



JACKSON COUNTY

Oregon

Internal Audit Report

Audit of Airport Passenger Facility Charges (PFC)

FY 2011-12

October 22, 2012

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 
Subject: Passenger Facility Charge (PFC) Compliance Audit
Date: October 22, 2012

The attached audit report provides information concerning the adequacy of internal controls and compliance with the Code of Federal Regulations Title 14 Aeronautics and Space, Part 158 – Passenger Facility Charges. The audit was included in the fiscal year 2012-13 Internal Audit Plan, and the work was performed in conjunction with the County's annual external financial audit.

The audit results were discussed with the County's Audit Committee, the County's Airport Director Bern Case and the County's Airport Deputy Director of Administration Marcy Black. Bern Case's response is included at the end of the report.

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

cc: Audit Committee
Bern Case, Airport Director
Moss Adams, LLP

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AIRPORT PASSENGER FACILITY CHARGES

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 2012-13 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 federal legislation allows airports to use PFC funds to meet money match requirements of federal 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. The FAA grants the County Airport the authority to impose and use PFC revenue on approved projects.

In fiscal year 2011-12 the Airport received \$1,196,282.82¹ in passenger facility charges (PFC) revenue. For the same period, the Airport reported to the FAA that it had spent \$1,341,928.24 on PFC projects as shown in the table below.

Fiscal Year 2011-12 Expenditures Reported to the FAA on PFC Projects

Application	Project	Description	FY 2011-12 Expense*
09	1580	Debt Service Payments	1,341,544.00
10	2539	Master Plan AIP Grant 36	384.24
Total FY 2010-11 PFC Project Expense			\$1,341,928.24

*Amount reported to FAA differs from amount reported in County’s financial system in FY 2011-12 due to timing issues associated with year-end closing. PFC expense reported in County’s financial system was \$1,341,544, a difference of \$384.24.

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 laws, regulations, and applicable PFC Final Agency Decisions issued by the Federal Aviation Administration (FAA) that may have a direct and material effect on the PFC program.

Audit Scope & Methodology During FY 2011-12 PFC funds were used exclusively for debt service. Accordingly, we reviewed the FY 2011-12 debt service payments and selected a sample of reports submitted by the airlines to the Airport, which shows the accounting of PFC funds collected and funds remitted to the Airport. In addition, all quarterly reports submitted to Federal Aviation Administration (FAA) in relation to FY 2011-12 were reviewed.

¹ \$1,171,582.35 was remitted by the airlines and \$24,700.47 was interest earned by the Airport.

Our audit procedures included:

- Reviewing *FAA Passenger Facility Charge Audit Guide for Public Agencies* and applying appropriate audit procedures;
- Gaining an understanding of the Airport's internal controls over passenger facility charges (PFC);
- Reviewing PFC applications pertaining to approved PFC projects;
- Reviewing FY 2011-12 County's financial system detail ledger reports;
- 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 year-end timing differences; 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.

Criteria for the audit of passenger facility charges (PFC) included PFC requirements listed in the Federal Aviation Administration's *Passenger Facility Charge Audit Guide for Public Agencies*, revised September 2000 and Code of Federal Regulations Title 14 Aeronautics and Space, Part 158 – Passenger Facility Charges, and Final Agency Approvals for grant applications #9 and #10.

Internal Control Internal control, sometimes referred to as management control, includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors, fraud, violations of laws, regulations, and provisions of contracts and grant agreements or abuse.

We gained an understanding of internal control processes through discussion with the Airport Deputy Director of Administration and Airport Accountant. In addition, we reviewed Airport passenger facility charges (PFC) documentation, and the County's financial system and records.

Corrective Action on Prior Year Audit Findings We did not have any audit recommendations in our FY 2010-11 Airport Passenger Facility Charges (PFC) Audit.

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.

Sensitive or Confidential Information No information was withheld from this report because it was considered sensitive or confidential.

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 laws, regulations, and applicable PFC Final Agency Decision(s) issued by the Federal Aviation Administration (FAA) that may have a direct and material effect on the PFC program.

Detailed Audit Results Detailed audit procedures and results pertaining to compliance with Code of Federal Regulations (CFR) Title 14 Aeronautics and Space, Part 158 – Passenger Facility Charges, and requirements found in the Federal Aviation Administration’s (FAA) *Passenger Facility Charge Audit Guide for Public Agencies* are described below.

A. Project Cost Allowability

Objective: Ascertain compliance with the provisions of 14 CFR Part 158 pertaining to project cost allowability.

Audit Procedures and Results:

- We reviewed the Federal Aviation Administration’s (FAA) *Final Agency Decision* for the Airport’s passenger and facility charges (PFC) applications No. 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.
- We verified that procedures exist to reasonably assure that PFC revenue, including interest earned, is only expended on approved PFC projects. PFC revenues and expenses are accounted for in Passenger Facility Charges Fund 503². PFC revenues are invested in interest bearing accounts or other investments as allowed by Oregon Revised Statute and County policy. Interest is allocated to the fund according to County procedures. 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.

² Passenger Facility Charges Fund 503 is an account group within the County’s Airport Enterprise Fund.

- We reviewed the debt service payments to ascertain that the payments were for an approved project authorized by the FAA's *Final Agency Decision* or subsequent applications; payments were allowable in accordance with Part 158; and were supported by source documentation. In addition, we examined the County's financial system detail ledger reports for any unallowable costs.

B. Eligibility Limitations

Objective: Ascertain that the County Airport has complied with limits placed on project eligibility.

Audit Procedures and Results:

- We verified that eligibility is determined by the Federal Aviation Administration (FAA) as part of the approval process and is outlined in the FAA *Final Agency Decision* for the Airport's passenger and facility charges (PFC) applications No. 9 and 10.
- We verified that actual costs are compared to approved PFC project amounts, which are reported on the quarterly PFC reports.
- We reviewed the FAA's *Final Agency Decision* for the Airport's passenger and facility charges (PFC) applications No. 9 and 10, and supporting documentation of PFC project 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

Objective: Determine that passenger facility charges (PFC) funds designated for Airport Improvement Program (AIP) "local match" or as supplemental to AIP funding are reviewed under the PFC requirements.

Audit Procedures and Results:

- We verified, based on the review of the FAA Grant Offer and Agreements for the Airport Improvement Program (AIP) Grant 36; Jackson County Board Orders (resolutions) authorizing the execution of the AIP Grant Agreement; and the FAA's *Final Agency Decision* for the Airport's passenger and facility charges (PFC) applications No. 9 and 10, that the PFC funding is approved to be used as an AIP matching share and/or as supplemental to AIP funding as allowed under 158.13(g).
- We reviewed PFC documentation and confirmed that PFC funding was not used as a match during FY 2011-12; instead it was fully used for debt service. See A. *Project Cost Allowability* section above for the audit procedures and results performed over debt service payments.

D. Additional Program Requirements

- Objectives:**
- No. 1:** Ascertain that passenger facility charges (PFC) revenue remitted to the Airport is deposited in accordance with section 158.67(a) requirements.
- No. 2:** Ascertain that PFC revenue remitted to the County is kept and accounted for in accordance with section 158.67(b) requirements.
- No. 3:** Ascertain compliance with the use of excess PFC revenue procedures outlined in section 158.39.

Audit Procedures and Results:

- **Objective No. 1:**
 - We confirmed with the County Finance Director that unliquidated passenger facility charges (PFC) revenues are maintained in interest bearing accounts or instruments. In addition, unliquidated PFC revenues, including interest income, are separately accounted for in Passenger Facility Charges 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.
- **Objective No. 2:**
 - 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 No. 9 PFC revenue is accounted for in 45115.6250 within Fund 503. Revenue is not being collected for Application No. 10. Applicable interest is accounted for in 52110.0000 within Fund 503. Furthermore, a unique project number in the County's financial system is assigned to each approved PFC project that is used as a match or as supplemental funding to an AIP grant. 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.
- **Objective No. 3:**
 - We ascertained that to date, the County has not received excess PFC revenue. Under all applications to date (No. 1 through 10) the County is allowed to collect \$33,750,440. As of June 30, 2012, the County has collected \$16,025,553.51 plus \$837,990.11 in interest for a total of \$16,863,543.62. \$15,336,477 of the revenue has been applied on allowed projects as of June 30, 2012. The remaining \$1,527,067 is mostly reserved for debt service, which is allowed under PFC application No. 9.

E. Special Notification and Reporting

- Objectives:**
- No. 1:** Ascertain compliance with the notification procedures outlined in sections 158.43.
 - No. 2:** Ascertain compliance with the quarterly reporting procedures outlined in section 158.63(a) and (b).
 - No. 3:** Determine that the County 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.

Audit Procedures and Results:

- **Objective No. 1:**
 - We reviewed the following notifications for compliance with sections 158.43 and 158.23 requirements and did not identify any exceptions. We reviewed only the open Applications for compliance with objective No. 1.
 - Jackson County provided four notices to air carriers serving the Rogue Valley International – Medford Airport in relation to Applications No. 9 and No. 10 as follows:
 - October 10, 2003 – Notice of a Consultation Meeting With the Air Carriers Serving the Rogue Valley International-Medford Airport re: Application No. 9;
 - May 28, 2004 – Notice to Air Carriers of Rogue Valley International-Medford Airport re: Approval of PFC Application No. 9;
 - June 7, 2004 – Approval of PFC Expiration Date Changes; and
 - March 31, 2009 – Consultation Meeting With the Air Carriers Serving the Rogue Valley International-Medford Airport re: Application No. 10
- **Objective No. 2:**
 - We obtained an understanding of the Airport’s procedures for preparing, reviewing and submitting the required quarterly financial reports. The Airport’s Accountant is responsible for most accounting tasks including preparation of the quarterly passenger facility charges (PFC) reports. The reports are approved by the Airport’s Deputy Director of Administration, who inputs the report information online.
 - We found that the submitted reports contained the required data as listed in 158.63(a) without exception.
 - We verified that the PFC revenues and PFC project expenditure balances from the PFC quarterly reports agreed with the County’s financial system detail ledger reports.
 - We verified that the PFC Schedule of Expenditures agreed with the County’s financial system.

- We found that all required Federal Aviation Administration (FAA) reports were submitted within the allowable timeframe, 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.
- **Objective No. 3:**
 - We found, through discussion with the Airport Deputy Director, that each monthly or quarterly report submitted by the airlines is checked to verify that the Airport had received payment for all amounts listed on the report. If the report is submitted without payment, the Airport holds the report until a check is received. A reminder email or letter is sent to the airline if a report or check is not received.
 - We reviewed a sample of 25 reports submitted by the airlines to the Airport. We did not identify any reportable violations.

F. Compliance with PFC Assurances

Objective: Ascertain applicability of and/or compliance with Assurances 5, 6, 7, 8 and 10 contained in Appendix A of Part 158 in accordance with the recommended procedures.

Audit Procedures and Results:

- We reviewed, regarding Assurances 5, 6, 7, and 8, the agreements with the Airport's three signatory airlines and no exceptions were noted.
- We verified, regarding Assurance 8, that the County continues to contract with Leibowitz and Horton Airport Management Consultants to prepare the Airport's passenger facility charges (PFC) applications and to perform its rates and charges calculations. Accordingly, the contractor is knowledgeable of PFC requirements, and rates and charges regulations. Documentation pertaining to rates and charges is on file at the Airport.
- We confirmed, regarding Assurance 10, that accounting records pertaining to PFC projects are kept at least three years.
- We confirmed, that 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 www.faa.gov and are available to the Airport when needed.

Recommendations

None

Management Response

The Airport Director was pleased that the audit confirmed the Airport's compliance with PFC federal regulations. The Airport believes that the County audit procedures are a tremendous asset to the Airport.