

FINANCIAL AUDIT

OKLAHOMA

ACCOUNTANCY BOARD

**FINANCIAL STATEMENT AND
INDEPENDENT AUDITOR'S REPORT**

As of and for the fiscal years ended June 30, 2011 and 2010



*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

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEARS ENDED
JUNE 30, 2011 AND 2010**



Oklahoma State Auditor & Inspector

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

December 1, 2011

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

This is the audit report and financial statements of the Oklahoma Accountancy Board for the fiscal years ended June 30, 2010 and 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.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and 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.

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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive.

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

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010

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**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
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Board Members

Fiscal Year 2011

	Term	
Janice L. Gray, CPA, Chairperson	7/1/05 to 6/30/13	Norman, Oklahoma
Barbara A. Ley, CPA, Vice Chair	7/1/06 to 6/30/12	Oklahoma City, Oklahoma
E.B. St. John, PA, Secretary	7/1/08 to 6/30/11	Tulsa, Oklahoma
Tom Volturo, Public Member	Resigned 4/2011	Ada, Oklahoma
Karen Cunningham, Public Member	Coterminous Beginning 5/2011	Oklahoma City, Oklahoma
Mike Sanner, CPA	7/1/2010 to 6/30/15	Jones, Oklahoma
Vicky Petete, CPA	7/1/09 to 6/30/14	Ada, Oklahoma
Kim Shoemake, CPA	12/1/09 to 6/30/11	Yukon, Oklahoma

Fiscal Year 2010

	Term	
Carlos E. Johnson, CPA, Chairperson	7/1/05 to 6/30/10	Oklahoma City, Oklahoma
Wade Biswell, CPA, Vice Chair	7/1/06 to 11/30/09	Tulsa, Oklahoma
Janice L. Gray, CPA, Secretary	7/1/08 to 6/30/13	Norman, Oklahoma
Barbara Ley, CPA	7/1/07 to 6/30/12	Oklahoma City, Oklahoma
Tom Volturo, Public Member	Conterminously with the Governor	Claremore, Oklahoma
E. B. St. John, PA	7/1/06 to 6/30/11	Owasso, Oklahoma
Vicky Petete, CPA	7/1/09 to 6/30/14	Ada, Oklahoma
Kim Shoemake, CPA	12/1/09 to 6/30/11	Yukon, Oklahoma



Oklahoma State Auditor & Inspector

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INDEPENDENT AUDITOR'S REPORT

TO THE OKLAHOMA ACCOUNTANCY BOARD

We have audited the accompanying financial statements of the Oklahoma Accountancy Board (OAB), as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the OAB's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 opinions.

As discussed in Note 1, the financial statements of the OAB are 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 OAB. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2011 and 2010, 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.

Also, as discussed in Note 1, the OAB changed its basis of accounting to the accrual basis of accounting due to a change in fund reporting structure. The OAB now reports its financial activity as an enterprise fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the OAB, as of June 30, 2011 and 2010, and the respective changes in net assets and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011 on our consideration of the OAB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 AND INSPECTOR

November 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010**

MANAGEMENT'S DISCUSSION AND ANALYSIS SUMMARY

The management of the Oklahoma Accountancy Board (OAB) is pleased to provide the accompanying financial statements to the citizens of the State of Oklahoma and other report users to demonstrate its accountability and communicate the OAB financial condition and activities as of and for the fiscal years ended June 30, 2011 and 2010. Management of the OAB is responsible for the fair presentation of these financial statements, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of contracts.

Financial Highlights

For the years ended June 30, 2011 and 2010, the following financial results are considered noteworthy by management.

- For the year ended June 30, 2011, the OAB's total net assets decreased \$79,658, or 3.6%, from the prior year. This compares to a decrease of \$38,152, or 1.7%, for the year ended June 30, 2010 and an increase of \$147,466, or 7.1%, for the year ended June 30, 2009.
- For the year ended June 30, 2011, OAB program revenue decreased \$45,269, or 3.3%, over the prior year, while total expenses increased \$9,350, or .7%. The decrease in revenue is due to the change in collection of licenses and registrations based on the birth month process. For the year ended June 30, 2010, OAB program revenues increased \$63,890, or 5.0%, over the prior year, while total expenses increased \$267,561, or 25.2%. The increase in revenue is due mainly to collection of registrations and permits. The increase in expenses is due to professional services.
- For the year ended June 30, 2011, OAB accounts receivable decreased \$131,186, or 23.7% over the prior year. This compares to a decrease of \$62,725 for June 30, 2010 and an increase of \$481,675 for June 30, 2009. For the year ended June 30, 2011, OAB deferred revenue decreased \$176,040, or 12.9% over the prior year. This decrease compares to a decrease of \$25,500 or 1.8% for June 30, 2010 and \$868,175, or 166% for June 30 2009. The decrease in accounts receivable and the decrease in deferred revenue for 2011 are due to the Board's decision to change the license and registration payment process based on the birth month registration. Licenses and registrations assessed in June 2011 were for the period July 1, 2011 till the registrant's birth month in 2012 therefore reducing the amount collected in advance.
- Fines receivable decreased by \$140,196 or 60.9% in FY 2011, while due to state decreased by \$168,101, or 65.1%. These decreases were due to an increase in the uncollectable portion of fines assessed for violations of the Oklahoma Accountancy Act and/or the Oklahoma Administrative Code.
- For Fiscal Year 2011, the Board changed its' basis of accounting to the accrual basis of accounting due to a change in fund reporting structure. The OAB now reports its financial activity as an enterprise fund.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010**

USING THIS REPORT

These financial statements are presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board (GASB) Statement No. 34.

The OAB's Reporting Entity

These financial statements include all activities for which the OAB is fiscally responsible. These activities, defined as the OAB's reporting entity, are operated within a single government agency. The OAB's financial statements are reported as a part of the financial presentation of the State of Oklahoma.

Overview of the OAB's Reporting Entity Presentation

The financial statements consist of three parts as follows:

Financial Statements: The fund financial statements report information, on the accrual basis of accounting and economic resources measurement focus, about the OAB as a whole using accounting methods similar to those used by private-sector companies. The "Statement of Net Assets" includes all the OAB's assets and liabilities as of the fiscal years presented. All of the current year revenues and expenses are accounted for in the "Statement of Revenues, Expenses and Changes in Net Assets" regardless of when cash is received or paid.

Notes to the Financial Statements: The notes to the financial statements are an integral part of these financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management Discussion and Analysis represent financial information required to be presented by GASB. Such information provides users of this report with additional data that supplements the financial statements and notes (collectively referred to as "the basic financial statements"). The benchmarks presented throughout Management's Discussion and Analysis are for guidance and measurement by the OAB and its constituents. The benchmarks are not required by either the State of Oklahoma or GASB Statement No. 34.

AN ECONOMIC-BASED FINANCIAL ANALYSIS OF OAB

Management's Discussion and Analysis on the Economic Basis Financial Condition:

One of the most important questions asked about the OAB is,

"Has the entity utilized its resources to accomplish its mission assigned by the legislature of protecting the public?"

The "Statement of Net Assets" and the "Statement of Revenues, Expenses and Changes in Net Assets" report information about the OAB as an economic entity that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the OAB resource base and the status of its pending projects, to assess the overall health of the OAB. These economic basis statements include all OAB assets and liabilities, including capital assets.

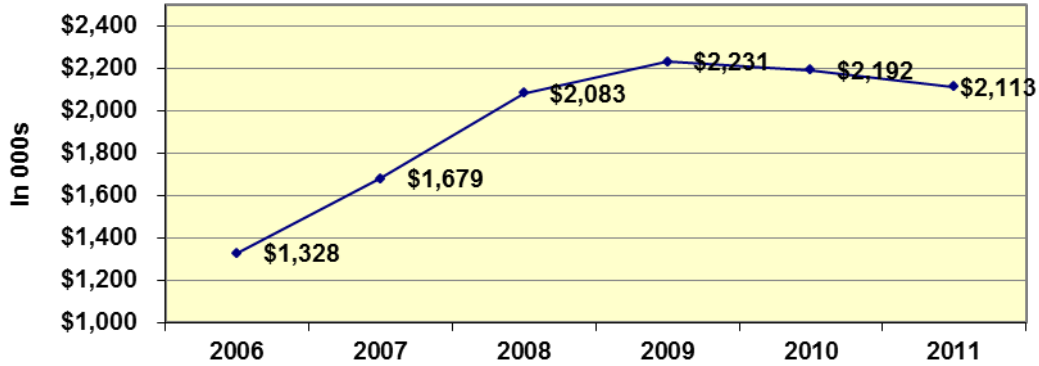
(Unaudited. See accompanying auditor's report.)

**OKLAHOMA ACCOUNTANCY BOARD
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AN ECONOMIC-BASED FINANCIAL ANALYSIS OF OAB, Cont.

For the years ended June 30, 2011, 2010, and 2009, the OAB's overall financial condition changed as noted below.

**Chart 1
Total Economic Net Assets at Fiscal Year End**



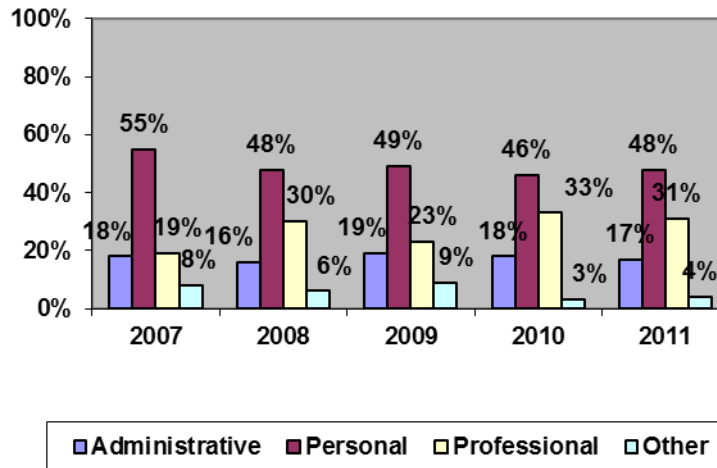
	2008	2009	2010	2011
Percentage Change in Net Assets	+24.1%	+7.1%	-1.7%	-3.6%

For the year ended June 30, 2011, the OAB's total net assets decreased by \$79,658, or 3.6%. This was a result of the decrease in program revenues for licenses, permits and fees. For the year ended June 30, 2010, the OAB's total net assets decreased by \$38,152, or 1.7%. For the year ended June 30, 2009, the OAB experienced a \$147,466, or 7.1%, increase in net assets.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
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**Chart 2
Percentage of Expenses by Classification as Compared to Total**



Expenses

	2007	2008	2009	2010	2011
Administrative	18%	16%	19%	18%	17%
Personal Services	55%	48%	49%	46%	48%
Professional Services	19%	30%	23%	33%	31%
Other	8%	6%	9%	3%	4%
Total	100%	100%	100%	100%	100%

FUTURE OUTLOOK

The Oklahoma Accountancy Board proceeded with plans to replace their current licensing system with a new system to be utilized by multiple licensing agencies throughout state government. The Board is a pilot agency for the project and is currently scheduled to become the first state agency in Oklahoma to implement the AMANDA licensing system. It is anticipated that the new system will be operational in late December 2011 or January 2012. Additionally, the Board successfully began the transition to birth month registration which will continue through June 30, 2012.

ABOUT OAB

The Oklahoma Accountancy Board is a part of the primary government of the State of Oklahoma. The first accountancy law was enacted by the Oklahoma Legislature in 1916. The OAB was continued by the legislature in 2010, in accordance with provisions of the Oklahoma Sunset Law. The OAB is composed of five Certified Public Accountants (CPAs), one Public Accountant (PA), and one public member. The responsibilities of the OAB include determining the eligibility of applicants to become candidates for the CPA and PA examinations and registering accountants, sole-proprietorships, partnerships, professional corporations, limited liability partnerships, and limited liability companies eligible to practice public accounting in Oklahoma. Also, the OAB regulates the practice and conduct of Certified Public Accountants and Public Accountants.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA ACCOUNTANCY BOARD
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CONTACTING OAB

This report is designed to provide citizens, taxpayers, registrants, and creditors with a general overview of the OAB's finances and to demonstrate accountability for the resources it receives. If you have questions about this report or need additional financial information, contact the OAB Executive Director's Office by mail at 201 N.W. 63rd Street, Suite 210, Oklahoma City, OK 73116, by telephone at (405) 521-2397, or by e-mail at www.ok.gov/oab.

(Unaudited. See accompanying auditor's report.)

BASIC FINANCIAL STATEMENTS

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010

Statement of Net Assets
June 30, 2011 and 2010

	June 30,	
	2011	2010
ASSETS:		
Cash and cash equivalents	\$ 2,921,043	\$ 3,021,371
Accounts receivable	421,264	552,450
Fines receivable, net of allowance of \$2,027,793 and \$1,926,757, respectively	90,029	230,225
Accounts receivable - cost recovery, net of allowance of \$85,896 and \$31,681, respectively	44,795	75,256
Prepaid assets	1,043	6,365
Capital assets, net of accumulated depreciation	55,089	7,433
Total assets	3,533,263	3,893,100
LIABILITIES:		
Accounts payable	\$ 105,630	\$ 42,730
Deferred revenue	1,190,410	1,366,450
Due to State	90,029	258,130
Compensated absences:		
Current	10,383	10,064
Non-current	24,226	23,483
Total liabilities	1,420,678	1,700,857
NET ASSETS:		
Invested in capital assets, net of related debt	55,089	7,433
Unrestricted	2,057,496	2,184,810
Total net assets	\$ 2,112,585	\$ 2,192,243

See accompanying footnotes to these statements.

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010

Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Operating Revenues:		
License, permits and fees	\$ 1,272,035	\$ 1,308,334
Cost recovery	34,477	43,447
Total operating revenues	<u>1,306,512</u>	<u>1,351,781</u>
Operating Expenses:		
Personnel services	638,527	597,748
Professional services	410,407	476,029
Travel	37,587	32,150
Administration expense	226,614	218,369
Depreciaton expense	25,357	4,846
Total operating expenses	<u>1,338,492</u>	<u>1,329,142</u>
Operating income (loss)	(31,980)	22,639
Non-Operating Revenues:		
Other revenues	<u>3,596</u>	<u>804</u>
Total non-operating revenues	<u>3,596</u>	<u>804</u>
Income (loss) before transfers	(28,384)	23,443
Transfers out	<u>(51,274)</u>	<u>(61,595)</u>
Change in net assets	(79,658)	(38,152)
Total net assets - beginning	2,192,243	2,230,395
Total net assets - ending	<u><u>\$2,112,585</u></u>	<u><u>\$2,192,243</u></u>

See accompanying footnotes to these statements.

OKLAHOMA ACCOUNTANCY BOARD
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Statement of Cash Flows
For the Years Ended June 30, 2011 and 2010

	June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of license, permits, fines, and cost	\$1,267,810	\$1,387,104
Payments to suppliers	(606,386)	(753,948)
Payment to employees	(637,465)	(610,391)
	23,959	22,765
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - State of Oklahoma	(51,274)	(61,595)
	(51,274)	(61,595)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(73,013)	(7,259)
	(73,013)	(7,259)
Net Increase (Decrease) in Cash and Cash Equivalents	(100,328)	(46,089)
Balances - beginning of the year	3,021,371	3,067,460
Balances - end of the year	\$2,921,043	\$3,021,371
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	(\$31,980)	\$22,639
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Other revenue	3,596	804
Depreciation expense	25,357	4,846
Change in assets and liabilities:		
Decrease (Increase) in accounts receivable	131,186	62,725
Decrease (Increase) in fines receivable	140,196	(98,915)
Decrease (Increase) in costs receivable	30,461	(30,611)
Decrease (Increase) in prepaid assets	5,322	(386)
Increase (Decrease) in accounts payable	62,900	(27,014)
Increase (Decrease) in deferred revenue	(176,040)	(25,500)
Increase (Decrease) in due to State	(168,101)	126,820
Increase (Decrease) in accrued compensated absences	1,062	(12,643)
	\$23,959	\$22,765
Net Cash Provided by Operating Activities	\$23,959	\$22,765

See accompanying footnotes to these statements.

FOOTNOTES TO THE FINANCIAL STATEMENTS

**OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010**

Footnotes to the Statement of Net Assets and Statement of Activities:

1. *Summary of Significant Accounting Policies*

The accompanying financial statements of the Oklahoma Accountancy Board (OAB) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements are intended to present the financial position and results of operations of only that portion of the State of Oklahoma that is attributable to the transactions of OAB.

A. *Reporting Entity*

The Oklahoma Accountancy Board is a part of the primary government of the State of Oklahoma. The first accountancy law was enacted by the Oklahoma Legislature in 1916. The OAB was continued by the legislature in 2010, in accordance with provisions of the Oklahoma Sunset Law. The OAB is composed of five Certified Public Accountants (CPAs), one Public Accountant (PA), and one public member. The responsibilities of the OAB include determining the eligibility of applicants to become candidates for the CPA and PA examinations and registering accountants, sole-proprietorships, partnerships, professional corporations, limited liability partnerships, and limited liability companies eligible to practice public accounting in Oklahoma. Also, the OAB regulates the practice and conduct of Certified Public Accountants and Public Accountants.

B. *Fund Financial Statements*

The fund financial statements (the statement of net assets and the statement of revenues, expenses and changes in net assets) report information for OAB. OAB is classified as an enterprise activity; its function is the Regulatory Services function. The OAB is accounted for and presented similar to a special-purpose government engaged solely in business type activities. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Under the guidelines of GASB Statement 20, the OAB has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Operating revenues consist primarily of fees for licenses and permits to practice public accounting remitted by Certified Public Accountants and Public Accountants and Firms. Also included in operating revenues are fees paid by candidates to sit for the examination.

Starting in FY 2011, the OAB changed its' basis of accounting to the accrual basis of accounting due to a change in the fund reporting structure. The OAB now reports its financial activity as an enterprise fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Revenue Recognition:

Fund Financial Statements

The fund financial statements display information about OAB as a whole. They are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Net Assets Accounting Policies

Net assets are normally displayed in three components (two of which are applicable to the OAB):

- a. *Invested in capital assets, net of related debt*—Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. *Restricted net assets*—Consists of net assets with constraints placed on the use by external groups such as creditors, grantors, contributors, or laws and regulations.
- c. *Unrestricted net assets*—All other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

E. Cash

All cash balances are held by the Oklahoma Office of the State Treasurer. OAB’s cash is pooled with the cash of all other state agencies; this pool of cash is deposited in banks or invested by the State Treasurer in accordance with Oklahoma statutes. The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution.

F. Accounts Receivable

Accounts receivable reflect monies received within sixty (60) days after the end of the year for renewal notices sent prior to June 30. Renewal notices relate to permits and registrations for Certified Public Accountants, Public Accountants and firms. Amounts shown as accounts receivable and deferred revenue are for permits and registrations for year’s beginning on or after July 1, 2011.

G. Fines Receivable, Accounts Receivable – Cost Recovery, and Due to State

The OAB in its enforcement program assesses fines and costs of investigation by certain registrants for violations of the Oklahoma Accountancy Act. When collected, the amount of the fines is remitted to the State General Fund and the costs are retained by the OAB. Beginning in fiscal year 2008, the OAB adopted the accounting methodology needed to more appropriately account for the fines receivable, cost receivable, and the related

OKLAHOMA ACCOUNTANCY BOARD
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amount due to the state. All fines and costs receivable 365 days or older were considered to be uncollectible. Prior to fiscal year 2011 the OAB reported fines receivable and accounts receivable – cost recovery net of allowances for cases dating back to 2007. However, in fiscal year 2011 the allowance amount includes cases dating back to OAB’s earliest available records in 2001. The OAB also made a change in presentation in fiscal year 2011. The amount of the allowance for fines receivable and accounts receivable – cost recovery are now shown on the statement of net assets.

	Cost Recovery		
	Accounts Receivable	Allowance	Net
June 30, 2011	\$130,691	\$85,896	\$44,795
June 30, 2010	\$106,937	\$31,681	\$75,256

	Fines Receivable		
	Fines Receivable	Allowance	Net
June 30, 2011	\$2,117,822	\$2,027,793	\$90,029
June 30, 2010	\$2,156,982	\$1,926,757	\$230,225

In addition to the Fines Receivable, related amounts Due to State which is reflected in the financial statements, fines in the amount of \$78,023 and \$61,400 were collected and remitted to the State General Fund during the fiscal years 2011 and fiscal year 2010 respectfully.

At June 30, 2011, the Due to State of \$90,029 reflects fines receivable due to the state (see footnote 9).

H. Capital Assets

Capital assets are capitalized in the statement of net assets. Capital assets are reported at actual or estimated historical cost and net of accumulated depreciation. Capital assets are defined as assets that have a cost in excess of \$500 at the date of acquisition and have an expected useful life of 3 or more years, and consist primarily of information systems equipment, furniture, and other equipment. Depreciation is computed on the straight-line method over the estimated useful life of 6 years for office furniture and equipment and 3 years for information systems and related equipment.

I. Accounts Payable

Accounts payable include charges for all services or claims incurred on or before June 30. These payables represent amounts incurred in the ordinary course of business and are primarily owed to vendors.

**OKLAHOMA ACCOUNTANCY BOARD
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As of and for the Years Ended June 30, 2011 and 2010**

J. Deferred Revenue

Deferred revenues arise when resources are received by the OAB before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met or when OAB has legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

K. Compensated Absences

Employees earn annual vacation at the average rate of 10 hours per month for up to 5 years service and may accumulate to a maximum of 240 hours. Employees earn an average of 12 hours per month for 5 to 10 years, an average of 13.33 hours per month for 10 to 20 years, and an average of 16.67 hours per month for over 20 years of service. Annual leave for employees with over 5 year's service may accumulate to a maximum of 480 hours. All accrued annual leave is payable upon layoff, resignation, retirement, or death.

2. Cash

Cash and cash equivalents include amounts on deposit with and under the control of the State Treasurer. These amounts are collateralized in accordance with 62 O.S. 2001, § 72.1, the Security for Public Deposits Act. The bank balances as of June 30, 2011 and 2010 were fully insured or collateralized with securities held by the State's agent in the State's name.

3. Operating Leases

The OAB entered into operating lease agreements for office space, off-site storage, copier, and postage machines. Payments under these operating leases for the 2011 and 2010 fiscal years were approximately \$71,006 and \$56,814, respectively.

4. Capital Assets

For the years ended June 30, 2011 and 2010, changes in capital assets were as follows:

OKLAHOMA ACCOUNTANCY BOARD
FINANCIAL STATEMENT REPORT
As of and for the Years Ended June 30, 2011 and 2010

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets	\$ 113,318	73,013	(15,734)	170,597
Accumulated depreciation	<u>(105,885)</u>	<u>(25,357)</u>	<u>15,734</u>	<u>(115,508)</u>
	<u>\$ 7,433</u>	<u>47,656</u>	<u>-</u>	<u>55,089</u>

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets	\$ 136,569	7,259	(30,510)	113,318
Accumulated depreciation	<u>(131,549)</u>	<u>(4,846)</u>	<u>30,510</u>	<u>(105,885)</u>
	<u>\$ 5,020</u>	<u>2,413</u>	<u>-</u>	<u>7,433</u>

5. Long-term Obligations

Long-term obligations are comprised of accrued compensated absences. For the years ended June 30, 2011 and 2010, the liability for accrued compensated absences liabilities changed as follows:

				Amounts Due Within <u>One Year</u>
<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>	
<u>\$ 33,547</u>	<u>25,637</u>	<u>(24,575)</u>	<u>\$ 34,609</u>	<u>\$ 10,383</u>

				Amounts Due Within <u>One Year</u>
<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>	
<u>\$ 46,190</u>	<u>28,814</u>	<u>(41,457)</u>	<u>\$ 33,547</u>	<u>\$ 10,064</u>

6. Risk Management

As part of the primary government, the State of Oklahoma, the risk of losses to which the OAB may be exposed is covered through the risk management activities of the State, and any losses and liabilities are the responsibility of, and financed through, the State's risk management activities. The Risk Management Division of the Department of Central Services is empowered by the authority of 74 O.S., Section 85.34 et seq. The division is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State or for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

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The State Risk Management is authorized to settle claims of the State and shall govern the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the State, agency, or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act, as prescribed by 51 O.S., Section 154. 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.

7. *Pension Plan*

The OAB contributes to the Oklahoma Public Employees Retirement Plan, which is a state-wide cost-sharing, multi-employer defined benefit retirement plan administered by the Oklahoma Public Employees Retirement System (OPERS). A separately issued annual report for OPERS may be obtained from the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, OK 73118. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

Plan members and the agencies are required to contribute at a rate established by State law. The contribution rate for both 2011 and 2010 fiscal years was 15.5% and 15.5%, respectively, of all salaries for State agencies, and for State employees, 3.5% of their annual covered salary. For the years ended June 30, 2011, 2010, 2009, 2008, and 2007, the OAB contributions to the plan were \$64,148, \$72,651, \$49,726, \$37,492, and \$42,772, respectively.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county and local government employees, except for elected officials and hazardous duty members.

8. *Other Postemployment Benefits*

In addition to the pension benefits described above, the State provides post-retirement healthcare benefits (OPEB) to employees. OPERS pays the Medicare supplement premium or \$105 per month, whichever is less, toward the cost of the monthly insurance premium for all retirees of OPERS who elect coverage at the time of retirement and retain health insurance coverage with the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB). The retiree must pay the balance of the monthly health insurance premium plus any dependent coverage premiums. There is no OPEB obligation information available specific to the OAB.

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9. *Payment to State of Oklahoma*

Under provisions of 59 O.S., Section 15.7, the “Board shall pay into the General Revenue Fund of the State ten percent (10%) of all annual registration fees so charged, collected, and received, and no other portion shall ever revert to the General Revenue Fund or any other fund of the state.” The OAB paid \$51,274 to the State General Revenue Fund in fiscal year 2011 and \$61,595 in fiscal year 2010, related to the 10% General Revenue Fund.

In addition, under the provision of 59 O.S., Section 15.24, “all monies, excluding costs, collected from civil penalties authorized in this section, such penalties being enforceable in the district courts of this state, shall be deposited with the State Treasurer to be paid into the General Revenue Fund of the state.” The amount assessed for civil penalties are recorded as Fines Receivable and a Due to State. During fiscal year 2011 and 2010, the OAB collected and remitted \$78,023 and \$61,400, respectively, and remitted these amounts to the State.

The OAB maintains a clearing account in which all amounts are deposited. When these transfers are made to the State General Revenue Fund, they are made directly from the OAB’s clearing account.

10. *Non-Compliance with State Statutes*

Oklahoma State Statutes, Title 59 Section 15.14 (d) specifies that effective January 1, 2010 renewals for licenses and permits changed from a biannual expiration date of July 31st (based on even or odd numbering of certificates) to annually based on birth month. The OAB did not change their licensing renewal process to comply with the January 1, 2010 renewal process. However, during fiscal year 2011, the OAB began billing for the birth month renewal with the application process beginning June 1, 2011.



Oklahoma State Auditor & Inspector

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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 OKLAHOMA ACCOUNTANCY BOARD

We have audited the financial statements of the Oklahoma Accountancy Board (OAB), as of and for the years ended June 30, 2011 and 2010, which collectively comprise the OAB's basic financial statements, and have issued our report thereon dated November 28, 2011. The report includes an explanatory paragraph stating that the financial statements of the OAB are intended to present the financial position and results of daily operations of only that portion of the State of Oklahoma attributable to the transactions of the OAB. Another explanatory paragraph states that OAB changed its basis of accounting to the accrual basis of accounting due to a change in fund reporting structure. The OAB now reports its financial activity as an enterprise fund.

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 OAB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the OAB'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 OAB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OAB's internal control over financial reporting.

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 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 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 (11-020-002R and 11-020-004). A significant deficiency is a deficiency, or 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 OAB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 OAB's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit OAB's response and, accordingly, we express no opinion on it. This report is intended solely for the information and use of the management of the OAB and is not intended to be and should not be used for anyone other than these specified parties. This report is also 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.

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

November 28, 2011

SCHEDULE OF FINDINGS AND RESPONSES

**OKLAHOMA ACCOUNTANCY BOARD
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Reference Number: 11-020-002 (**Repeat**)
State Agency: Oklahoma Accountancy Board
Fund Type: Enterprise Fund
Other Information: Expenditures (Non-Payroll)

Criteria/Condition: An effective internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating duties.

The peer review coordinator's PeopleSoft access gives him the ability to prepare purchase orders and post payments against the purchase orders. In addition, he receives the warrants from the State Treasurer's Office.

Cause/Effect: Management did not remove the peer review coordinator's PeopleSoft access when they began contracting with Office of State Finance to assist in performance of accounting related functions. Although the peer review coordinator may not have been assigned the responsibility of preparing purchase orders and posting the payments, he still had the ability due to his system access. Errors or irregularities could occur and not be detected in a timely manner.

Recommendation: We recommend management review the PeopleSoft access for the peer review coordinator and ensure only appropriate access is granted based on his job duties and to ensure duties are properly segregated. If management determines the access as described is needed, they should develop other mitigating controls to reduce this risk. For example, the Executive Director could review monthly the PeopleSoft 6 Digit Detailed Expenditure Report to determine all claims paid are appropriate. Another example, the peer review coordinator's responsibility for receiving warrants from OST could be reassigned to another employee knowledgeable of the expenditure process. This employee could agree the warrants to the approved expenditure claim/invoice before mailing.

Agency Management Response: The OAB is limited in personnel resources. While the condition remains, the Deputy Director/peer review coordinator did not make any accounts payable entries into PeopleSoft. The Deputy Director/peer review coordinator may not make any entries regarding accounts payable entries into PeopleSoft without the written permission of the Director. To resolve this issue, each month the Executive Director will review an AP transaction report of all actions taken by the Deputy Director.

Reference Number: 11-020-004
State Agency: Oklahoma Accountancy Board
Fund Type: Enterprise Fund
Other Information: License, Permits, and Fees and Deferred Revenue

Criteria/Condition: A component objective of an effective internal control system is to ensure accurate and reliable information through proper review and approval.

The Deferred Revenue calculation for fiscal year ended 6/30/2011 included the reported revenue for individual registration for FY12 collected in the month of July 2010 twice. This resulted in Deferred Revenue being overstated by \$105,125.00 and License, Permits, and Fees being understated by the same amount.

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Cause/Effect: Effective review of the Deferred Revenue calculation does not appear to have occurred.

Recommendation: We recommend management ensure calculated amounts and resulting journal entries are effectively reviewed. We further recommend the following entry be posted:

Deferred Revenue	\$105,125	
License, Permits, and Fees		\$105,125

Agency Management Response: There was a computational error while addressing the conversion from bi-annual registration to annual registration by birth month. For future years the computation will be less complex and remain relatively constant year to year. This consistency in future years should reduce the chance of computational errors. Management will ensure that computations are reviewed by at least two people prior to the submission of the final trial balance to the auditors.



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