

FINANCIAL AUDIT

CONSTRUCTION INDUSTRIES BOARD

For the fiscal year ended June 30, 2009



*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

**Construction Industries Board
Financial Statement and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2009**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 74 O.S. § 212 and 59 O.S. § 1000.4c. has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 74 O.S. § 3105.B.



Oklahoma State Auditor & Inspector

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May 10, 2011

**TO THE HONORABLE MARY FALLIN
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, 2009. 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, appearing to read "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA 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, 2009. 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. As further described in Note 1, the financial statements of the Board are intended to present the financial position and the changes in financial position of only that portion of the Statement of Receipts, Expenditures, and Changes in Cash--Regulatory Basis of the State of Oklahoma that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2009, 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, 2009, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 12, 2011, 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.

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

April 12, 2011

**CONSTRUCTION INDUSTRIES BOARD
STATEMENT OF RECEIPTS, EXPENDITURES
AND CHANGES IN CASH--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2009**

Receipts

City Inspectors License Renewal and Other Fees	44,551
Plumbing License Renewal and Other Fees	486,260
Electrical License Renewal and Other Fees	823,789
Mechanical License Renewal and Other Fees	975,865
Fine Citation	144,918
Transfers from Oklahoma State Health Department	288,291
Reimbursements	1,730
Total Receipts	2,765,404

Expenditures

Salary Expenses	1,158,563
Insurance Premiums – Health, Life, Etc.	304,653
FICA and Retirement Contributions	264,801
Professional & Legal Services	180,786
Inter/Intra Agency Payments –Professional Services	692
Travel – Reimbursements	310,124
Travel-Agency Direct Payments	4,459
Postage, Telecommunication and Misc. Admin. Expenses	48,680
Rent Expenses	87,777
Maintenance and Repair Expense	25
General Operating Expenses	13,424
Library Equipment and Resources	2,428
Refunds, Indemnities, and Restitution	14,010
Total Expenditures	2,390,422

Receipts over expenditures 374,982

Cash-Beginning of Year 3,031,933

Cash-End of Year \$ 3,406,915

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, 2009**

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.

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the transactions 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, 2009, 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 from Clearing Account 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 netted against the revenues shown on the Statement of Receipts, Expenditures, and Changes in Cash-Regulatory Basis. Total receipts transferred to the state's general revenue fund from the clearing account for 2009 was \$278,468.86.

The remaining cash balance at June 30, 2009 in the CIB clearing account after transfers were made to the state's general revenue fund was \$75,635.25.

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 14.5% of total salary. The Board's contributions to the Plan for the years ended June 30, 2009, 2008 and 2007 were \$161,892.42, \$167,807.88, and \$182,746.68 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).

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 BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2009, which comprises the Board's cash activities, and have issued our report thereon dated April 12, 2011. The report includes an explanatory paragraph stating that the financial statements of the Board are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the Board. 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.

A deficiency in control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. [09-170-001 and 09-170-002]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The Board's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a long horizontal flourish extending to the right.

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

APRIL 12, 2011

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 09-170-001

Other Information: Receipts

Criteria:

An effective internal control system provides for adequate review and approval of all supporting documentation, along with prompt and accurate postings to CORE.

Condition:

Of the 60 deposits tested, we noted the following:

- 15 Official Depository forms were not properly approved.
- 16 Deposits were posted to CORE four (4) or more days later.

Cause/Effect: Management did not have an adequate control system in place to ensure: 1) all deposits were reviewed prior to being taken to the bank and 2) that all deposits were posted to the states general ledger system in a timely manner to ensure proper reporting.

Without an adequate review of the Official Depository forms, deposits could be incorrectly coded and not be detected in a timely manner.

If a deposit entry is not made timely to the states general ledger system then the revenue/cash balance in CORE and on the financial statements could be misstated.

Recommendation:

We recommend CIB management exercise diligence in reviewing the Official Depository forms to ensure all deposit information is correct.

In addition, we recommend management strengthen their communication process with OSF to ensure deposit entries are posted to the states general ledger system in a timely manner.

Agency Management Response:

The Construction Industries Board has implemented and enforced separation of duties in the deposit process. The Business Manager hired on June 15, 2009, to monitor deposit process resigned his position within nine months of service to the agency. The hiring process was immediately initiated and a new Business Manager was finally hired July 1, 2010, and one of her duties is to ensure the integrity of the deposit process.

The CIB management has instructed staff members responsible for preparing deposits to ensure that the working documentation as well as the final documents are signed and initialed appropriately in the future.

The Construction Industries Board is aware of the importance of getting documentation to the Office of State Finance in a timely manner. This requirement has been met the majority of the time. CIB researched the audit tested items, and found in many cases the delay was associated with weekends, holidays, illnesses or other absence.

OSF Response:

The Office of State Finance is aware of the importance of posting deposits in a timely manner and our procedure is to post deposits within one day of receipt in our office. We will continue to work with CIB management to streamline the deposit posting process.

Reference Number: 09-170-002

Other Information: Receipts & Expenditures

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 was noted:

- The monthly clearing account reconciliations were performed by OSF for FY 2009. 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 for FY 2009. 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.

Cause:

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. On June 15, 2009, CIB hired a Business Manager who was responsible for reviewing the reconciliations as part of his job duties. However, we could not determine that a review of the reconciliations ever occurred.

Effect:

Without adequate oversight by management of its financial reporting and internal control structures, unreliable and inaccurate financial information could 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:

The Auditor sent Construction Industries Board (CIB) audit findings for FY 2008 on 10/15/2009. The agency was already part way into the new fiscal year, but as soon as this condition was pointed out by the Auditor, a new process was immediately put in place.

A Business Manager was hired on June 15, 2009, to monitor the revolving fund and general fund process. Unfortunately, he resigned his position within nine months of service to the agency. The hiring process was immediately initiated and a new Business Manager was hired July 1, 2010, and one of her duties is to ensure the integrity of the revolving funds and State's General Revenue Fund.

Agency staff continues to independently confirm vouchers processed by OSF to confirm that the correct financial information is utilized.

OSF Response:

The finding is a carryover from the FY 2008 audit; however the audit report was not issued until 10/15/2009. Prior to issuance of the FY 2008 audit report, the monthly reconciliations of the CIB clearing account were performed by OSF staff. Staff reconciled against the GL suite report, the OSF statement and what was entered into CORE system. Monthly reports were provided at each CIB board meeting. After receipt of the FY 2008 audit report CIB and OSF implemented measures to ensure review of reconciliations by CIB management.



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