



OKLAHOMA AERONAUTICS COMMISSION

Operational Audit

For the period January 1, 2014 through December 31, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Aeronautics Commission**

**For the Period
January 1, 2014 through December 31, 2018**

September 25, 2019

TO THE OKLAHOMA AERONAUTICS COMMISSION

We present the audit report of the Oklahoma Aeronautics Commission for the period January 1, 2014 through December 31, 2018. 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 utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

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

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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Background

Mission Statement

To promote aviation, which includes ensuring that the needs of commerce and communities across Oklahoma are met by the state's 109 public airports that comprise the state's air transportation system and ensuring the viability of the state's aerospace industry.

Further Information

The Oklahoma Aeronautics Commission (the Agency) was created in 1963 by the Oklahoma Legislature to advance, foster, and assist in the development of aeronautics in Oklahoma, including current and future aircraft, and to encourage the establishment and maintenance of public airports. This includes the preservation and improvement of the state's 109 public airports, which make up the state airport system. Oklahoma has more than the 5,571 general aviation aircraft that are actively flying in the state and nearly 9,600 pilots. Out of the 109 publicly owned airports, 105 are general aviation airports, including forty-nine that are regional business airports. Forty-five of those forty-nine have jet-capable runways of at least 5,000 feet in length.

The Agency is overseen by a commission composed of seven members (the Commission), and each commissioner is appointed by the governor and serves a six-year term. Five members are from among Oklahoma's five congressional districts with the remaining two appointed at-large. The Commission is responsible for appointing the state director of aeronautics to serve at its pleasure.

Board members as of July 31, 2019 are:

Kevin Potter	Chair (District 1)
David Amis III.....	Vice Chair (District 5)
Jim Putnam	Secretary At-Large Member
Dr. David Conway.....	Member (District 2)
Michael Ray	Member (District 3)
Lindy Ritz.....	Member (District 4)
Jerry Hunter	At-Large Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2017 and 2018 (July 1, 2016 through June 30, 2018).

Sources and Uses of Funds for FY 2017 and FY 2018

	2017	2018
Sources:		
Taxes	\$ 4,821,622	\$ 3,705,848
Grants, Refunds, Reimbursements	\$ 1,041,379	\$ 1,922,511
Licenses, Permits, Fees	\$ 623,282	\$ 633,518
Other Sales and Services	\$ 311	\$ -
Total Sources	<u>\$ 6,486,594</u>	<u>\$ 6,261,877</u>
 Uses:		
Assistance, Payments to Local Govn'ts	\$ 4,322,378	\$ 4,224,394
Personnel Services	\$ 802,251	\$ 887,840
Property, Furniture, Equipment	\$ 485,796	\$ 247,844
Administrative Expenses	\$ 180,734	\$ 165,921
Professional Services	\$ 155,150	\$ 69,907
Travel	\$ 21,188	\$ 21,824
Transfers and Other Disbursements	\$ 160	\$ 240
Total Uses	<u>\$ 5,967,657</u>	<u>\$ 5,617,970</u>

Source: Oklahoma Statewide Accounting System (unaudited, for informational purposes only)

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Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period January 1, 2014 through December 31, 2018.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Aeronautics Commission operations. Further details regarding our methodology are included under each conclusion.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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OBJECTIVE Determine whether the Agency’s internal controls provide reasonable assurance that revenue and miscellaneous expenditures were accurately reported in the accounting records.

Conclusion The Agency’s internal controls do not provide reasonable assurance that revenues and miscellaneous expenditures were accurately reported in the accounting records.

Financial operations complied with 74 O.S. § 3601.2(A) regarding the salaries of state agency executive officers.

Objective Methodology

To accomplish our objective, we performed the following:

- Evaluated significant internal controls and process factors related to receipting; see results in related finding.
- Evaluated significant internal controls and process factors related to miscellaneous (non-payroll) expenditures; see results in related finding.
- Determined compliance with 74 O.S. § 3601.2(A) – Salaries of Chief Executive Officers, which included:
 - Reviewing all data on the *HR All Actions* report and comparing it to approved salary ranges established by the Office of Management and Enterprise Services.

FINDINGS AND RECOMMENDATIONS

Reconciliations Need Improvement to Ensure Completeness of Deposits; Checks Should Be Deposited Promptly per Statute

Repeat Finding

The United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (2014 version)¹, states that in designing control activities to achieve objectives and respond to risks, “Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.” The Standards further require that “Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.”

¹ Although this publication (GAO Standards) addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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The assistant operations officer has the conflicting duties of receipting funds received and preparing the deposit. This creates an opportunity for someone in this position to misappropriate funds received and the ability to conceal the misappropriation by improperly recording or modifying deposit records. A mitigating control such as the one recommended below would help in the event a single employee held incompatible duties such as these.

Additionally, \$200 payments received for tall structures are held until a determination is made on whether or not the payment is necessary, therefore these funds may not be deposited in a timely manner as required by state statute. 62 O.S. § 34.57(C) requires that receipts of \$100 or more be deposited on the same banking day as received.

While staff reportedly attempted to implement the recommendations from our prior audit, turnover made this difficult, resulting in this repeat finding.

Recommendation

We recommend management or someone independent of the revenue process perform a documented reconciliation of goods and services provided to revenues received and deposited, using data from the statewide accounting system and internal documentation. For example, the Chief Operations Officer (COO) could use the independent, detailed spreadsheets from the Airport Division and grants administrator to reconcile payments received to deposit records from the statewide accounting system, such as the state treasurer's activity statement. These spreadsheets should be saved with the reconciliation as documentation of this review.

Additionally, revenues received should be deposited in accordance with 62 O.S. § 34.57(C) to ensure the safeguarding and timeliness of deposits

Views of Responsible Officials

To correct this conflict, OAC proposes to have the Assistant Operations Officer receipt the check upon arrival in the mail, followed by the Chief Operations Officer preparing the deposit. Then the Grants Administrator would take the deposit to the bank and enter the deposit into the statewide accounting system, followed by the Chief Operations Officer transferring the funds to OAC's revolving fund.

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OAC proposes that the Deputy Director sign off on the Treasurer's Activity Statement and the internal 1060 spreadsheet of checks deposited after reconciliation on a monthly basis.

Furthermore, OAC proposes to deposit the checks as received in a timely manner and if a refund is necessary, a check will be processed from the Treasurer's office out of OAC's clearing account to avoid the time-consuming process of setting the applicant up as a vendor in the statewide system.

Independent Expenditure Review Needed to Ensure Unauthorized Payments Do Not Occur

The assistant operations officer is responsible for posting expenditures and creating vouchers in the statewide accounting system and receiving associated warrants and can set up new vendors. Although the grants administrator's primary duty is to review airport grant invoices to ensure all proper documentation is included for airport grant reimbursement requests received and the chief operating officer's primary duty is to review and approve all payment vouchers, both have access in the statewide accounting system to post expenditures, create vouchers and warrants, and set up vendors.

The lack of an independent approval or comprehensive review by an independent party creates the risk the personnel listed above could initiate and receive goods or services without appropriate authorization or detection.

As discussed previously, GAO Standards state that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event." The Standards further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

Recommendation

We recommend that the Director or another knowledgeable party independent of the payment process review a line-item detailed expenditure report (such as the 6-Digit Detailed Expenditure Report from the statewide accounting system) to ensure all payments are authorized. This review could be performed monthly or on a random, unannounced

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basis, and the report should be provided to the reviewer in a reliable, unedited format. Evidence of this review should be retained with the date and signature of the reviewer included.

Views of Responsible Officials

Given that there is an independent approval process, we don't believe a proposed solution is necessary. We plan to begin the process of having the Deputy Director review the report noted in the recommendation.

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SAI
STATE AUDITOR & INSPECTOR



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