

FINANCIAL AUDIT

# CONSTRUCTION INDUSTRIES BOARD

For the Fiscal Year Ended June 30, 2016



*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, 2016**



# Oklahoma State Auditor & Inspector

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

September 27, 2017

**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, 2016. 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".

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 financial statement of the Construction Industries Board (the Board), a part of the primary government of the State of Oklahoma, which comprises the receipts, expenditures, and changes in cash – regulatory basis for the year ended June 30, 2016, and the related notes to the financial statement.

#### **Management's Responsibility for the Financial Statement**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

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

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

As further described in Note 1-B, the financial statement of the Board is intended to present the financial position and the changes in financial position of only that portion of the State of Oklahoma that is attributable to the transactions of the Board. It does not purport to, and does not, present fairly the financial position of the State of Oklahoma for the year ended June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 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 as of June 30, 2016, or changes in financial position or cash flows thereof for the year then ended.

#### **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, 2016, and the revenues it received and expenditures it paid for the year then ended, in accordance with the financial reporting provisions of Title 59 O.S. § 1000.4(C) as described in Note 1-B.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2017, 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

September 18, 2017

**Construction Industries Board**  
**Statement of Receipts, Expenditures and Changes in Cash – Regulatory Basis**  
**For the Year Ended June 30, 2016**

**Receipts**

Plumbing Licenses and Other Fees	\$ 628,456
Electrical Licenses and Other Fees	1,226,560
Inspector Licenses and Other Fees	94,030
Mechanical Licenses and Other Fees	1,256,681
Other Licenses and Fees	168,260
Fines, Forfeits, and Penalties	148,290
Reimbursements for Funds Expended	<u>11,668</u>
<b>Total Receipts</b>	<b><u><u>3,533,945</u></u></b>

**Expenditures**

Salary Expense	1,535,802
Insurance Premiums – Health, Life, Etc.	413,819
FICA and Retirement Contributions	360,076
Professional and Legal Services	330,452
Inter/Intra Agency Payments – Professional Services	2,307
Travel – Reimbursements	404,223
Travel – Agency Direct	858
Postage, Telecommunication and Misc. Admin.	66,336
Rent	144,367
Maintenance and Repair	9,971
Specialized Supplies and Materials Expenses	671
Production, Safety, and Security	9,161
General Operating Expense	19,125
Office Furniture and Equipment, Shop Expense	18,202
Library Equipment	6,018
Loans, Taxes and Other Disbursements	<u>38</u>
<b>Total Expenditures</b>	<b><u><u>3,321,426</u></u></b>

**Receipts over (under) Expenditures**

212,519

**Cash, Beginning of Year**

6,204,811

**Cash, End of Year**

\$ 6,417,330

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, 2016

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

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

As required by Title 59 O.S., § 1000.4(C), the accompanying financial statement presents the receipts, expenditures, and changes in cash balances for all treasury funds of the Board.

**B. Basis of Accounting**

The financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. Also, state government legislators require the financial statements to be prepared in accordance with a financial reporting framework that is based on U.S. GAAP but does not comply with all of the requirements of U.S. GAAP. Such framework is a regulatory basis of accounting. The regulatory basis of accounting is not a comprehensive measure of economic condition or changes therein.

**C. Cash**

At June 30, 2016, 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 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 2016 was \$374,887.51. Total refunds issued from the clearing account in 2016 were \$21,516.25.

The remaining cash balance at June 30, 2016 in the CIB clearing account after transfers to the state's general revenue fund was \$375,636.55.



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 consists of a defined benefit pension plan and a defined contribution pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plans provide retirement, disability, and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended; provide more complete information about the Plans. OPERS issues publicly available financial reports that include financial statements and required supplementary information for the Plans. Those reports 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 for FY16, FY15, FY14 and FY13. The Board's contributions to the Plan for the years ended June 30, 2016, 2015, 2014, and 2013 were \$238,206.24, \$233,036.33, \$226,805.18, and \$216,415.56 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 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.



# 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, 2016, and the related notes to the financial statement, which collectively comprise the Board's financial statement and have issued our report thereon dated September 18, 2017.

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, 2016, 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. [16-170-001].

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 [16-170-001].

### **Construction Industries Board, State of Oklahoma's Response to Findings**

Construction Industries Board, State of Oklahoma'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 the first name "Gary" being the most prominent.

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

September 18, 2017

## SCHEDULE OF FINDINGS AND RESPONSES

**Reference Number:** 16-170-001

**State Agency:** Construction Industries Board (CIB)

**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:** Thirty-one (31) gaps in receipt numbers were identified within the 46,011 sequential receipts issued by the CIB through General Ledger (GL) Suites during state fiscal year 2016.

**Cause:** Two of the gaps were test items created and deleted by GL Solutions in live production. In addition, the 2016 contract with GL Solutions had no plan or system to provide a test environment. The remaining gaps appear to be the result of a GL Suites system issue. GL Suites determined the non-test gaps stem from an issue with how the server points to the data. Also, it should be noted that CIB management identified these gaps during weekly review of receipt numbers and followed up with GL Suites to determine the cause.

**Effect:** Due to the glitch with the server, it appears the system was skipping receipt numbers. However, these missing receipt numbers have no revenue impact since none of the receipts were entered and deleted by CIB. Further, no gaps were noted after the system issue was identified and the server was reset.

Lastly, for the receipts created and deleted by GL Suites in live production, this process could result in difficulty substantiating the completeness of the sequential receipting process performed by the CIB.

**Recommendation:** We recommend CIB communicate to GL Solutions that all future contracts will have a test environment separate from live production. In addition, CIB management should communicate to GL Solutions that no receipt numbers ever be created and deleted in the production phase. Lastly, we recommend CIB continue to regularly review its receipt sequencing to discover gaps in a timely manner.

**Agency Management Response:** The corrective actions implemented in October 2011 are still in place and serve as a preventative measure against accidental or intentional deletions of receipts from the GL Suites system by CIB staff without proper authorization. Reports are continuing to be kept of any receipts that are deleted by the CIB from the GL Suites system. In July 2015, an additional measure was implemented which involves running a report on a weekly basis to timely identify missing receipt numbers. Because GL Suites has a history of entering and testing within the CIB's live data without CIB's approval, the contract executed for FY 18 included 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. The CIB has worked extensively to communicate with GL Suites that they are not authorized to enter into CIB's live data, and create/delete receipts. The CIB is currently in the process of upgrading the GL Suites licensing system to V6 (expected to be complete by October 31, 2017).

V6 comes with a testing environment which will enable GL Suites to manipulate and test data within the CIB licensing system without having to enter into live data, possibly creating/deleting receipts or other information. With regard to the non-test gaps that stemmed from an issue with how the OMES server points to the data, this occurred following a request from the CIB to GL Suites to generate certain forms when a qualifying event with a licensee took place. Unknown to GL Suites, the procedure put in place to accomplish this process inadvertently caused the skipping of receipt numbers. The skipped receipt numbers were identified in a timely manner by the weekly receipt report generated by the CIB. With the upgrade to V6, GL Suites will have a testing environment to analyze changes/modifications in the system, and be able to identify any concerns or software malfunctions that would cause receipt numbers to be omitted or deleted. Further, the CIB is continuing to timely verify whether there are any missing receipt numbers. The CIB's verifying procedures have not yet identified any missing receipt numbers for FY 2017.



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