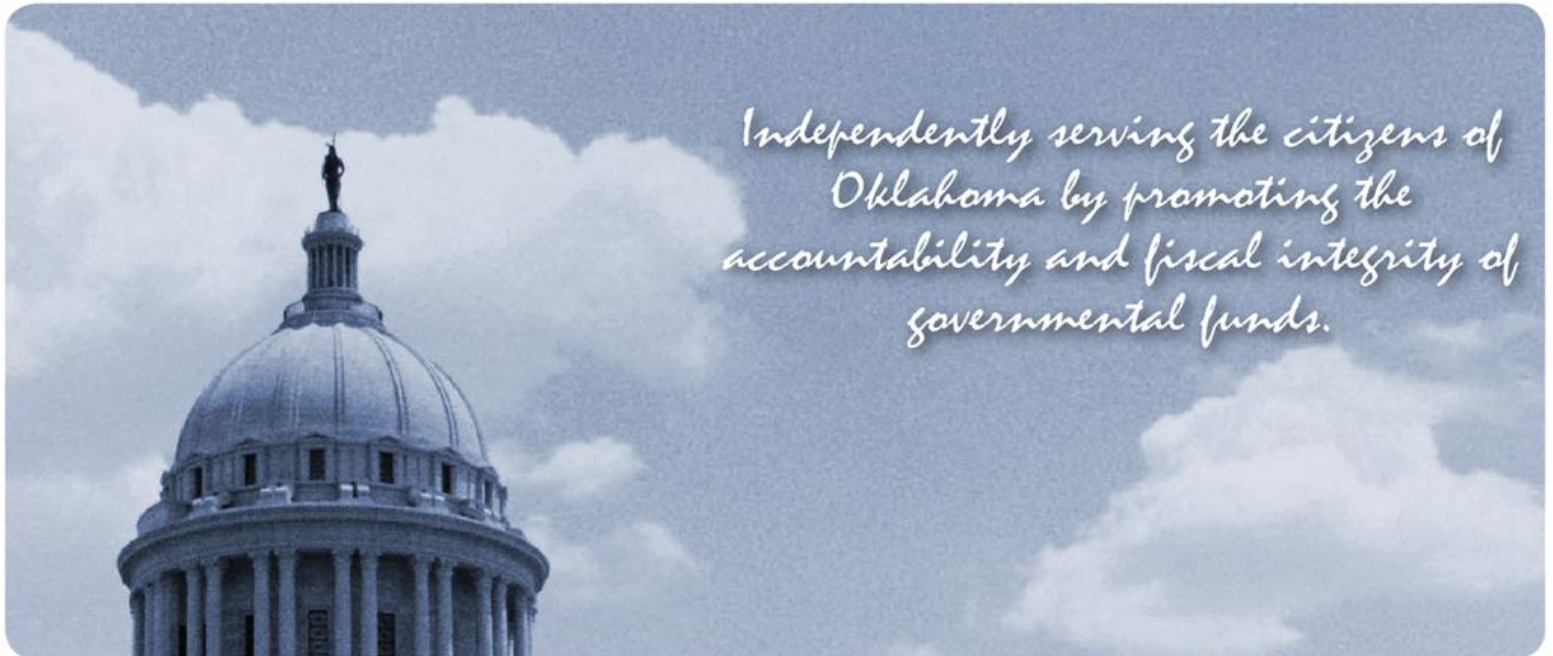


FINANCIAL AUDIT

CONSTRUCTION INDUSTRIES BOARD

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

For the fiscal year ended June 30, 2013



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

**Construction Industries Board
Financial Statement and Independent Auditor's Report
For the Fiscal Year Ended June 30, 2013**

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 74 O.S. § 212 and 59 O.S. § 1000.4(C) 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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September 21, 2015

**TO THE HONORABLE MARY FALLIN
GOVERNOR OF THE STATE OF OKLAHOMA**

This is the audit report of the Construction Industries Board for the year ended 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 the utmost importance.

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

We wish to take this opportunity to express our appreciation to the management and staff of the Construction Industries Board and the Office of Management and Enterprise Services for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink, which appears to read "Gary A. Jones".

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

Table of Contents

| | Page |
|---|------|
| Independent Auditor's Report..... | 1-2 |
| Financial Statement | |
| Statement of Receipts, Expenditures, and Changes in Cash – Regulatory Basis..... | 3 |
| Notes to the Financial Statement..... | 4-5 |
| Report on Internal Controls over Financial Reporting and on Compliance and Other Matters..... | 6-7 |
| Schedule of Findings and Responses..... | 8 |



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INDEPENDENT AUDITOR'S REPORT

TO THE CONSTRUCTION INDUSTRIES BOARD STATE OF OKLAHOMA

We have audited the accompanying financial statement of the Construction Industries Board (the Board), a part of the primary government of the State of Oklahoma, which comprises the receipts, expenditures, and changes in cash – regulatory basis for the fiscal year ended June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of Title 59 of the Oklahoma Statutes, § 1000.4(C). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1-B, the financial statement is prepared by the Board, a part of the primary government of the State of Oklahoma, on the basis of the financial reporting provisions of Title 59 O.S. § 1000.4(C), which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Oklahoma.

As further described in Note 1-B, the financial statement of the Board is intended to present the financial position and the changes in financial position of only that portion of the State of Oklahoma that is attributable to the transactions of the Board. It does not purport to, and does not, present fairly the financial position of the State of Oklahoma as of June 30, 2013, 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.

The effect on the financial statement of the variance between the regulatory basis of accounting described in Note 1-B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Board as of June 30, 2013, or changes in financial position, or cash flows thereof for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the changes in cash of the Board as of June 30, 2013, and the revenues it received and expenditures it paid for the year then ended, in accordance with the financial reporting provisions of Title 59 O.S. § 1000.4(C) as described in Note 1-B.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 3, 2015, 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 in considering the Board’s internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a stylized flourish at the end.

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

September 3, 2015

Construction Industries Board
Statement of Receipts, Expenditures and Changes in Cash – Regulatory Basis
For the Fiscal Year Ended June 30, 2013

Receipts

| | |
|------------------------------------|------------------|
| Plumbing Licenses and Other Fees | \$ 637,871 |
| Electrical Licenses and Other Fees | 1,237,288 |
| Inspector Licenses and Other Fees | 76,439 |
| Mechanical Licenses and Other Fees | 1,411,202 |
| Other Licenses and Fees | 99,663 |
| Fines, Forfeits, and Penalties | 260,810 |
| Reimbursements for Funds Expended | <u>17,869</u> |
| Total Receipts | <u>3,741,142</u> |

Expenditures

| | |
|---|------------------|
| Salary Expense | 1,474,967 |
| Insurance Premiums – Health, Life, Etc. | 369,589 |
| FICA and Retirement Contributions | 334,687 |
| Professional and Legal Services | 284,540 |
| Inter/Intra Agency Payments – Professional Services | 1,850 |
| Travel – Reimbursements | 372,719 |
| Travel – Agency Direct | 13,416 |
| Postage, Telecommunication and Misc. Admin. | 63,482 |
| Rent | 178,493 |
| Maintenance and Repair | 11,520 |
| Specialized Supplies and Materials | 30 |
| Production, Safety, and Security | 882 |
| General Operating Expense | 15,394 |
| Office Furniture and Equipment | 87,935 |
| Library Equipment | 400 |
| Refunds, Indemnities, Restitution | 1,622 |
| Loans, Taxes and Other Disbursements | <u>350</u> |
| Total Expenditures | <u>3,211,876</u> |

Receipts over (under) Expenditures 529,266

Cash, Beginning of Year 5,166,904

Cash, End of Year \$ 5,696,170

The Notes to the Financial Statement are an integral part of this Statement.

NOTES TO THE FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, the Mechanical Licensing Act and the Roofing contractor Registration 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., § 1000.4(C), the accompanying financial statement presents the receipts, expenditures, and 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, 2013, all cash was under the control of the State Treasurer of Oklahoma and was collateralized in accordance with the Security for Public Deposits Act, 62 O.S. § 72. 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 receipts transferred to the state’s general revenue fund is 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 2013 was \$380,435.78. Total refunds issued from the clearing account in 2013 were \$11,320.00.

The remaining cash balance at June 30, 2013, in the CIB clearing account after transfers to the State’s general revenue fund was \$271,087.50.

3. **Risk Management**

The Risk Management Division of the State's Office of Management and Enterprise 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% of their annual compensation. Beginning in FY 2012 State agency employers contributed 16.5% of total salary which was increased from 15.5% in FY2011. The Board's contributions to the Plan for the years ended June 30, 2013, 2012, 2011 were \$216,415.56, \$217,572.50, and \$185,640.34, 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 Employees Group Insurance Division (EGID) of the Oklahoma Management and Enterprise Services (OMES). 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.



Oklahoma State Auditor & Inspector

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INDEPENDENT AUDITOR'S 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 STATE OF OKLAHOMA

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statement, which collectively comprises the Commission's financial statement and have issued our report thereon dated September 3, 2015.

Our report on the financial statement included an adverse opinion on U.S. Generally Accepted Accounting Principles because the financial statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. However, our report also included our opinion that the financial statement does present fairly, in all material respects, the receipts, expenditures, and changes in cash – regulatory basis of the Board for the year ended June 30, 2013, on the basis of accounting prescribed by Oklahoma State law as described in Note 1-B. The report included an explanatory paragraph stating that the financial statement of the Board is intended to present the financial position and results of daily operations only for that portion of the State of Oklahoma attributable to the transactions of the Board.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may

exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies [Finding No. 13-170-005].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statement is free from 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 Construction Industries Board's Response to Findings

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Gary A. Jones", with a stylized flourish at the end.

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

September 3, 2015

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 13-170-005

State Agency: Construction Industries Board (CIB)

Fund Type: General Fund

Other Information: Revenues and Expenditures

Criteria: An effective internal control system provides for internal controls related to the reconciliation of material accounts. An effective reconciliation process for financial reporting involves the in-total comparison of the records which serve as the basis for the financial statements to another source on a timely basis.

Condition: During our review of the internal control structure for the CIB, it was noted that no process for reconciling revenues and expenditures records produced by the agency to CORE records (which serve as the basis for the financial statement) was in effect.

The agency's current process for financial reporting is to use only CORE records regardless of when the revenues are received. In addition, expenditures are shown when disbursed per CORE; however, we feel the reconciliation is necessary to ensure the completeness and timeliness of CORE entries.

Cause: The CIB did not have the proper control process and structure in place to ensure the completeness, accuracy, and classification of the agency's financial statement.

Effect: Misstatements to the financial statement could occur without being prevented, detected, or corrected in a timely manner. As evidence of this, it appears that fiscal year 2013 revenues were understated by \$34,940 on the financial statement. The revenue adjustment was made by CIB management and is correctly reflected on the Statement of Receipts, Expenditures and Changes in Cash – Regulatory Basis.

Recommendation: We recommend that CIB management implement a regular reconciliation process between agency and CORE records to ensure the completeness, accuracy, and classification of its financial statement.

Agency Management Response: The agency agrees the revenue received in the fiscal year should be timely recorded in the financial statements for that period and is working with OMES to overcome this end of period timing issue.

OMES Response: OMES/ABS will work with CIB to modify management reports to enable them to be used for cash-basis financial statement reporting.



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