



# JACKSON COUNTY

*Oregon*

---

## **Internal Audit Report**

### **Audit of Airport Improvement Program Grants FY 2009-10**

**December 15, 2010**

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

#### **Audit Team**

**Debbie Taylor, County Auditor  
Kathryn Finwall, Senior Auditor**



**JACKSON  
COUNTY**  
*Oregon*

**MEMO**  
INTER - OFFICE

**CAO**  
**Internal Audit**

**Debbie Taylor, County Auditor**  
*CIA, CFE, CGAP, CGFM*

10 S. Oakdale Ave Room 214  
Medford, OR 97501  
Phone: (541) 774-6021  
Fax: (541) 774-6455  
laylordk@jacksoncounty.org

**To:** Board of Commissioners  
**From:** Debbie Taylor, County Auditor *Debbie Taylor*  
**Subject:** Single Audit – Audit of Airport Improvement Program Grants  
**Date:** December 15, 2010

The attached audit report provides information concerning an audit of the Airport Improvement Program Grants. 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, Deputy Director -Airport Administration  
Audit Committee  
Kenneth Kuhns & Co.



## Table of Contents

### Single Audit Airport Improvement Program Grants

Audit Authority .....	1
Audit Background.....	1
Audit Objectives.....	2
Audit Scope & Methodology.....	2
Audit Criteria.....	2
Internal Controls .....	3
Compliance with Government Auditing Standards .....	4
Privileged & Confidential Information .....	4
Corrective Actions on Prior Year Audit Findings.....	4
Audit Results .....	4
General Audit Findings .....	4
Detailed Audit Findings .....	4
Adequacy of Internal Controls.....	4
Compliance with Circular A-133 audits of States, Local Governments, and Non-Profit Organizations.....	5
A. Activities Allowed or Unallowed.....	5
B. Allowable Costs/Cost Principles .....	6
C. Cash Management.....	6
D. David Bacon Act.....	6
E. Eligibility.....	7
F. Equipment & Real Property.....	7
G. Matching, Level of Effort, Earmarking.....	8
H. Period of Availability of Federal Funds.....	8
I. Procurement and Suspension and Debarment .....	8
J. Program Income .....	9
K. Real Property Acquisition & Relocation Assistance .....	9
L. Reporting .....	9
M. Subrecipient Monitoring.....	10
N. Special Tests and Provisions .....	10
Audit Recommendations .....	11
Management Response .....	11

**Jackson County Internal Audit Report  
Audit of Airport Improvement Program Grants  
Fiscal Year 2009-10**

**Audit Authority**

Our audit was conducted in accordance with Codified Ordinance 218 pertaining to the County Auditor. The audit was included in the Fiscal Year (FY) 2010-11 Internal Audit Plan as part of the Single Audit work performed annually for the County's external audit.

**Audit Background**

The objective of the Airport Improvement Program (AIP) is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics. The Federal Aviation Administration (FAA) is responsible for grant oversight.

During FY 2009-10 the County had six open AIP grants as noted in the table below. Of these, Grants 30 and 32 were closed on April 19, 2010 and Grants 33 and 34 were closed on April 12, 2010.

**Fiscal Year 2009-10 Airport Improvement Program Grant Awards and Expenses**

<b>Grant</b>	<b>Description</b>	<b>AIP Grant Award Without 5% PFC Match</b>	<b>FY 2009-10 AIP Expenses<sup>1</sup></b>
AIP 30	Construct New Terminal Apron Revise Airport Layout Plan	\$3,500,000	\$102
AIP 31	Construct Terminal Building (Phase 5) Acquire Aircraft Rescue & Fire Fighting Vehicle	\$2,355,258	\$61,272
AIP 32	Construct Terminal Building (Phase 6)	\$589,974	\$2,609
AIP 33	Construct New Building (Phase 7)	\$778,597	0
AIP 34	Construct Terminal Building (Phase 8)	\$1,619,882	\$1,619,882
AIP 35	Construct Terminal Building (Phase 9)	\$1,137,989	\$1,037,640
	<b>Total</b>	<b>\$9,981,700</b>	<b>\$2,721,505</b>

<sup>1</sup>Includes AIP eligible expenses incurred and paid during FY 2009-10

## **Audit Objectives**

The objectives of our audit were to determine if:

- The Airport maintained internal controls that reasonably ensured compliance with grant requirements; and
- The County complied with Airport Improvement Program grant conditions as listed in the U.S. Office of Management & Budget (OMB) Circular A-133 Audits of States, Local Governments and Non-Profit Organizations for Catalog of Federal Domestic Assistance (CFDA) Program 20.106 - Airport Improvement Program.

## **Scope & Methodology**

We reviewed FY 2009-10 revenue and expenses pertaining to the Airport Improvement Program grants. We selected a sample of expenses for detailed testing. The sample included \$945,869 of grant expenses, which represented 35% of the total AIP eligible expenses for the fiscal year. Our audit procedures included:

- Reviewing and testing compliance with applicable federal compliance requirements listed in federal OMB Circular A -133 for CFDA Program 20.106 - Airport Improvement Program;
- Reviewing Airport Improvement Program grant agreements;
- Reviewing FY 2009-10 detail ledgers and project reports for Airport Enterprise Fund 500, Airport Terminal Construction Project Fund 504, and related Passenger Facility Charge Fund 503;
- Reviewing payment requests and federal cash transaction reports;
- Reviewing Passenger Facility matching funds and related calculations;
- Holding meetings and discussions with Airport staff related to the terminal construction project; and
- 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. Our criteria for the audit consisted of Federal Office of Management & Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, CFDA Program #20.106, Airport Improvement Program, and the grant assurances for grants 30,31,32,34, and 35.

The Single Audit Act of 1984, amended in 1996, established requirements for audits of states, local governments, and Indian tribal governments that administer federal financial assistance programs. OMB Circular A-133 provides implementing guidance. One objective is to determine whether federal financial assistance program resources are being managed and controlled appropriately and used in accordance with legal and contractual requirements.

Under the Single Audit Act a major federal-assisted program is defined as any program for which federal expenditures during the year exceed the larger of \$300,000 or 3 percent of such total expenditures. For FY 2009-10, 3% of County expenditures of federal awards was \$1,008,770; therefore, the AIP grant program was a major program and selected for testing.

OMB A-133 includes a related Compliance Supplement that identifies fourteen compliance requirements that the federal government expects to be considered as part of the required Single Audit review. Additionally, the Supplement suggests audit procedures for determining compliance with applicable requirements. The fourteen compliance requirements are:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. Davis-Bacon Act
- E. Eligibility
- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability of Federal Funds
- I. Procurement and Suspension and Debarment
- J. Program Income
- K. Real Property Acquisition and Relocation Assistance
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

### **Internal Controls**

See Detailed Findings Section on Internal Controls.

## **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**

In the 2008-09 Airport Improvement Program Grants Audit it was recommended that the Airport use calendar reminders to assure that the quarterly Report of Federal Cash Transactions is submitted within the required timeframe. Management response was that calendar reminders, in addition to a tickler file, were being used to ensure reports are submitted within the required timeframe. No late submissions were noted during FY 2009-10.

## **Audit Results**

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

- The Airport maintained internal controls that reasonably ensured compliance with grant requirements.
- The County appears to have complied with Airport Improvement Program grant conditions as listed in the U.S. Office of Management & Budget Circular A-133 Audits of States, Local Governments and Non-Profit Organizations for CFDA Program 20.106 - Airport Improvement Program.

### ***Detailed Findings:***

#### ***Adequacy of Internal Controls***

*The Airport maintained internal controls that reasonably ensured compliance with grant requirements.*

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 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.

We reviewed controls pertaining to each of the compliance supplement requirements with the Airport's administrative manager. No internal control system weaknesses were identified.

#### Compliance with OMB Circular A-133 AIP requirements

##### A. Activities Allowed or Unallowed

*No unallowable activities were identified as being charged to the AIP grants.*

Airport Improvement Program grants can be made for planning, constructing, improving, or repairing a public-use airport or a portion thereof and for acquiring safety or security equipment. Eligible terminal building development is limited to non revenue-producing public-use areas that are directly related to the movement of passengers and baggage in air carrier and commuter service terminal facilities within the boundaries of the airport. Eligible construction is limited to items of work and to the quantities listed in each grant description and/or special conditions.

As noted in the Audit Background section of this report, there were six open Airport Improvement Program grants during FY 2009-10, AIP 30,31,32,33, 34, and 35. The project activities were approved in the grant agreements and the FAA established the eligible and ineligible percentages for the terminal project. During 2009-10 the FAA established eligibility at 88.99% of construction costs. Our review of detail expense ledgers, Airport tracking spreadsheets, and supporting documentation for the expenses selected for detailed testing did not identify any expenses that were not allowable uses of AIP grants.

## B. Allowable Costs/Cost Principles

*No unallowable costs were identified as being charged to an AIP grant. In addition, no indirect costs were charged to the AIP grants.*

OMB Circular A-133 incorporates OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments” which is applicable to the Airport Improvement Program grants. Under OMB Circular A-87, costs including those used in determining indirect costs are allowable if they are:

- Reasonable and necessary;
- Allocable to specific awards;
- Consistently treated;
- Conform to laws, regulations and agreements;
- Net of all applicable credits; and
- Properly documented.

Our review of detail expense ledgers, Airport tracking spreadsheets, and supporting documentation for the expenses selected for detailed testing did not identify any instances of noncompliance with OMB Circular A-87. In addition, no indirect costs were charged to the Airport grants.

## C. Cash Management

*AIP grants are reimbursement grants; therefore expenses have been incurred and paid prior to receiving federal funds.*

The Airport Improvement Program grants are reimbursement grants. As such, costs must be paid by the grantee before reimbursement is requested from the FAA. We verified that the Airport had paid for expenses prior to submitting requests for reimbursement to the FAA.

## D. Davis Bacon

*Wage rates paid were consistent with Davis Bacon requirements.*

The Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000, financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7). Non-federal entities must include in their construction contracts a requirement that the contractor or subcontractor will comply with the requirements of the Davis-Bacon Act. This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which

any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

The Airport's project consulting engineer URS was responsible for ensuring that the construction contractors complied with prevailing wage rates. We reviewed URS' letter to the Airport stating that they had conducted wage rate interviews consistent with Davis Bacon and FAA requirements. Interviews were conducted with both the prime contractor and subcontractors. The interviews confirmed that wage rates being paid were consistent with the certified payroll documents submitted by the contractors and the wage rates listed on the contract documents. In addition, we verified that the County's written construction contract required compliance with the Davis Bacon Act.

#### E. Eligibility

*The Eligibility requirement was not applicable to Airport Improvement Program grants.*

Specific requirements for eligibility are unique to each federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. According to the OMB Circular A-133 Matrix of Compliance Requirements the Eligibility requirement is not applicable to Airport Improvement Program grants.

#### F. Equipment & Real Property Management

*No noncompliance issues were identified relating to equipment and real property management.*

Grantees must use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Equipment means tangible nonexpendable property, including exempt property, charged directly to a grant award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Real property acquired with grant funds must be used for the originally authorized purpose as long as needed for that purpose. The grantee cannot dispose of or encumber the title to real property without the prior consent of the awarding agency.

We reviewed capital asset additions for the Airport and found that all AIP FY 2009-10 expenses were related to the new terminal building. The improvements were appropriately capitalized and coded as being acquired with grant funds. There were no purchases of equipment or real property made from grant funds in FY 2009-10.

We reviewed capital asset disposals for the Airport and found that \$42,603,072 of assets acquired with grant funds was deleted from the County's capital asset system in FY 2009-10. Of the amount deleted, the majority related to construction of the new terminal facility. Since the terminal project was still in progress at the end of last fiscal year, it was capitalized as

Construction in Progress on June 30, 2009. With completion of the project in FY 2009-10, the Construction in Progress amount was deleted and the full value of the terminal facility was appropriately capitalized.

G. Matching, Level of Effort, Earmarking

*Matching requirements were met.*

The FAA required a 5% match to the AIP grant funds and the Airport used Passenger Facility Charges (PFC) for that match. The following table shows the grant award offer and the amount of PFC match required.

**Fiscal Year 2009-10 Airport Improvement Program Authorized Grants & PFC Match**

Grant	Description	AIP Grant Offer	PFC Matching Funds at 5%	Total AIP & PFC
AIP 30	Construct New Terminal Apron/Revise Airport Layout Plan	\$3,500,000	\$184,211	\$3,684,211
AIP 31	Construct Terminal Building (Phase 5), Acquiring Aircraft Rescue & Fire Fighting (AARF) Vehicle, and install enhanced taxiway centerline markings.	\$2,355,258	\$123,961	\$2,479,219
AIP 32	Construct Terminal Building (Phase 6)	\$589,974	\$31,051	\$621,025
AIP 33	Construct Terminal Building (Phase 7)	\$778,597	\$40,979	\$819,576
AIP 34	Construct Terminal Building (Phase 8)	\$1,619,882	\$85,257	\$1,705,139
AIP 35	Construct Terminal Building (Phase 9)	\$1,137,987	\$59,894	\$1,197,881
	Total for Open AIP Grants in FY 2009-10	\$9,981,698	\$525,353	\$10,507,051

We confirmed that PFC funds were used to meet the required five percent match. The grant agreements did not include provisions for Level of Effort or Earmarking.

H. Period of Availability of Federal Funds

*The AIP grants do not specify a period of availability of federal funds.*

Airport Improvement Program grants do not specify a time period during which the County must use the federal funds. Airport staff works closely with the FAA to ensure grants are closed in an acceptable manner. During FY 2009-10, AIP 30, 32, 33, and 34 were closed. We reviewed Financial Closeout letters from the FAA showing their approval of the grant closures.

I. Procurement & Suspension & Disbarment

*The County follows Local Contract Review Board procurement rules that comply with State statute. In addition the construction contractors are not listed as suspended or disbarred on state and federal websites.*

Local governments are to use their own procurement procedures provided they conform to applicable federal law and regulations and standards identified in the A-102 Common Rule. The County has adopted Local Contract Review Board rules. We identified no areas of non-conformance with federal mandates.

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. We verified that the construction contractor, Adroit Construction, was not on the *List of Parties Excluded From federal Procurement or Nonprocurement Programs*.

J. Program Income

*No program income is generated from the AIP grant funded projects.*

Program income is gross income received that is directly generated by the federally funded project during the grant period. The Airport Improvement Program Grants were related to the construction of the new terminal building. We verified that no program income was generated from grant funded activities.

K. Real Property Acquisition & Relocation Assistance

*No real property acquisition or relocation assistance was paid for with grant funds.*

Persons displaced by federally-assisted programs from their homes, businesses, or farms must be treated uniformly and equitably. We confirmed that there was no real property acquisition or relocation assistance associated with the AIP Grant funded projects. The grants were used for activities related to construction of the new terminal building. We verified that no persons were displaced or relocated.

L. Reporting

*All reporting requirements were met.*

At the end of each federal fiscal year quarter, the Grantee must complete a standard report documenting the cash withdrawals for each project. These quarterly reports are due to the FAA 15 days after the end of the quarter. For the first quarter of FY 2009-10 standard form SF-272, "Report of Federal Cash Transactions" was submitted. For the last three quarters, the new Form SF-425, Federal Cash Transaction Report was submitted.

We verified that quarterly Reports were submitted to the FAA as required. However, since the County does not close its books until after the cash transaction report for the period of April

through June is due to the FAA, timing differences can occur. Any expense not reported because of a timing difference is reported and reimbursed by the FAA in the ensuing year.

We confirmed that the Operating and Financial Summary report, which is required to be submitted annually, was remitted on December 19, 2009. The Operating and Financial Summary Report at the FAA's request is not prepared on a GAAP basis. The working papers that tie the County's financial system (general ledger) to the reports required by the FAA are kept on file with the Airport's administrative manager.

#### M. Subrecipient Monitoring

*No subrecipients were identified.*

As previously noted, the AIP grants were for construction activities related to the new terminal building. We verified that there were no subrecipient awards.

#### N. Special Tests & Provisions

*No areas of noncompliance with special tests and provisions were identified.*

Special tests are listed in Circular A-133 Compliance Supplement for CFDA 20.106 Airport Improvement Program. The basic requirement for use of airport revenues is that all revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

For a non-hub airport (one that accounts for less than 0.05 percent of total U.S. passenger boardings), the FAA may approve as allowable costs the expenses of terminal development in a revenue-producing area and construction, repair, and improvement of parking lots (49 USC 47110(d)(2)).

*Policies and Procedures Concerning the Generation and Use of Airport Revenue*, issued February 16, 1999 (64 FR 7695), contains further definitions of airport revenue and unlawful revenue diversion; provides examples of airport revenue; and describes permitted and prohibited uses of airport revenue.

We confirmed that the Airport's revenues and expenses are separately accounted for in an enterprise fund. Thus, all revenues are used in accordance with the special tests and provisions compliance requirement.

We verified the Airport's non-hub status on the FAA's website. Accordingly, the FAA approved as allowable costs, a certain portion (88.99%) relating to construction of the new terminal building. We also verified that the Airport continues to work with an airport financial consultant to ensure AIP funded activities comply with federal regulations.

**Recommendations**

None

**Management Response**

The Airport Director was pleased with the audit report which confirmed the program's compliance and included no audit recommendations.