



# JACKSON COUNTY

*Oregon*

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## **Internal Audit Report**

### **Audit of Airport Passenger Facility Charges (PFC)**

**FY 2009-10**

**December 15, 2010**

**Presented To The  
Jackson County Board of Commissioners  
By The  
Internal Audit Program**

#### **Audit Team**

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**To:** Board of Commissioners  
**From:** Debbie Taylor, County Auditor *Debbie Taylor*  
**Subject:** Airport Passenger Facility Charges Audit  
**Date:** December 15, 2010

The attached audit report provides information concerning an audit of the Airport's Passenger Facility Charges. The audit was included in the fiscal year 2010-11 Internal Audit Plan, and the work was performed in conjunction with the county's annual external financial audit.

The results have been discussed with Airport Director Bern Case and Airport Deputy Director of Administration Marcy Black. The Airport Director's response is included at the end of the report. The audit also was discussed with the county's Audit Committee.

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

C: Bern Case, Airport Director  
Marcy Black, Airport Deputy Director of Administration  
Audit Committee  
Kenneth Kuhns & Co.



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**Jackson County  
Audit of Airport Passenger Facility Charges (PFC)  
Fiscal Year 2009-10**

**Audit Authority**

Our audit was conducted in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was included in the Fiscal Year 2010-11 Internal Audit Plan as part of the work performed annually for 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 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 federal legislation allows airports to use PFC funds to meet money match requirements of federal Airport Improvement Program (AIP) grants for aviation related capital improvement. The revenue is collected by air carriers on behalf of a public agency, and subsequently remitted to the airport. Expenditures of PFC funds must be approved by the Federal Aviation Administration.

In fiscal year 2009-10 the Airport received \$1,170,854.67 in revenue from PFC funds. Of this, \$1,148,270.48 was remitted by the airlines and \$22,584.19 was earned in interest. For the same period, the Airport reported \$1,472,229.95 of expense to the FAA as shown below.

**Fiscal Year 2008-09 Expenditures Reported to the FAA on PFC Projects**

<b>Project</b>	<b>Description</b>	<b>FY 2009-10 Expense*</b>
1581	Terminal/Airside Only AIP Grant 30 Match	55.18
1580	Terminal/Airside AIP Grant 31 Match	3,224.85
1580	Terminal/Airside AIP Grant 32 Match	137.30
1580	Terminal/Airside AIP Grant 34 Match	85,256.95
1580	Terminal/Airside AIP Grant 35 Match	48,179.24
	PFC Only – Not AIP Match	1,335,376.43
	<b>Total FY 2009-10 PFC Project Expense</b>	<b>1,472,229.95</b>

\*Amount reported to FAA differs from amount reported in E1 financial system in FY 2009-10 by \$318.89 due to timing issues associated with year-end closing.

**Audit Objective**

The objectives of our audit were to determine if:

- The Airport maintained internal controls that reasonably ensured compliance with Passenger Facility Charge requirements;
- The Airport used PFCs as a match to federal Airport Improvement Program (AIP) grants in accordance with matching conditions listed in the grant agreements, or for an approved PFC project unrelated to an AIP match.

- The Airport submitted reports to the Federal Aviation Administration (FAA) that fairly reflect expenses recorded in the county's financial system.
- The Airport complied with laws, regulations, and applicable PFC Record of Decisions (Applications) issued by the FAA.

### **Scope & Methodology**

We reviewed all FY 2009-10 expenses for reasonableness and several were selected for detailed testing. The sample included \$48,600.84 of grant expenses, which represented 3.3% of the total PFC expenses for the fiscal year. Our audit procedures included:

- Reviewing FAA Passenger Facility Charge Audit Guide and applying appropriate audit procedures;
- Reviewing internal controls pertaining to each of the A-133 compliance requirements with the Airport's administrative manager;
- Reviewing Airport Improvement Program grant agreements for matching requirements and reviewing related matching calculations;
- Reviewing PFC applications pertaining to approved PFC projects;
- Reviewing FY 2009-10 detail ledgers and project reports for Passenger Facility Charge Fund 503;
- Reviewing Airport prepared spreadsheets showing allocations to AIP grants, PFC matches, retainages, and non-grant eligible expenses;
- Comparing Airport prepared information to financial system records;
- Comparing financial system amounts to amounts reported and submitted quarterly to the FAA;
- Reviewing reconciling items relating to yearend timing differences;
- Other activities as considered appropriate.

### **Audit Criteria**

Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria for our audit of PFC funds included the requirements listed in the Federal Aviation Administration's Passenger Facility Charge Audit Guide for Public Agencies, revised September 2000, and the Code of Federal Regulations Part 158 – Passenger Facility Charges (PFC's).

In addition, since PFC funds were used as a match to federal Airport Improvement Program (AIP) grants for the new passenger terminal project, criteria for our audit also included federal OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", requirements listed in the Catalogue of Federal Domestic Assistance Program #20.106, "Airport Improvement Program", and the grant assurances for grants 30,31,32, 34, and 35.

### **Internal Controls**

Entities receiving federal awards must design and maintain internal controls that reasonably ensure compliance with federal laws, regulations and program compliance requirements.

The objectives of internal control pertaining to the PFC A-133 compliance requirements are as follows:

- (1) Transactions are properly recorded and accounted for to:
  - (i) Permit the preparation of reliable financial statements and federal reports;
  - (ii) Maintain accountability over assets; and
  - (iii) Demonstrate compliance with laws, regulations and other compliance requirements.
- (2) Transactions are executed in compliance with:
  - (i) Laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program; and
  - (ii) Any other laws and regulations that are identified in the compliance supplements; and
- (3) Funds, property and other assets are safeguarded against loss from unauthorized use or disposition.

### **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 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.

### **Privileged & Confidential Information**

We did not withhold any information from this report for privileged or confidentiality reasons.

### **Corrective Actions On Prior Year Audit Findings**

We did not make any recommendations in our FY 2008-09 Airport Passenger Facility Charges (PFC) Audit.

### **Audit Results**

#### ***General Findings:***

- The Airport maintained internal controls that reasonably ensured compliance with Passenger Facility Charge requirements.
- The Airport used PFCs as a match to federal Airport Improvement Program (AIP) grants in accordance with matching conditions listed in the grant agreements, or for an approved PFC project unrelated to an AIP match.
- The Airport submitted reports to the Federal Aviation Administration (FAA) that fairly reflect expenses recorded in the county's financial system.
- The Airport complied with laws, regulations, and applicable PFC Record of Decisions issued by the FAA.

## **Detailed Findings**

The following detailed findings pertain to compliance with Code of Federal Regulations Title 14 Aeronautics and Space, Part 158 – Passenger Facility Charges, and requirements found in the FAA’s Passenger Facility Charge Audit Guide for Public Agencies.

### **A. Project Cost Allowability**

<b>Audit Objective:</b> Ascertain compliance with the provisions of 14 CFR Part 158 pertaining to project cost allowability.
We reviewed the Record of Decision and PFC Application #9 and #10 to determine the projects approved for the imposition of a PFC, those approved for the use of PFC revenue, and all specific conditions of approval.
Procedures exist to reasonably assure that PFC revenue, including interest earned thereon, is only expended on approved projects. PFC revenues and expenses are accounted for in Fund 503, an account group within the Airport Enterprise Fund. PFC revenues are invested in interest bearing accounts or other investments as allowed by Oregon Revised Statute. Interest is allocated to the fund according to county procedure. Each approved PFC project is assigned a unique account code for revenue and a unique project number for expenses to facilitate tracking revenue and costs.
We performed testing on a sample basis to ascertain that costs claimed were authorized by the PFC approval in the Record of Decision or subsequent applications and are supported by source documentation. We also reviewed detail of PFC project costs and compared them to approved projects listed in the Record of Decision or subsequent PFC applications.
We examined the detail ledger and a sample of payment packages to confirm that program expenses claimed were allowable program costs.

### **B. Eligibility Limitations**

<b>Audit Objective:</b> Ascertain that the public agency has complied with limits placed on project eligibility.
Eligibility is determined by the FAA as part of the approval process and is outlined in the Record of Decision and Application #9 and #10. Actual costs are compared to approved PFC project amounts. These are recorded on the quarterly PFC reports.
We reviewed the Record of Decision, Application #9 and #10, and supporting documentation of expenses. We determined that limits placed on eligibility were complied with and that expenses claimed against PFC revenues were allowed.

### **C. PFC Funds Used As Matching Share or As Supplemental To AIP Funded Projects**

<b>Audit Objective:</b> Determine that PFC funds designated for AIP “local match” or as supplemental to AIP funding are reviewed and approved under the PFC requirements.
PFC revenues are being used as a match for AIP Grants 30, 31, 32,34 and 35.
We reviewed AIP Grants and determined that the match for each grant is 5% of eligible charges.

#### D. Additional Program Requirements

##### Compliance Requirement 1

**Audit Objective:** Ascertain that PFC revenue remitted to the public agency is deposited in accordance with Section 158.67(a) requirements.

We confirmed with the county finance director that unliquidated PFC revenues are maintained in interest bearing accounts or instruments. In addition, unliquidated PFC revenues are separately accounted for, including interest income in Fund 503. The county finance director uses an 'invest all funds' approach, which means that unliquidated PFC revenues are commingled with other county funds. This approach produces higher yields than investing by individual funds. Interest is allocated to each fund according to county procedures.

##### Compliance Requirement 2

**Audit Objective:** Ascertain that PFC revenue remitted to the public agency is kept and accounted for in accordance with section 158.67 (b) requirements.

We ascertained that PFC revenue is accounted for in compliance with section 158.67 (b) requirements. A unique account code is assigned to each approved PFC application to account for revenue. Application #9 revenue is accounted for in 351160. No revenue was collected for the other applications. Applicable interest is accounted for in 392000 within fund 503.

A unique project number ("subledger" field in the county's E-1 financial system) is assigned to each approved PFC project that is used as a match to AIP Grants. Current match project numbers are 1580 Passenger Terminal building, and 1581 Terminal Aircraft Apron. Projects that are funded 100% through PFC (Non AIP Related), are accounted for in appropriate accounts within Fund 503. Amounts reserved for approved projects are controlled by the amount budgeted in fund 503 and monitored through quarterly PFC reports showing the amounts approved and the amounts expended on each project.

##### Compliance Requirement 3

**Audit Objective:** Ascertain compliance with the use of excess PFC revenue procedures outlined in section 158.39.

We ascertained that to date, the county has not received excess PFC revenue. Under all applications to date (#1 through #10) the county is allowed to collect \$33,750,440. As of June 30, 2009, it had collected \$13,632,139.15 plus \$794,342.09 interest for a total of \$14,426,481.24.

#### E. Special Notification & Reporting Requirements

##### Compliance Requirement 1

**Audit Objective:** Ascertain compliance with the notification procedures outlined in sections 158.43.

Jackson County provided six notices to air carriers serving the Rogue Valley International-Medford Airport as follows: October 10, 2003 - Notice of a Consultation Meeting With the Air Carriers Serving The RVI Medford Airport re: Application #9 and October 10, 2003 Re: Amendment to Application #1, January 29, 2004 - Amendment to PFC Application #2, May 28, 2004 Approval of PFC Application #9, June 7, 2004 Approval of PFC Expiration Date Changes, and Approval of PFC Application #10, dated May 10, 2009. We reviewed notifications for compliance with section 158.43 and 158.23 requirements and did not identify any exceptions.

Compliance Requirement 2

**Audit Objective:** Ascertain compliance with the quarterly reporting procedures outlined in section 158.63 (a) and (b).

We obtained an understanding of the Airport's procedures for preparing, reviewing and submitting the required financial reports. The Airport's accounting clerk is responsible for most accounting tasks including preparation of the quarterly PFC report. The reports are approved by the Airport's administrative manager prior to being submitted to the FAA.

We found that the submitted reports contained the required data without exception.

We agreed project cost information from the PFC quarterly reports to the county's financial system expense reports. For some projects the amounts expended in the financial system are different than what is reported on the quarterly PFC report, which is attributed to outstanding bills at year-end. The PFC report for the quarter ending June 30 is due by July 31. The county does not close its books for the fiscal year until August. It is typical for some expenses to be posted after the PFC report is prepared. The additional expenses are included on the September 30 quarterly PFC reports. Because of these timing differences, a reconciliation is prepared to agree reported PFC amounts to amounts in the financial system.

We agreed revenue and expense information from the quarterly PFC reports to the county's financial system revenue reports adjusting for interest accruals (none in 2009-10) and year-end timing issues as discussed in the preceding section.

As required, the county provided quarterly reports to the FAA before the last day of the calendar month following each calendar quarter. Starting with the 3/31/00 quarterly report, the Airport began inputting its information on the internet PFC Website rather than physically mailing the report. This is in compliance with PFC notification requirements.

As indicated on the cover letter and substantiated by a date stamp when a copy of the letter and PFC was received by Internal Audit, we found that all reports were submitted within the allowable timeframe.

Compliance Requirement 3

**Audit Objective:**

Determine that the public agency has in place and utilizes procedures to track air carrier remittances and reporting, and to notify carriers of their obligations when the remittances and reporting are not in accordance with section 158.65.

Through discussion with Airport accounting staff, we found that each report (both monthly and quarterly reports) is checked to verify that the Airport has received payment for all amounts listed on the report. If there is a discrepancy, which sometimes occurs because reports are apparently mailed before the check is issued, the report is held and rechecked at a later date.

**F. Compliance With PFC Assurances**

<p><u>Compliance Requirement 1</u></p>
<p><b>Audit Objective:</b> Ascertain applicability of and/or compliance with the Assurances 5, 6,7, 8 and 10 contained in Appendix A of Part 158 in accordance with the recommended procedures.</p>
<p>Per review of the Record of Decision; discussion with the Airport director and Airport grants/administrative manager; discussion at periodic Airport meetings attended by Airport staff, Airport contract engineers, county finance director, county budget officer, and county auditor; inquiry of the Airport’s consultants responsible for preparing PFC applications and rates and charges calculations; and review of Skywest lease agreement (which is the basis for other airline contracts), we found that Jackson County appears to be in compliance with PFC assurances.</p>
<p>Regarding Assurances 5, 6, &amp; 7 – We noted no exceptions.</p>
<p>Regarding Assurance 8 - The county contracts with Leibowitz &amp; Horton Airport Management Consultants to prepare the Airport’s PFC applications and to perform its rates and charges calculations. Accordingly, the contractor is knowledgeable of both PFC requirements, and rates and charges regulations. Documentation pertaining to rates and charges is on file at the Airport. Lynn Leibowitz is the President of Leibowitz Airport Management Consultants. She is a CPA and an attorney. Her company is headquartered in Denver, Colorado.</p>
<p>The Airport keeps hard copies of frequently used advisory circulars in the administration office. All FAA advisory circulars are listed on the FAA’s website at <a href="http://www.faa.gov">www.faa.gov</a> and are available to the Airport when needed.</p>
<p>Regarding Assurance 10 - Accounting records pertaining to PFC projects are kept at least three years.</p>

**Audit Recommendations**

None.

**Management Response**

The Airport Director was pleased with the audit report which confirmed the program’s compliance and included no audit recommendations for the 3<sup>rd</sup> year in a row.