

FINANCIAL AUDIT

CONSTRUCTION INDUSTRIES BOARD

For the fiscal year ended June 30, 2017



*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 Report

for the Fiscal Year Ended June 30, 2017

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Oklahoma State Auditor & Inspector

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November 8, 2018

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

This is the audit report of the Oklahoma Construction Industries Board for the year ended June 30, 2017. 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.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

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INDEPENDENT AUDITOR'S REPORT

TO THE CONSTRUCTION INDUSTRIES BOARD STATE OF OKLAHOMA

Report on the Financial Statement

We have audited the accompanying 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, 2017, and the related notes to the financial statement, which collectively comprise the Board's financial statement as listed in the table of contents.

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 these financial statements 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 statements are 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 opinions.

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.

The effects on the financial statement of the variances 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 for the year ended June 30, 2017, 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 for the year ended June 30, 2017, 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.

Emphasis of Matter

As further described in Note 1-A, 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 for the year ended June 30, 2017, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2018, 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 in considering the Board’s internal control over financial reporting and compliance.



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

October 3, 2018

Construction Industries Board
Statement of Receipts, Expenditures and Changes in Cash – Regulatory Basis
For the Year Ended June 30, 2017

Receipts

Plumbing Licenses and Other Fees	\$	620,437
Electrical Licenses and Other Fees		1,233,918
Inspector Licenses and Other Fees		92,758
Mechanical Licenses and Other Fees		1,244,214
Other Licenses and Fees		172,922
Fines, Forfeits, and Penalties		189,550
Reimbursements for Funds Expended		11,809
Total Receipts		3,565,608

Expenditures

Salary Expense		1,576,816
Insurance Premiums – Health, Life, Etc.		433,844
FICA and Retirement Contributions		367,986
Professional and Legal Services		352,186
Inter/Intra Agency Payments – Professional Services		2,826
Travel – Reimbursements		378,092
Travel – Agency Direct		447
Postage, Telecommunication and Misc. Admin.		74,034
Rent		155,426
Maintenance and Repair		3,616
Production, Safety, and Security		6,560
General Operating Expense		33,046
Office Furniture and Equipment, Shop Expense		25,501
Library Equipment		2,547
Loans, Taxes and Other Disbursements		2
Total Expenditures		3,412,929

Legislative - Transfers Out

Electrical Revolving Fund		850,000
Oklahoma Mechanical Licensing Fund		850,000
Total Transfers Out		1,700,000

Receipts over (under) Expenditures & Transfers		(1,547,321)
Cash, Beginning of Year (as restated – see note 6)		6,705,112
Cash, End of Year	\$	5,157,791

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, 2017

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, and its financial data is included in the State's Comprehensive Annual Financial Report. The accompanying financial statement is intended to present the financial position and results of operations of only that portion of governmental fund activities of the State of Oklahoma that is attributable to the Board.

B. Basis of Presentation and Accounting

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.

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, 2017, all cash was under the control of the State Treasurer of Oklahoma and was collateralized in accordance with 62 O.S. § 72.4., 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 Oklahoma State Treasurer ("OST") 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 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 FY2017 was \$373,806. Total refunds issued from the clearing account in FY2017 were \$24,528.

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 Plans**

Defined Benefit 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 (DB) 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.

Contribution 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. All state employees contribute 3.5% of their total salary under this plan. State agency employers contribute 16.5% of total salary for FY17, FY16, FY15, and FY14. The Board's contributions to the Plan for the years ended June 30, 2017, 2016, 2015, and 2014 were \$236,733, \$238,206, \$233,036, and \$226,805 respectively. These contributions were equal to the contributions required.

Defined Contribution Plan Description. In 2015 new legislation directed OPERS to establish a defined contribution (DC) retirement system for members first employed on or after November 1, 2015. This new DC plan (known as "Pathfinder") was created during the year ended June 30, 2016 for any employees who do not have any prior service credit with OPERS. The amount a participant has at retirement under a defined contribution plan is dependent upon how much was contributed and invested over his/her career, how well those investments performed, and how quickly distributions are taken in retirement.

Contribution Policy. Participating employees on Pathfinder contribute a minimum of 4.5% of their compensation. Participating employers match employee contributions up to 7%. In addition to the matching contributions, participating employers are required to remit to OPERS the difference between the matching contributions for DC plan members and the amount the participating employer would have contributed for a DB plan member. The Board's contributions to the DC Plan for the years ended June 30, 2017 and 2016 were \$4,292 and \$0. The Board's payment for the difference between matching contributions for the DC plan and the DB plan for the years ended June 30, 2017 and 2016 were \$2,912 and \$0.

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 Office of Management and Enterprise Services (OMES) Employees Group Insurance Division (EGID) formerly OSEEGIB. EGID is a cost-sharing, multi-employer defined benefit other postemployment 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.

6. Restatement – Cash, Beginning of Year

The Cash, Beginning of Year balance on the Statement of Receipts, Expenditures, and Changes in Cash – Regulatory Basis is restated to include the June 30, 2016 ending cash balance in the clearing account maintained with the Oklahoma State Treasurer. In prior years, the clearing account balance was not presented on the face of the Statement of Receipts, Expenditures, and Changes in Cash – Regulatory Basis but was only reported in the notes to the financial statements.

7. Legislative - Transfers Out

2016 Oklahoma Session Laws (O.S.L.) 395 [SB 1616] authorized cash to be removed from specific agency revolving funds. Section 178 removed 850,000 from the Electrical Revolving Fund and section 179 removed 850,000 from the Oklahoma Mechanical Licensing Revolving Fund. The law became effective July 1, 2016 and the funds were removed out of the specific agency revolving funds on July 1, 2016 (FY 2017).



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, 2017, and the related notes to the financial statement, which collectively comprises the Board's financial statement, and have issued our report thereon dated October 3, 2018.

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, 2017, 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 opinion 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 one deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. [17-170-001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are 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*.

Construction Industries Board's Response to Findings

Construction Industries Board's response to the findings 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 statements 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

October 3, 2018

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 17-170-001 (repeat finding)

State Agency: Construction Industries Board

Fund Type: General Fund

Other Information: Revenues

Criteria: An effective internal control system provides for proper maintenance of pertinent financial documents and information.

According to Cobit, Acquire and Implement 7 Install and Accredited Solutions and Changes, systems need to be made operational once development is complete. This requires proper testing in a dedicated environment with relevant test data, definition of rollout and migration instructions, release planning and actual promotion to production, and a post-implementation review. This assures that operational systems are in line with the agreed-upon expectations and outcomes.

Condition: GL Suites system did not have a dedicated test environment during SFY 2017 leaving CIB vulnerable to tests by GL Suites being performed in the live data and the potential for deleted receipts.

Cause: The contract with GL Solutions covering SFY 2017 had no plan or system to provide a test environment.

Effect: There were no gaps in receipt numbers during SFY 2017; however, in prior years, tests by GL Suites were performed in the live data and receipts were deleted causing difficulty in substantiating the completeness of the sequential receipting process performed by the CIB. The CIB has upgraded the GL Suites licensing system to V6, which comes with a testing environment; however, it was not expected to be complete until October 31, 2017, after SFY 2017.

Recommendation: We recommend management ensure that all future contracts have a dedicated test environment that is separate from the live data.

Agency Management Response: As explained by the agency in its response in 16-170-001, the CIB did work and continues to work extensively to communicate with GL Solutions that they are not authorized under any circumstances to enter into CIB's live data. Further, the contract executed for FY 18 includes the following clause: "Licensee retains ownership of data and Company will not create, delete, or change Licensee's data," which in effect requires GL Solutions to have a separate test environment. This contract is currently in effect and for GL Solutions to enter into the CIB's live data would then be violative of the language of the current contract, and GL Solutions has been so notified.

Multiple unforeseen issues outside of the agency's control have arisen during the upgrade process and caused delays in completing the upgrade to GL Solutions licensing system V6 that began in April 2017 and was expected to be completed by October 31, 2017. V6 comes with a testing environment which will enable GL Solutions to manipulate and test data within the CIB licensing system without having to enter into live data. The CIB is working with GL Solutions and OMES/IT continuously in trying to resolve any issues so that the upgrade can be completed as soon as possible and without further delay. The CIB is continuing to timely verify whether there are any missing receipt numbers, along with reporting issues as they arise and notifying OMES/IT when needed or in exercise of due diligence.



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