Management Advisory Memorandum
on FAA Service Agreement,
JFK Control Tower

Report Number: R2-FA-7-011
Date Issued: February 12, 1997
This Management Advisory Memorandum is in response to the Federal Aviation Administration’s (FAA) request to audit costs claimed for Fiscal Year (FY) 1995 by the Port Authority of New York and New Jersey (Port Authority) related to Contract No. DTFA05-91-L-61886 (Service Agreement). In October 1994, the FAA and the Port Authority entered into the Service Agreement for the Port Authority to furnish utilities and perform maintenance in FAA-occupied space at the new John F. Kennedy Air Traffic Control Tower (Tower) in Jamaica, NY. Of the $746,134 in costs claimed by the Port Authority for services provided during FY 1995, the Office of Inspector General (OIG) determined $221,818 to be questionable. Details are provided in the following paragraphs.

**Background**

Prior to implementation of the Service Agreement, the FAA paid the Port Authority $5 million for construction of improvements in the Tower’s mechanical, subjunction, junction, cable access, and cab levels. This space was eventually occupied by FAA personnel. In addition, this payment provided FAA the right to occupy space for its administrative office and emergency generator.

The Service Agreement covered the period from FY 1994 through FY 1996 and required the FAA to pay the Port Authority monthly payments to cover FAA’s estimated pro-rata share of utilities and maintenance. The Service Agreement stipulated that FAA make monthly payments totaling $270,000 for FY 1994, $694,800 for FY 1995, and $694,800 for FY 1996. At the end of each fiscal year, the Service Agreement requires the Port Authority to determine its actual cost of providing Tower services to the FAA and to correct billings based on this
determination. For FY 1994, the FAA and the Port Authority agreed the interim monthly amounts billed would be accepted and not subject to audit.

Objective, Scope, Methodology

The objective of the audit was to determine if the Port Authority’s cost statement for FY 1995 represented actual allocable costs, properly chargeable to the FAA. We reviewed the Port Authority’s April 15, 1996, cost submittal, totaling $733,927, for utility services and maintenance provided during FY 1995. On September 16, 1996, the Port Authority revised its cost statement to $746,134. We interviewed Port Authority officials and reviewed supporting documentation provided for costs claimed. To determine the allocability of costs, we evaluated general ledger reports, work orders, and invoices from providers of electricity, heating and air conditioning, elevator maintenance, and janitorial services. In addition, we reviewed support for the proposed general and administrative expense rate. Our audit was conducted at the Port Authority’s offices in Jamaica, New York, during the period September 1996 through December 1996, in accordance with the Government Auditing Standards as prescribed by the Comptroller General of the United States.

Results of Audit

Of the $746,134 in costs claimed by the Port Authority for FY 1995, we determined $524,316 of the costs reported by the Port Authority represented actual allocable costs which were properly chargeable to the FAA. Details are provided in the exhibit to this memorandum. Our audit identified the following deficiencies in the Port Authority’s submission:

- The Port Authority improperly applied square footage allocation factors to the total amount of direct Port Authority and common area costs. This approach was not consistent with the methodology used in developing the interim monthly billing rates under the Service Agreement. Since the Port Authority’s accounting system had the capability to record both direct expenses and allocated common costs, the Port Authority should have included those costs directly related to the FAA’s space and common costs allocable to the FAA.

- The Port Authority claimed non-Tower costs and electrical, heating, and air conditioning utility costs in excess of actual allowable costs.

- In developing its overall overhead costs and its heating and air conditioning rates, the Port Authority incorrectly applied overhead factors of 15 and 5 percent to material and outside vendor services, respectively.
The Port Authority included costs for janitorial services performed by an outside contractor on FAA areas between the hours of 11:30 AM to 8:00 PM and 11:30 PM to 8:00 AM. However, the Service Agreement states janitorial services will be performed during daytime hours. The FAA’s Contracting Officer, Real Estate Division, stated that FAA did not want to pay for duplicate janitorial services. Our review of the Port Authority’s support for work performed during each shift determined the nighttime shift performed the same duties as the daytime shift.

During our audit, the Port Authority claimed an additional $37,796, which should have been included in its statement for supervisory labor related to its maintenance units. The Port Authority determined these costs based on the application of an overhead factor because actual direct labor costs were not recorded in its accounting system. We did not recommend acceptance of these costs because the estimate prepared to support interim monthly billing rates under the Agreement did not include this allocation factor.

As discussed above, the costs included in the Port Authority’s claim did not always reflect the actual cost of providing services to the FAA per the Service Agreement. Accordingly, the OIG determined $221,818 of the $746,134 submitted by the Port Authority to be questionable for services provided during FY 1995.
Recommendations

We recommend the FAA Regional Administrator, Eastern Region:

1. Accept the OIG determined costs for services provided by the Port Authority to the Tower during FY 1995.

2. Request the Port Authority submit its FY 1996 actual costs statement in accordance with the allocation methods identified in the Service Agreement.

3. Negotiate future Service Agreement costs based on the findings of this Management Advisory Memorandum.

The audit results were discussed with Eastern Region officials at an exit conference held on January 13, 1997. The Eastern Region concurred with the recommendations made in the report.

Please provide your written comments to this management advisory memorandum. We ask that your reply include a statement of concurrence or nonconcurrence with each recommendation. For concurrence, we would like to know the actions taken and planned for each recommendation and estimated completion dates. For nonconcurrence, we would appreciate an explanation of your position. Please feel free to propose alternative courses of action to correct the problems identified. Because this is a time-sensitive issue, please provide your response within 30 days.

If you have any questions or require additional information, please contact Richard G. Crawley, Project Manager, or myself at 212-264-8701.

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<th>Cost Description</th>
<th>Submitted</th>
<th>Questioned</th>
<th>OIG Determined</th>
<th>Explanatory Notes</th>
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<td><strong>Total Annual Charges</strong></td>
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<td><strong>$221,818</strong></td>
<td><strong>$524,316</strong></td>
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Explanatory Notes

1. Operations and Maintenance costs questioned represent labor and material costs not related to the Tower and direct costs for preventive and corrective maintenance work orders related to Port Authority space.

2. Elevator costs questioned represent $1,807 in excess of actual costs, and $789 of costs not related to the Tower.

3. Janitorial costs questioned represent $3,254 in excess of actual costs, and nighttime janitorial services contrary to the Service Agreement of $37,065. The costs submitted included cleaning services 7 days a week on FAA administrative, junction, and subjunction levels, between the hours of 11:30 AM to 8:00 PM, and services 5 days a week on FAA administration level, and 7 days a week on FAA cab, junction, and subjunction levels between 11:30 PM to 8:00 AM.

4. Overhead costs questioned represent: (i) $15,639, based on the misapplication of the 15 percent proposed overhead factor to non-labor costs and (ii) $17,938, based on application of the proposed overhead rate to questioned direct labor costs. We subtracted an adjustment of $14,471 from items (i) and (ii) based on the difference between an accepted overhead factor of 24 percent and the proposed rate to accepted direct labor. The accepted overhead factor of 24 percent was based on the average overhead rate for the Port Authority’s Calendar Years 1994 and 1995. The General and Administrative Expense overhead factor represents the distribution of Port Authority costs for common general staff services of a technical, professional, and administrative nature to all facilities and projects.

5. Electricity costs questioned of $24,337 represent the difference between the electrical rate charged, based on Con Edison’s large customer rate, and the Port Authority's actual costs of providing electrical services to FAA. Our recommended electricity cost is based on FAA’s allocated monthly electricity usage times the Port Authority’s actual monthly electrical rate.

6. Heating and Air Conditioning utility costs questioned include $9,658, based on adjusting the Port Authority’s heating and air conditioning utility rate for the improper application of a 5 percent overhead factor to actual costs, and $785 in excess actual costs.