



Financial Statement Audit
**Construction Industries
Board**

For the Fiscal Year Ended June 30, 2006



Office of the Oklahoma State Auditor and Inspector
Jeff A. McMahan, CFE

**Construction Industries Board
Financial Statement and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2006**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

August 24, 2007

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith are our audit reports on the financial statements of the Construction Industries Board for the fiscal year ended June 30, 2006. 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 serve 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 cursive script that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

INDEPENDENT AUDITOR'S REPORT

TO THE CONSTRUCTION INDUSTRIES BOARD

We have audited the Statement of Receipts, Expenditures and Changes in Cash 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, 2006. This financial statement is the responsibility of the Board's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared using accounting practices prescribed by Title 59 O.S. § 1000.4c of Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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, 2006, 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 of the Board for the year ended June 30, 2006, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 9, 2007, 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 black ink that reads "Jeff A. McMahan". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN
State Auditor and Inspector

August 9, 2007

**CONSTRUCTION INDUSTRIES BOARD
STATEMENT OF RECEIPTS, EXPENDITURES
AND CHANGES IN CASH- CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

Receipts

| | |
|--|---------------------|
| City Inspectors License Renewal and Other Fees | \$ 7,474.17 |
| Plumbing License Renewal and Other Fees | 595,492.68 |
| Electrical License Renewal and Other Fees | 942,733.01 |
| Mechanical License Renewal and Other Fees | 1,266,532.72 |
| 10% Transfer to State General Revenue Fund | (281,223.26) |
| Total Receipts | <u>2,531,009.32</u> |

Expenditures

| | |
|--|---------------------|
| Personnel Services | 1,959,686.69 |
| Professional and Legal Services | 84,708.05 |
| Travel-Reimbursements | 294,050.07 |
| Postage, Telecommunications and Other Administrative | 101,036.50 |
| Rent Expense | 66,119.64 |
| Maintenance and Repair Expense | 71,011.39 |
| General Operating Expenses | 25,536.22 |
| Office Furniture and Equipment | 138,742.31 |
| Library Equipment and Resources | 2,543.00 |
| Incentive Awards | 21.00 |
| Employee Reimbursements (Non-Travel) | 00.00 |
| Total Expenditures | <u>2,743,454.87</u> |

Receipts under expenditures (212,445.55)

Balance Transfer from OSDH (11/8/05) 300,453.98

Cash-Beginning of Year 3,233,362.88

Cash-End of Year \$3,321,371.31

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

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Construction Industries Board was created in 2001 for the licensing and oversight of the construction industries trades, the laws for which includes the Plumbing License Law of 1955, the Oklahoma Inspectors Act, the Electrical Licensing Act, and the Mechanical Licensing Act. Title 59 O.S., § 1000.2 separated the Board from the State Department of Health on July 1, 2004. The Board is a part of the primary government of the State of Oklahoma.

As required by Title 59 O.S., § 1000.4c, the accompanying financial statement presents the receipts, 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, 2006, 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 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 shown as negative receipts on the Statement of Receipts, Expenditures, and Changes in Cash.

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

**Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2006**

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 3.0% on the first \$25,000 of salary and 3.5% on salary above \$25,000. State agency employers contribute 11.5% of total salary.

The Board's contributions to the Plan for the years ended June 30, 2006, 2005, and 2004 were \$159,775.68, \$130,373.04 and \$99,530.07 respectively. These contributions were equal to the contributions required.

5. Other Post Employment Benefits

In addition to the pension benefits described in Note 4, employees of the Board are provided post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System (OPERS). OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance.

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. Balance Transfer from Oklahoma State Department of Health

This amount was held by Oklahoma State Department of Health (OSDH) for any outstanding expenditures or settlements. The Construction Industries Board separated from OSDH July 2004. OSDH made the interagency transfer of the remaining fund balance to the agency's revolving fund after the final settlement in FY 2006.



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS**

TO THE CONSTRUCTION INDUSTRIES BOARD

We have audited the Statement of Receipts, Expenditures and Changes in Cash of the Construction Industries Board (the Board), a part of the primary government of the State of Oklahoma, for the year ended June 30, 2006, which comprises the Board's cash activities, and have issued our report thereon dated August 9, 2007. Our report on the financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described following this report as items 06-170-001, 06-170-002, 06-170-001IT, 06-170-002IT, & 06-170-003IT.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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*.

This report is intended solely for the information and use of management of the Board and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

August 9, 2007

Finding No: 06-170-001

Criteria: Effective internal controls include the safeguarding and stewardship of cash assets. Title 62 O.S. 2001 § 7.1c, Agency Clearing Accounts – Deposits – Transfers – Exemptions, establishes certain deposit requirements:

“All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefore;

1. Receipts of one hundred dollars (\$100.00) or more shall be deposited on the same banking day as received.
2. Receipts of less than one hundred dollars (\$100.00) may be held until accumulated receipts equal One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day.”

Condition: Based on the testwork performed, we noted the board did not deposit their daily receipts on the same day they were received. Twenty-two deposits were recorded more than one day from receipt when compared to their OST statement. All but three of these deposits were before the change in closing procedures effective December 21, 2005.

Effect: Receipts of One Hundred Dollars (\$100) or more were not being deposited on the same banking day as received before December 21, 2005.

Recommendation: We recommend adherence to daily closing and balancing procedures implemented.

Management’s Corrective Action Plan

Contact Person: Boyd W. West, C.B.O., Administrator

Anticipated Completion Date: On Going

Corrective Action Planned: Management will continue to monitor daily closing and balancing procedures.

Finding No: 06-170-002

Criteria: A component objective of effective internal control is to provide accurate and reliable information.

Condition: During testwork, we noted gaps in the sequential number order of the receipts for four of the forty days tested. These gaps are the result of deleted receipts. The four days were before or shortly after implementation of a procedure to document each deletion which includes the maintenance of all supporting documentation including the approval of the transaction by the Finance Administrator and the Deputy Administrator. The deletion capability has been limited to the Deputy Administrator.

Effect: Deleting information from their system makes the information provided by the board potentially inaccurate and subject to undetected errors.

Recommendation: We recommend continued approvals and documentation of all deletions with the capability limited to the Deputy Administrator.

Management's Corrective Action Plan

Contact Person: Boyd W. West, C. B. O., Administrator

Anticipated Completion Date: On Going

Corrective Action Planned: Management will continue to limit the deletion capability to the Deputy Administrator while ensuring proper approval and documentation of all needed corrections.

Finding No: 06-170-001IT (05-170-006IT)

REPEAT FINDING

Criteria: According to the standards of the Information Systems Audit and Control Association (Cobit, Delivery and Support DS5), IT management should ensure systems security to safeguard information against unauthorized use, disclosure or modification, damage or loss by creating logical access controls which ensure that access to systems, data and programs is restricted to authorized users.

Condition: Per review of the internal control questionnaire, it appears that documentation of application program change procedures and emergency change procedures do not exist. There should be procedures for making changes to program code on an emergency basis where access to the production environment is highly controlled and monitored.

Change control procedures are not in place for operating system / hardware / software upgrades and modifications and there is not any documentation to evidence adherence to these procedures.

There are no formal Change Control Procedures to monitor or prevent unauthorized changes to the CIB application systems and its infrastructure components. IT support staff have unrestricted access to program source libraries with no tracking or approval process to document modifications.

Effect: Increased risk of implementing changes that have not been properly authorized, adequately tested, and approved by the users prior to being moved to the production environment. There is also a risk that a change is made to correct a processing error that may not be adequately documented and noted in the program documentation.

Recommendation: We recommend that IT management ensure that all requests for changes and system maintenance are standardized and are subject to formal change management procedures. Changes should be categorized and prioritized and specific procedures should be in place to handle urgent matters.

IT management should establish parameters defining emergency changes and procedures to control these changes when they circumvent the normal process of technical, operational and management assessment prior to implementation. The emergency changes should be recorded and authorized by management prior to implementation.

Management's Corrective Action Plan

Contact Person: Winston James, Network Administration

Anticipated Completion Date: May 2007

Corrective Action Planned:

We have written formal tracking folders complete with print outs on any I.T. incidents. We also have a hand written and soft copy of asset tracking our laptops, printers and servers. See attached actual docs that exist in our binders.

Auditor Response: The material submitted does not answer this finding completely. There is no documented evidence the Steering Committee has addressed a formal change management system. This Finding is repeated.

Finding No: 06-170-002IT (05-170-009IT)

REPEAT FINDING

Criteria: According to the standards of the Information Systems Audit and Control Association (Cobit, Delivery and Support DS5), IT management should ensure systems security to safeguard information against unauthorized use, disclosure or modification, damage or loss by creating logical access controls which ensure that access to systems, data and programs is restricted to authorized users.

Condition: There is no formal process for granting, deleting or terminating access to the network. We requested copies of the security agreements users are required to sign before they are given access to the system. Per the human resources director, the security agreements are in the development stages. The agency has a number of users that have full access rights to the GL suite. Customer service representatives have access to SQL enterprise manager and query analyzer. This access allows for manipulation of the production data.

We noted in our review that the network administrator has been requested to change production data in the GL Suite application. This access should be restricted for users based upon need-to-know access.

Per review of the internal control questionnaire, the agency does not have auditing enabled on their system because of storage issues.

Effect: Increases the risk that unauthorized use, manipulation, or destruction of the data and systems will occur.

Recommendation: We recommend management should have a control process in place to review and confirm access rights periodically. Periodic comparison of resources with recorded accountability should be made to help reduce the risk of errors, fraud, misuse or unauthorized alteration.

The organization's system development life cycle methodology should require that adequate mechanisms for audit trails are available or can be developed for the solution identified and selected. The mechanisms should provide the ability to protect sensitive data (e.g., user ID's) against discovery and misuse.

Management's Corrective Action Plan

Contact Person: Winston James, Network Administration

Anticipated Completion Date: May 2007

Corrective Action Planned:

Our programmer is the only employee that can program our SQL server. GLsuite is our approved vendor that also has access to programming as needed per our access control.

Auditor Response: Per the CIB corrective Action Plan your Steering Committee was going to develop a process for granting, deleting and terminating access to your network. CIB IT Section was going to develop user security agreements for distribution to all CIB users. The security agreements were going to be placed in the personnel files of the employee and a copy was going to be retained by the IT section. The corrective action plan has not been completed, therefore this finding is repeated.

Finding No: 06-170-003IT (05-170-012IT)

REPEAT FINDING

Criteria: According to the standards of the Information Systems Audit and Control Association, (CobiT, Delivery & Support Objective DS4), management should ensure IT services are available as required and ensure a minimum business impact in the event of a major disruption by having an operational and tested continuity plan.

Condition: During our review, we found that:

- CIB's disaster recovery plan is inadequate to sufficiently recover business processes.
- CIB has never tested a full system recovery.
- Alternative processing procedures to ensure the continuance of state business do not exist.
- CIB does not currently have an off-site storage facility.

Effect:

- Without having an efficient disaster recovery plan in place, CIB is assuming the risk of losing all data pertinent to the daily operations of the business. Without testing the disaster recovery plan, efforts to restore the environment after a disaster or event could be prolonged or possibly unsuccessful.
- Without testing a full-system recovery, CIB does not know if the processes for system recovery are adequate for the full continuation of business in the case of a disaster.
- Without having an off-site backup of data as well as alternative processing procedures in place, there is a greater risk of permanent loss of data.

Recommendation: We recommend that CIB should develop an IT Continuity plan based on the agency framework, designed to reduce the impact of a major disruption on key business functions and processes. The disaster recovery plan should address the following:

- The organizational structure for continuity management, covering the roles, tasks and responsibilities of internal and external service providers, their management and their customers.
- Rules and structures to document, test and execute the disaster recovery and IT contingency plans.
- Identification of critical resources
- Monitoring and reporting of the availability of critical resources and alternative processing
- Principles of backup and recovery
- Employees should be aware of what to do in the case of a disaster.

We recommend management assess their continuity plan for adequacy on a regular basis or upon major changes to the business or IT infrastructure. An effective plan requires careful preparation, documentation, and reporting of test results and depending on the results an action plan may be needed to revise the plan. Periodic training should be provided to the staff on the planned procedures and their assigned responsibilities.

We recommend management create and maintain an off-site storage facility in order to support recovery and business continuity plans. Business process owners and IT function personnel should be involved in determining what back-up resources need to be stored off-site. The off-site facility should be environmentally appropriate to the media and other resources stored and should have a level of security commensurate with that needed to protect the back-up resources from unauthorized access, theft or damage. Off-site arrangements should be assessed periodically, at least annually, for content, environmental protection and security.

Management's Corrective Action Plan

Contact Person: Winston James, Network Administration

Anticipated Completion Date: May 2007

Corrective Action Planned:

Our disaster recovery is two fold. First, our data is Turbo FTP to an offsite in Bend Oregon, And second we use tape back up and local mirror database for business continuity. We have no Hardware replacement plan in place for a disaster recovery. However, our data is 100% backed up every day.

Auditor Response: Per your agency's response a formal Security Policies document was going to be drafted. The Security Policy document has not been submitted, therefore this finding is repeated.