

FINANCIAL AUDIT

CONSTRUCTION INDUSTRIES BOARD

FINANCIAL STATEMENT AND
INDEPENDENT AUDITOR'S REPORT

For the fiscal year ended June 30, 2011



*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, 2011**

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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February 21, 2013

**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, 2011. 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 that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & 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, 2011. 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 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, 2011, 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, 2011, 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, 2011, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 5, 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 long horizontal stroke at the end.

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

February 5, 2013

**CONSTRUCTION INDUSTRIES BOARD
STATEMENT OF RECEIPTS, EXPENDITURES
AND CHANGES IN CASH--REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011**

Receipts

Inspectors License Renewal and Other Fees	\$ 72,281
Plumbing License Renewal and Other Fees	638,467
Electrical License Renewal and Other Fees	1,093,748
Mechanical License Renewal and Other Fees	1,344,647
Roofing Registration and Other Fees	86,751
Fine Citation	305,720
Reimbursements	300

Total Receipts	3,541,914
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Expenditures

Salary Expenses	1,305,165
Insurance Premiums - Health, Life, Etc.	338,749
FICA and Retirement Contributions	288,721
Professional and Legal Services	281,938
Inter/Intra Agency Payments - Professional Services	1,788
Travel - Reimbursements	333,628
Travel - Agency Direct Payments	14,272
Postage, Telecommunication and Misc. Admin. Expenses	55,948
Rent Expenses	72,765
Maintenance & Repair Expense	393
Specialized Supplies & Materials Expense	388
Production, Safety & Security Expense	1,470
General Operating Expenses	20,087
Office Furniture and Equipment	2,635
Library Equipment and Resources	1,614
Program Reimbursements	250
Loans, Taxes and Other Disbursements	61

Total Expenditures	2,719,872
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Receipts over expenditures	822,042
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Cash-Beginning of Year	3,863,054
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Cash-End of Year	\$ 4,685,096
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The Notes to the Financial Statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 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 include 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, 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, 2011, 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 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 2011 was \$365,726.11. Total refunds issued from the clearing account in 2011 were \$13,920.00.

The remaining cash balance at June 30, 2011, in the CIB clearing account after transfers to the state's general revenue fund was \$330,582.50.

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. OPER 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 salary. State agency employers contribute 15.5% of total salary. The Board's contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, were \$185,640.34, \$180,375.11 and \$161,895.42 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.

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 \$86,751 in Roofing Registration Fees for FY-11; however the Board subsequently refunded \$72,950 in FY-12 pursuant to the requirements of SB 928.



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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, 2011, which comprises the Board’s cash activities, and have issued our report thereon dated February 5, 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, 2011, on the basis of accounting prescribed by Oklahoma state law, described in Note 1. 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 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. [11-170-001 and 11-170-002]. 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 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

February 5, 2013

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 11-170-001

State Agency: Construction Industries Board (CIB)

Other Information: Revenues

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

During our testing of the sequential receipts issued through General Ledger (GL) Suites, it was determined that out of the 42,326 receipts issued in fiscal year 2011, 19 receipt numbers could not be located. Additionally, no log of the deleted receipts was maintained.

Cause/Effect: CIB employees involved with the receipting/revenue process had the ability to manually delete receipts from the GL Suites system. In addition, CIB failed to maintain proper records of receipts deleted from GL Suites.

As a result, we cannot determine that the receipts issued for the year are complete. Also, we cannot determine why the receipts were deleted. Errors or misappropriations could occur and not be detected in a timely manner.

Recommendation: We recommend that CIB maintain a log of all receipts deleted from GL Suites. Additionally, we recommend that CIB grant delete capabilities only to employees segregated from the receipting/revenue process.

Agency Management Response: The CIB concurs with the recommendations and immediately began implementing the above-listed recommendations; however the fiscal year under audit already had closed. CIB staff now maintains a log and copies of print screens of all receipts deleted from GL Suites. Further, as of October 1, 2011, delete capabilities (approval of deleted receipts) and, subsequently, log entry is only granted to the business manager and the administrator since these two positions are the only management employees segregated from the receipting/revenue process. To continue the segregation of duties, either the business manager or the administrator will direct the GL Suites business analyst to delete the receipt since the business manager and the administrator are not able to enter information into GL Suites. The appropriate staff (business manager or administrator) will then initial the log.

When the CIB moves to the statewide licensing system in 2013, a similar system will be initiated.

In researching this procedure, CIB management found that some of these receipts could have been deleted through a malfunction at GL Solutions (the current licensing program vendor) or through programming or computer errors. Also, CIB staff could have deleted receipts as a result of errors during the data entry process. In most instances, a replacement receipt would have been produced and entered to replace the deleted receipt number. Even though a small number of the receipts could have been deleted by CIB employees, based upon the agency's investigation, research, discussion with staff, first-hand observation of staff with delete capability, lack of inability to balance bank deposit to applicant's record, lack of complaint from applicants paying fees, the information as a whole indicates the probability of risk of any error or misappropriation of funds to the agency and, thus, to the state is minimal.

Reference Number: 11-170-002

State Agency: Construction Industries Board (CIB)

Other Information: Revenues

Criteria/Condition: 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.

During our testing of deposits, it was determined that:

- Nine (9) of the 42 deposits tested were not recorded into PeopleSoft in a timely manner (within 2 business days after the actual deposit date); and
- One (1) of the 42 deposits tested had an Official Depository form that did not tie to the Summary of Total Daily Receipts and the deposit slip. The error was not discovered during the daily review; however, the correct amount was deposited.

Cause/Effect: 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 PeopleSoft correctly and in a timely manner. In addition, it appears that CIB failed to ensure that the Official Depository form tied to the Summary of Total Daily Receipts and deposit slip based on an error in oversight when reviewing the document.

Because of the deposits not being entered into PeopleSoft 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 PeopleSoft 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 PeopleSoft. The delay in entering the revenue could result in lost interest income for the agency.

Lastly, the effect of not ensuring that the Official Depository form ties to the Summary of Total Daily Receipts and the deposit slip could be that incorrect amounts get deposited or entered into PeopleSoft.

Recommendation: We recommend that OMES and CIB exercise diligence in ensuring that all deposits are entered into PeopleSoft correctly and in a timely manner. Additionally, we recommend that CIB ensure that that the Official Depository forms tie to the Summary of Total Daily Receipts and the deposit slip as part of its daily review of deposits.

Agency Management Response:

- 1) Once Management learned of the 2 day window in the previous audit period, the agency worked with OMES to streamline the process by sending OMES the Summary of Cash Receipts by end of day.
- 2) The Official Depository form reflects the receipt of Cash in the amount of \$40.00. The Cash was receipted, noted on the deposit, deposited and recorded in PeopleSoft, however the entry on the form in the table column for Cash was inadvertently left blank by the previous employee. Employees handling daily deposits will continue to verify the "Total of Daily Deposit to 1170" against the Daily Receipts by Employee from the GL Suites program, the register tapes and the deposit slips with due diligence to avoid this mistake in the future.

OMES Response: This is a repeat finding and as such was brought to our attention after the fiscal year end for this audit period. Once we became aware of the two day window we adjusted our procedures to avoid this finding in the future.



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