



OKLAHOMA BOARD OF ARCHITECTS, LANDSCAPE ARCHITECTS AND REGISTERED INTERIOR DESIGNERS

Operational Audit

For the Period July 1, 2014 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Board of Architects, Landscape Architects and
Registered Interior Designers**

**For the Period
July 1, 2014 through June 30, 2019**



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TO THE OKLAHOMA BOARD OF ARCHITECTS, LANDSCAPE ARCHITECTS AND REGISTERED INTERIOR DESIGNERS.

We present the audit report of the Oklahoma Board of Architects, Landscape Architects and Registered Interior Designers for the period July 1, 2014 through June 30, 2019. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



Background

The Oklahoma Board of Architects, Landscape Architects and Registered Interior Designers (the Agency) was created in 1925 to serve both the professions of architecture, landscape architecture and interior design and the public. Its mission is to protect the citizens of the State of Oklahoma by regulating the professions of architecture and landscape architecture and registering interior designers to promote quality practice.

Oversight is provided by a board (the Board) composed of eleven members, including seven licensed architects, two licensed landscape architects, one registered interior designer, and one lay member.

Board members as of November 2020 are:

Elizabeth Windel.....	Chair
Scott Howard.....	Vice-Chair
M. Bradley Gaskins.....	Secretary/Treasurer
Brian Dougherty.....	Member
James Hasenbeck.....	Member
J. Mark Taylor.....	Member
David Hornbeek.....	Member
Nate Baker.....	Member
David Blackburn.....	Member
Betsy Guthrie.....	Member
Jim Bruza.....	Member

**Oklahoma Board of Architects, Landscape Architects and Registered Interior Designers
Operational Audit**

The following table summarizes the Agency’s sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2018 through June 19, 2019).

Sources and Uses of Funds for FY 2018 and FY 2019

	2018	2019
Sources:		
Licenses, Permits, Fees	\$ 292,330	\$ 1,065,440
Fines, Forfeits, Penalties	49,500	9,300
Sales and Services	2,654	810
Total Sources	\$ 344,484	\$ 1,075,550
Uses:		
Personnel Services	\$ 299,934	\$ 363,008
Assistance, Payments to Local Govn'ts	225,000	-
Professional Services	110,546	116,117
Administrative Expenses	52,147	64,391
Travel	15,594	18,203
Other Uses	4,260	3,421
Total Uses	\$ 707,481	\$ 565,140

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

- Regarding “Licenses, Permits and Fees”, licensing renewals are due by June 30 of each odd year. Due to FY2019 being the renewal year, the amount of licensing revenues is much higher.
- Regarding “Assistance, Payments to Local Governments,” in accordance with statute 59 OS § 46.7(24) establishing the Path to Licensure Scholarship, this is a budget line item and evaluated annually. The Agency chose to include it in 2018 and 2020 but not 2019.

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through June 30, 2019. Our audit procedures included inquiries of appropriate personnel, research and analysis, and inspections of documents and records. Further details regarding our methodology are included in Appendix A.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Each of these components, listed in Appendix B for your reference, includes a subset of principles that are expected to be operating at government entities.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are effectively designed, implemented, and operating together in an integrated manner. As required by *Government Auditing Standards*², we have identified the aspects of internal control significant to each audit objective in this engagement; and our assessments are detailed in Appendix B.

¹ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

² *Government Auditing Standards*, or the “Yellow Book,” also promulgated by the GAO, guides our performance and operational audits. Last version 2018, accessible online at <https://www.gao.gov/products/GAO-18-568G>.

OBJECTIVE Determine whether effective internal control activities are in place to ensure all funds received by the agency are deposited, in line with GAO Standards for internal control and Oklahoma’s Statewide Accounting Manual.

Conclusion The Agency does not have effective internal control activities in place to ensure all funds received by the agency are deposited in line with GAO *Standards for Internal Control* and Oklahoma’s Statewide Accounting Manual.

Scope and Methodology To accomplish our objective, we performed the following:

- Evaluated the revenue process and identified significant internal controls related to deposits and licensing.
- Compared the Agency’s process to applicable governmental internal control standards and Oklahoma’s Statewide Accounting Manual.

FINDINGS AND RECOMMENDATIONS

Process Improvements Needed to Ensure All Funds Received Are Deposited Oklahoma’s Statewide Accounting Manual¹ emphasizes the importance of segregation of duties to ensure no individual is in a position to initiate, approve, undertake, and review the same action (such as receipting funds). The GAO *Standards for Internal Control* also note that if segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

The GAO *Standards for Internal Control* further emphasize that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. In addition, management should remediate identified internal control deficiencies on a timely basis.

There are two individuals responsible for opening the mail, however they do not log or document the incoming checks. The licensing manager is responsible for making entries in the licensing database, printing licenses, entering deposits in the state-wide accounting system, and taking the deposits to the bank. The licensing manager also has the ability to make changes in the licensing database. The licensing database has a function to track the changes that have been made; however, this function does not produce a report and is not reviewed by management. This creates the opportunity for the licensing manager to misappropriate funds received and to conceal the misappropriation by improperly recording deposits or

licensing activity. These are concerns that were reported in our previous audit of the agency.

The director reconciles the information from the licensing database to deposits in the state-wide accounting system. However, due to the lack of segregation of duties associated with the licensing manager and her ability to modify licensing records, the information the director is reviewing may not be reliable. The agency has written detailed policies and procedures that entail the processes that are in place. However, those policies and procedures do not establish appropriate control activities.

Recommendation

We recommend that the individuals opening the mail document all checks received in a log. This log should be included in the director's reconciliation to ensure the checks received by the Agency are deposited to the bank in the correct amounts. In addition, given that the licensing manager performs all the key revenue processes, the director should also review the modified records in the licensing database periodically. These changes should be reflected in the agency's internal policies and procedures.

To ensure an overall effective internal control system, agency management and the board should routinely monitor key duties and responsibilities, evaluate for control deficiencies, and remediate those deficiencies in a timely manner.

Views of Responsible Officials

The Board of Architects, Landscape Architects & Registered Interior Designers received approval from OMES IS, in late 2019, to replace the aging licensing database system with a new cloud based regulatory platform. As of date, all agency business processes have been reviewed and redeveloped as necessary, with an anticipated launch in early 2021. This will shift the manual process of accepting checks to an online payment portal. To ensure effective internal control the new system will provide extensive audit log and reporting capabilities. The administrative workbench will document changes made by staff. It will contain an audit history log to record all field changes and will include the old value, new value along with the date and user that made the change. Any changes made online, through the "Application/Licensee Portal" will be real time into the administrative workbench with its own audit log. This includes all payment records. Consequently, the robust reporting system will help facilitate the regular review of modified records. Additionally, in consideration of the State Auditor's findings and recommendations, all checks received will be logged in separately from the licensing process and will be included in the director's monthly reconciliation. While the

agency's goal is to move to online payments, we will continue to maintain the process of manual logs on the occasion a check is received.

APPENDIX A: Detailed Methodology

In gaining an understanding of the agency and developing our detailed objectives, in addition to routine discussions, analysis, research, and prior audit follow-up, we performed the following:

- Reviewed revenue, expenditure, and asset-related data from the State-Wide Accounting System and gathered information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Reviewed the Agency's transfers made to the state's general revenue fund as required by 59 O.S. § 46.20 and confirmed they materially reflected 10% of Agency deposits.
- Reviewed the Agency's HR All Actions Report from the State-Wide Accounting System to assess the changes that had a financial impact during the audit period.

We documented our understanding of the agency-wide components and underlying principles of internal controls significant to our objectives, as outlined further in Appendix B. In doing so, we obtained an internal control self-assessment completed by management and assessed the results, along with further discussions and review of documentation to verify and confirm as necessary. We analyzed the design and operating effectiveness of the significant principles and determined there is room for improvement relating to control activities, as addressed in our finding in the previous section.

APPENDIX B: Internal Control Components and Principles

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objectives in this engagement, and notes whether those principles were found to be operating effectively. For those *not* operating effectively, further discussion and related recommendations are included in the report.

As recommended by *Government Auditing Standards* section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

Internal Control Component/Principle	Significant to Audit Objective I	Operating Effectively?
Control Environment Component – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.		
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.		
2. The oversight body should oversee the entity's internal control system.		
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.		
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.		
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.		
Risk Assessment Component – Dynamic process of identifying, analyzing, and managing risks facing the entity.		
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.		
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.		
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.		
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.		
Control Activities Component – Actions management establishes through policies and procedures to protect against risks.		
10. Management should design control activities to achieve objectives and respond to risks.	✓	No

**Oklahoma Board of Architects, Landscape Architects and Registered Interior Designers
Operational Audit**

11. Management should design the entity's information system and related control activities to achieve objectives & respond to risks.		
12. Management should implement control activities through policies.	✓	No
Information and Communication Component – Quality information communicated and used to support the internal control system.		
13. Management should use quality information to achieve the entity's objectives.		
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.		
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.		
Monitoring Component – Activities to assess the quality of performance and promptly correct any deficiencies.		
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	✓	No
17. Management should remediate identified internal control deficiencies on a timely basis.	✓	No

The GAO emphasizes that each of the five components of internal control must be effectively designed, implemented, and operating. For an internal control system to be effective, the components must operate together in an integrated manner. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system.

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