

Report No. 2006-21

August 31, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

State of Oregon

**State Board of Examiners for  
Engineering and Land Surveying**

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

Contract Auditor: Merina & Company, LLP

State of Oregon

**State Board of Examiners for  
Engineering and Land Surveying**

A Semi-Independent Agency

For the Biennium Ended June 30, 2005

OFFICE OF THE  
SECRETARY OF STATE  
Bill Bradbury  
Secretary of State



AUDITS DIVISION  
Charles A. Hibner  
Director

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*Auditing for a Better Oregon*

The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301

The Board of Directors  
State Board of Examiners for  
Engineering and Land Surveying  
728 Hawthorne Avenue NE  
Salem, Oregon 97301

This report contains audited financial statements of the State Board of Examiners for Engineering and Land Surveying, a semi-independent agency of the State of Oregon, as of and for the biennium ended June 30, 2005, and a report on its internal control over financial reporting and on compliance with applicable laws, regulations and contracts. The audit was performed by Merina & Company, LLP for the Secretary of State Audits Division.

OREGON AUDITS DIVISION

Charles A. Hibner, CPA  
Director

**STATE BOARD OF EXAMINERS FOR  
ENGINEERING AND LAND SURVEYING**

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY DATA

For the Biennium Ended

June 30, 2005

with

Independent Auditors' Report

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
State Board of Examiners for  
Engineering and Land Surveying  
728 Hawthorne Avenue NE  
Salem, Oregon 97301

Charles A. Hibner, Director  
Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

We have audited the accompanying financial statements of the State Board of Examiners for Engineering and Land Surveying, a semi-independent agency of the State of Oregon, as of and for the two years ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the State Board of Examiners for Engineering and Land Surveying's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the State Board of Examiners for Engineering and Land Surveying as of June 30, 2005, and the results of its operations for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2006, on our consideration of the State Board of Examiners for Engineering and Land Surveying's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. That report is separately presented in the compliance section as listed in the table of contents.

*Merina & Company, LLP*

Merina & Company, LLP  
West Linn, Oregon  
June 6, 2006

STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING  
(A Semi-Independent Agency of the State of Oregon)  
STATEMENT OF NET ASSETS  
June 30, 2005

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	Governmental Activities
<b>ASSETS:</b>	
Cash	\$ 584,500
Accounts receivable	<u>8,192</u>
Total assets	<u>\$ 592,692</u>
<b>LIABILITIES:</b>	
Accounts payable	\$ 9,344
Compensated absences	<u>8,681</u>
Total liabilities	<u>18,025</u>
<b>NET ASSETS:</b>	
Unrestricted	<u>574,667</u>
Total net assets	<u>574,667</u>
Total liabilities and net assets	<u>\$ 592,692</u>

The accompanying notes are an integral part of these financial statements

STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING  
(A Semi-Independent Agency of the State of Oregon)  
STATEMENT OF ACTIVITIES  
For the Biennium Ended June 30, 2005

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	<u>Expenses</u>	Net Revenue (Expenses) and Changes in Net Assets
<b>EXPENSES:</b>		
Governmental activities:		
Licensing	\$1,605,071	\$ (1,605,071)
Total program expenses		<u>(1,605,071)</u>
<b>GENERAL REVENUES AND TRANSFERS:</b>		
General revenues:		
Licenses and fees		1,637,938
Interest income		5,395
Other income		<u>76,624</u>
Total general revenues and transfers		<u>1,719,957</u>
Change in net assets		114,886
<b>NET ASSETS, BEGINNING</b>		<u>459,781</u>
<b>NET ASSETS, ENDING</b>		<u><u>\$ 574,667</u></u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**BALANCE SHEET - GOVERNMENTAL FUND**  
**June 30, 2005**

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	<u>Total Governmental Fund</u>
<b>ASSETS:</b>	
Cash	\$ 584,500
Accounts receivable	<u>8,192</u>
Total assets	<u>\$ 592,692</u>
 <b>LIABILITIES AND FUND BALANCE:</b>	
Accounts payable	\$ 9,344
Compensated absences	<u>8,681</u>
Total liabilities	<u>18,025</u>
 <b>FUND BALANCE:</b>	
Unreserved	574,667
Total fund balance	<u>574,667</u>
Total liabilities and fund balance	<u>\$ 592,692</u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUND**  
**For the Biennium Ended June 30, 2005**

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	<u>Total Governmental Fund</u>
<b>REVENUES:</b>	
License and fees	\$ 1,637,938
Interest Income	5,395
Other Income	<u>76,624</u>
Total revenues	<u>1,719,957</u>
 <b>EXPENDITURES:</b>	
Personal service	807,634
Service and supplies	<u>797,437</u>
Total expenditures	<u>1,605,071</u>
Revenues over (under) expenditures	114,886
 <b>FUND BALANCE, BEGINNING</b>	 <u>459,781</u>
 <b>FUND BALANCE, ENDING</b>	 <u><u>\$ 574,667</u></u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**For the Biennium Ended June 30, 2005**

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	Biennial Budget	Actual			Variance
	Original and Final	FY 2004	FY 2005	Biennial	Positive (Negative)
<b>REVENUES:</b>					
License and fees	\$ 1,672,300	\$ 803,108	\$ 834,830	\$ 1,637,938	\$ (34,362)
Interest Income	-	391	5,004	5,395	5,395
Other Income	30,000	56,713	19,911	76,624	46,624
 Total revenues	 1,702,300	 860,212	 859,745	 1,719,957	 17,657
<b>EXPENDITURES:</b>					
Personal service	842,000	354,069	453,565	807,634	34,366
Service and supplies	961,000	399,732	397,705	797,437	163,563
 Total expenditures	 1,803,000	 753,801	 851,270	 1,605,071	 197,929
 Revenues over (under) expenditures	 (100,700)	 106,411	 8,475	 114,886	 215,586
<b>FUND BALANCES, BEGINNING</b>	<u>291,075</u>	<u>459,781</u>	<u>566,192</u>	<u>459,781</u>	<u>168,706</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 190,375</u>	<u>\$ 566,192</u>	<u>\$ 574,667</u>	<u>\$ 574,667</u>	<u>\$ 384,292</u>

The accompanying notes are an integral part of these financial statements

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2005**

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***NATURE OF THE ORGANIZATION***

The Board's mission is to protect the people of the State of Oregon from the dangers of unqualified and improper practice of professional engineering and land surveying. The Board prescribes qualifications for the practice of professional engineering and land surveying, setting standards for the examination of applicants for licensure, continuing education, and enforcement of the laws and regulations governing the practice of professional engineering and land surveying. The Board issues licenses to those who do qualify, and has the authority to revoke licenses and assess civil penalties against unregistered individuals practicing professional engineering and land surveying without authority and against those licensed professional engineers and land surveyors practicing improperly.

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

*Reporting Entity*

The State Board of Examiners for Engineering and Land Surveying (the Board) is a semi-independent agency of the State of Oregon. The Board operates under Oregon Revised Statutes (ORS) Chapter 672. The Board consists of eleven members appointed by the governor for four-year terms. Two members are licensed professional surveyors, six members are registered professional engineers, one member is both a registered professional engineer and land surveyor, and two members are public citizens. The Board examines applicants for licensure and imposes disciplinary proceedings against those who violate statutes. The Board also makes rules and enforces professional standards for the practice of engineering and land surveying in Oregon.

Pursuant to Oregon Senate Bill 1127 adopted in 1999, the Board was granted semi-independent status by the Legislature.

*Basis of Presentation*

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government entities. The accounts of the Board are organized in a single special revenue fund which is used to account for the Board's activities. Revenues are primarily from license renewals, fees and interest income.

*Basis of Accounting*

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. All funds of the Board are accounted for on the flow

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING  
(A Semi-Independent Agency of the State of Oregon)  
NOTES TO FINANCIAL STATEMENTS  
For the Biennium Ended June 30, 2005**

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of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets. Long-term assets and liabilities would be accounted for in account groups.

The Board uses the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets, except for licensee fee which are recognized when received. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred.

*Budget*

The Board is required to adopt budgets on a biennial basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all licensees.

Unlike most budgets in state government where the agency budgets are enacted into law by the legislature, the Board's budget is not subject to review and approval by the legislature or to future modification by the legislature or the Emergency Board. For this reason, the budgets adopted by the Board are considered to be nonappropriated budgets. The budgetary statement included herein compares the total of annualized nonappropriated budgets for fiscal years 2004 and 2005 to actual expenditures for the two years ended June 30, 2005.

*Cash and Cash Equivalents*

Cash and cash equivalents are defined as all short term, highly-liquid, investments with maturities of three months or less.

*Supplies*

Supplies are charged as expenditures when purchased.

*Compensated Absences*

Full-time, permanent employees are granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Board.

*Equipment*

Equipment with a cost of more than \$5,000 is depreciated over its useful life. Currently, the Board does not have any equipment with a cost basis greater than \$5,000.

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2005**

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*Licensee Fees*

Licensee fees have been recorded on the basis of receipts due to the uncertainty of collectibility.

*Accounting Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**CASH AND INVESTMENTS**

*Credit risk*

State statutes authorize the Board of Examiners for Engineering and Land Surveying to invest in general obligations of the U.S. Government and its agencies, certain debt obligations of Oregon, California, Washington and Idaho, bank repurchase agreements, bankers' acceptances, and certain corporate debt obligations, among others.

*Concentration of credit risk*

All investments of the Board shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), and ORS 294.145 (Prohibited conduct for custodial officer). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted.

*Custodial credit risk – deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. As of June 30, 2005, the Board's bank balance was \$593,955. Of this deposit, \$100,000 was covered by Federal Depository Insurance and an additional \$250,000 was covered by a collateral certificate held in the

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2005**

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pledging financial institution's trust department or agent, in the Board's name. The remaining \$243,955 was uninsured and uncollateralized.

***PENSION PLAN***

The Board employees participate in the Oregon Public Employees Retirement System (PERS), a cost sharing multiple-employer defined benefit pension plan. All Board employees are eligible to participate in the system after completing six months of service. Total payroll was \$535,014 and covered payroll was \$523,560 for the two years ended June 30, 2005. PERS is administered by the Public Employees Retirement Board (PERB) under the guidelines of Oregon Revised Statutes, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P.O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by State statute to contribute 6.0 percent of their salary to the plan. The Board is required by statute to contribute actuarially computed amounts as determined by PERB. Rates are subject to change as a result of subsequent actuarial valuations. Currently, the rate is 4.71 percent (Tier 1 & 2 employees) and 8.04% (OPSRP employees) of each covered employee's salary. The amount contributed by the Board for the two years ended June 30, 2005, was \$53,439, which was equal to the required contributions for the two years.

During the biennium, Oregon General Obligation Pension bonds were issued to fund the States' share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to PERS. Over the next 24 years the state will be obligated to make the principal and interest payments on these pension obligation bonds. All benefiting agencies will be charged the same rate to pay this debt service. The amount paid by the Board for the two years ended June 30, 2005 was \$20,373.

***EMPLOYEE LEAVE***

Sick leave is earned at the rate of eight hours per month with no maximum limit. Accumulated sick leave at June 30, 2005 can be used in case of an employee's extended illness or injury. When the employee retires, any sick leave accrual terminates and no compensation made for such hours. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**  
**(A Semi-Independent Agency of the State of Oregon)**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Biennium Ended June 30, 2005**

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Vacation time is earned, subject to a maximum accumulation of 250 to 350 hours depending on employee classification, at a rate of eight hours per month to 17.34 hours per month depending on employee classification and length of service. The time off is vested when earned and recorded as an expenditure. Accumulated paid time off, based on current salary rates, was \$8,680 at June 30, 2005.

***INSURANCE***

Insurance programs are administered for the Board by the Risk Management Division of the Oregon Department of Administrative Services, which provides insurance coverage to all state agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program.

The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based upon its share of services provided in a prior period.

***LEASE COMMITMENT***

The Board leases its space at \$2,950 a month. The lease expires June 30, 2006. Total lease payments for the two years ended June 30, 2005 were \$71,540. The Board entered into a new lease agreement with Sage Properties, LLC for a term of seven years. Base rent increases 3% each year. The Board is also responsible for operating expense incurred by the landlord. Rent payments may vary year to year depending on operating expenses. Estimated future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amounts</u>
2006	\$ 35,400
2007	63,350
2008	65,510
2009	67,730
2010	70,070
	<u>72,470</u>
Total	<u>\$ 374,530</u>

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

Board of Directors  
State Board of Examiners for  
Engineering and Land Surveying  
728 Hawthorne Avenue NE  
Salem, Oregon 97301

Charles A. Hibner, Director  
Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

We have audited the financial statements of State Board of Examiners for Engineering and Land Surveying as of and for the two years ended June 30, 2005, and have issued our report thereon dated June 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we have considered the State Board of Examiners for Engineering and Land Surveying's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might constitute material weaknesses. A material weakness is a 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 misstatements in amounts that would be material in relation to the combined financial statements being audited 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 the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether State board of Examiners for Engineering and Land Surveying's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance on noncompliance that is required to be reported under Government Auditing Standards.

Monies in excess of the Federal Deposit Insurance Corporation (FDIC) limit were not secured at times during the year in accordance with ORS 295.

We noted certain matters that we reported to management of State Board of Examiners for Engineering and Land Surveying, in a separate letter dated June 6, 2006.

This report is intended solely for the information and use of State Board of Examiners for Engineering and Land Surveying, the Governor of the State of Oregon, and Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

  
Merina & Company, LLP  
West Linn, Oregon  
June 6, 2006

# **ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

## **Directory of Key Officials**

Director	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

***Auditing to Protect the Public Interest and Improve Oregon Government***