FINANCIAL AUDIT

Uniform Building Code Commission

Financial Statement and Independent Auditor's Report

For the fiscal year ended June 30, 2013

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Uniform Building Code Commission
Financial Statement and Independent Auditor's Report
For the Fiscal Year Ended June 30, 2013

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Oklahoma State Auditor & Inspector

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September 9, 2015

TO THE HONORABLE MARY FALLIN
GOVERNOR OF THE STATE OF OKLAHOMA

This is the audit report of the Oklahoma Uniform Building Code Commission for the year ended June 30, 2013. 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.

Pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), this report is also a public document and shall be open to any person for inspection and copying.

We wish to take this opportunity to express our appreciation to the management and staff of the Uniform Building Code Commission and the Office of Management and Enterprise Services for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

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

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Oklahoma State Auditor & Inspector

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INDEPENDENT AUDITOR'S REPORT

TO THE UNIFORM BUILDING CODE COMMISSION
STATE OF OKLAHOMA

We have audited the accompanying financial statement of the Uniform Building Code Commission (the Commission), a part of the primary government of the State of Oklahoma, which comprises the receipts, expenditures, and changes in cash – regulatory basis for the fiscal year ended June 30, 2013, 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, § 1000.24(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 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 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 Commission, a part of the primary government of the State of Oklahoma, on the basis of the financial reporting provisions of Title 59 O.S. § 1000.24(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 Commission 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 Commission. It does not purport to, and does not, present fairly the financial position of the State of Oklahoma as of June 30, 2013, 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 effect on the financial statement of the variance 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 Commission as of June 30, 2013, or changes in financial position, or cash flows thereof for the year then ended.

Unmodified 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 Commission as of June 30, 2013, 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. § 1000.24(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 August 27, 2015, on our consideration of the Commission'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 Commission's internal control over financial reporting and compliance.

Gary A Jones

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

August 27, 2015

Uniform Building Code Commission
Statement of Receipts, Expenditures
And Changes in Cash – Regulatory Basis
For the Fiscal Year Ended June 30, 2013

Receipts	
Fees	$ 578,486
Total Receipts	578,486
Expenditures	
Salary Expense	162,322
Insurance Premiums – Health, Life, Etc.	37,511
FICA and Retirement Contributions	39,220
Professional and Legal Services	58,703
Inter/Intra Agency Payments – Professional Services	60
Travel – Reimbursements	3,534
Travel – Agency Direct	349
Postage, Telecommunication and Misc. Admin. Expense	7,000
Rent Expense	16,985
Maintenance and Repair Expense	87
General Operating Expense	859
Office Furniture and Equipment	1,807
Incentive Awards	38
Refunds, Indemnities, Restitution	33
Buildings and Other Structures	2,381
Total Expenditures	330,889
Receipts over (under) Expenditures	247,597
Cash, Beginning of Year	728,614
Cash, End of Year	$ 976,211

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, 2013

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Oklahoma Uniform Building Code Commission was created in 2009 by Title 59 O.S., §§ 1000.20 through 1000.29 to review and adopt all building codes for residential and commercial construction to be used by all entities within Oklahoma. Codes and standards adopted by the Commission shall be the minimum standards for residential and commercial construction in Oklahoma. The Commission is a part of the primary government of the State of Oklahoma.

As required by Title 59 O.S., § 1000.24(C), the accompanying financial statement presents the receipts, expenditures, and changes in cash balances for all treasury funds of the Commission.

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, 2013, all cash was under the control of the State Treasurer of Oklahoma and was collateralized in accordance with the Security for Public Deposits Act, 62 O.S. § 72. 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.

D. Beginning Cash Balance

Beginning cash balance has been restated due to adjustments for accounting errors (decrease of $5,603).

2. 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.

3. Pension Plan

Plan Description. The Commission contributes to the Oklahoma Public Employees Retirement Plan, a multiple employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended; provide more complete information about the Plan. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category of the Plan are established by and can be amended by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. State employees contribute 3.5% of their annual compensation. Beginning in FY 2012 State agency employers contributed 16.5% of total salary which was increased from 15.5% in FY2011. The Commission's contributions to the Plan for the years ended June 30, 2013, 2012 and 2011 were $26,234.32, $23,256.52 and $13,306.88, respectively. These contributions were equal to the contributions required.

4. Other Post Employment Benefits

In addition to the pension benefits described in Note 3, employees of the Commission are provided post-retirement health care benefits through their membership in the Oklahoma Public Employees Retirement System (OPERS). OPERS pays the Medicare supplement premium or $105 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Employees Group Insurance Division (EGID) of the Oklahoma Management and Enterprise Services (OMES). The plan is a legal trust for administering, managing and providing group health, dental, life and disability plans and benefits to active employees and retirees of state agencies, school districts and other governmental units. The plan also provides coverage for employee and retiree dependents when so elected.

OPERS funds post employment health care benefits as part of the overall retirement requirement. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the Commission 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 UNIFORM BUILDING CODE COMMISSION
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 Uniform Building Code Commission (the Commission), a part of the primary government of the State of Oklahoma for the year ended June 30, 2013, and the related notes to the financial statement, which collectively comprises the Commission's financial statement and have issued our report thereon dated August 27, 2015.

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 Commission for the year ended June 30, 2013, 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 Commission 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 Commission.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Commission'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 opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. [Finding Nos. 13-753-002; 13-753-004].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 [Finding No. 13-753-002].

The Uniform Building Code Commission's Response to Findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statement 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.

Gary A Jones

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

August 27, 2015

SCHEDULE OF FINDINGS AND RESPONSES

Reference Number: 13-753-002
State Agency: Uniform Building Code Commission (UBCC)
Other Information: Revenue

Criteria:
Per 62 O.S. §34.57(E)(1), in part: "…at least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute."

Condition:
In SFY 2013, transfers from the UBCC clearing account were made in only two (March and May of 2013) of twelve months.

Cause/Effect:
Prior to December 2012, only UBCC revenue from the State Fire Marshall was deposited into the clearing account. As such, the agency did not have a process in place to ensure that the clearing account transfers were being made. Therefore, UBCC was not in compliance with the provisions of 62 O.S. §34.57(E)(1).

Recommendation:
We recommend that agency management implement procedures to ensure that a clearing account transfer occurs at a minimum of once per month as required by statute.

Agency Management Response:
OUBCC management concurs. During the fiscal year 2010-2011 audits conducted in 2013, recommendations were made to deposit all funds into the clearing account. Prior to October of 2012, the clearing account was used only for transfers of permit funds from the State Fire Marshal. All other funds received were deposited directly into the agency's 285 fund. Starting with October 2012, all funds were deposited directly into the clearing account. Agency and OMES staff completed OMES Form 11s but the funds were not transferred timely. The agency has since developed a tracking sheet for monitoring when funds are transferred from the clearing account into the agency's 285 fund.

OMES Response:
OMES concurs and will work with agency management to ensure timely transfers. The ABS team has recently been restructured to prevent delays.

Reference Number: 13-753-004
State Agency: Uniform Building Code Commission (UBCC)
Other Information: Revenue and Expenditures

Criteria:
A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information.

A key component of providing accurate and reliable information is the design, implementation, and operating effectiveness of a system of internal control.

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control Integrated Framework* describes internal control as "a process… designed to provide reasonable assurance regarding the achievement of objectives… [including] the preparation of reliable published financial statements."

A universally-used tool to implement internal control over financial reporting is the use of a reconciliation process. An effective reconciliation process for financial reporting involves the in-total comparison of the records which serve as the basis for the financial statements to another source on a timely basis.

A key factor in ensuring the accuracy of financial reporting is to ensure that all transactional activity is recorded accurately and in a timely manner.

Further, the cash basis of accounting calls for the recording of receipts and disbursements in the period in which funds are actually received or disbursed.

Condition:
We noted that, of the fifty (50) deposit items tested:

- One deposit totaling $6,516 was not reflected in the SFY2013 monthly revenue reconciliation (Deposit ID 7530000547).
- One deposit that was recorded to the OMES CORE Financials Module during SFY2013 but was actually deposited during SFY2012. (This deposit and the above noted deposit are the same item with two different noted exceptions)
- Thirty-two deposits were not recorded into the OMES CORE Financials Module in a timely manner. CORE serves as the source record for UBCC's financial statements.

Additionally, it was noted that the current process for reconciling agency deposits did not involve an in-total comparison of the records serving as the basis for the financial statements (CORE) to another source (agency receipt records). Lastly, the agency had no process in place for reconciling expenditures per the financial statements (CORE) to another source (agency expenditure records).

Cause/Effect:
Agency personnel were unaware that, because the responsibility for the contents of the financial statements lies with agency management, they needed to use the revenue reconciliation for financial statement presentation purposes. The existing process did not involve an in-total comparison of the agency's receipts to the records serving as the basis for the agency's financial statement. Lastly, the agency has not implemented a reconciliation process for expenditures to ensure all transactions are being entered timely for financial statement presentation purposes. As a result, financial statement amounts could be misstated with no mechanism in place to detect such errors.

Recommendation:
We recommend that agency management modify its existing revenue reconciliation process to ensure that the records which serve as the basis for the financial statements are reconciled in their entirety to agency records. Further, we recommend that agency management communicate reconciling items to OMES Agency Business Services staff in a timely manner each month to ensure that corrections and/or adjustments are made as appropriate. Finally, we recommend that management expand its reconciliation process to include agency expenditures.

Agency Management Response:
OUBCC management found out about the issue with depositing timely into the CORE Financial Module during the FY10 and FY11 audits conducted in FY13. At that time OMES ABS was notified to deposit in a timely manner. At the same time a tracking spreadsheet was developed that reconciled funds received on a daily basis through the bank lockbox, EFT transfer, or wire transfer. The daily deposits were reconciled against the information listed on two CORE financial documents (OCP0643 Treasurer's Activity Statement and OCP0554 Direct Journal Accounting Entries). Staff identified not only the date the funds were deposited, but the amount and the deposit ID number. However, this spreadsheet was not developed until part of the way through FY2013. What the reconciliation lacked was a look at the total amount received and deposited at a monthly in-total level showing any variance and explanation for that

variance. Any discrepancies were noted to OMES ABS staff for follow-up and the spreadsheet was sent on a weekly basis. Documentation of those notifications is available. At the recommendation of the auditor during the FY13-14 audits, a new reconciliation report has been developed to reconcile the monthly in-total comparison for both revenues and expenditures to ensure accurate information for financial statement presentation purposes.

OMES Response:
OMES concurs. The ABS team has recently been restructured to prevent delays.

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