

OPERATIONAL AUDIT

OKLAHOMA SPACE INDUSTRY DEVELOPMENT AUTHORITY

For the period January 1, 2008 through August 31, 2011



*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

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

**For the Period
January 1, 2008 through August 31, 2011**



Oklahoma State Auditor & Inspector

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

May 1, 2012

**TO THE BOARD OF DIRECTORS OF THE
OKLAHOMA SPACE INDUSTRY DEVELOPMENT AUTHORITY**

This is the audit report of the Oklahoma Space Industry Development Authority for the period January 1, 2008 through August 31, 2011. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal line extending from the end.

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

Oklahoma Space Industry Development Authority Operational Audit

Background

The mission of the Oklahoma Space Industry Development Authority (Agency) is resolved to be aggressive, deliberate and forceful in the planning and development of spaceport facilities, launch systems and projects and to successfully promote and stimulate the creation of space commerce, education and space related industries in Oklahoma.

Oversight is provided by seven board members appointed by the governor and confirmed by the Senate. Each board member serves a term of four years or until a successor is appointed and qualified.

Board members are:

Jack Bonny.....	Chairman
Cal Hobson	Vice-Chairman
Gilmer Capps	Member
Louis Sims.	Member
Joe King.	Member
Darryl Murray	Member
Phil Kliewer	Member

Table 1 summarizes the Agency’s sources and uses of funds for state fiscal years 2011 and 2010 (July 1, 2009 through June 30, 2011).

Table 1 - Sources and Uses of Funds for SFY 2011 and SFY 2010

	2011	2010
Sources:		
Rent from Buildings	\$ 220,522	\$ 268,046
Reimbursements for Damaged Properties	-	272,869
Federal Grants-In-Aid	21,586	243,131
Contract Management Fee	244,004	-
Rent from Land	49,633	88,118
Sale of Utilities	79,936	37,523
Other Income From Moneya and Properties	16	152
Total Sources	<u>\$ 615,697</u>	<u>\$ 909,839</u>
Uses:		
Personnel Services	\$ 257,822	\$ 317,581
Professional Services	282,602	286,059
Travel	14,780	23,460
Miscellaneous Administrative	58,418	75,660
Maintenance and Repair	923,863	937,292
Buildings-Purchase, Construction, Rennovation	31,330	37,945
Other	7,258	7,973
Total Uses	<u>\$ 1,576,073</u>	<u>\$ 1,685,970</u>

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

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Purpose, Scope, and Sample Methodology

This 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.

The audit period covered was January 1, 2008 through August 31, 2011.

Sample methodologies can vary and are selected based on the audit objective and whether the total population data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective - Determine if the Agency's internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records; however, they do not provide the same assurance for manually received revenues and miscellaneous expenditures.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the receipting and expenditure (including payroll) processes through discussions with Agency personnel, observation, and review of documents.
- Tested controls using the following procedures:
 - Reviewing payroll documentation from 16 randomly selected months to determine whether payroll expenditures were approved and ensuring two employees' salaries from each of these months agreed to the PeopleSoft accounting system.
 - Reviewing all eight payroll changes from the audit period to ensure the changes were approved by the executive director and properly reflected in approved payroll expenditure documentation.

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Observation

Inadequate Segregation of Duties Related to Revenue Process-Repeat Finding

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*¹ states in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud. . . . No one individual should control all key aspects of a transaction."

The business and financial officer is responsible for:

- Preparing invoices which initiate revenues to the Agency
- Receipting payments
- Preparing deposits
- Posting receipts to an internal ledger as well as the PeopleSoft accounting system
- Performing monthly clearing account reconciliations

This lack of adequate segregation of duties due to the Agency's small size could allow errors and improprieties to occur and not be detected in a timely manner.

Recommendation

The executive director should develop a clear expectation of which monthly invoices (rental payments for land, buildings and utilities) should be created and review evidence they were delivered. Further, the executive director should perform a periodic review of applicable fees receipted and deposited to invoices issued, with follow-up on any invoices which are outstanding. Ideally, evidence of this review should be retained with the date and signature of the executive director noted.

If management decides not to implement this recommendation, other mitigating controls should be implemented.

Views of Responsible Officials

Currently, all invoices for lease payments for land, buildings and utilities are created monthly and checked against an accounts receivable and aging ledger before the invoices are delivered to the post office for mailing. The Executive Director will review on a routine basis all applicable fees receipted and deposited. The Executive Director will additionally sign and date documentation.

¹ Even though this publication addressed 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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Inadequate Segregation of Duties Related to Expenditures-Repeat Finding

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*¹ states in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud. . . . No one individual should control all key aspects of a transaction."

The business and finance officer is responsible for:

- Posting expenditures to the PeopleSoft accounting system
- Receiving and mailing warrants

The executive director reviews the invoices and signs the voucher jackets presented to him. However, he has no assurance that all expenditures have been approved and are appropriate given the mission of the Agency.

This lack of adequate segregation of duties due to the Agency's small size could allow errors and improprieties to occur and not be detected in a timely manner.

Recommendation

Different options exist for reducing the risks associated with this deficiency. Management should implement one of the following:

- Review of PeopleSoft's "six digit detail expenditure report" by the executive director to ensure the expenditures are appropriate given the mission of the Agency.
- Review of the printed warrants against approved invoices by the executive director.

If management decides not to implement either recommendation, other mitigating controls should be implemented.

Views of Responsible Officials

The Treasurer's Report² reflects the OCAP0312 Six Digit Expenditure Detail Report. The executive director reviews the details related to the report for discrepancies prior to the report being generated to ensure expenditures are appropriate and related to the mission of the agency.

A review of the PeopleSoft's six digit detail expenditure report (OCAP0312) will be additionally reviewed prior to generating the Treasurer's Report as part of the check list.

² The treasurer's report is an internal document created by the Agency.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV