OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Metropolitan Airports Commission

January 1, 1999, through December 31, 2001

NOVEMBER 7, 2002 02-67

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

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OLA

OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
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Members of the Legislative Audit Commission

Mr. Charles Nichols, Chair
Metropolitan Airports Commission

Members of the Metropolitan Airports Commission

Mr. Jeffrey Hamiel, Executive Director
Metropolitan Airports Commission

We have audited selected activities of the Metropolitan Airports Commission for the three-year period January 1, 1999, through December 31, 2001. Our audit scope included income and expense contracts and payroll expenses. The audit objectives and conclusions are highlighted in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of all Metropolitan Airports Commission financial activities and does not include the results of a study by the Office of the Legislative Auditor's Program Evaluation Division, which will be conveyed in a public report at a later date.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Metropolitan Airports Commission complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Metropolitan Airports Commission is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Metropolitan Airports Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 7, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 24, 2002

Report Signed On: November 4, 2002

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Pat Ryan	Auditor
John Hakes, CPA	Auditor
Dave Massaglia	Auditor

Exit Conference

The following staff from the Metropolitan Airports Commission participated in the exit conference held on October 22, 2002:

Jeff Hamiel	Executive Director
Nigel Finney	Deputy Executive Director – Planning and Environment
Tom Anderson	General Counsel
Denise Kautzer	Deputy Executive Director – Administrative Services
Steve Busch	Director of Finance
Bob Schauer	Manager – Accounting

Report Summary

Key Findings

- A January 2002 report by the Metropolitan Airports Commission's internal auditor identified $1.25 million in unbilled revenues from a large concession contract. Following release of that report, commission staff improved procedures for monitoring revenue contracts. However, we found that the commission needs to improve administrative policies and procedures governing these concession contracts, as well as other revenue-generating contracts. Formal policies should clarify awarding and selection practices for new revenue contracts and incorporate the financial procedures developed for monitoring revenue contracts. In addition, the policy should address requirements for independent audits and performance evaluations, and should specify the procedures for contract renewal and the maximum period before competitive re-bidding of contracts is required. (Finding 1, page 7)
- The commission's internal controls over continuing professional and consultant service contracts need improvement. Contractors were not required to sign work orders, which specify the scope and cost of projects. In addition, some contractor invoices exceeded authorized work orders without prior commission written approval, some contractor performance evaluations were not completed, and some contracts could not be located. In addition, commission policies do not address the need for master contract limits or whether board approvals are needed when cumulative work order authorizations exceed the contract limit. (Finding 2, page 11)

Agency Background

The Legislature created the Metropolitan Airports Commission (MAC) as a public corporation in 1943 to develop and operate regional airport facilities. The commission consists of 15 commissioners who establish policies appropriate for MAC to fulfill its statutory responsibilities. The MAC owns and operates seven airports in the metropolitan area, including Minneapolis-St. Paul International Airport, which serves as the primary air carrier facility. The current chair of the commission is Mr. Charles Nichols, and the executive director is Mr. Jeffrey Hamiel.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments, agencies, boards, and metropolitan agencies under our jurisdiction. The scope of our work at the Metropolitan Airports Commission included income and expense contracts and payroll expenses for the period from January 1, 1999, through December 31, 2001.

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Chapter 1. Introduction

The Metropolitan Airports Commission (MAC) is a public corporation established by the Legislature in 1943 to develop and operate airport facilities in the Twin Cities area. The commission operates under the authority of Minn. Stat. Sections 473.601 to 473.680. The commission consists of 14 commissioners and a chairperson. In addition to the chairperson, the Governor appoints eight commissioners from designated districts within the metropolitan area and four commissioners representing the greater-Minnesota area. The mayors of St. Paul and Minneapolis also serve on, or appoint a delegate to, the commission. The commissioners have the responsibility to establish policies appropriate for MAC to fulfill its statutory responsibilities. The current chair of the commission is Mr. Charles Nichols, and the executive director is Mr. Jeffrey Hamiel.

The commission owns and operates seven airports in the metropolitan area. The Minneapolis-St. Paul International Airport serves as the primary air carrier facility. The MAC also owns and operates the following six reliever airports: St. Paul Downtown, Flying Cloud, Crystal, Anoka County/Blaine, Lake Elmo, and Airlake. Each of the reliever airports is served by at least one full-service operator providing aircraft maintenance, fueling and storage, and also by commercial operators that provide charter service, flight training, and aircraft fuel sales and other services.

The MAC is organized into several divisions, including executive, human resources, labor relations and government affairs, administrative services, legal affairs, environment and development, and operations. The Operations Division is the largest and includes police, fire, landside and airside operations, maintenance, and reliever airports. The Executive Division is responsible for the overall administration of the Metropolitan Airports Commission.

Commission finances are accounted for as an enterprise fund. It finances operations from user fees that are established for various airport services and facilities. The commission sets its rates and charges to assure that total system revenues will be sufficient to pay total system expenses. Commission capital projects are financed either through general obligation revenue bonds, state or federal grants, internally generated funds from operations, or passenger facility charges. The passenger facility charges are fees imposed on passengers by airport authorities to generate revenue for airport projects that increase capacity, provide additional safety measures, or mitigate noise impacts. Federal grants include the Airport Improvement Program, which provides funds for planning, constructing, improving, or repairing a public use airport. Finally, the commission also generates revenue from fees charged to concessionaires and other vendors that lease space or property on MAC grounds.

The Metropolitan Airports Commission contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the commission's annual financial statements. The commission received unqualified opinions for fiscal years 1999 through 2001. Table 1-1 shows the Metropolitan Airports Commission's Statement of Revenues and Expenses for the past three fiscal years.

Table 1-1
Statement of Revenues and Expenses and
Changes in Retained Earnings (in thousands)

	Fiscal Years Ended December 31		
	1999	2000	2001
Operating Revenues:			
Airline Rates and Charges	$ 55,401	$ 68,133	$ 72,669
Concessions	62,131	70,760	69,707
Other Revenues:			
Utilities	1,716	1,852	2,440
Miscellaneous	18,736	22,669	25,250
Total Operating Revenues	$137,984	$163,414	$170,066
Operating Expenses:			
Personnel	$ 34,497	$ 39,814	$ 42,627
Administrative Expenses	1,555	1,686	1,708
Professional Services	5,231	6,357	5,177
Utilities	7,318	8,678	11,208
Operating Services	11,199	11,971	14,113
Maintenance	10,498	12,238	15,520
Depreciation	42,875	51,028	65,647
Other	619	278	521
Total Operating Expenses	$ 113,792	$ 132,050	$ 156,251
Operating Income	$ 24,192	$ 31,364	$ 13,815
Other Revenues (Expenses):			
Interest Income	$ 50,039	$ 55,661	$ 57,712
Passenger Facility Charges	40,474	43,567	57,191
Federal and State Grants	0	0	39,071
Gain (Loss) on Sale of Assets	2	0	(4,196)
Bond Interest Expense	(35,103)	(42,023)	(55,549)
Part 150 Home Insulation Expenses	(18,475)	(20,707)	(20,517)
Concession Development Expenses	(5,319)	(416)	0
Net Income	$ 55,810	$ 67,446	$ 87,527
Add: Depreciation of Facilities Provided by Government Grants	10,295	12,725	12,984
Increase in Retained Earnings	$ 66,105	$ 80,171	$ 100,511
Retained Earnings-Beginning of Year	608,786	674,891	755,062
Retained Earnings-End of Year	$674,891	$755,062	$855,573

Source: Metropolitan Airports Commission Comprehensive Annual Financial Reports for the years ended December 31, 1999, December 31, 2000, and December 31, 2001.

Chapter 2. Revenue Contracts

Chapter Conclusions

The commission's internal controls provided reasonable assurance that its revenue contracts were awarded or renegotiated as authorized by management and approved by the appropriate subcommittee of the board. However, we found the commission needs to improve administrative policies and procedures governing its concessions and other revenue-generating contracts. Formal policies should clarify awarding and selection practices for new revenue contracts and incorporate the financial procedures developed for monitoring revenue contracts. In addition, the policy should address requirements for independent audits and performance evaluations, and should specify the procedures for contract renewal and the maximum period before competitive re-bidding of contracts is required. Also, during the audit period, certain contract revenues were not effectively monitored for uncollected amounts and conformity with written contracts. A January 2002 report by the commission's internal auditor identified $1.25 million in unbilled charges relating to a large concession contract. Following the release of that report, commission staff initiated improved procedures for monitoring revenue contracts, including review of each contract's financial terms and comparisons of amounts billed to written contract terms.

The Metropolitan Airports Commission finances its operations from user fees that are established for various services and facilities provided at the main terminal airport and the six reliever airports. Rate formulas (landing fee, ramp fee, terminal rates, and off-airport noise surcharge) are established in use agreements with the airlines. The commission collects a wide variety of other revenue through contractual arrangements. These include fixed rate or lease contracts automatically billed at the beginning of each month, contracts where revenues are based on a percentage of sales requiring vendors to submit monthly sales documentation, and contracts requiring vendors to submit financial statements audited by an independent accounting firm.

Revenue shown on Table 2-1 is predominantly generated by the following departments:

- ***Commercial Management Airlines Affairs:*** This department oversees and manages leasing activities for use of commission land, terminals, buildings, warehouses, hangars, and other properties.
- ***Landside:*** The department has responsibility for oversight of parking facilities and ground transportation revenue resulting from taxicab permits, driver license fees, inspection fees, and commercial operator charges.

- ***Reliever Airports:*** The department collects revenues from the six reliever airports for commercial leases, storage leases, and fuel flowage fees, in addition to special leases that are negotiated for farm land, park grounds, or office space.

Table 2-1
Operating Revenue by Type
(in thousands)

	Fiscal Years Ended December 31		
	1999	**2000**	**2001**
Airline Rates and Charges:			
Landing Fees	$ 29,923	$ 39,472	$ 40,378
Ramp Fees	5,243	6,444	6,243
Lindbergh Terminal Building Rents	17,011	19,430	22,405
Other Lindbergh Terminal Charges	2,667	2,787	3,643
Noise Surcharge	557	0	0
Total Airline Rates and Charges	$ 55,401	$ 68,133	$ 72,669
Concessions:			
Auto Parking	$ 36,670	$ 42,951	$ 39,339
Rental Car	11,429	12,385	13,739
Food and Beverage	3,084	3,546	4,053
Merchandise	4,043	4,627	4,572
Miscellaneous	6,894	7,263	8,004
Total Concession Revenue	$ 62,120	$ 70,772	$ 69,707
Other Revenue:			
Humphrey Building Rentals	$ 1,768	$ 703	$ 857
Utilities	1,716	1,852	2,440
Other Building and Land Rent	11,600	15,140	18,079
Miscellaneous	3,712	4,890	4,083
Total Other Revenue	$ 18,796	$ 22,585	$ 25,459
Reliever Airports	$ 1,667	$ 1,924	$ 2,231
Total Operating Revenues	**$137,984**	**$163,414**	**$170,066**

Source: Metropolitan Airports Commission Comprehensive Annual Financial Reports (Statistical Section) for the year ended December 31, 2001.

In January 2002, the commission's internal audit released a report citing material noncompliance with the financial provisions of a lease agreement. It identified that one concessionaire was underbilled by a substantial amount over the past three years. The majority of this underbilling was for utility services used by the company, but other unbilled charges were also found. The commission is currently working to resolve this issue with the vendor and has made substantial improvements in its monitoring procedures, including a review of each contract's financial terms and comparisons of amounts billed and collected to written contract terms.

Audit Objective and Methodology

The primary objective of our audit was to answer the following question:

- Did the commission's internal controls provide reasonable assurance that revenue contracts were awarded or renegotiated as authorized by management and the board, and that revenues were monitored for uncollected amounts and conformance with written contract terms?

To address these objectives, we interviewed commission staff to gain an understanding of the revenue contracting process and the related internal controls. We designed tests of controls, performed analytical reviews, and tested a sample of revenue contracts. Specifically, we determined if the commission had established a process to review requests for proposals and obtain management and board approval for these income contracts. In addition, we reviewed current commission controls established to verify the accuracy of revenues and pursue uncollected amounts.

Conclusions

The commission's internal controls provided reasonable assurance that its revenue contracts were awarded or renegotiated as authorized by management and approved by the appropriate subcommittee of the board. However, we found the commission needs to improve policies and procedures governing its concessions and other revenue-generating contracts. Formal policies should clarify awarding and selection practices for new revenue contracts and incorporate the financial procedures developed for monitoring revenue contracts. In addition, the policies should address requirements for independent audits and performance evaluations and should specify procedures for contract renewal and the maximum period before competitive re-bidding of contracts is required. A January 2002 report by the commission's internal auditor identified $1.25 million in unbilled charges relating to a large concession contract. Following the release of that report, commission staff initiated improved procedures for monitoring revenue contracts, including review of each contract's financial terms and comparisons of amounts billed to written contract terms.

1. The commission needs to improve policies and procedures for revenue contracts.

The commission's negotiation of airline use agreements and rates, and competitive selection and renegotiating of concession and other revenue contracts, involved some effective practices. However, the commission has not formalized these practices, and other expectations and requirements into its administrative policies and procedures. Doing so would improve assurances that commission staff understand and follow board direction, and provide guidance for new personnel. We encountered different levels of authoritative guidelines for the various revenue types but these were not incorporated into the commission's formal administrative policies and procedures manual.

Landing fee revenues are self-reported by airlines based on actual landed weights, but a large share of other revenues are submitted to the commission based on a percentage of vendor sales. The commission has developed strategies to provide independent financial assurances. For example, airline use agreements require the company to provide the commission with financial statements audited by an independent accounting firm, and large concession contracts require audited financial statements or an independent certification of sales. On the other hand, moderate or smaller contracts may not require an audit, but are subject to the commission's internal audit coverage. However, the commission has not developed a formal policy specifying when greater financial assurances are required from an independent audit.

A large concession arrangement was entered into several years ago, and no current policies exist to govern maximum contract duration. An initial planning agreement began in 1986, and in January 1988, the commission awarded a 10-year contract to the vendor. The concession vendor exercised an option to extend the contract for five additional years through December 2002. Since the vendor agreed to invest funds for remodeling, the commission provided the vendor with a one-year extension through December 2003 to allow the vendor time to recoup their investment. A written commission policy needs to address criteria and expectations for contract terms, subsequent monitoring, performance evaluations, contract renewal, and maximum period for a competitive re-bidding of ongoing revenue contracts.

Some guidance for concession revenue contracts comes from a special report by the Blue Ribbon Panel on Minneapolis-St. Paul International Airport Concessions issued in January 1999. The report evaluated the commission's contract selection process at that time and provided recommendations on vendor selection and awarding. The board adopted the recommendations and commission staff have followed some of the guidance in this report, however, it only addresses contract awarding and selection and does not provide guidance on contract terms and timeframes, nor subsequent monitoring and revenue controls.

The commission has some policy directives on airline rate negotiations and an extensive policy on reliever airport leases; however, it similarly needs to incorporate the financial procedures developed for monitoring the collection of revenues.

Recommendation

- *The Metropolitan Airports Commission should improve revenue contract policies to address awarding and selection, requirements for independent audit, evaluation and contract renewal, and procedures for subsequent monitoring and collection of revenues.*

Chapter 3. Expense Contracts

Chapter Conclusions

The commission's internal controls provided reasonable assurance that its supply and equipment expense contracts were competitively awarded, authorized by management and the board, and compared to invoice payment amounts. The commission's contracts for professional and consultant services were based on Request for Qualifications, properly authorized by management, and controlled by comparison of invoices to contract rates. However, we noted some internal control concerns requiring improvement. Contractors were not required to sign work orders, which specify the scope and cost of projects. In addition, some contractor invoices exceeded authorized work orders without prior commission written approval, some contractor performance evaluations were not completed, and some contracts could not be located. In addition, commission policies do not address the need for master contract limits or whether board approvals are required when cumulative work order authorizations exceed the contract limit.

For the items tested, the Metropolitan Airports Commission complied with the significant finance-related legal provisions governing expense contracts.

The Metropolitan Airports Commission purchases supplies and equipment to carry out its functions. Goods are purchased using specific purchase orders or open blanket orders from vendors on contract. Purchase orders represent contracts for one time purchases of a specific good at an agreed upon price. Supply and equipment contracts allow the commission to obtain goods at a set price for a certain period of time.

The commission's purchasing process is governed by Minn. Stat. Section 471.345. The commission has developed internal policies and procedures requiring staff to obtain two or more written quotes for purchases between $2,500 and $25,000. For purchases between $25,000 and $50,000, the order must go through the commission's purchasing department which is responsible for soliciting bids and selecting the vendor. Purchases over $50,000 require that the request be publicly advertised and approved by the commission. The commission also uses contracts administered by Hennepin County and the Minnesota Department of Administration.

The Metropolitan Airports Commission also negotiates and prepares written contracts for consultant, professional, and technical services. Service contracts vary greatly. Most services are intellectual in character and do not involve the purchase of equipment or materials, while other services call for the completion of a task or the production of a report or map to assist in commission decision-making. Some contract costs are expensed annually; however, many contracts relating to commission construction activities are capitalized and depreciated over the useful life of the asset constructed.

The authority for the commission to make use of professional and consulting services is established in Minn. Stat. Section 473.606. The commission has developed internal written guidelines for the selection of service contractors. The guidelines provide that selection of consultants is based on a Request for Qualifications to provide the necessary services. The board approves new contracts anticipated to exceed $50,000. The policy also states that the commission may use continuing consultants, when a project or task has a relationship to, or is highly dependent upon, previous work performed for the Metropolitan Airports Commission. Commission policy requires annual evaluations of continuing consultants and periodic reporting to the various commission committees. In addition, continuing consultants are subject to a competitive selection process every six years based on a staggered process beginning in 1995.

Once the commission determines it will acquire services, it will enter into an agreement or master contract with the company. The contracts identify rates and working arrangements, but do not specify project tasks, scope, and cost. The commission uses a work order, or Authorization for Professional Service (PSA) form, to specify project scope and responsibilities and to estimate the cost of services to be rendered. Continuing contractors may have multiple PSA work orders depending on the number and duration of their projects.

The commission implemented improved contract payment controls over the audit period. During 1999, the commission did not consistently verify certain contractor invoice charges to written contract terms and rates prior to payment. In September 1999, the commission's information technology and internal audit staff identified overpayments and other billing errors by a computer services vendor under contract with the State of Minnesota. The review identified over $75,000 in excessive billings and $50,000 was recovered. The commission terminated its contract with the vendor and felt it was not cost-beneficial to pursue the remaining overpayment. In fiscal years 2000 and 2001, we noted that the commission improved its control over contract payments by comparing invoices to written contract terms.

Audit Objectives and Methodology

The primary objectives of our review of expense contracts were to answer the following questions:

- Did the commission's internal controls provide reasonable assurance that it competitively awarded supply and equipment purchases, considered contractor and consultant costs and required qualifications, renegotiated with vendors having satisfactory performance, and paid invoices based on contracted rates?

- Did the Metropolitan Airports Commission comply with significant finance-related legal provisions governing expense contracts?

To answer these questions, we interviewed commission staff to gain an understanding of the internal control structure and procedures over the purchasing and contracting processes. We tested equipment, supply, and service transactions to determine if staff adhered to commission policies. We also reviewed source documents to determine if the goods and services were received, authorized, and accurately paid based on contract terms.

Conclusions

The Metropolitan Airport Commission's internal controls provided reasonable assurance that its supply and equipment expense contracts were competitively awarded, authorized by management and the board, and compared to invoice payment amounts. The commission's contracts for professional and consultant services were based on Request for Qualifications, authorized by management, and controlled by comparing invoices to contract rates. However, we noted some internal control concerns, including the absence of contractor signatures on the commission's work orders, contractor invoices that exceeded authorized work orders without prior commission written approval, uncompleted performance evaluations for continuing contractors, and some contracts that could not be located. In addition, commission policies do not require master contract limits or clarify whether board approvals are needed when cumulative work order authorizations exceed the contract limit.

For the items tested, the commission complied with the significant finance-related legal provisions governing expense contracts.

2. Commission controls over professional and consultant contracts need improvement.

The commission's contracting practices do not adequately control professional services expenses. While the initial master contract focuses on contractor selection, qualifications, and rates, the subsequent Authorization for Professional Services (PSA) work orders focus on scope and cost for specific project responsibilities. We noted the following concerns during our audit:

- The PSA work order form does not require contractor signatures. Only MAC project managers and management sign the work order. Contractors provide commission managers with project documentation but they are not required to sign the PSA work order. Obtaining contractor signatures on the work order would provide written evidence that the contractor concurs with specific project tasks, scope, and price. Without contractor acknowledgment, cost control and enforcement of project scope expectations is more difficult.

- Contractors sometimes exceed work order authorized amounts without prior written approval by Metropolitan Airports Commission officials. We noted instances where PSA project cost estimates were increased after contractors submitted invoices for services performed in excess of their authorized amount. This practice exposes the commission to overcharges or payment for services not authorized by commission staff. The commission should limit payment to the authorized amount and require contractors to provide justification and obtain prior approval for work order increases.

- Annual contractor evaluations were not completed for two of ten continuing contracts we tested. Commission policy requires annual evaluations of continuing consultants and periodic reporting to the various committees of the board. Without timely evaluations, the commission may continue to work with unsatisfactory or problematic vendors. In addition, we found no evidence that the commission reported a problem with overbilling by a state contract vendor to the Minnesota Department of Administration.

- Commission staff could not locate two consulting contracts. The commission obtained legal services beginning in 1998. The arrangement was approved in subcommittee minutes, and PSA work orders were prepared, but no master contract signed by both parties could be located. Similarly, a contractor was listed as part of the Public Information Service Department's budget request, but a formal contract could not be found. Without written contracts, key legal features, such as contractor hiring, employment practices, work product ownership, and the right to audit are not addressed. The commission must ensure it retains all original contracts for legal protection and documented understanding of the contractual arrangements.

- The commission's consultant use and selection policy does not address limits for master contracts and continuing contracts with qualified consultants. The policy currently requires board approval for new contracts anticipated to exceed $50,000 and establishes a process for selection of continuing contractors. However, the policy does not address master contract limits for continuing contracts. One professional services contractor was approved by the board as a continuing contractor but no anticipated maximum contract limit was set. The consultant was to provide specialized services for a Federal Aviation Regulation Part 150 Study to define noise exposure levels around the airport and in surrounding communities. An initial work order was issued to develop a project work scope, schedule, and budget. This effort identified a project budget of $561,000, which was covered by two subsequent work orders. As the project expanded, the commission required additional services from this contractor, and commission staff issued three additional work orders for $735,000. Current policies require board approval for new contracts planned to exceed $50,000 but do not address whether board approval is needed when continuing contracts grow and expand substantially. Contract policies should identify requirements for board approval when actual work order authorizations exceed the maximum contract amount.

Recommendation

- *The Metropolitan Airports Commission should improve controls over professional and consultant contracts by:*
  - *requiring contractor signatures on the Authorization for Professional Services (PSA) form showing acceptance of project scope and cost;*
  - *providing prior written approval of PSA work order changes and limiting contractor payment to the amount authorized;*
  - *completing annual written evaluations for all continuing consultants and referring problems with contractors on a State of Minnesota contract to the Department of Administration;*
  - *ensuring written contracts are retained and on file in commission offices; and*
  - *modifying commission policies to establish master contract limits and clarify whether board approval is needed when actual PSA work orders exceed the contract limit.*

Chapter 4. Payroll

Chapter Conclusions

The Metropolitan Airports Commission's internal controls provided reasonable assurance that it accurately compensated employees in accordance with applicable legal provisions and management's authorization, and that payroll expenses were properly reported in the accounting records. For the items tested, the commission complied with finance-related legal provisions contained in employee bargaining unit agreements and commission policies and compensation limits established in state statutes.

The Metropolitan Airports Commission paid $42.6 million in payroll expenses during fiscal year 2001. Payroll was the largest operating cost, other than asset depreciation, comprising 27 percent of operating expenses. Due to the tragic events of September 11, 2001, the commission instituted a self-imposed hiring freeze and limit on discretionary overtime during the last quarter of fiscal year 2001.

As of June 2002, the commission employed 545 staff, including 251 unionized employees that belonged to the following bargaining units:

- Minnesota Teamsters Public & Law Enforcement Local Union #320
- Painters and Allied Trades Local #386
- Council of Carpenters and Joiners
- International Association of Firefighters Local S-6
- United Association of Plumbers Local #34
- Brotherhood of Electrical Workers Local #292
- Union of Operating Engineers Local #49
- Metropolitan Airports Police Federation
- Union of Operating Engineers Local #70

Commission management and non-unionized employees are paid pursuant to commission policies and pay ranges. Salaries and taxable benefits are subject to the compensation limits set forth in Minn. Stat. Section 43A.17, Subd. 9. The state statute limits local government compensation to 95 percent of the Governor's salary, unless the commissioner waives the limitation due to special expertise necessitating a higher salary to attract or retain a qualified person. In January 2000, the Department of Employee Relations exempted the Metropolitan Airports Commission from the statutory compensation limit due to national market competition and authorized an annual salary of $156,200 for its executive director. The maximum for other employees is capped at the legal level of $114,288.

Audit Objectives and Methodology

Our review of personnel and payroll expenses focused on the following questions:

- Did the commission's internal controls provide reasonable assurance that it properly compensated employees in accordance with finance-related legal provisions and management's authorization and properly record payroll expenses in the accounting system?

- Did the commission comply with finance-related legal provisions contained in employee bargaining unit agreements, commission policies, and state statutes?

To address these questions, we obtained a general understanding of the internal control structure over the personnel and payroll process. We analyzed employee annual compensation, compared paid and overtime hours worked and leave taken to authorized timesheets, tested personnel documents and pay increases to determine proper management authorization, and recalculated salaries to ensure accurate payments were within established limits. Finally, we verified that salaries paid to commission management were within statutory compensation limits, and that the executive director's compensation was properly authorized and within the limit set by the Department of Employee Relations.

Conclusions

The Metropolitan Airports Commission's internal controls provided reasonable assurance that it accurately compensated employees in accordance with applicable legal provisions and management's authorization, and that payroll expenses were properly reported in the accounting records. For the items tested, the commission complied with finance-related legal provisions contained in employee bargaining unit agreements and commission policies and compensation limits established in state statutes.

Status of Prior Audit Issues
As of July 24, 2002

Most Recent Audit

Legislative Audit Report 98-53, issued in September 1998, focused on the internal control structure over construction contracts and landing fees ensuring these selected financial activities were properly authorized and accurately recorded in the accounting system, as well as testing for compliance with finance-related legal provisions. The audit covered the fiscal year ended December 31, 1997. The audit reported no findings or recommendations needing improvement.

Other Audit Coverage

The Metropolitan Airports Commission contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the commission's financial statements. MAC received an unqualified opinion for fiscal year 2001. As part of the audit, the firm issued a management letter to the MAC board. The letter contained some comments on security over information systems and other accounting and administrative matters. The commission is currently working to resolve those issues.

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METROPOLITAN AIRPORTS COMMISSION
Minneapolis-Saint Paul International Airport
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October 29, 2002

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of the financial audit of selected activities at the Metropolitan Airports Commission for the period of January 1, 1999 through December 31, 2001.

Audit Finding 1: The commission needs to improve policies and procedures for revenue contracts.

Audit Recommendation: The Metropolitan airports Commission should improve revenue contract policies to address awarding and selection, requirements for independent audit, evaluation and contract renewal, and procedures for subsequent monitoring and collection of revenues.

The Metropolitan Airports Commission will draft a formal revenue policy that incorporates the audit recommendations. Gordy Wennerstrom, Director of Commercial Management and Airline Affairs, and Steve Busch, Director of Finance, will be responsible for drafting the policy and presenting it to the Commission by February 28, 2003.

Audit Finding 2: Commission controls over professional and consultant contracts need improvement.

Audit Recommendation: The Metropolitan Airports Commission should improve controls over professional and consultant contracts by:

- **requiring contractor signatures on the Authorization for Professional Services (PSA) form showing acceptance of project scope and cost;**
- **providing prior written commission approval of PSA work order changes and limiting contractor payments to the amount authorized;**
- **completing annual written evaluations for all continuing consultants and referring problems with contractors on a State of Minnesota contract to the Department of Administration;**
- **ensuring written contracts are retained and on file in commission offices; and**
- **modifying commission policies to establish master contract limits and clarify whether board approval is needed when actual PSA work orders exceed the contract limit.**

The Metropolitan Airports Commission will revise the PSA form to include the signature of the contractor. MAC will also develop a process to ensure that a written contract is on file for all professional service providers. The contracts will be retained in the commission offices. Rick Biddle, Project Manager, Pam Rasmussen, Deputy General Counsel and Don Olson, Purchasing Manager will be responsible for implementing these changes by January 1, 2003.

Written evaluations will be completed for all continuing consultants and any future problems with contractors on the State of Minnesota contract will be referred to the Department of Administration. Rick Biddle, Project Manager and Shirley Lanzy, Finance Coordinator, will be responsible for ensuring evaluations are completed by January 1, 2003. They will continue to oversee this process in subsequent years.

The Metropolitan Airports Commission will develop a policy that will address the issue of master contract limits and clarify staff and board review and/or approval required when actual PSA work orders exceed the contract limit. I will be responsible for presenting a proposed policy to the Commission by January 31, 2003.

Again, thank you for the opportunity to respond to the audit findings and recommendations. We appreciate the professional manner in which the audit was conducted.

Sincerely,

/s/ Jeffrey Hamiel

Jeffrey Hamiel
Executive Director