

OKLAHOMA SPACE INDUSTRY DEVELOPMENT AUTHORITY

JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Space Industry Development Authority**

**For the Period
January 1, 2006 through December 31, 2007**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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September 26, 2008

TO THE BOARD OF THE OKLAHOMA SPACE INDUSTRY DEVELOPMENT AUTHORITY

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Space Industry Development Authority for the period of January 1, 2006 through December 31, 2007. 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 R. DAY, ESQ.
DEPUTY STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Oklahoma Space Industry Development Authority (OSIDA) is to:

- Be aggressive, deliberate and forceful in the planning and development of spaceport facilities, launch systems, and projects, and to successfully promote and simulate the creation of space commerce, education, and space-related industries in Oklahoma;
- Create a licensed commercial spaceport in southwest Oklahoma to include facilities necessary for space launch operations and associated industries specialized in space-related activities;
- Create innovative partnerships with the private sector in order to establish new aerospace industries, enhance existing aerospace industries and retain a significant number of high paying/high tech jobs in Oklahoma;
- Promote and stimulate the creation of space-related education, research, recreational, and cultural initiatives in the public interest of Oklahoma;
- Enhance economic development of Oklahoma through added diversity of jobs and industries to the new space frontier.

Board Members

Don Rodolph	Authority Board Chairman
Joe King	Authority Board Vice-Chair
Louis Sims	Chair of Policy and Education Committee & Authority Board Member
Todd Russ	Chair of Budget & Personnel Committee & Authority Board Treasurer
Gilmer Capps	Authority Board Member
Jack Bonny	Authority Board Member
Ken McGill	Authority Board Member

Key Staff

Bill Khourie	Executive Director
Kim Vowell	Administrative Assistant

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TO THE BOARD OF THE OKLAHOMA SPACE INDUSTRY DEVELOPMENT AUTHORITY

We have audited the Oklahoma Space Industry Development Authority for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to determine if:

- The Board's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Board complied with 62 O.S. § 7.1, 74 O.S. § 5208(a), 74 O.S. § 5230, 74 O.S. § 5233 and the Department of Central Services' Purchase Card Procedures;
- Recommendations included in prior engagements 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.

A blue ink signature of Steve Burrage, written in a cursive style.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

A blue ink signature of Michelle R. Day, written in a cursive style.

MICHELLE R. DAY, ESQ.
DEPUTY STATE AUDITOR & INSPECTOR

August 29, 2008

Background

The Oklahoma Space Industry Development Authority (OSIDA) owns and operates the Clinton Sherman Airpark, which is a licensed spaceport. OSIDA's operations are governed by 74 O.S. § 5201 through 5237 and 74 O.S. § 5301 and 5302. Oversight is provided by a seven-member board appointed by the Governor. All but one board member must be a resident of this state. Each member appointed to serve on the Board must have experience in the aerospace or commercial space industry or finance, or have other significant relevant experience. OSIDA pays for its operations through the various fees generated from the operation of the Clinton Sherman Airpark and from state appropriations. The fees from the airpark include, but are not limited to, rental income and utility payments.

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

Table 1-Sources and Uses of Funds for FY 2006, and FY 2007		
Sources:	2006	2007
State Appropriations	\$523,264	\$528,571
Rent from Land	0	45,026
Rent from Buildings	0	105,348
Federal Grants-In-Aid	0	415,549
Sale of Utilities	0	28,706
Purchase Card Payment	0	106
Total Sources	<u>\$523,264</u>	<u>\$1,123,306</u>
Uses:		
Personnel Services	\$258,011	\$249,386
Professional Services	79,405	478,139
Travel	37,434	34,522
Miscellaneous Administrative	5,064	36,062
Rent	2,110	1,866
General Operating	4,104	1,680
Office Furniture and Equipment	7,696	3,214
Other	0	45,595
Total Uses	<u>\$393,824</u>	<u>\$850,464</u>

Source: Oklahoma CORE Accounting System.

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

Conclusion

OSIDA's internal controls generally provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations. However, several areas, as noted below, need to be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - **depositing requirements for agency clearing accounts and agency special accounts;**

- Documented internal controls related to the receipting, expenditure, and inventory processes;
- Tested controls which included:
 - Determining if employee time sheets were properly reviewed and approved;
 - Determining if checks were endorsed upon receipt;
 - Reviewing 20 deposits from the period to ensure the deposit slip was supported with the appropriate receipt log;
 - Determining if receipts were stored in a secure location prior to deposit;
 - Selecting 20 receivables posted from the period and determining if the payment posted had been deposited at the bank;
 - Reviewing 20 deposits to ensure the deposit was posted into CORE within one day of being deposited at the bank;
 - Reviewing a CORE deposit report for the period to ensure funds were being transferred from the Agency's clearing account to the revolving fund at least once per month;
 - Reviewing three OSF-Form 11 reconciliations to ensure the preparer and reviewer were independent of each other, the reconciling items were adequately supported, and the reconciliation was prepared in a timely manner;
 - Reviewing 40 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, and the correct account code was used. This sample also included three cell phone invoices which were reviewed to determine if cell phone usage appeared reasonable;
 - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
 - Determining if an inventory listing was maintained and contained the items' inventory tag number, description, cost, serial number (if applicable), and date sent to surplus (if applicable);
 - Reviewing five assets from the inventory listing to verify their existence on the floor, ensuring they were identified as property of the State, and ensuring the inventory tag number and serial number agreed to the listing;
 - Reviewing five assets from the floor to verify they were identified on the inventory listing, ensuring they were identified as property of the State, and ensuring the inventory tag number and serial number agreed to the listing;
 - Determining if portable equipment was properly secured and accounted for.

Observations

Segregation of Duties

An effective internal control system provides for adequate segregation of duties. The administrative assistant is responsible for the following:

- Receiving and endorsing checks delivered through the mail;
- Preparing the deposit without the review of another employee;
- Delivering the deposit to the bank;
- Posting the entry into the CORE system;
- Posting disbursements into CORE, receiving warrants from the Office of State Finance (OSF), and mailing warrants to the vendors;
- Requisitioning goods, creating the purchase orders, purchasing the goods, receiving the goods, and maintaining inventory records.

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

Recommendation: We recommend the OSIDA evaluate current procedures to determine if some duties could be re-assigned or if additional procedures could be implemented to strengthen internal controls in place. For example:

- Someone other than the administrative assistant could deliver the deposit to the bank. This person could also review the deposit in detail prior to delivery to the bank, including agreeing each check to a receipt log which lists each check received and the date received. The reviewer could initial the deposit slip to indicate their formal approval;
- The executive director could provide a detailed review of each claim prior to approval. This could include ensuring the invoice is mathematically accurate and agrees with the claim amount, as well as ensuring the correct account code and fund were used;
- An employee other than the administrative assistant could receive the warrants from OSF, match them to the appropriate invoices, and mail them to the vendors;
- Someone other than the employee responsible for initiating inventory transactions (purchasing and disposal) could maintain the inventory listing and conduct the inventory count.

Views of Responsible Officials: As per recommendation these duties will be segregated among additional employees as assigned by the Executive Director.

Incomplete Data on Inventory Listing

An effective internal control system provides for accurate and reliable records. During our procedures, we noted the following:

- OSIDA's inventory listing is incomplete. While performing floor to list testwork, we noted two Apple laptops were not included on the list.
- An annual physical inventory count is not performed. The administrative assistant reviews the agency's records to ensure that new items have been tagged and added to the inventory list each year. However, OSIDA is not conducting a complete physical inventory count to account for all assets.

Deficiencies such as these may lead to misappropriation of assets.

Recommendation: We recommend:

- A physical count of the inventory be conducted as soon as possible by an employee independent of the receiving or purchasing process. The inventory report should then be revised to accurately reflect OSIDA's inventory. Documentation of the count should be maintained, signed and dated by the employee performing the count as well as signed and dated by management to indicate their formal approval.
- Board management should establish and implement procedures to ensure physical inventory records are updated as soon as changes occur.

Views of Responsible Officials: Currently, a physical inventory of the inventory list is taken once a year before sending the annual listing to the Department of Central Services. The two Apple laptops were left off the inventory by the prior Executive Director and Administrative Assistant, responsible for the inventory. The current Administrative Assistant was not even aware the two computers existed as they are not used due to their current software format. The list will be updated to note the two Apple laptops. As per recommendation, the Executive Director will select an alternate employee to do the physical inventory.

Timely Completion of Reconciliations

According to the OSF Procedures Manual, Chapter 500, Section 510, the OSF Form 11 should be "...remitted to OSF on the 10th of each month following the reporting month regardless of the amount of activity." Two out of three reconciliations tested were not completed and approved within 10 days following the reporting month. Failure to timely prepare reconciliations could lead to errors or irregularities not being detected in a timely manner.

Recommendation: We recommend that the agency develop a formal process for completing the OSF Form 11 reconciliation by the 10th of the month following the reporting period and submit the report to OSF within the required timeframe.

Views of Responsible Officials: This has been done consistently since March 2008.

Objective 2 – Determine if the Board complied with 62 O.S. § 7.1, 74 O.S. § 5208, 74 O.S. § 5230, 74 O.S. § 5233, and the Department of Central Services’ (DCS) Purchase Card Procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - **depositing requirements for clearing accounts and agency special accounts**, interviewed the employee responsible for making deposits, and reviewed 20 deposits;
- Reviewed 74 O.S. § 5208 - **requires OSIDA’s treasurer to give a bond in a minimum amount of \$100,000**, and 74 O.S. § 5233 - **requires OSIDA to submit a report to the Governor showing anticipated projects, projects under construction and projects in operation, and the full financial condition of OSIDA within 90 days of the close of OSIDA’s fiscal year**, interviewed management, reviewed the agency board meeting minutes for the period, and reviewed OSIDA’s Government Crime Policy Coverage Summary;
- Reviewed 74 O.S. § 5230 - **requires board members to disclose their interest in any contracts with OSIDA**;
- Reviewed DCS Purchase Card Procedures;
- Reviewed the DCS Audit Unit’s purchase card review on OSIDA for the period of January 28, 2006 through January 29, 2007 and performed the procedures below for seven purchase card transactions to determine if the agency corrected the issues identified in that report:
 - Determined funds for the purchase card transactions were encumbered;
 - Determined the agency used merchant preference;
 - Determined the purchase card transactions were properly supported by documentation;
 - Determined travel card purchases were initialed and dated by the approving official on cardholder’s transaction log;
 - Determined transaction logs were signed by the cardholder;
 - Determined receiving documents were signed, dated and annotated received by the receiving employee;
 - Determined memo statements were signed by the cardholder and/or approving official indicating reconciliation with supporting invoices.

Conclusion

The agency is in compliance with 74 O.S. § 5230 and 74 O.S. § 5233. However, the agency is not in compliance with 74 O.S. § 5208 and 62 O.S. § 7.1. Furthermore, there are several issues identified in the DCS purchase card audit report that have not been corrected.

Observations

Compliance with 62 O.S. 7.1

62 O.S. § 7.1C states, “Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received.” Based on a discussion with the administrative assistant, the agency doesn’t always deposit receipts in excess of \$100.00 on the same banking day received.

Checks could be lost, altered, or stolen prior to deposit.

Recommendation: We recommend that the agency implement policy and procedures to ensure all receipts in excess of \$100.00 are deposited on the same banking day received.

Views of Responsible Officials: The agency will implement additional policies and procedures that will adhere to the prescribed recommendations.

Compliance with 74 O.S. § 5208

74 O.S. § 5208 (a) states, “The board of directors shall employ a person who is resident of the state as treasurer of the Oklahoma Space Industry Authority, who shall have charge of the funds of the Authority. Such funds shall be disbursed only upon the order of or pursuant to a resolution of the Board by warrant, check, authorization or automatic deposit signed or authorized by the treasurer or the treasurer’s representative or by such other persons as may be authorized by the Board. The Board may give the treasurer such other powers and duties as the Board may deem appropriate, and shall establish the treasurer’s compensation. The Board shall require the treasurer to give a bond in a minimum amount of One Hundred Thousand Dollars (\$100,000.00) and on such terms and with such sureties as may be deemed satisfactory to the Board to secure the performance by the treasurer of the powers and duties of the treasurer. . .”

Based on a discussion with management, we determined that the Executive Director is performing the duties described in this statute. We observed the Government Crime Policy Coverage Summary for OSIDA and noted that the policy was only for \$50,000. Failure to provide adequate bond coverage could result in a potential loss to the OSIDA.

Recommendation: We recommend that OSIDA obtain coverage for the Executive Director in the amount of \$100,000 to ensure compliance with 74 O.S. § 5208.

Views of Responsible Officials: The OSIDA Government Crime Policy Coverage Summary in the amount of \$50,000 is the amount that has been utilized since the inception of the agency, however, we will increase the amount to \$100,000 to ensure compliance with 74 O.S. § 5208.

Compliance with DCS Purchase Card Procedures

Section 6.7.1 of DCS’s Purchase Card Procedures states in part, “...The receiving document should be annotated “Received” and signed and dated by the receiving employee...”

Section 6.2.5.3 of DCS’s Purchase Card Procedures states in part, “State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.”

Based on procedures performed on seven purchase card transactions and discussion with employees, the following were noted:

- Two receipts for travel card purchases were not signed, dated, or annotated received;
- Merchant preference was not utilized on two transactions;
- The agency has not completed the purchase card refresher training recommended in the DCS purchase card audit report.

Recommendations: We recommend:

- The agency procurement officer attend the purchase card refresher training recommended in the DCS audit report dated May 14, 2007;
- The agency implement a review process to ensure compliance with State Purchase Card Procedures;

- The agency use merchant preference as set forth in the State of Oklahoma Purchase Card Procedures by regularly reviewing statewide contracts before making a p/card purchase.

Views of Responsible Officials: We have made a special effort to adhere to the Purchase Card Procedures and will continue to do so in the future. Additional PCard training will be taken by the two employees in the agency who have PCards.

Objective 3 – Determine if recommendations from prior engagements were implemented.

Conclusion

Based on review of the prior engagement report issued by the Office of the State Auditor on August 25, 2006, there were six findings noted. Based on follow up procedures, the finding related to purchase card receiving documents not being signed, dated, and/or annotated received and the finding related to the use of merchant preference as set forth in the State of Oklahoma Purchase Card Procedures have not been corrected and OSIDA remains in non-compliance.

Methodology

To accomplish our objective, we performed the following:

- Reviewed the Office of the State Auditor’s prior engagement report dated August 25, 2006;
- Reviewed the DCS purchase card audit report dated May 14, 2007;
- Reviewed seven purchase card transactions to determine if the agency had implemented their corrective action plans (see observations noted for objective 2);
- Documented internal controls over the expenditure process as discussed under Objective 1 in this report;
- Tested the expenditure controls by reviewing 40 expenditures as described in Objective 1 in this report.

Note: The Office of the State Auditor’s report issued August 25, 2006 should be read in conjunction with the observations noted below. The report may be accessed at www.sai.state.ok.us.

Other Items Noted

Code of Ethics

It is an agency’s responsibility to create a culture of honesty and ethics and to clearly communicate acceptable behavior and expectations of each employee. Such a culture is rooted in a strong set of core values that provides the foundation for employees as to how the agency conducts its business. During our assessment of internal controls, we noted OSIDA has not developed and implemented an official written policy addressing ethical behavior in the workplace. Without a written policy and procedure in place, employees may not be aware of management’s expectations regarding ethical behavior.

Recommendation: We recommend that OSIDA develop and implement a written policy regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring. Once developed, the policy should be distributed to all current employees and procedures should be implemented to provide the policy to all new employees.

View of Responsible Officials: The Executive Director verbally reviews acceptable ethical behavior practices with all new employees including scheduling classes with Oklahoma Civil Rights Office. A written policy regarding ethical behavior will be implemented to reduce the possibility of unethical behavior occurring in the workplace and additionally distributed to all current employees. The written policy will be signed, dated and returned to the Executive Director and kept in the employee’s personal file.



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