



Audit of Airport Passenger Facility Charges (PFC)

October 2019

A Report to the
Jackson County
Board of Commissioners

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To: Board of Commissioners
From: Eric Spivak, County Auditor
Subject: Passenger Facility Charges (PFC) Compliance Audit
Date: October 14, 2019

The attached report provides information regarding the audit over passenger facility charges (PFC). The objectives of the audit were to determine if:

- The Airport maintained internal controls that reasonably ensured compliance with passenger facility charges (PFC) federal requirements; and
- The Airport complied with certain laws, regulations, and additional requirements issued by the Federal Aviation Administration (FAA) that may have a direct and material effect on the PFC program.

We found that the Airport maintained internal controls and complied with PFC requirements. The audit was included in the fiscal year 2019-20 Internal Audit Plan, and the work was performed in support of the County's annual external financial audit.

The Internal Audit Program appreciates the cooperation and assistance it received from Airport staff throughout the audit process.

C: Audit Committee
Jerry Brienza, Airport Director
Moss Adams, LLP

AIRPORT PASSENGER FACILITY CHARGES (PFC)

Audit Authority We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was included in the fiscal year 2019-20 Internal Audit Plan as part of the work performed annually in support of the County’s external audit.

Audit Background Title 49, US Code Section 40117, authorizes the Secretary of Transportation (further delegated to the Federal Aviation Administration (FAA) Administrator) to approve the local imposition of an airport passenger facility charge (PFC) of up to \$4.50 per enplaned passenger for use on certain airport projects. The revenue is collected by air carriers on behalf of an airport, and subsequently remitted to that airport. The FAA has granted the Jackson County Airport the authority to impose and use PFC revenue on approved projects. The Code of Federal Regulations Title 14: Aeronautics and Space, Part 158 – Passenger Facility Charges (PFC) §158.67 Recordkeeping and auditing, requires at least annually an audit of the Airport’s PFC.

In fiscal year 2018-19 the Airport received \$1,994,568 in passenger facility charges (PFC) revenue from air carriers, and earned \$96,120 in interest income. For the same period, the Airport used accumulated PFC revenue to pay PFC related administrative costs and to pay debt service.

Audit Objectives The objectives of the audit were to determine if:

- The Airport maintained internal controls that reasonably ensured compliance with passenger facility charges (PFC) federal requirements; and
- The Airport complied with certain laws, regulations, and additional requirements issued by the Federal Aviation Administration (FAA) that may have a direct and material effect on the PFC program.¹

¹ We do this audit in support of the County’s external audit, as such our external auditors may perform additional audit procedures.

Audit Scope & Methodology

We reviewed the receipt and usage of passenger facility charges (PFC) for fiscal year 2018-19. We focused our review of internal control on ensuring that there was adequate authorization and approval of transactions, that review of remittances occurred, and that the consultant’s contract to provide services had been approved by those charged with governance.

Our audit procedures included:

- Reviewing FAA *Passenger Facility Charge Audit Guide for Public Agencies* and applying appropriate audit procedures;
- Selecting a sample of 25 PFC receipts and reviewing the transactions;²
- Reviewing 100% of the administrative and application expense transactions and half of the debt service payments;
- Gaining an understanding of the Airport’s internal controls over passenger facility charges (PFC);
- Reviewing PFC applications pertaining to approved PFC projects; and
- Comparing revenue and expenditure amounts recorded in the County’s financial system to the amounts reported to the FAA.

Audit Criteria

Criteria for the audit of passenger facility charges (PFC) included PFC requirements listed in the Code of Federal Regulations Title 14 Aeronautics and Space, Part 158 – *Passenger Facility Charges*; Final Agency Approvals for PFC grant applications; and the Federal Aviation Administration’s *Passenger Facility Charge Audit Guide for Public Agencies*, revised September 2000. The audit guide focuses on the following six categories to be reviewed:

1. **Project Cost Allowability** – PFC revenue may be used only to finance the allowable costs of FAA approved projects.
2. **Eligibility Limitations** – Limitations can be placed on the usage of PFC revenue when it is used in conjunction with Airport Improvement Program federal monies.

² The sample size of 25 was selected with guidance from the County’s external audit firm.

3. **PFC Funds Used as Matching** – PFC can be used to meet matching requirements of the Airport Improvement Program and such usage should be reviewed in accordance with those requirements.
4. **Additional Program Requirements** – PFC revenue must be deposited in interest bearing accounts, the interest earned must be used like other PFC monies, and the interest must be recognized as PFC revenue. Separate accounting records must be maintained for each approved PFC application and any excess PFC revenue must be used in accordance with FAA requirements.
5. **Special Notification and Reporting Requirements** – The Airport is required to notify the air carriers of PFC collection rates approved by the FAA and of any changes in the expiration date. The Airport must report PFC collection and usage quarterly to the air carriers and FAA. The Airport must also track air carrier remittances and reporting and then notify air carriers of their obligations when the remittances and reporting are not in accordance with FAA requirements.
6. **Compliance with PFC Assurances** – Leasing of Airport terminal facilities to air carriers and calculation of air carriers’ rates and charges.

***Corrective Action
on Prior Year Audit
Findings***

We did not have any audit recommendations in our fiscal year 2017-18 Airport Passenger Facility Charges (PFC) audit report.

***Compliance with
Government
Auditing
Standards***

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit 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. Additionally, the standards address the importance that auditors be independent of management. The Internal Audit program operates in compliance with generally accepted government auditing independence standard for internal audit shops.

Confidential or Sensitive Information

We did not withhold any information from this report because it was considered confidential or sensitive.

Audit Results

Adequacy of Internal Controls

The Airport maintained internal controls that reasonably ensured compliance with passenger facility charges (PFC) federal requirements.

Compliance with Federal Aviation Administration Requirements

The Airport complied with the laws, regulations, and additional requirements issued by the Federal Aviation Administration (FAA) that may have a direct and material effect on the PFC program.

Jackson County

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