



# Florida Department of TRANSPORTATION

## Office of Inspector General

Robert E. Clift, Inspector General 

Attestation Report No. 13I-3004  
Space Florida – Joint Participation Agreement AQJ66

July 31, 2015

### EXECUTIVE SUMMARY

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The Florida Department of Transportation's (department) Office of Inspector General (OIG) conducted an examination of Joint Participation Agreement (JPA) AQJ66 between the department's District Five (district) and Space Florida. JPA AQJ66, effective December 27, 2011, through February 1, 2014, supported Florida's commercial space transportation industry by providing financial assistance for the design and construction of a payload integration and encapsulation facility located at Cape Canaveral Spaceport in Brevard County, Florida. We conducted this examination as part of the OIG's annual audit plan.

This project totaled ten million dollars. The department contributed 50 percent through grant recipient Space Florida, and subrecipient Space Exploration Technologies (SpaceX) contributed 50 percent.

Our examination of three invoice summaries and supporting documentation submitted for department reimbursement concluded that costs charged to JPA AQJ66 were reasonable, allowable, adequately supported, and in compliance with applicable procurement guidelines. District Five, its consultants, and Space Florida maintained comprehensive project files and demonstrated compliance with the spirit and intent of administrative requirements specified in the JPA, and in applicable statutes, rules, and procedures.

During our review of applicable governing authorities and processes, **we determined** there are inconsistencies pertaining to the Florida Single Audit Act (FSAA) and related monitoring activities. Discrepancies exist among the subrecipient monitoring requirements found in section 215.97, Florida Statutes (F.S.), and the FSAA guidelines provided to Space Florida via terms of the agreement, the Catalog of State Financial Assistance (CSFA), and the CSFA supplementary Matrix of Compliance Requirements.

In addition, **we observed** an area in which providing additional information regarding Space Florida's operations in Rule Chapter 57 of the Florida Administrative Code (F.A.C.), to explain the openness, fairness, and competitiveness of the grant process would enhance the transparency of Space Florida's grant process (the process by which Space Florida awards funding to private entities).

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## **BACKGROUND**

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In 2006, the Florida Legislature consolidated Florida's three existing space entities into a single new entity, Space Florida, via the implementation of Chapter 331, Part II, F.S., commonly referred to as the Space Florida Act. Space Florida (an independent special district, body politic and corporate, and subdivision of the State of Florida)<sup>1</sup> serves as the single point of contact for all space-related functions throughout the state. One of the department's duties is to further develop and improve Florida's aerospace facilities in accordance with Florida Statute.<sup>2</sup>

Joint Participation Agreement AQJ66, executed December 27, 2011, between Space Florida and the department, was a state-funded ten million dollar project that received 50 percent (five million dollars) of its funding through a state legislatively appropriated infrastructure grant award.<sup>3</sup> Space Exploration Technologies (SpaceX), subrecipient of department grant funds and lessee of the United States Air Force-owned (USAF) Launch Complex Forty (LC 40), also provided five million dollars of project costs. The contract's original expiration date was June 30, 2013; however, two requests for time extensions amended the completion date to February 1, 2014.

This agreement (JPA AQJ66) provided funding for the design, engineering, and construction of a 17,000 square foot Payload Integration and Encapsulation Facility located on LC 40 at Cape Canaveral Spaceport. The new facility enhanced spacecraft launch capabilities by providing an airlock/encapsulation bay, 100,000 class cleanrooms,<sup>4</sup> and hazardous fueling capability.<sup>5</sup> Per JPA terms, SpaceX conducted the design and construction activities. Monitoring and oversight activities were conducted by consultants, Space Florida, and the district's project manager.

## **RESULTS OF EXAMINATION**

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The **purpose** of the examination was to test the district's monitoring of Space Florida's compliance with JPA project requirements and applicable rules, regulations, and procedures; verify whether procurement procedures were carried out in accordance with applicable guidelines; and determine if invoiced costs were reasonable, allowable, and adequately supported.

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<sup>1</sup> Section 331.302(1), F.S.

<sup>2</sup> Section 331.360, F.S.

<sup>3</sup> Grants for Space Florida projects were originally assigned CSFA 31.004. This CSFA number applied to the Executive Office of the Governor rather than the department. In 2013, since Space Florida is a part of the department's Aviation Development Grants, CSFA 55.004 was assigned.

<sup>4</sup> The Institute of Environmental Sciences and Technology (Illinois) defines a Cleanroom as a specially designed and constructed room in which, "the air supply, air distribution, filtration of air supply, materials of construction, and operating procedures, are regulated to control airborne particle concentrations to meet appropriate cleanliness levels."

<sup>5</sup> JPA AQJ66, Exhibit A, Part II, "Project Justification."

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Total expenditures incurred during our test period of December 27, 2011, to December 31, 2012, were \$3,485,311. We judgmentally selected to examine three invoice summaries (numbers one, four, and five), which represent \$1,731,699 (50%) of the total expenditures during the test period. **We determined** invoice backup documentation was sufficient and substantiated invoiced costs. Project expenses submitted for reimbursement were reasonable, allowable, and adequately supported.

We also examined the oversight and monitoring activities conducted by the district and Space Florida.

Oversight and monitoring activities required by the district included:

- Inserting specific language in agreements with Space Florida as needed to comply with the FSAA;
- Completing the State Project Determination Checklist;<sup>6</sup>
- Completing the FSAA Checklist for Non-State Organizations- Recipient/Subrecipient vs. Vendor Determination (FSAA Checklist);<sup>7</sup>
- Conducting and maintaining documentation of quarterly site visits;
- Verifying accuracy of activity reports submitted by Space Florida;
- Reviewing invoices and supporting documentation submitted with reimbursement requests to ensure allowability of costs; and
- Verifying deliverables in writing prior to authorizing reimbursement to Space Florida.

Oversight and monitoring activities required by Space Florida included:

- Inserting specific language in agreements with subrecipient SpaceX as needed to comply with the FSAA;
- Completing the FSAA Checklist;
- Conducting quarterly site inspections during the construction period;
- Submitting quarterly activity reports to the district;
- Verifying payment from SpaceX to their subcontractors;
- Supplementing reimbursement requests to the district with detailed invoices, confirmation of deliverables, and evidence of payment to SpaceX; and
- Performing a final inspection of the completed project.

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<sup>6</sup> Form DFS-A2-PD

<sup>7</sup> Form DFS-A2-NS

**Finding 1 – Compliance with Monitoring Procedures**

<b>Objective</b>	Assess the district's compliance with applicable monitoring requirements.
<b>Conclusion</b>	We determined there are inconsistencies related to the Florida Single Audit Act and subrecipient monitoring requirements found in section 215.97, Florida Statutes (F.S.), and the FSAA guidelines provided to Space Florida via terms of JPA AQJ66, the Catalog of State Financial Assistance (CSFA), and the CSFA supplementary Matrix of Compliance Requirements.
<b>Condition (Supporting Evidence)</b>	<ul style="list-style-type: none"><li>• The CSFA number assigned to this project (CSFA 55.004) was established for aviation grants to which subrecipient monitoring is not applicable.</li><li>• Space Florida reported the five million dollars of state/department-funded infrastructure grant expenditures (department's share of JPA AQJ66) on their audited financial statements, Schedule of State Financial Assistance. However, Space Florida did not capitalize the assets (leasehold improvements on federal land) resulting from the five million dollars of state funds provided to SpaceX.</li><li>• SpaceX capitalized the leasehold improvements resulting from the activities of JPA AQJ66 (including the 50 percent match provided as required per the terms of the agreement between Space Florida and SpaceX); however, SpaceX did not report the expenditures in an audited financial statement, Schedule of State Financial Assistance.</li><li>• JPA AQJ66 contained the Florida Single Audit Act Requirements as did the agreement between Space Florida and SpaceX.</li><li>• The district's FSAA Checklist determined there to be a recipient relationship between the department and Space Florida.</li><li>• Space Florida's FSAA Checklist determined SpaceX to be a vendor not subject to the Florida Single Audit Act; however, Space Florida stated they do not consider SpaceX to be a third party vendor; they consider SpaceX to be a grant recipient (which would require single audit reporting).</li></ul>

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- A vendor is defined as, "...a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a state project. These goods or services may be for an organization's own use or for the use of beneficiaries of the state project."<sup>8</sup> Although the district's FSAA Checklist does not classify Space Florida as a vendor, JPA AQJ66 section 11.9, Vendor Rights, refers to Space Florida (the "Public Agency") in the following manner, "The Public Agency which is providing goods and services to the department..."

**Criteria**

FSAA, section 215.97(2)(a), F.S., states, "Each nonstate entity that expends a total amount of state financial assistance equal to or in excess of \$500,000 in any fiscal year of such nonstate entity shall be required to have a state single audit, or a project-specific audit, for such fiscal year in accordance with the requirements of this section."

**Cause**

The CSFA number assigned to this project (CSFA 50.004) was established for aviation grants to which subrecipient monitoring is not applicable.<sup>9</sup> Aerospace grants classified in this manner may provide incorrect subrecipient monitoring guidance.

**Effect (Impact)**

The correct Recipient/Subrecipient vs. Vendor determination is essential due to the additional monitoring requirements placed upon recipients or pass-through entities (Space Florida) and accountability requirements placed upon subrecipients (SpaceX).

**Recommendation**

The District Five Public Transportation Manager should work with Space Florida and the department's Central Office Grant Management section to review the Vendor/Subrecipient determination, compliance with the FSAA, and whether Aerospace grants should be assigned a new CSFA Number.

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<sup>8</sup> Section 215.97(2)(y), F.S.

<sup>9</sup> Subrecipient monitoring of SpaceX is not applicable to Space Florida, per the Fiscal Year 2013-14, FSAA Matrix of Compliance Requirements.

## Observation 1

During our review of Space Florida's governing authorities and processes, we identified an area in which additional information would benefit prospective aerospace vendors and the public. **We observed** that Rule Chapter 57, of the Florida Administrative Code (F.A.C.) regarding Space Florida's operations does not thoroughly describe Space Florida's current Spaceport Grant Process. The projects funded by Space Florida are proprietary and are not procured in accordance with Chapter 287, F.S., Procurement of Personal Property and Services. The process used by Space Florida to fund projects of private entities is dependent upon entities submitting unique ideas<sup>10</sup> (no two projects are the same) and the unique projects are ranked to determine which projects will be pursued. High-ranking projects are placed on the department's work program, subjected to public hearing, and become part of the department's budget submitted for legislative approval.

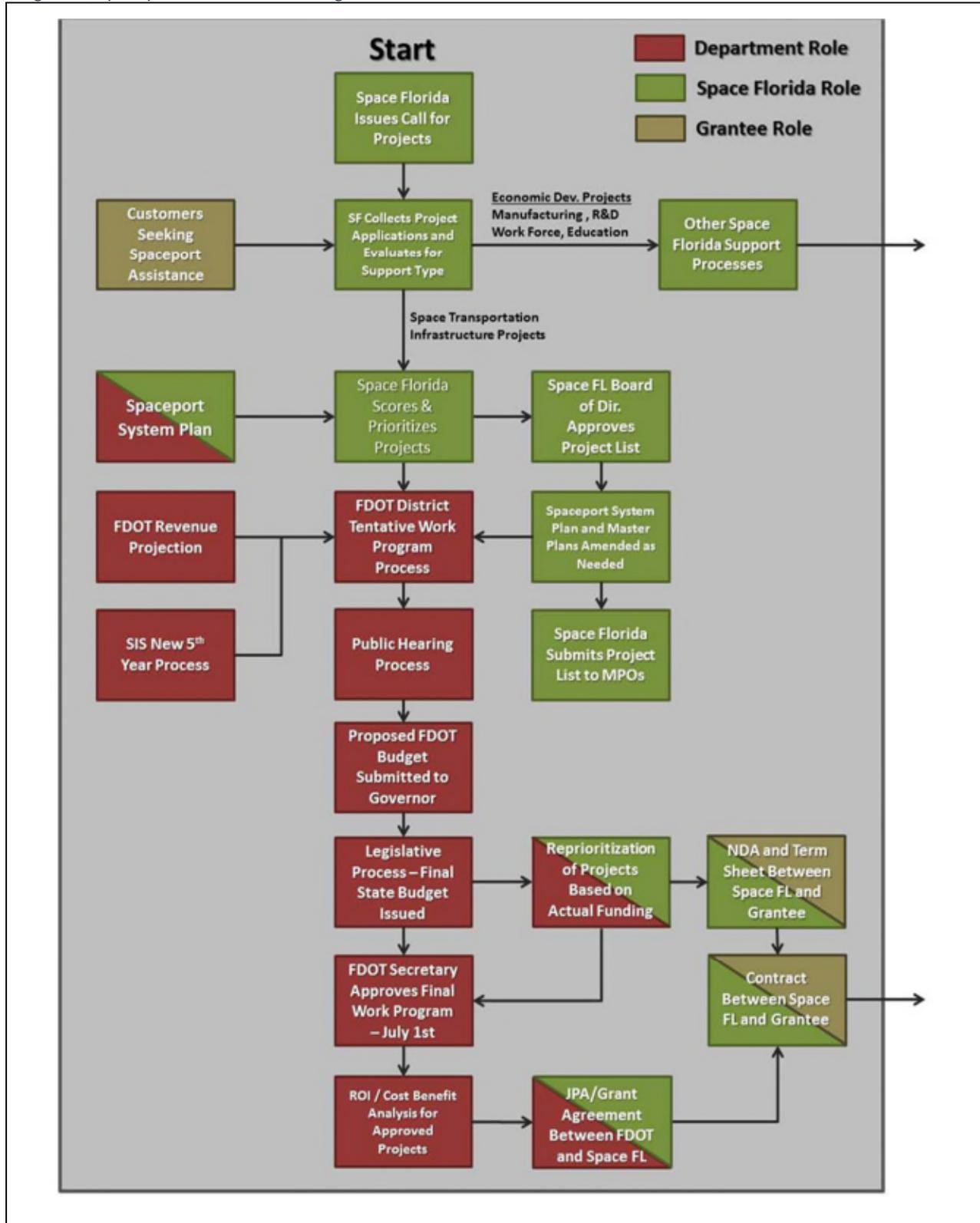
The Spaceport Grant Process Diagram on the next page (Figure 1) provides further details of Space Florida's unique grant process. Updating Rule Chapter 57, F.A.C, to explain the openness, fairness, and competitiveness of the grant process would enhance the transparency of Space Florida's grant process.

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<sup>10</sup> Space Florida's grant application process ("Call for Projects") is explained on their website.

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Figure 1, Spaceport Grant Process Diagram.



Source: The Florida Spaceports Project Handbook, page 9, April 2014

**APPENDIX A – Independent Accountant’s Report**

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We have examined Space Florida’s billings, supporting documentation, and compliance with JPA AQJ66 for the period December 27, 2011, through December 31, 2012. Space Florida is responsible for complying with the requirements of JPA AQJ66. Our responsibility is to express an opinion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, and standards applicable to Attestation Engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, this engagement included examining, on a test basis, evidence supporting Space Florida’s billings, and performing other procedures as we considered necessary. We believe our examination provides a reasonable basis for our opinion.

In our opinion, Space Florida’s billings for JPA AQJ66 comply with the audited terms of the contract and related criteria and present, in all material respects, allowable expenses for the period December 27, 2011, through December 31, 2012.

## **APPENDIX B – Purpose, Scope, and Methodology**

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Section 20.055, Florida Statutes, requires the OIG to conduct audits, examinations, investigations, and management reviews related to programs and operations of the department. We performed this examination as part of the OIG’s mission to promote accountability, integrity, and efficiency for the citizens of Florida by providing objective and timely audit and investigative services.

The **purpose** of the examination was to assess compliance with applicable rules, statutes, policies, and terms of JPA AQJ66, and the reasonableness and allowability of the claimed and reimbursed costs.

The **scope** of our examination consisted of examining documentation relative to the costs invoiced to the department for JPA AQJ66 from December 27, 2011, through December 31, 2012. We judgmentally selected three invoice summaries (numbers one, four, and five) and supporting documentation.

Our **methodology** consisted of interviewing appropriate personnel, and reviewing:

- JPA AQJ66, and two requests for time extensions;
- Fixed Price Agreement No. 12-031 between Space Florida and SpaceX;
- the Space Transportation Infrastructure Grant Application for this project;
- Space Florida’s general ledger detail and the Florida Accounting Information Resource (FLAIR) system;
- three invoice summaries (numbers one, four, and five) and supporting documentation;
- Chapter 189, Uniform Special District Accountability Act, F.S.;
- Chapter 331, Part II, The Space Florida Act, F.S.;
- section 215.97, Florida Single Audit Act, F.S.;
- Rule Chapter 57-20, Organization, F.A.C.;
- Rule Chapter 57-50, Travel and Entertainment Expense Reimbursement, F.A.C.;
- Rule Chapter 57-60, Vendors, F.A.C.;
- Rule Chapter 57-70, Space Florida Operations, F.A.C.;
- the Department of Financial Services’ Reference Guide for State Expenditures;
- the Department of Financial Services’ State of Florida Contract and Grant User Guide;
- the Florida Spaceports Funding Handbook (April 2014);
- the 2010 Spaceport Master Plan; and
- the 2010 and 2012 Space Florida Governance Policies, processes, and other related items.

**APPENDIX C – Space Florida’s Response**

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On June 22, 2015, Denise Swanson, Space Florida Vice President of Administration and CFO, provided a reply to the draft report stating that Space Florida had no comments.

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APPENDIX D – Management Response



*Florida Department of Transportation*

RICK SCOTT  
GOVERNOR

719 South Woodland Boulevard  
DeLand, Florida 32720

JIM BOXOLD  
SECRETARY

**MEMORANDUM**

**DATE:** July 17, 2015  
**TO:** Ms. Lisa Tessier, Intermodal Audit Manager  
**FROM:** Noranne Downs, P.E., District Five Secretary   
**COPIES:** Frank J. O'Dea, Susan Sadighi, Jim Wikstrom  
**SUBJECT:** Joint Participation Agreement AQJ66 between District Five and Space Florida –  
Attestation Report No. 13I-3004

In regards to the subject audit, District Five appreciates your review of our Aviation program and the opportunity to comment on your findings and recommendations.

We concur with the findings and recommendations that the District Five Public Transportation Manager should work with Space Florida and the department's Central Office Grant Management section to review the Vendor/Subrecipient determination, compliance with the FSAA, and whether Aerospace grants should be assigned a new CSFA Number.

We have initiated discussions with the Aviation and Spaceports Office regarding the Florida Single Audit Act (FSAA) requirements for Space Florida grants and will continue to work with Space Florida for compliance. The CSFA Number 55.004, Aviation Development Grants, was revised and updated to include Space Florida and is currently being used on all Space Florida grants. We will continue to discuss with Central Office whether a new CSFA Number for Space Florida projects should be assigned or if CSFA 55.004 would be sufficient as currently written or require updating prior to issuing any further grants to Space Florida.

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**DISTRIBUTION, PROJECT TEAM, AND STATEMENT OF ACCORDANCE**

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**Action Distribution:**

Noranne Downs, P.E., District Five Secretary

**Information Distribution:**

Jim Boxold, Secretary of Transportation

Mike Dew, Chief of Staff

Richard Biter, Assistant Secretary for Intermodal Systems Development

Brad Swanson, State Freight and Logistics Administrator

Rachel Cone, Assistant Secretary for Finance and Administration

Robin Naitove, Comptroller

Lisa Wilkerson, Purchasing Specialist Supervisor

Melinda Miguel, Chief Inspector General, Executive Office of the Governor

Frank DiBello, Space Florida President and CEO

**Project Team:**

Engagement was conducted by Melynda Childree

Under the supervision of:

Intermodal Audit Manager; and

Kristofer B. Sullivan, Director of Audit

Approved by: Robert E. Clift, Inspector General

**Statement of Accordance**

*The mission of the department is  
to provide a safe transportation system that ensures the mobility of people and goods,  
enhances economic prosperity, and preserves the quality of our environment and communities.*

*The mission of the Office of Inspector General is  
to promote integrity, accountability, and process improvement in the Department of  
Transportation by providing objective fact-based assessments to the DOT team.*

This work product was prepared pursuant to section 20.055, Florida Statutes, in accordance with the applicable Principles and Standards for Offices of Inspectors General as published by the Association of Inspectors General, and the American Institute of Certified Public Accountants, and standards contained in Government Auditing Standards issued by the Comptroller General of the United States.

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