

FINANCIAL AUDIT

CONSTRUCTION INDUSTRIES BOARD

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

For the fiscal year ended June 30, 2012



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, 2012**

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

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

November 25, 2013

**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, 2012. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink that reads "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.....	8-11



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

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, 2012. 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 misstatements. 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, 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, is presumed to be material. As further described in Note 1, 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, 2012, 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, 2012, 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, 2012, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 8, 2013, 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, appearing to read "Gary A. Jones". The signature is fluid and cursive, with a large initial "G" and a long, sweeping underline.

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

November 8, 2013

**CONSTRUCTION INDUSTRIES BOARD
STATEMENT OF RECEIPTS, EXPENDITURES
AND CHANGES IN CASH--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

Receipts

Inspectors License Renewal and Other Fees	\$ 69,165
Plumbing License Renewal and Other Fees	611,568
Electrical License Renewal and Other Fees	1,134,591
Mechanical License Renewal and Other Fees	1,340,571
Roofing Registration and Other Fees	54,212
Fine Citation	227,845
Total Receipts	3,437,952

Expenditures

Salary Expenses	1,371,432
Insurance Premiums - Health, Life, Etc.	326,000
FICA and Retirement Contributions	327,193
Professional and Legal Services	290,800
Inter/Intra Agency Payments - Professional Services	1,483
Travel - Reimbursements	355,206
Travel - Agency Direct Payments	17,274
Postage, Telecommunication and Misc. Admin. Expenses	85,530
Rent Expenses	54,265
Maintenance and Repair Expense	15,963
Specialized Supplies and Materials Expense	63
Production, Safety and Security Expense	7,623
General Operating Expenses	12,101
Office Furniture and Equipment	70,647
Library Equipment and Resources	600
Building Renovations	19,959
Incentive Awards	5
Total Expenditures	2,956,144

Receipts over expenditures 481,808

Cash-Beginning of Year 4,685,096

Cash-End of Year \$ 5,166,904

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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., § 1000.4c, 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, 2012, 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 2012 was \$353,338. Total refunds issued from the clearing account in 2012 were \$81,555.

The remaining cash balance at June 30, 2012 in the CIB clearing account after transfers to the state's general revenue fund was \$334,874.40.

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 provides 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. State agency employers contribute 16.5% of total salary in FY-12 and 15.5% of total salary in FY-10 and FY-11. The Board's contributions to the plan for the years ended June 30, 2012, 2011 and 2010 were \$217,572.50, \$185,640.34, and \$180,375.11 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 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.

6. Roofing Refunds

Senate Bill 928 (2011) reduced the roofing registration fee from \$300 per year to \$75 per year and directed a refund be paid to any person who had paid a higher fee. The Board recorded \$54,212 in Roofing Registration Fees for FY-12; however, that amount is net of refunds totaling \$72,950 pursuant to SB 928, with 10% of those refunds withheld from allocation and transferred to the State General Fund.



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

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, 2012, which comprises the Board’s cash activities, and have issued our report thereon dated November 8, 2013, wherein we noted the Board follows accounting practices prescribed by Oklahoma state law rather than accounting principles generally accepted in the United States of America. Our report on the financial statement included an adverse opinion 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, 2012, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. The report includes 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. 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

Management of the Board is responsible for establishing and maintaining effective 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 was not designed to 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. [12-170-001, 12-170-002, and 12-170-003]. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item [12-170-003].

The Board's responses 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, and the Board, and is not intended to be and should not be used by anyone other than those specified parties. 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.



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

November 8, 2013

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 12-170-001

State Agency: Construction Industries Board (CIB)

Other Information: Expenditures

Criteria: An effective internal control system includes policies and procedures that establish and sustain adequate segregation of duties to reduce the opportunity for any person to both perpetrate and conceal errors and improprieties in the normal course of their duties.

In addition, an effective internal control system provides for proper maintenance and review of pertinent financial documents and information.

Condition: During testing of professional services expenditures, it was noted that segregation of duties between the approval of purchase requisitions, approval of purchase orders (P.O.), and approval of invoices for payment did not exist for 28 out of 43 transactions tested. The (former) business manager solely approved the purchase requisitions, purchase orders, and invoices for all 28 transactions.

For the remaining 15 out of 43 transactions tested, segregation of duties consistent with identified practices and consistent across transactions did not exist. These 15 transactions were approved as follows:

- Requisition by Administrator, P.O. and invoice by Business Manager (8 of 12);
- Requisition and P.O. by Business Manager, and invoice by Administrator (4 of 12);
- Requisition and P.O. by Administrator, and invoice by Business Manager (1 of 12);
- Requisition and invoice by Administrator, and P.O. by Business Manager (2 of 12).

Cause/Effect: Due to inconsistent approvals noted during our testing, it appears that CIB did not have formal policies and procedures in place to ensure proper segregation of duties. The identified inconsistencies and lack of formal policies and procedures appear to be, in part, due to turnover in the Administrator position.

The identified lack of segregation of duties makes the financial statements susceptible to errors and improprieties.

Recommendation: We recommend that CIB take appropriate action to ensure segregation of duties exists between the purchasing, receiving, and approval processes. We further recommend that CIB implement an approval process that identifies the designated individuals responsible for each role. Once implemented, CIB should ensure that the process is consistently applied.

Agency Management Response: The agency recognized the procedural deficiency prior to being notified of the findings of the audit and took steps to be trained in the OMES E-Pro process in order to become a part of that process during FY14. The agency has developed procedures to work through the OMES E-Pro system that will correct this deficiency. The agency agrees that while the deficiency could make its financial statements susceptible to errors, no errors or improprieties were found in the financial statements.

Reference Number: 12-170-002

State Agency: Construction Industries Board (CIB)

Other Information: Revenue

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

An effective internal control system provides for prompt recording of accounting transactions.

Condition: During our testing of deposits, it was determined that:

1. Two out of 40 deposits were not properly supported (depository forms were not properly maintained);
2. Eleven out of 40 deposits were not properly reviewed. More specifically:
 - a) The reviewer did not initial any of the official depository forms supporting the deposit (6 of 11);
 - b) The reviewer did not initial a portion of the official depository forms supporting the deposit (3 of 11);
 - c) The reviewer approved a depository form that was not reflective of the actual deposit amount (1 of 11);
 - d) The reviewer approved the total on the summary of total daily receipts which differed from the total on the supporting depository form (1 of 11); and
3. Twelve out of 40 deposits were not entered into core in a timely manner. More specifically:
 - a) CORE entry occurred 3 days after the deposit date (5 of 12);
 - b) CORE entry occurred 4 days after the deposit date (3 of 12);
 - c) CORE entry occurred 5 days after the deposit date (2 of 12);
 - d) CORE entry occurred 6 days after the deposit date (1 of 12);
 - e) CORE entry occurred 8 days after the deposit date (1 of 12).

Based on the test work performed, we also noted that errors on the depository forms related to the name of the reviewer and deposit date were not always identified and corrected by the reviewer.

Cause/Effect: CIB did not have an effective review process in place to ensure that 1) the review is consistently documented, 2) Official Depository forms agree to the related Summary of Total Daily Receipts and deposit slips, 3) errors on the Official Depository forms are detected and corrected. The Office of Management and Enterprise Services (OMES) and CIB do not have an effective process in place to ensure that all deposits are entered into CORE in a timely manner.

The effect of not ensuring that the review of daily deposits is properly performed is that incorrect amounts could get deposited and entered into CORE which would make the financial statements susceptible to errors.

As a result of the deposits not being entered into CORE in a timely manner, revenue is unavailable until a journal entry is made. Therefore, deposits made at the bank may not be readily available for use by the agency and cash balances on CORE reports could be misstated. In addition, the Office of the State Treasurer is unable to invest or pool those deposits until they are posted into CORE. The delay in entering the revenue could result in lost interest income for the agency.

Recommendation: We recommend CIB strengthen its control process over the review of daily deposits to ensure its evident who was responsible for reviewing the official depository forms and that the amount reviewed was properly supported. In addition, we recommend CIB and OMES develop and implement a system whereby they ensure all deposits are entered into CORE in a timely manner.

Agency Management Response: Item #1: Staff will continue to place each month's depository forms in a marked folder and file in a designated storage area to ensure depository forms are properly maintained. Items #2.a. & 2.b.: Staff has been reminded of the critical need to attest to their review of the official depository forms supporting the deposit by affixing their initials to the depository forms. Items #2.c. & 2.d.: It has been addressed with staff of the critical need to ensure all daily deposit forms and receipts are reviewed for accuracy and to ensure amounts are correct and reflected as such on every deposit form and deposit receipt. Staff has strengthened the review process for greater diligence to be observed during the review process. The agency agrees that while the deficiency could make its financial statements susceptible to errors, no errors or improprieties were found in the financial statements.

OMES Response: We concur with the finding. OMES – Agency Business Services (ABS) is aware of the importance of posting deposits in a timely manner. Our procedure is to post deposits within one day of receipt in our office and we have recently implemented a new centralized email address for all deposits to eliminate the possibility of delays caused by individuals being out of the office.

Reference Number: 12-170-003

State Agency: Construction Industries Board (CIB)

Other Information: Revenues

Criteria: According to 62 O.S. § 34.57.C.1., “Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received.”

Condition:

Based on the review of 40 deposits (9 which included roofing revenues), we noted that 8 of 9 roofing deposits included receipts of \$100.00 or more which were received prior to the date of the deposit. The number of days between the receipt of more than \$100.00 and the date of the deposit were as follows:

- 1 day (1 out of 8);
- 4 days (2 out of 8);
- 6 days (2 out of 8);
- 7 days (2 out of 8);
- 9 days (1 out of 8).

Cause/Effect: CIB does not have proper procedures for the receipting and depositing of roofing revenues to ensure that roofing deposits in excess of \$100.00 are made on the same banking day as received. As a result, CIB did not comply with 62 O.S. § 34.57.C.1.

Recommendation: We recommend that CIB implement procedures related to the receipting and depositing of roofing revenues to ensure that deposits in excess of \$100.00 are made on the same banking day as received.

Agency Management Response: The agency has now instructed the Roofing Division Secretary, as well as all other Trade Secretaries that handle daily deposits, to ensure all monies received in excess of \$100 from the Roofing Division are made on the same banking day as received. The agency has strengthened its internal coordination of duties to ensure this compliance requirement is met going forward.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV