

OKLAHOMA AERONAUTICS COMMISSION

JULY 1, 2005 THROUGH
JUNE 30, 2008

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma
Aeronautics Commission**

**For the Period
July 1, 2005 through June 30, 2008**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

September 8, 2008

TO THE OKLAHOMA AERONAUTICS COMMISSION

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Aeronautics Commission for the period July 1, 2005 through June 30, 2008. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

A handwritten signature in blue ink that reads "Michelle R. Day".

MICHELLE DAY, ESQ.
DEPUTY STATE AUDITOR & INSPECTOR

Mission Statement

The Oklahoma Aeronautics Commission's mission is to promote aviation, which includes fostering the growth of the aerospace industry and ensuring that the needs of commerce and communities across Oklahoma are met by the state's 114 public airports that comprise the state's air transportation system.

Commission Members

Joe Harris	Chair
Kenneth Adams	Vice-Chair
Wes Stucky	Secretary
Dave Amis	Member
Rick Armstrong	Member
Tom Stephenson	Member
Mel Stubbings	Member

Key Staff

Victor Bird	Executive Director
Elaine Spell (November 2007 to present)	Finance Officer
Bud Webster (through October 2007)	Finance Officer
Leah Breslin (May 2008 to present)	Assistant Finance Officer
Penny Sprague (through April 2008)	Assistant Finance Officer



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

TO THE OKLAHOMA AERONAUTICS COMMISSION

We have audited the Oklahoma Aeronautics Commission for the period July 1, 2005 through June 30, 2008. The objectives of this audit were to determine if:

- The Commission's internal controls provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Commission complied with the Department of Central Services' Purchase Card Procedures;
- The Commission's corrective actions for reportable conditions noted in the prior period's report were implemented.

As part of our audit, we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.


STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR


MICHELLE DAY, ESQ.
DEPUTY STATE AUDITOR & INSPECTOR

September 3, 2008

Oklahoma Aeronautics Commission Operational Audit

Background

The Oklahoma Aeronautics Commission (the Commission) was created to encourage, foster, and assist in the development of aeronautics in Oklahoma and to encourage the establishment and maintenance of public airports. This includes the preservation and improvement of the state's 114 public airports, which make up the states airport system; and the promotion of the aviation industry, one of the top ten employers in Oklahoma, providing 143,700 jobs.

The Commission's operations are governed by:

- 3 O.S. § 81 through 93.
- Oklahoma Administrative Code (OAC) Title 25

Oversight is provided by a seven-member Commission appointed by the Governor. One member shall be appointed from each congressional district and any remaining members shall be appointed from the state at large. Each member serves a term of six years. The Commission pays for its operations primarily through aircraft excise tax, aircraft license fees, state appropriations and federal grants.

Table 1 summarizes the Commission's sources and uses of funds for fiscal years 2006, 2007, and 2008.

Table 1-Sources and Uses of Funds for FY 2006, 2007, and 2008

Sources:	2006	2007	2008
State Appropriations	\$1,068,904	\$1,700,715	\$622,375
Gasoline Excise Tax	87,963	91,765	103,520
Aircraft Excise Tax	2,781,702	4,894,881	4,756,533
Aircraft License Fee	388,530	362,610	307,694
Refunded Money Previously Disbursed - Goods and Services	42,782	13,319	991,922
Federal Funds Received from Non- Government Agency	148,494	148,274	1,071,802
Other	<u>141,204</u>	<u>17,388</u>	<u>140,129</u>
Total Sources	<u>\$4,659,579</u>	<u>\$7,228,952</u>	<u>\$7,993,975</u>
Uses:			
Personnel Services	\$739,341	\$760,096	\$853,314
Professional Services	265,507	547,981	625,389
Travel	41,964	31,485	31,416
Miscellaneous Administrative	47,428	72,105	249,508
Rent	33,497	38,430	44,491
Buildings - Purchase, Construction, and Renovation	104,388	411,919	1,260,268
Payments - Local Government Non- Profit	995,982	2,486,595	229,472
Assistance Payments to Agencies	61,057	50,233	0
Other	<u>43,627</u>	<u>58,507</u>	<u>42,749</u>
Total Uses	<u>\$2,332,791</u>	<u>\$4,457,351</u>	<u>\$3,336,607</u>

Source: Oklahoma CORE Accounting System

Objective 1 – Determine if the Commission’s internal controls provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion The Commission’s internal controls generally provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records; however, one issue was noted in which the controls need to be strengthened.

Additionally, there were no finance-related laws and regulations significant to this objective.

Methodology To accomplish our objective, we performed the following:

- Documented the internal controls related to the expenditure and inventory processes;
- Tested controls which included:
 - Reviewing 62 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable for the Commission’s mission;
 - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
 - Determining if the employee responsible for the inventory records was independent of the purchasing and surplus process;
 - Determining if a physical inventory count was conducted on an annual basis;
 - Verifying the existence of nine high-appeal items.

Observations

Inadequate Segregation of Duties

An effective internal control system provides for adequate segregation of duties. The Assistant Finance Officer is responsible for the following:

- Posting disbursements into CORE, receiving warrants from the Office of State Finance (OSF), and mailing warrants to the vendors;
- Ordering items from requisitions for the Commission, maintaining the inventory listing, performing the physical inventory count, and completing surplus forms.

Without adequate segregation of duties, misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission attempt to segregate incompatible duties by:

- Having someone other than the Assistant Finance Officer receive and mail the warrants;
- Having someone other than the Assistant Finance Officer perform the physical inventory count. If discrepancies are noted, the director or designee, other than the personnel involved in the physical count, should investigate and resolve. The Commission should also retain documentation to support who performed the actual count, when the count was performed, and any discrepancies noted during the count.

Oklahoma Aeronautics Commission Operational Audit

However, if Commission staff does not allow for adequate segregation other mitigating controls should be implemented by management to assist in timely detection of errors or improprieties. For expenditures, these controls could include occasional review of the warrant register by someone other than the Assistant Finance Officer.

Views of Responsible Officials

Effectively immediately, the Executive Assistant for Administration and Operations will receive and mail the warrants. Also, the Finance Officer will conduct occasional reviews of the warrant register. The Executive Assistant along with the Finance Officer will perform the physical inventory count. If discrepancies are found, this information will be documented and presented to the Director who will appoint someone to investigate and resolve. The Commission will retain documentation regarding the inventory count as to who, what, when and where along with any discrepancies noted and the resolution of those discrepancies.

Objective 2 - Determine if the Commission complied with the Department of Central Service's (DCS) Purchase Card Procedures.

Conclusion It appears the Commission is in compliance with DCS's Purchase Card Procedures.

Methodology To accomplish our objective, we performed the following:

- Reviewed Department of Central Services purchase card procedures;
- Reviewed 15 purchase card transactions and performed procedures to determine:
 - The transactions were not for split purchasing;
 - The transactions were not for prohibited purchases;
 - The transactions appeared to be supported by receipts and/or other supporting documentation and reconciled to the supporting monthly memos;
 - The memo statements were approved by the card holder, and by the approving official;
 - The transactions did not include state sales tax;
 - The transactions appeared reasonable given the Commission's mission.

Objective 3 - Determine the Commission's corrective actions for reportable conditions noted in the prior period's report were implemented.

Conclusion The Office of the State Auditor's report issued April 25, 2006, included two findings which were considered significant to this engagement. Corrective action on both of the findings appears to have been implemented.

Methodology To accomplish our objective, we performed the following:

- Reviewed 25 deposits to determine if funds were supported by a receipt;
- Reviewed six OSF-Form 11 monthly reconciliations to determine if someone other than the preparer was reviewing the agency clearing account reconciliations to ensure the amounts were mathematically correct and agreed to supporting documentation.



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