.

The Board of Architect Examiners pays the entire payroll for staff shared with the Landscape Architect Board, then is reimbursed for LAB's share. Payroll for the three shared employees is automatically split between two accounting funds within the BAE. One of these accounting funds accumulates the costs to be reimbursed by LAB. At month end, DAS receives payroll reports showing costs posted to that fund and can then manually initiate the needed reimbursement transaction.

When reimbursements are not processed in a timely manner, then the monthly financial reports for each board are not accurate. DAS indicated that the information about the payroll split was available to the boards' administrator, but was not recorded separately in the LAB

reports. Unreliable reports can impair the boards' ability to manage their financial activities.

Accounting Reports Were Not Complete

Several key accounting reports provided monthly by DAS to the boards did not contain critical accounting data. We found that budget amounts reflected in two separate accounting reports did not agree, and the general ledger accounting report provided by DAS to the boards did not reflect cumulative-to-date balances for most of the accounts.

DAS provided the boards with a report giving a line-item comparison of their legislatively adopted budgets with expenditures. However, DAS did not record a budget increase granted by the Emergency Board in that report. Thus, the report gave the boards an incorrect measurement of their budget status. A correction was made to the accounting records in November 1996 when we brought the omission to DAS' attention.

The general ledger accounting report provided by DAS to the boards did not reflect cumulative-to-date balances for most of the accounts because of the report selection criteria used. Only transactions specific to biennium 1995-1997 were selected, which did not allow beginning balances to be carried forward. Thus, at June 30, 1996, cash was reflected as a negative \$143,300 in the report. The true cash balance at that date was actually \$207,400.

DAS has acknowledged that the inaccurate reports provided to the boards were caused, in part, by the new SFMS accounting system used by the state. DAS has subsequently provided a customized report to the boards to assist management in evaluating accounting information.

The boards contract with and rely on DAS to perform their accounting function. As such, DAS is responsible for providing complete, accurate, and up-to-date accounting records and reports. Board management is responsible for reviewing the monthly accounting reports for reasonableness. If the reports do not accurately reflect the substance of the boards' transactions, or if the reports do not meet their financial reporting needs, the boards should work with DAS to improve the process.

We recommend DAS take steps to:

- Assure the boards' receipts are posted in a timely manner,
- assure the necessary payroll reimbursements are made monthly, and
- tailor reports to meet the boards' needs and ensure accuracy in the reports provided.

We also recommend the boards' staff review monthly accounting reports to assure information reflected in the accounting reports is complete, accurate, and up-to-date. Board staff should follow up with DAS in the event discrepancies are noted.

AGENCY'S RESPONSE:

We agree with parts of this finding. DAS ISD has been working with the board administrator to determine a process for recording receipts in a timely manner.

Payroll costs are now transferred monthly. Even though in the past they were not transferred monthly, analysis on the monthly payroll costs for Landscape Architects Board compared to the amount of cash held by the agency was very immaterial. Management was not misled by not having this entry made monthly.

Ever since the advent of SFMS, the personnel of state agencies have struggled with SFMS reports. New reports have been developed by both SFMS and DAS ISD for client agencies that are meeting agency needs better. The State is in the process of setting up a data warehouse where information can be accessed even easier and reports can be tailored to agency needs. Board management and DAS ISD have been working together to meet the boards' reporting needs.

Overall improvement in the financial management of both boards will occur because new staff members have been added who have training and experience in state of Oregon fiscal procedures.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Board of Architect Examiners, the Landscape Architect Board, their management, the Department of Administrative Services' management, the Governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Board of Architect Examiners, the Landscape Architect Board, and the Department of Administrative Services, Internal Support Division, during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Joel Leming, CPA, Audit Administrator
Ann Waterman, CPA
Kelly Lake

