

# **OVERSIGHT OF AIRPORT REVENUE**

*Federal Aviation Administration*

*Report Number: AV-2003-030*

*Date Issued: March 20, 2003*



# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Report on Oversight of Airport  
Revenue, Federal Aviation Administration  
AV-2003-030

Date: March 20, 2003

From: Alexis M. Stefani  
Principal Assistant Inspector General  
for Auditing and Evaluation

Reply to  
Attn. of: JA-10:x60500

To: Federal Aviation Administrator

This report presents the results of our review of the Federal Aviation Administration's (FAA) oversight of airport revenue. Our objective was to determine whether FAA's oversight methods prevent or detect airport revenue diversions. We conducted our field work through August 2001, but suspended this review after September 11, 2001, in order to address security-related priorities. We subsequently updated the data included in this draft report for actions taken through September 2002, and provided staff from the Office of the Associate Administrator for Airports with an advance copy of this report. Their comments have been considered and incorporated into this report as appropriate. Given the budget constraints now facing FAA, the results of this report regarding diversions of airport funds underscore the need for continued and vigilant oversight of airport revenue use.

## **RESULTS IN BRIEF**

At a sample of five airport sponsors reviewed, we found approximately \$40.9 million in potential revenue diversions that were not detected by FAA's primary oversight methods. This amount includes about \$39 million that was not detected by independent auditors during single audit work, and \$1.74 million that was not disclosed by airport sponsors in airport financial reports. These amounts were not detected because independent auditors of airport sponsors were not sufficiently aware of relevant Office of Management and Budget (OMB) guidance on auditing airport revenue, and airport sponsors were not adhering to FAA policies on requirements for airport financial reports.

Since we completed our field work, the American Institute of Certified Public Accountants (AICPA) has taken steps to better inform independent auditors about requirements for reviewing airport revenue use during single audits. For example, the AICPA's "Audit and Accounting Guide for Audits of State and Local Governments" for 2002 includes an expanded section informing independent auditors that it is necessary to evaluate the airport's compliance with FAA airport revenue requirements as part of the financial statement audit.

Since we completed our field work, FAA has also taken steps to improve airport financial reporting processes. These steps include redesigning financial reporting forms so they more closely reflect generally accepted accounting principles and more closely track to the requirements of FAA's "Final Policy and Procedures Concerning the Use of Airport Revenue."

In our opinion, the actions taken by FAA and AICPA should improve FAA's ability to detect and prevent airport revenue diversions. The key to success now lies in implementation and follow-through on the part of FAA and AICPA. Both FAA and AICPA have expressed commitments to address these important issues. Also, to ensure that revenue diversions that occurred are resolved, we are recommending that FAA: (1) verify the status of the \$40.9 million in potential revenue diversions that we identified during this review and seek recoveries as necessary; and (2) determine if practices that may have led to diversions at the airports included in this review have been corrected, and if not, take actions to recover any additional funds that were diverted due to those practices since completion of our field work.

## **OBJECTIVE AND SCOPE**

Our objective was to determine whether FAA's oversight methods prevent or detect airport revenue diversions. To answer our objective, we reviewed airport financial reports, visited independent auditors, contacted FAA regional and airport district offices, and reviewed financial records and leases at a sample of five airport sponsor locations—Allegheny County (Pittsburgh), City of Cleveland, Miami-Dade County, City of San Antonio, and Wayne County (Detroit). Exhibit A contains the details of the methodology we used to conduct this review.

## **BACKGROUND**

The Airport and Airways Improvement Act of 1982, as amended and codified in Title 49, United States Code, Chapter 471, requires all airport sponsors<sup>1</sup> receiving

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<sup>1</sup> An airport sponsor is generally a public agency (e.g., a city or local authority) that owns the airport.

Federal assistance to use airport revenues for the capital or operating cost of the airport. Any other use of airport revenue is considered a revenue diversion. Examples of common revenue diversions include charges to the airport for property or services not provided, indirect costs improperly allocated to the airport, and payments of less than fair market rent for use of airport property.

The Single Audit Act of 1984 established requirements for audits of state and local governments that administer Federal financial assistance programs. The 1984 Act was revised by the Single Audit Act Amendments of 1996, which were implemented through OMB Circular A-133. The Single Audit Act Amendments require that an audit of an airport sponsor include a review of airport funds transferred to the sponsor and *an opinion on whether these funds were used in accordance with applicable airport revenue laws*.

OMB Circular A-133 includes suggested audit procedures for determining compliance with its requirements. To aid independent auditors in complying with the OMB Circular, the AICPA produces an annual reference guide, “Audit Risk Alerts: Audits of Organizations Receiving Federal Awards: Single Audits Performed in Accordance with Office of Management and Budget Circular A-133.”

The Federal Aviation Authorization Act of 1994 requires airport sponsors to submit annual financial reports. In their reports, sponsors are expected to list in detail all compensation received for services provided by the airport as well as property provided to and payments made by the airport to other governmental units.<sup>2</sup> In addition, FAA’s “Final Policy and Procedures Concerning the Use of Airport Revenue” (Final Policy), dated February 16, 1999, requires airport sponsors to charge fair market commercial rates for non-aeronautical uses of airport property in order to minimize the airports’ reliance on Federal funds and local tax revenues. The Final Policy also requires that costs allocated to an airport by a sponsor’s cost allocation plan be similarly billed to other sponsor departments and not be disproportionately billed to the airport.

## **RESULTS AND RECOMMENDATIONS**

FAA relies on single audits performed by independent auditors and airport financial reports submitted by airport sponsors to evaluate sponsor compliance with revenue use requirements. However, at the five airport sponsors we sampled, we found a total of \$40.9 million in potential diversions that were not detected by those methods. This amount includes about \$39 million that was not detected by

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<sup>2</sup> Other governmental units include sponsor non-airport departments or city, county, state and Federal governments.

independent auditors during single audit work, and \$1.74 million that was not disclosed by airport sponsors in airport financial reports.

### **Single Audits Did Not Identify \$39 Million in Potential Diversions**

At the five airports in our sample, we found about \$39 million in potential revenue diversions that were not identified by independent auditors in single audits at those locations. We found a total of \$37.4 million in potential revenue diversions at four of the five locations resulting from unsupported, ineligible and duplicate payments to airport sponsors. At one of the four locations, we also found \$1.74 million of ineligible payments to non-airport organizations.

The following are examples of the potential diversions we found that were not identified during single audits. (Exhibits B through F contain details regarding the potential revenue diversions we identified at each airport sponsor.)

- Accounting and posting errors by the City of Cleveland and airport staff resulted in overpayments to the sponsor of \$53,900 and duplicate payments to the City's Division of Water totaling \$11,900. Although these amounts are not material, the potential for significant diversions is present due to inadequate internal controls, which failed to detect these errors. The City's independent auditor reported in its 1999 Report to Management that controls over airport revenue should be strengthened, but action had not been taken before we completed our field work in 2001.
- The City of San Antonio inappropriately allocated \$166,000 to the airport for indirect costs that should have been allocated to other city services. This included \$60,000 for an Assistant City Manager's salary that was directly billed to the airport.
- The Miami-Dade County Aviation Department paid Miami-Dade County for \$31.4 million in excess and unsupported costs through an indirect cost allocation plan. An additional \$6.2 million of unsupported or ineligible direct costs were charged to the airport by Miami-Dade County, including \$4.55 million for unsupported administrative and service fees from various sponsor departments, and \$667,000 for the Florida Department of Transportation for design work on a State road. We also question \$1 million for community or promotional expenses for nine non-sponsor organizations such as the Miami Conference on the Caribbean and the Orange Bowl Parade. These activities do not appear to be related to the airport, or the airport's share of the costs appears excessive.

- Wayne County allocated \$967,000 in indirect costs to Detroit Metropolitan Airport and billed the airport directly for the same services. The sponsor also erroneously allocated \$285,000 in miscellaneous equipment charges to the airport.

### **Four of Five Airports We Sampled Submitted Incomplete Reports to FAA**

At four of the five airports we sampled, we found over \$1.74 million in potential revenue diversions that were not disclosed in financial reports the airport sponsors submitted to FAA. Submitting incomplete and inaccurate financial reports to FAA undermines the agency's ability to detect revenue diversions through the review process. The following are potential revenue diversions we identified that were not disclosed in airport financial reports.

- Allegheny County, sponsor of the Pittsburgh airport, failed to report leases with five government agencies. One of these leases was with the U.S. Army, which leased approximately 25 acres of airport land at 76 percent below fair market value. This resulted in a loss of \$252,000 of airport revenue in fiscal years (FYs) 1999 and 2000.
- The City of Cleveland's report to FAA properly disclosed that the City's Division of Research, Development and Planning was leasing airport property. However, while Cleveland's report to FAA showed that the division paid rent, the report did not show that the revenue was significantly less than the total amount due. The division paid only \$89,808 of \$249,465 owed to the airport from January 1999 through June 2001. This resulted in an unreported loss of almost \$160,000.
- The City of San Antonio did not include all required disclosures in its airport financial reports, including compensation received from the U.S. Postal Service, Federal Aviation Administration, and the Texas Department of Transportation. In addition, the airport reported leasing airport facilities to the City, but we found that the leases were at 50 percent of fair market value. This resulted in a \$333,000 loss of airport revenue from FYs 1995 through 2000.
- In its reports, Miami-Dade County, the sponsor of Miami International Airport, did not disclose compensation received for services and property provided to numerous other government agencies, including the U.S. Department of Justice, U.S. Department of the Treasury, and the Federal Aviation Administration. Moreover, Miami-Dade County did not disclose that it leased two airport facilities to a County department at

92 percent and 67 percent below fair market value, resulting in a loss of \$995,000 of airport revenue over a 6-year period.

### **Many Independent Auditors Were Unaware of Relevant OMB Guidance and FAA Policies**

We discussed our findings with independent auditors of airport sponsors and found that many were not sufficiently aware of the relevant OMB guidance or FAA's Final Policy concerning the use of airport revenue. For instance, at one independent audit firm, neither the partner nor the manager for an audit of an airport sponsor was familiar with FAA's Final Policy. In addition, a number of auditors thought they were only required to review airport sponsor costs allocated to Airport Improvement Program grants. They were not aware they should review sponsor costs allocated to the airports, or provide an opinion on whether funds were used in accordance with applicable airport revenue laws.

In August 2001, we discussed our concerns about the single audit reports and independent audits with representatives from FAA, OMB, and the AICPA. FAA and the AICPA agreed to work with airport sponsors and independent auditors to ensure that requirements for reviewing airport revenue use are met for future single audits.

Since that meeting, the AICPA has taken steps to inform independent auditors about the requirements for reviewing airport revenue. For instance, the AICPA's "Audit and Accounting Guide for Audits of State and Local Governments" (GASB 34) for 2002 includes an expanded section informing the single auditor that "it is necessary to evaluate the airport's compliance with [FAA] requirements as part of the financial statement audit."

In addition, we recently provided the AICPA with comments to improve the revenue diversion section of its "Audit Risk Alerts – Single Audits 2002," which the AICPA subsequently adopted and published. These comments included notification to single auditors that "airport revenue expenditures are not the same as grant expenditures" and that "airport expenditure reviews should consider high risk areas for diversion, such as payments to airport sponsors and other governmental entities." The Office of Inspector General also receives single audit reports with Department of Transportation-related findings. As part of our ongoing Single Audit responsibilities, we are focusing additional quality assurance efforts on public accounting firms performing single audits of FAA grantees.

FAA has taken steps to improve airport financial reporting processes. These include redesigning financial reporting forms so they more closely reflect generally accepted accounting standards and more closely track to the requirements of FAA's Final Policy. In our opinion, the actions taken by the

AICPA and FAA to improve existing oversight tools should help FAA detect and prevent airport revenue diversions. The key to success now lies in implementation and follow-through. Both FAA and AICPA have expressed commitments to address these important issues.

## **RECOMMENDATIONS**

To ensure that revenue diversions that occurred are addressed, and practices that led to diversions are corrected, we recommend that FAA:

1. Verify the current status of \$40.9 million in potential revenue diversions that we identified during this review and, as necessary, seek recoveries of:
  - \$252,000 identified at Allegheny County (sponsor of Pittsburgh International and Allegheny County Airports),
  - \$225,428 identified at the City of Cleveland (sponsor of Cleveland Hopkins International and Burke Lakefront Airports),
  - \$498,808 identified at the City of San Antonio (sponsor of San Antonio International and Stinson Field Airports),
  - \$38,710,289 identified at Miami-Dade County (sponsor of Miami International Airport), and
  - \$1,251,564 identified at Wayne County (sponsor of Detroit Metropolitan Wayne County Airport).
  
2. Determine if practices that may have led to diversions at the airports included in this review have been corrected, and if not, take actions to recover any additional funds that were diverted due to those practices since completion of our field work.

## **MANAGEMENT COMMENTS**

On January 17, 2003, we provided a draft of this report to the Office of the Assistant Administrator for Financial Services/Chief Financial Officer to obtain official comments. We received FAA's written response on January 31, 2003, and have included a copy as an appendix to this report. In its response, FAA concurred with both our recommendations, stating that it will conduct investigations into the potential revenue diversions we identified and seek recoveries as necessary. FAA also agreed to expand the scope of its investigation to include the time period between the audit report and completion of our field work.

In addition, FAA stated that it generally agreed with our interpretation of the revenue use requirements as discussed in the report with two exceptions. First, at

Allegheny County, FAA states that under its policy, leasing for nonaeronautical purposes at below fair market value to an entity other than the airport sponsor is not considered a revenue diversion, but rather a potential violation of a sponsor's Federal obligation to be as self-sustaining as possible. Second, at San Antonio, FAA states that one of the airport properties may have been leased for aeronautical purposes (i.e., a helicopter station), and FAA policy does not require that an airport obtain fair market value for aeronautical use of airport property. Nevertheless, FAA agreed that it needs to look at issues of self-sustaining rate structure and revenue use for all of the leases cited in our report.

## **AUDIT RESPONSE**

We agree with FAA's plan to look at rate structure and revenue use issues for the leases included in our report. Because FAA policy requires airports to seek to become self-sustaining, it is incumbent on an airport to avoid entering into leases that significantly subsidize a tenant's use of airport property. For instance, at Allegheny County, the U.S. Army's below fair market value lease resulted in a 2-year loss to the airport of about \$252,000 in potential revenue. Likewise, the San Antonio city police department rents a helicopter station at 50 percent of fair market value, a potential 3-year revenue loss to the airport of about \$36,000.

Accordingly, FAA's plan to investigate below fair market value leasing arrangements at Allegheny County, San Antonio, and the other airports included in this report is necessary. Whether FAA conducts these investigations as potential violations of its revenue diversion or self-sustainment policies is not the issue. FAA needs to and has agreed to review leasing practices at these airports to ensure that rents being paid are reasonable and that lost revenues are recovered.

## **ACTION REQUIRED**

The corrective actions planned by FAA are reasonable and meet the intent of our recommendations. FAA has also provided a planned completion date of December 31, 2003, to complete its investigation at each location and initiate corrective action as necessary. Although the recommendations are resolved, under follow-up requirements of Department of Transportation Order 8000.1C, both recommendations will remain open pending the completion of FAA's investigation and the outcome of any corrective actions taken. Please advise us on amounts recovered as a result of your investigation.

We appreciate the cooperation and assistance provided by your staff during the review. If you have any questions or need further assistance, please contact me at (202) 366-1992, or David A. Dobbs, Assistant Inspector General for Aviation Audits, at (202) 366-0500.

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## **EXHIBIT A. SCOPE AND METHODOLOGY**

We conducted the review in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts.

We conducted our field work during the period September 2000 through August 2002. We suspended the review for some time after September 11, 2001, in order to address security-related priorities. We subsequently updated the data included in this report for actions taken through September 2002.

The review was performed at FAA's Office of Airport Safety and Standards in Washington, D.C.; three Regional Airport Division Offices; and four Airport District Offices. We visited five airport sponsors: Allegheny County (Pittsburgh), City of Cleveland, Miami-Dade County, City of San Antonio, and Wayne County (Detroit). These locations were selected based on (1) FAA's request, (2) a history of prior revenue diversions at the location, or (3) indications that single audit work at the location had not adequately reviewed potential revenue diversions. In addition, we visited 11 audit organizations, which included public accounting firms, city controllers, and state auditors.

Our objective was to determine whether FAA's oversight methods prevent or detect airport revenue diversions. To make this determination, we (1) identified FAA's methods for preventing or detecting revenue diversions, (2) reviewed airport financial reports, (3) reviewed independent auditors' working papers, and (4) conducted reviews at the five selected airport sponsors to determine whether airport-generated revenues were used in accordance with Federal regulations. Our review covered fiscal years 1999 through 2000, but was expanded to prior and subsequent periods as necessary.

During the review, we met with representatives from the Air Transport Association of America, the American Institute of Certified Public Accountants, and the Office of Management and Budget.

## EXHIBIT B. POTENTIAL AIRPORT REVENUE DIVERSIONS, ALLEGHENY COUNTY

Sponsor of Pittsburgh International Airport and Allegheny County Airport

<b>Issues</b>	<b>FYs</b>	<b>Dollars Diverted</b>
Airport Financial Reports	1999-2000	Procedural
Use of Airport Property	1999-2000	\$252,000
Payments to Sponsor/Other Governments		
--Direct Payments	1999-2000	\$0
--Cost Allocation Plan—Indirect Payments	1999-2000	\$0
Promotional Expenses	1999-2000	\$0
<b>Total</b>		<b>\$252,000</b>

### AIRPORT FINANCIAL REPORTS

Allegheny County did not include in its airport financial reports all required disclosures including compensation received for services and property provided to the U.S. Postal Service, U.S. Army, Findlay Township, Moon Township, and Commonwealth of Pennsylvania.

### AIRPORT LEASES

Allegheny County leased approximately 25 acres of airport land to the U.S. Army at 76 percent below fair market value. As a result, the airports lost \$252,000 in uncollected revenue in fiscal years 1999 and 2000.

## EXHIBIT C. POTENTIAL AIRPORT REVENUE DIVERSIONS, CITY OF CLEVELAND

Sponsor of Cleveland Hopkins International Airport and Burke Lakefront Airport

Issues	FYs	Dollars Diverted
Airport Financial Reports	1999-2000	Procedural
Use of Airport Property	1999-2001	\$159,657
Payments to Sponsor/Other Governments		
--Direct Payments	1998-2000	\$65,771
--Cost Allocation Plan—Indirect Costs	1999-2000	\$0
Promotional Expenses	1999-2000	\$0
<b>Total</b>		<b>\$225,428</b>

### AIRPORT FINANCIAL REPORTS

The City of Cleveland did not include all required disclosures, including compensation received for services and property provided to the U.S. Postal Service, Federal Aviation Administration, U.S. Department of Commerce, and Regional Transit Authority. In response to our audit, the sponsor revised its FY 2000 financial reports to include the required information.

### AIRPORT LEASES

The City's Division of Research, Development, and Planning (Division) did not pay the full rental rate stipulated in the lease agreement. It paid only \$89,808 of \$249,465 due from January 1999 through June 2001. As a result, the Division owed the airport \$159,657 in overdue rent.

### DIRECT PAYMENTS—POSTING ERRORS

During our testing of expenditure transactions, we identified a number of posting and accounting errors that resulted in overpayments totaling \$53,876 to the sponsor. For example, a radio communications service charge of \$3,316 was posted as \$33,163, and charges for air traffic controllers' service totaling \$617,980 from May 1998 through June 1999 were posted as \$637,980.

### DIRECT PAYMENTS—DOUBLE PAYMENTS

We found the airports overpaid \$11,895 to the City's Division of Water due to double payments for the same invoices. Because the initial payments were not made in a timely manner, the airports paid the delinquent bills again.

## EXHIBIT D. POTENTIAL AIRPORT REVENUE DIVERSIONS, CITY OF SAN ANTONIO

Sponsor of San Antonio International Airport and Stinson Field Airport

<b>Issues</b>	<b>FYs</b>	<b>Dollars Diverted</b>
Airport Financial Reports	1999-2000	Procedural
Use of Airport Property	1995-2000	\$333,148
Payments to Sponsor/Other Governments		
--Direct Payments	1999-2000	\$0
--Indirect Costs	1999-2000	\$165,660
Promotional Expenses	1999-2000	\$0
<b>Total</b>		<b>\$498,808</b>

### AIRPORT FINANCIAL REPORTS

The City of San Antonio did not include all required disclosures in its airport financial reports, including compensation received for services and property provided to the U.S. Postal Service, Federal Aviation Administration, and Texas Department of Transportation (TxDOT).

### AIRPORT LEASES

The City of San Antonio leased airport properties to the City's Service Center, Public Works Shops, and Helicopter Station at the Community Purpose Rental Rate, which is 50 percent of the market rental rate. However, these entities did not meet the community purposes provision. FAA's policy prohibits these rentals at less than fair market value. As a result, the sponsor diverted \$333,148 in undercharged rent from FYs 1995 through 2000.

### INDIRECT COSTS

The City of San Antonio overcharged the airport by \$165,660 for indirect costs. This included overcharges of \$105,309 for costs accrued at other city service units and charged to the airport, and double-billing the airport \$60,351 in other indirect costs in fiscal years 1999 and 2000.

## EXHIBIT E. POTENTIAL AIRPORT REVENUE DIVERSIONS, MIAMI-DADE COUNTY

Sponsor of Miami International Airport

<b>Issues</b>	<b>FYs</b>	<b>Dollars Diverted</b>
Airport Financial Reports	1999-2000	Procedural
Use of Airport Property	1995-2000	\$995,178
Payments to Sponsor/Other Governments		
--Direct Payments	1999-2000	\$5,214,894
--Cost Allocation Plans—Indirect	1995-2000	\$31,446,517
Promotional Expenses	1999-2000	\$1,053,700
<b>Total</b>		<b>\$38,710,289</b>

### AIRPORT FINANCIAL REPORTS

Miami-Dade County did not include in its financial reports all required disclosures, including compensation received for services and property provided to the U.S. Postal Service, U.S. Department of Justice, U.S. Department of the Treasury, Federal Aviation Administration, Florida Department of Labor and Employment, Florida Department of Agriculture and Consumer Protection, Miami Water and Sewer Department, and five Dade County departments including Department of Corrections and Rehabilitation.

### AIRPORT LEASES

Miami-Dade County leased two airport properties to the County Department of Corrections and Rehabilitation (the Department) at substantially below fair market value. The fair annual rent for one property was estimated at \$141,220 in 1995 and \$143,667 in 1998, but the Department only paid \$12,000 annually for the property since 1995. The second property was leased at one-third the estimated FY 1998 annual rate of \$159,387. Thus, the sponsor collected only \$53,129 annually since 1998 for this property. In total, the sponsor diverted \$995,178 in lost rental revenue for these two properties from FYs 1995 through 2000.

### COST ALLOCATION PLANS

We question \$31.4 million of administrative charges the airport paid to the County from FYs 1995 through 2000, as detailed below.

The County used two different methodologies to charge indirect costs to County operating departments. The Central Services Cost Allocation Plan (Central Services plan) recovered indirect costs from sponsoring departments other than the airport, and the Cost Reimbursement Study (Cost Reimbursement plan) allocated both direct and indirect costs to the airport. Because the sponsor used two different allocation methods developed independently of each other, neither plan recognized costs allocated by the other plan, resulting in a duplicate allocation of indirect costs.

In FY 1995, Miami-Dade County overcharged the airport \$2.4 million of administrative costs. Also, because of duplicate allocations under two different plans, we are questioning \$17.6 million of indirect costs allocated to the aviation department from FYs 1995 through 2000. For the 6-year period, the County allocated its entire indirect costs to County departments through the Central Services plan, which included sponsor departments other than the airport. In the same years, the County used the Cost Reimbursement plan to charge the airport \$17.6 million of indirect costs, which were fully allocated under the Central Services plan.

In addition to the indirect costs, the Cost Reimbursement plan included direct charges for fire, police, transit and public works services. Because of the apparent overlapping of the fire and police costs and the lack of supporting documents for investigative and sheriff services, we are questioning an additional \$7.9 million for fire and police service charges from FYs 1995 through 2000. We identified three police divisions included in the Cost Reimbursement plan that were operating units and not supporting units. FAA's Final Policy states that operating units must provide evidence of actual service provided to obtain payment from the airport. We are questioning the cost for these three police divisions because the sponsor could not provide evidence that the airport received services from the three divisions commensurate with the charges. From FYs 1995 through 2000, Miami-Dade County also charged the airport \$3.5 million for transit and public works services off airport property.

## **PROMOTIONAL EXPENSES**

FAA's Final Policy prohibits the use of airport revenue for promotional or community activities unrelated to airports or airport systems. We are questioning nine promotional activities totaling more than \$1 million paid from airport revenue in FYs 1999 and 2000. These activities do not appear to be related to the airport, or the airport's share appears excessive relative to the County's share of the events' total costs. The expenses were:

- \$60,000 to Caribbean Latin American Conference for Miami Conference on the Caribbean;
- \$50,000 to Custom Trade Finance Symposium of the Americas for 1999 Symposium;
- \$15,000 to Dade County Day, Inc., for Dade Days in Tallahassee;
- \$200,000 to Free Trade Area of the Americas for Miami-Dade host city;
- \$200,000 to America's Trade Mission for America's Trade Mission Center;
- \$100,000 to SER-Jobs for Progress for Job Training Program;
- \$350,000 to Office of Protocol, International Trade & Commerce for Sister Cities Program;
- \$25,000 in FY 1999 to Caribbean Mardi Gras for Carnival 1998 Opa-Locka; and
- \$53,700 to Orange Bowl Committee for parade floats.

### **DIRECT PAYMENTS—MIAMI-DADE COUNTY**

We are questioning \$4.5 million of charges Miami-Dade County assessed the airport in FYs 1999 and 2000. The questioned charges were inadequately supported to determine the actual cost of the services provided.

### **DIRECT PAYMENTS—STATE ROAD**

FAA's Final Policy permits the use of airport revenue for the actual costs incurred for structures and equipment located entirely on airport property and designed and intended exclusively for the use of airport passengers. We are questioning approximately \$667,000 paid to Florida Department of Transportation for design work related to the improvements of a State road, which is outside the boundaries of the airport and not directly related to or substantially for the benefit of Miami airport passengers. Similar payments were planned for FYs 2001 and 2002.

## EXHIBIT F. POTENTIAL AIRPORT REVENUE DIVERSIONS, WAYNE COUNTY

Sponsor of Detroit Metropolitan Wayne County Airport

Issues	FYs	Dollars Diverted
Airport Financial Reports	1999-2000	Procedural
Payments to Sponsor/Other Governments		
--Direct Payments	1999-2000	\$0
--Cost Allocation Plan—Indirect Costs	1996-2000	\$1,251,564
Promotional Expenses	1999-2000	\$0
<b>Total</b>		<b>\$1,251,564<sup>1</sup></b>

### AIRPORT FINANCIAL REPORTS

Wayne County did not include in its financial reports all required disclosures for compensation the airport received for services and property from other government agencies. Wayne County did not include revenue from the U.S. Postal Service and four Wayne County departments.

### COST ALLOCATION PLAN—INDIRECT COSTS

Wayne County charged \$56,935 a year to the airport for use of County-owned equipment. We found no records to support the yearly charge. In fact, KPMG management who prepared the cost allocation plan said the yearly charge was an error. Unsupported charges for equipment use amounted to \$284,675 for FYs 1996 through 2000.

In addition, the sponsor double-billed the airport for legal support costs. Although the sponsor made adjustments to credit the airport for direct billings in FYs 1998 and 2000, it failed to make the adjustments for FYs 1996, 1997 and 1999. As a result, Wayne County overcharged the airport \$966,889 for legal support from FYs 1996 through 2000.

<sup>1</sup> During our field work, we found that the U.S. Postal Service occupied 137,400 square feet of airport land but did not pay rent from April 1997 to October 2000. Subsequent to our visit, the Postal Service made two payments to the airport sponsor totaling \$1,949,365 for the balance due. Accordingly, we are not including this amount in the total potential airport revenue diversions for Wayne County.

## APPENDIX. MANAGEMENT COMMENTS



U.S. Department  
of Transportation

**Federal Aviation  
Administration**

# Memorandum

**Su** **bj** **ec** **t:** **ACTION:** Draft Report on Oversight of Airport Revenue, Federal Aviation Administration, Project No. 02A9027A000

**Date:** January 31, 2003

**Fro** **m:** Assistant Administrator for Financial Services/Chief Financial Officer, ABA-1

**Re** **pl** **y** **t** **o** **A** **t** **t** **n.** **o** **f:**

**To:** Assistant Inspector General for Aviation Audits, JA-1

We appreciate this opportunity to respond to the Draft Report on the Oversight of Airport Revenue, Federal Aviation Administration (FAA), Project No. 02A9027A000. We are also appreciative of the Office of Inspector General's (OIG) acknowledgment of the recent improvements the FAA has made to the Airport Financial Reporting Program during the course of the audit.

We generally concur with the OIG's interpretation of the revenue use requirements as they are discussed in the report, with two exceptions. First, the audit report indicates that one potential diversion of airport revenue occurred as a result of Allegheny County, the sponsor of the Pittsburgh International and Allegheny County Airports, leasing land to the U.S. Army at 76 percent below fair-market value. However, the leasing of land for nonaeronautical purposes at below fair-market value to an entity other than the sponsor, itself, is not considered revenue diversion. As discussed in FAA's Final Policy Concerning the Use of Airport Revenue, land rental to, or use of land by, the sponsor for nonaeronautical purposes at less than fair-rental/market value is prohibited. An airport sponsor's failure to obtain fair-market value for the nonaeronautical use of airport property from an entity other than itself is a potential violation of an airport sponsor's Federal obligation to be as self-sustaining as possible.

Second, the audit report indicates that the city of San Antonio, sponsor of the San Antonio International and Stinson Field Airports, leased airport properties to the City's Service Center, Public Works Shops, and Helicopter Station at 50 percent of the fair-market value. The report states that FAA's policy prohibits these rentals at less than fair-market value. While we will need to look at issues of revenue use and self-sustaining rate structure for all of these leases, FAA policy does not require that an airport sponsor

obtain fair-market value for the aeronautical use of airport property, such as a Helicopter Station.

Following are the FAA's response to the two recommendations made in the audit report.

### **RECOMMENDATION 1:**

Verify the current status of \$40.9 million in potential revenue diversions that we identified during this review, and, as necessary, seek recoveries of:

- \$252,000 identified at Allegheny County (sponsor of Pittsburgh International and Allegheny County Airports),
- \$225,428 identified at the city of Cleveland (sponsor of Cleveland Hopkins International and Burke Lakefront Airports),
- \$498,808 identified at the city of San Antonio (sponsor of San Antonio International and Stinson Field Airports),
- \$38,710,289 identified at Miami-Dade County (sponsor of Miami International Airport), and
- \$1,251,564 identified at Wayne County (sponsor of Detroit Metropolitan Airport).

#### **Comments:**

Concur. The FAA will conduct investigations into the potential diversions of airport revenue identified in the audit report. The FAA will seek recovery by the airport of any amounts determined to be unlawfully diverted as a result of our investigations and require corrective action to prevent future unlawful diversions.

#### **Recommendation 2:**

Determine if practices that may have led to diversions at the airports included in this review have been corrected, and if not, take actions for the airports recovery of any additional funds that were diverted due to those practices since completion of our field work.

#### **Comments:**

Concur. If the FAA determines that the potential diversions identified in the audit report are, in fact, unlawful diversions of airport revenue, the FAA will expand the scope of its investigation to include the time period between the audit report and the completion of the OIG's audit field work.

### **Appendix. Management Comments**

I trust that our comments fully address the intent of your audit recommendations. If you have any questions, feel free to contact Wayne Heibeck, Manager of the Airport Compliance Division (AAS-400), at (202) 267-3446.

A handwritten signature in black ink that reads "John F. Hennigan" followed by a stylized flourish.

Chris Bertram