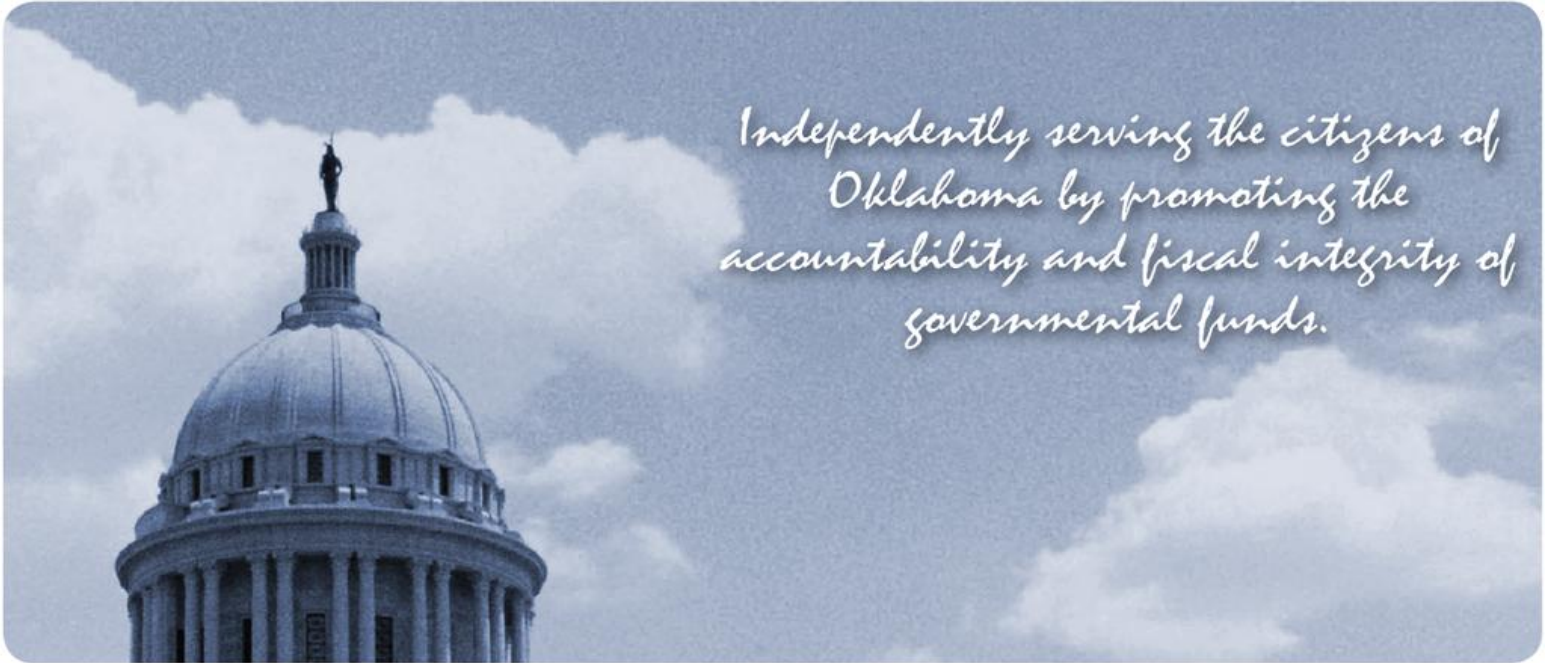


OPERATIONAL AUDIT

OKLAHOMA STATE BOARD OF LICENSURE FOR PROFESSIONAL ENGINEERS & LAND SURVEYORS

For the period July 1, 2011 through June 30, 2013



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Oklahoma State Board of Licensure for
Professional Engineers & Land Surveyors**

**For the Period
July 1, 2011 through June 30, 2013**



Oklahoma State Auditor & Inspector

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March 26, 2014

TO THE OKLAHOMA STATE BOARD OF LICENSURE FOR PROFESSIONAL ENGINEERS & LAND SURVEYORS

This is the audit report of the Oklahoma State Board of Licensure for Professional Engineers & Land Surveyors for the period July 1, 2011 through June 30, 2013. 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, appearing to read 'Gary A. Jones', is written over a horizontal line.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

State Board of Licensure for Professional Engineers and Land Surveyors
Operational Audit

The Oklahoma State Board of Licensure for Professional Engineers and Land Surveyors (the Agency) is responsible for the administration and regulation of the professions of engineering and land surveying in Oklahoma. The Agency reviews applications, controls examinations, licenses qualified applicants, and regulates the professional practice of the licensees throughout the state. The Agency also investigates alleged violations of provisions of the licensure law.

Oversight is provided by a seven-member board that consists of four professional engineers, two professional land surveyors, and a lay member, all of whom are appointed by the Governor, with the advice and consent of the Senate. The six professional members serve staggered six-year terms, and the lay member serves until the governor's term expires. Board members as of March 2014 are:

- Mr. George T. Gibson, P.E. Chair
- Mr. Ted Sack, P.L.S. Vice Chair
- Mr. Robert C. Zahl, P.E. Secretary
- Mr. Roy W. Entz, P.E., P.L.S. Member
- Mr. Glen W. Smith, P.E., P.L.S. Member
- Mr. Bill McVey, Jr., P.E. Member

State Board of Licensure for Professional Engineers and Land Surveyors Operational Audit

The charts below illustrate how the Agency is primarily funded, and where the funds are expended.¹

Chart 1 - Revenues by Category for July 1, 2011 through June 30, 2013

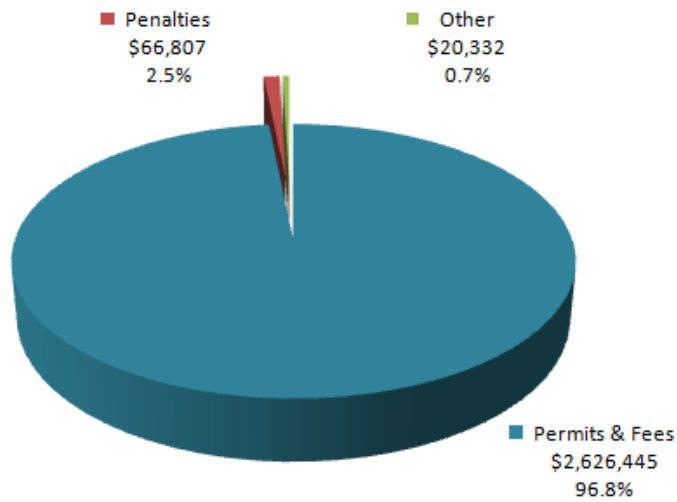
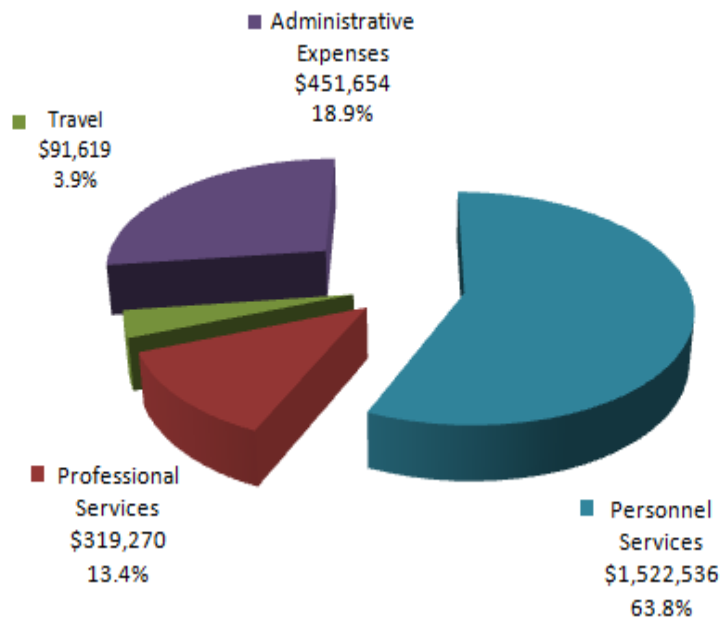


Chart 2 - Expenditures by Category for July 1, 2011 through June 30, 2013



¹ This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

State Board of Licensure for Professional Engineers and Land Surveyors
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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 duties encompass collecting, disbursing, or managing 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 upon our stated 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, 2011 through June 30, 2013. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Agency’s operations. We also tested a sample of transactions to achieve our objective. To ensure the samples were representative of the population and provided sufficient and appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

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.

OBJECTIVE

Determine whether the Agency’s internal controls provide reasonable assurance that revenues and non-payroll expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Agency’s internal controls provide reasonable assurance that non-payroll expenditures and revenues received online were accurately reported in the accounting records. However, the Agency’s internal controls do not provide reasonable assurance that revenues received in-house were accurately reported in the accounting records.

Financial operations complied with the following statute:

- 74 O.S. § 3601.2.A - The executive director's salary falls within statutory limits.

Financial operations did not comply with the following statute:

- 59 O.S. § 475.9.A (also 62 O.S. § 211) - Requires transfer of 10% of licensure revenues to the general fund.

Observation

Inadequate Segregation of Duties Related to In-House Receipts
Repeat Finding

To protect against fraud, errors, and professional misconduct, the internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating duties of employees.

One license renewal specialist is responsible for:

- Receipting funds and issuing licenses for renewals and reinstatements using the Agency's Access licensing database;
- Generating the database deposit report; and
- Preparing the bank deposit.

The license renewal specialist has the ability to backdate and alter records in the licensing database, creating the opportunity to manipulate deposit reports while still renewing licenses. This could allow funds to be misappropriated, or received and not deposited. Funds that were potentially at risk during the audit period exceeded \$160,000.

The fact that employees with other licensing responsibilities have the ability to add, delete, and alter records in the Agency's licensing database also provides those employees with the opportunity to misappropriate funds on a smaller scale.

Posting and deposit duties are not segregated due to the limited number of employees.

Recommendation

We recommend:

- The Agency should segregate duties related to the in-house receipting process by ensuring that employees with posting responsibilities do not handle funds. This would include having an independent employee prepare the bank deposit.
- If this is not possible, a report from the licensing database should be developed that provides revenue information for an entire month. Deposits of in-house receipts should be compared to this report by the executive director on a regular basis to ensure all

funds received by the agency during the month were deposited and appear reasonable based on historical revenue trends.

- Appropriate database controls, such as read/write permissions and auto filled (non-editable) date fields, should be implemented as necessary to ensure that the revenue report is reliable.

Views of Responsible Officials

Effective immediately:

- A report will be run monthly to be reviewed by the Executive Director to verify revenue information for an entire month that compares Access database information and in-house receipts to ensure all funds received by the agency during the month are deposited.
- Non-editable date fields will be created in our database.

Observation

Inadequate Safeguarding of Receipts
Repeat Finding

An effective internal control system provides for adequate safeguarding of assets. In addition, 62 O.S. § 34.57.C requires that receipts greater than \$100 be deposited on the same banking day as received.

Checks and cash receipts received by the Agency are not deposited at the bank on a daily basis, and instead are deposited once or twice per week. For example, during May of 2012, six deposits were made with an average total in excess of \$5,900.

Funds retained at the Agency longer than permitted are exposed to additional risk. A secondary effect is that Agency financial data is not up to date in the CORE system.

Deposits were not made on a daily basis due to staff workload.

Recommendation

We recommend:

- If in-house receipts for a given day equal or exceed \$100, the Agency should deposit those receipts into the Agency bank account on the same day. If this is not possible with the current staffing and task distribution, consideration should be given to changing the receipting process in order to allow for making deposits on a basis in compliance with 62 O.S. § 34.57.C;
- If this is not possible, the Agency should consider mandating that all licensing fees be paid on-line.

State Board of Licensure for Professional Engineers and Land Surveyors
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Views of Responsible Officials

Effective immediately:

- All receipts collected will be deposited within 24 hours of receipt of funds. Daily bank deposits will be made if necessary to ensure compliance with 62 O.S. 34.57.C.
- Our online renewal system will be revised to require online payments, unless a hardship can be shown as to why the licensee/applicant cannot pay online, to limit the amount of funds at risk. This payment may be in the form of an EFT or credit card.

In addition, we are currently working with ok.gov to create an online application form for PE comity applicants with an NCEES record² to submit their application form and pay online. This would further limit the amount of funds at risk.

Observation

Failure to Transfer 10% of Revenues

The Agency is required by 59 O.S. § 475.9.A (and by extension 62 O.S. § 211) to transfer 10% of licensure revenues to the state's general fund. Due to the lack of effective revenue controls for in-house receipts (see discussion on page 4), it was only possible to test that *deposited* in-house receipts were transferred appropriately.

- The Agency appears to have correctly calculated the amounts to be transferred to its revolving account (90% of eligible deposits) and the state's general fund (10% of eligible deposits) throughout the audit period.
- Agency Business Services (ABS), with whom the Agency contracts for financial services, is tasked with electronically transferring the receipts in the 90/10% ratio into the appropriate accounts. In April of 2012, ABS deposited all of the March receipts into the Agency revolving account. This resulted in \$10,035.27 not being transferred to the state's general revenue fund.

Management did not confirm that ABS transferred the funds properly.

Recommendation

We recommend:

- Each month, Agency management should verify that ABS transfers accurate amounts into the appropriate accounts.

² Comity applicants are already licensed in another state; the National Council of Examiners for Engineering and Surveying is a national non-profit organization composed of engineering and land surveying licensing boards.

State Board of Licensure for Professional Engineers and Land Surveyors
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Views of Responsible Officials

Based upon the observation noted by Audit Staff in the draft report, Agency Business Services (ABS) was contacted immediately by the Executive Director of PELS for a determination as to how the April 2012 transfer of funds could have been correctly calculated by PELS but incorrectly transferred by ABS without a balancing problem with the fund accounts. PELS immediately pursued this action with ABS to ensure that the details of the occurrence were determined and documented, remedial action was taken to correct the problem, and a process was implemented immediately to ensure that confirmation of the transferred funds is available and verified by PELS each month as a part of the reconciliation process. ABS complied with the request by PELS on March 13, 2014, and all requirements have now been met.

Notes:

1. 100% of transfers within the audit period have been reviewed and it has been determined by Audit Staff that no other significant issues regarding the transfer of funds occurred during the audit period.
2. 100% of transfers following the audit period have been reviewed by the Executive Director and it has been determined that no other transfer issues exist in the period following the audit period.
3. Past verification processes were in place regarding transferring of funds at PELS until ABS began contracting for PELS' financial services.



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