

CONSTRUCTION INDUSTRIES BOARD

FOR THE FISCAL YEAR ENDED

JUNE 30, 2008

FINANCIAL AUDIT



Oklahoma State Auditor
& Inspector

**Construction Industries Board
Financial Statement and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2008**

This publication is printed and issued by the State Auditor and Inspector, as required by 74 O.S. §212 and 59 O.S. § 1000.4c. Pursuant to 74 O.S. § 3105, 15 copies have been prepared and distributed at a cost of \$28.60. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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August 31, 2009

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Following is our report on the financial statements of the Construction Industries Board for the fiscal year ended June 30, 2008. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR AND INSPECTOR

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INDEPENDENT AUDITOR'S REPORT

TO THE CONSTRUCTION INDUSTRIES BOARD

We have audited the Statement of Receipts, Expenditures and Changes in Cash--Regulatory Basis of the Construction Industries Board (the Board), a part of the primary government of the State of Oklahoma, as of and for the year ended June 30, 2008. This financial statement is the responsibility of the Board's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the 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.

As described in Note 1, this financial statement was prepared using accounting practices prescribed by Title 59 O.S. § 1000.4c of Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Board as of June 30, 2008, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, expenditures and changes in cash—regulatory basis of the Board for the year ended June 30, 2008, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 19, 2009, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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 considered in assessing the results of our audit.

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name of the State Auditor and Inspector.

STEVE BURRAGE, CPA
STATE AUDITOR AND INSPECTOR

August 19, 2009

**CONSTRUCTION INDUSTRIES BOARD
STATEMENT OF RECEIPTS, EXPENDITURES
AND CHANGES IN CASH--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2008**

Receipts

City Inspectors License Renewal and Other Fees	\$ 12,595
Plumbing License Renewal and Other Fees	558,879
Electrical License Renewal and Other Fees	925,336
Mechanical License Renewal and Other Fees	1,178,341
Fine Citation	153,800
Total Receipts	<u>2,828,951</u>

Expenditures

Salary Expenses	1,352,461
Insurance Premiums – Health, Life, Etc.	321,650
FICA and Retirement Contributions	278,373
Professional & Legal Services	150,241
Flexible Benefits – Admin	516
Travel – Reimbursements	292,218
Postage, Telecommunication and Misc. Admin. Expenses	60,125
Rent Expenses	70,569
Maintenance and Repair Expense	7,574
General Operating Expenses	9,383
Office Furniture and Equipment	9,306
Library Equipment and Resources	2,649
Incentive Awards	38
Refunds – Overpayments	20,315
Total Expenditures	<u>2,575,418</u>

Transfer – 10% to State General Revenue Fund	(282,896)
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Receipts under expenditures	(29,363)
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Cash-Beginning of Year	3,061,296
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Cash-End of Year	<u>\$ 3,031,933</u>
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The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Construction Industries Board was created in 2001 for the licensing and oversight of the construction industries trades, the laws for which includes the Plumbing License Law of 1955, the Oklahoma Inspectors Act, the Electrical Licensing Act, and the Mechanical Licensing Act. Title 59 O.S., § 1000.2 separated the Board from the State Department of Health on July 1, 2004. The Board is a part of the primary government of the State of Oklahoma.

As required by Title 59 O.S., § 1000.4c, the accompanying financial statement presents the receipts and expenditures of the Board. In addition, we are also showing the changes in cash balances for all treasury funds of the Board.

B. Basis of Accounting

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. The cash basis is not a comprehensive measure of economic condition or changes therein.

C. Cash

At June 30, 2008, all cash was under the control of the State Treasurer of Oklahoma and was collateralized in accordance with 62 O.S. 2001, 72.1., titled, "Security for Public Deposits Act." As of this date, the bank balances on deposit are fully insured or collateralized with securities held by the State's agent in the State's name.

2. Transfers to State General Revenue Fund

Title 62 O.S. § 211 requires all "self-sustaining boards created by statute to regulate and prescribe standards, practices, and procedures in any profession, occupation or vocation" to pay into the General Revenue Fund of the State ten percent (10%) of the gross fees charged, collected and received. The Board maintains a clearing account in which all receipts are deposited. When the required 10% deposit of monies is made to the state's general revenue fund, it is made directly from the Board's clearing account. As a result, the portion of the receipts transferred to the state's general revenue fund are shown as Transfers on the Statement of Receipts, Expenditures, and Changes in Cash-Regulatory Basis.

3. Risk Management

The Risk Management Division of the State's Department of Central Services is responsible for the acquisition and administration of all insurance purchased by the State and for administration of self-insurance plans and programs adopted for use by the State.

The Risk Management Division is authorized to settle claims of the State and oversee the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act. The Risk Management Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity. The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Risk Management Division.

4. **Pension Plan**

Plan Description. The Board contributes to the Oklahoma Public Employees Retirement Plan, a multiple employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, provide more complete information about the Plan. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. State employees contribute 3.5% on all salary. State agency employers contribute 13.5% of total salary. The Board's contributions to the Plan for the years ended June 30, 2008, 2007 and 2006 were \$167,807.88, \$182,746.68, and \$159,775.68 respectively. These contributions were equal to the contributions required.

5. **Other Post Employment Benefits**

In addition to the pension benefits described in Note 4, employees of the Board are provided post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System (OPERS). OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance (OSEEGIB). OSEEGIB is a cost-sharing, multi-employer defined benefit other post employment benefit (OPEB) plan. The plan is a legal trust for administering, managing and providing group health, dental, life and disability plans and benefits to active employees and retirees of state agencies, school districts and other governmental units. The plan also provides coverage for employee and retiree dependents when so elected.

OPERS funds post employment health care benefits as part of the overall retirement requirement. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the Board is not available, nor can it be reasonably estimated.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

TO THE CONSTRUCTION INDUSTRIES BOARD

We have audited the Statement of Receipts, Expenditures and Changes in Cash--Regulatory Basis of the Construction Industries Board (the Board), a part of the primary government of the State of Oklahoma, for the year ended June 30, 2008, which comprises the Board's cash activities, and have issued our report thereon dated August 19, 2009. Our report on the financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described following this report as items 08-170-001 and 08-170-002.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Board and should not be used for any other purpose. This report is also 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.



STEVE BURRAGE, CPA
STATE AUDITOR AND INSPECTOR

August 19, 2009

CONSTRUCTION INDUSTRIES BOARD

SCHEDULE OF FINDINGS AND RESPONSES

Finding No: 08-170-001

Criteria:

An effective internal control system provides for adequate review and approval of all supporting documentation.

The CIB Field Staff Time and Travel Policy Memorandum states, "Supervisors shall not accept Travel Claims and Time Reports without the Activity Log...All documents must be signed by both employee and supervisor."

An effective internal control system provides for prompt and accurate postings to CORE.

Condition:

Of the 80 expenditure claims (Professional/Legal Services & Travel Reimbursements) tested, there were four Corporate Express Inc. claims that were incorrectly coded to account 515580 – Business Support Services. The expenditures should have been coded to account 536140 – Office Supplies (Expendable) or account 536130 – Office Supplies (Non-Expendable).

Of the 40 Travel Reimbursement claims tested, the following items were noted:

- Six travel claims did not have a Time Report properly approved;
- Two travel claims did not have an Activity Log properly approved;
- One travel claim did not appear reasonable as the mileage claimed by the employee was 152 miles, but should have only been 99 miles.

Of the 60 deposits tested, there were two deposits that were not posted timely to CORE. One deposit was dated June 6, 2008, but was not posted to CORE until June 26, 2008. The second deposit was dated June 25, 2008, but was not posted to CORE until July 1, 2008.

Effect:

Without an adequate review of all supporting documentation, expenditures could be incorrectly coded which could result in unreliable expenditure reports used for budgetary and fiscal decisions.

Also, without an adequate review and approval of all supporting documentation, unauthorized or inappropriate payments may be occurring.

If a deposit entry is not made timely to CORE then the revenue balance in CORE and on the financial statements could be misstated.

Recommendation:

We recommend CIB management exercise diligence in reviewing expenditure claims to ensure the correct account codes are used.

Also, we recommend CIB management exercise diligence in reviewing and approving all supporting documentation as outlined in CIB's Travel Policy.

Lastly, we recommend management exercise diligence and ensure their deposit entries are posted into CORE within one day of receipt.

Agency Management Response:

Expenditure Claims: Management agrees with the recommendation and will work with the Office of State Finance (OSF) to ensure accurate and consistent coding of expenditure claims. Agency staff will review vouchers and other supporting documentation prepared by OSF to confirm the proper fund distribution and account codes used.

Travel Reimbursements: Management agrees with the recommendation and will work with agency field investigators and field supervisors to ensure that proper documentation (to include completed activity logs),

signatures, and approvals are obtained prior to processing a reimbursement claim. Since the audit period (FY2008), field supervisors have regularly worked with field staff to accurately segregate and document ODOT map miles and area vicinity miles. Field staff have been reminded and field supervisors have been instructed to neither submit nor approve mileage claims that are not supported with a detailed listing of locations traveled and associated miles.

Deposits: Management agrees and will work with OSF to better monitor and ensure timely posting of agency deposits in CORE.

OSF Response:

OSF agrees with this finding and CIB management response.

Finding No: 08-170-002

Criteria:

An effective internal control system provides for oversight of the agency's financial reporting and internal control structure by those charged with governance. In addition, an effective internal control system provides for adequate review and approval of all supporting documentation.

Statement on Auditing Standards (SAS) 112 states that there is a deficiency in the design of controls when there is "Inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal control over time".

Condition:

During our documentation of controls over receipts and expenditures, the following were noted:

- The monthly clearing account reconciliations were performed by OSF from January 2008 through June 2008. However, there was not a formal review of the reconciliations during this time by CIB management to ensure accuracy and completeness;
- The monthly clearing account transfers were performed by OSF from January 2008 through June 2008. However, there was not a formal review of the monthly transfers during this time by CIB management to ensure the correct amounts were being transferred to CIB's revolving funds and the State's General Revenue Fund;
- Vouchers were reviewed and approved by OSF from January 2008 through June 2008. However, there was not a formal review of the vouchers during this time by CIB management to ensure accuracy.

Cause:

In December 2007, CIB terminated several of its employees, including its Finance Officer. In January 2008, CIB contracted with OSF to perform its financial services. Once CIB contracted for these financial services they gave OSF the role of ensuring the financial information was reliable, accurate, and complete.

Effect:

Without adequate oversight by management of its financial reporting and internal control structures, unreliable and inaccurate financial information may be reported by CIB. In addition, without management oversight CIB does not currently have adequate controls in place for monitoring of receipts and expenditures.

Recommendation:

We recommend CIB management exercise diligence while performing a detailed review of the work performed by OSF to ensure the financial information is reliable, accurate, and complete.

Agency Management Response: Management agrees, but does wish to note the OSF response below detailing the regular review and oversight reflecting current practice. Going forward, CIB will augment its review and oversight of OSF functions to independently confirm the accurate and complete handling of agency receipt activity performed by the Office of State Finance (OSF). Agency staff has developed and will utilize a spreadsheet to enter and track receipt activity with which to confirm the correct allocation of deposits to the different agency funds. Similarly, agency staff will independently confirm vouchers processed by OSF to confirm that the correct financial information is utilized.

OSF Response:

The monthly reconciliations of the CIB clearing account is performed by OSF staff. Staff reconciles against the GL suite report, the OST statement and what is entered in the CORE system. Monthly reports are provided at each CIB board meeting. Once again OSF staff prepared clearing account reconciliations and provided CIB management with reports at its monthly meetings. These reports were provided to management and board members at each board meeting. Invoices are approved by CIB management for each voucher prepared by OSF. Prior to this a purchasing document is created using requisitions prepared and approved by CIB management. Once vouchers are prepared, scanned and submitted for payment hard copy originals were returned to CIB offices for their review and filing. OSF will request that CIB management review and sign off on all future reconciliation reports.



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