Metropolitan Airports Commission
Financial Audit

For the Period January 1, 1997, through December 31, 1997

September 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

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Metropolitan Airports Commission

Members of the Metropolitan Airports Commission

Mr. Jeffrey Hamiel, Executive Director
Metropolitan Airports Commission

We have audited the Metropolitan Airports Commission for the period January 1, 1997, through December 31, 1997, as further explained in Chapter 1. Our audit scope included construction projects and airline landing fees. Therefore, we emphasize that this has not been a complete audit of all programs of the Metropolitan Airports Commission. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *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 September 25, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 29, 1998

Report Signed On: September 18, 1998

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SUMMARY

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Financial Audit
For the Period January 1, 1997, through December 31, 1997

Public Release Date: September 25, 1998 No. 98-53

Background Information

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. Pierson Grieve, and the executive director is Mr. Jeffrey Hamiel.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over selected financial activities of the MAC and to determine if the MAC complied with material finance-related legal provisions. The areas covered by our audit were construction contracts and landing fee revenue for the year ended December 31, 1997.

We concluded that the MAC designed and implemented internal controls to provide reasonable assurance that construction contracts and landing fees were properly authorized and accurately recorded in the accounting system. For the items tested, the MAC also complied with material finance-related legal provisions and the airline lease agreement.

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Tony Toscano	Audit Director
Susan Kachelmeyer, CPA	Auditor

Exit Conference

The following staff from the Metropolitan Airports Commission participated in the exit conference held on September 16, 1998:

Jeff Hamiel	Executive Director
Denise Kautzer	Deputy Executive Director - Administration
Steve Busch	Finance Director
Mary Salovek	Audit Manager

Chapter 1. Introduction

The Legislature created the Metropolitan Airports Commission (MAC) as a public corporation in 1943 to develop and operate regional airport facilities. The commission operates under the authority of Minn. Stat. Sections 473.601 to 473.679. The commission consists of 15 commissioners. 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 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. Pierson Grieve, and the executive director is Mr. Jeffrey Hamiel.

The MAC 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.

The MAC finances its day to day operations entirely from user fees that are established for various airport services and facilities. The rate formulas (landing fee, ramp fee, terminal rates, and off-airport noise surcharge) are established in the current airline use agreement. MAC sets its rates and charges to assure that total system revenues will be sufficient to pay total system expenses. MAC's capital projects are financed either through General Obligation Revenue Bonds, state or federal grants, internally generated funds from operations, or Passenger Facility Charges (PFCs). Federal grants include the Airport Improvement Program, which provides funds for planning, constructing, improving, or repairing a public use airport. PFCs 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.

Table 1-1 shows the MAC's operating revenues and expenses for the fiscal year ended December 31, 1997.

Table 1-1
Statement of Revenues and Expenses and
Changes in Retained Earnings (in thousands)
Fiscal Year Ended December 31, 1997

Operating Revenues	
Airline Rates and Charges	$ 41,838
Concessions	52,279
Other Revenues	
Utilities	1,516
Miscellaneous	10,428
Total Operating Revenues	$106,061
Operating Expenses	
Personnel	$ 30,653
Administrative Expenses	1,108
Professional Services	4,069
Utilities	5,889
Operating Services	9,935
Maintenance	8,809
Depreciation	33,304
Other	170
Total Operating Expenses	$ 93,937
Operating Income	$ 12,124
Other Revenues (Expenses)	
Interest Income	$ 43,545
Passenger Facility Charges	37,162
Gain on Sale of Assets	6
Bond Interest Expense	(30,957)
Part 150 Home Insulation Expenses	(8,482)
Concession Development Expenses	(1,358)
Net Income	$ 52,040
Add Depreciation of facilities provided by government grants	8,941
Increase in Retained Earnings	$ 60,981
Retained Earnings-Beginning of Year	490,826
Retained Earnings-End of Year	$551,807

Source: MAC Comprehensive Annual Financial Report for the year ended December 31, 1997.

Chapter 2. Construction Projects

Chapter Conclusions

The Metropolitan Airports Commission (MAC) designed and implemented internal controls to provide reasonable assurance that its construction projects were authorized and accurately recorded in the accounting system. For the items tested, the MAC complied in all material respects with applicable statutory provisions over construction projects.

The Metropolitan Airports Commission (MAC) spent approximately $114 million on 335 capital improvement project contracts in 1997. Projects managed in 1997 were part of a complex endeavor that ultimately will result in thousands of construction contracts over the period ending in 2010. As a first step in managing those projects, the commission established a comprehensive plan called the 2010 Construction Program. The plan is a projection of where the commission expects demand for aviation transportation to be in the long term. The commission adds and removes prospective projects as demand for aviation transportation changes.

The commission identifies and plans for specific airport projects approximately seven years in advance. Individual construction projects that are to begin in the near future are reviewed and approved by the commission, then sent to the Metropolitan Council in a formal plan submission process. If the Met Council approves the project, the commission initiates a sealed bid process that is due and opened publicly at a specific time and date. The MAC planning and environmental committee reviews the various bids and requests affirmative action details from the lowest responsible bidder. At this point, the committee recommends the contract be awarded to the lowest responsible bidder. The committee sends its recommendation, bid details, and affirmative action information to the commission for action. Normally, the commission awards bids on projects at the first meeting held after bids are opened, unless additional issues are identified.

The commission implemented a new change management policy in August 1997 in order to streamline problems that occur in administrating complex construction projects. Fundamental to the success of the new policy is the concept of budgeting for project changes. A project budget includes estimated construction contract costs for a given project plus a percentage for contract changes. The contingency percentage is based on the MAC's previous experience with similar projects. The director of airport development can approve changes of less than $25,000 of the amounts within the project budget. Changes over $25,000 require approval by change management committee. Changes that would exceed the project budget require commission approval. Although fairly new, the policy has already expedited decision-making while maintaining necessary controls over contract changes.

Metropolitan Airports Commission

The commission finances construction of airport facilities primarily by issuing Airport Improvement and General Obligation Revenue Bonds. These bonds are generally repaid from commission revenue. Airport Improvement Bonds have priority over General Obligation Revenue Bonds. The commission also has the power to levy property taxes on certain properties to pay debt service on outstanding Airport Improvement or General Obligation Revenue Bonds. However, the commission has not levied taxes for the payment of debt service since 1969. Since that time, MAC revenues have been sufficient to pay principal and interest due on both types of bonds.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions:

- Did the MAC design and implement internal controls to provide reasonable assurance that its construction activities were authorized and accurately recorded in the accounting system?
- Did the MAC comply, in all material respects, with applicable statutory provisions?

To address these objectives, we gained an understanding of the construction process and the related internal controls. We interviewed MAC personnel, designed tests of controls, and performed analytical reviews and testing of transactions. We also selected a sample of construction projects to test compliance with applicable statutory provisions, including bidding procedures and project allocation to targeted business groups.

Conclusions

The Metropolitan Airports Commission designed and implemented internal controls to provide reasonable assurance that its construction projects were authorized and properly accounted for. For the items tested, the commission complied, in all material respects, with applicable statutory provisions over capital improvement construction projects.

Chapter 3. Landing Fees

Chapter Conclusions

The Metropolitan Airports Commission designed and implemented internal controls to provide reasonable assurance that landing fees were accurately calculated and properly recorded in the accounting system. With respect to the items tested, the commission complied with applicable provisions of the airline lease agreement.

The Metropolitan Airports Commission entered into an airline lease agreement with the various air carriers that govern the use of the airport for air carrier operations, the leasing of space within the terminal, and the establishment of landing fees. The landing fee is designed to recover the cost of operations, maintenance, and improvements at the airfield. Some of the main costs included in the calculation are snow removal materials and equipment, as well as the maintenance labor and allocated police and fire department costs.

The landing fee is calculated by dividing the MAC budgeted allowable costs relating to the airfield by the estimated total landed weight of aircraft using the airport. The MAC monitors budgeted and actual allowable costs during the year and makes adjustments to the fee if necessary. The 1997 landing fee was $1.02 per 1,000 pounds. The airlines submit monthly landed weight reports to the MAC with the amount of the payment. The airlines also submit the weight reports to the Federal Aviation Administration. The reports and payments are due by the tenth of each month. The total landing fee associated with 1997 activity was approximately $24 million. Table 3-1 shows the breakdown of landing fee revenues by airline.

Table 3-1
Landing Fee Revenue
Fiscal Year 1997

	Amount	Percent of Total
Northwest	$17,166,473	72.8
United	804,864	3.4
Sun Country	548,666	2.3
American	534,140	2.3
Delta	500,426	2.1
Other (1)	4,014,625	17.1
Total	$23,569,194	100.0

(1) Other is made up of 18 airlines each accounting for less than two percent of the total landing fee revenue.

Source: Metropolitan Airports Commission receipt records.

Audit Objectives and Methodology

Our review of the MAC's landing fees focused on the following questions:

- Did the MAC design and implement internal controls to provide reasonable assurance that landing fees were properly calculated and recorded in the accounting system?

- Did the MAC comply in all material respects with applicable airline agreement provisions?

To meet these objectives, we interviewed MAC employees to gain an understanding of the internal control structure over landing fees. We reviewed the landing fee calculation for accuracy and verified that airlines submitted the appropriate fee based on actual landed weights.

Conclusions

The Metropolitan Airports Commission designed and implemented internal controls to provide reasonable assurance that landing fees were accurately calculated and properly recorded in the accounting system. With respect to the items tested, the commission complied with applicable airline agreement provisions.

Status of Prior Audit Issues
As of July 29, 1998

Most Recent Audit

<u>November 4, 1994, Legislative Audit Report 94-54</u> focused on evaluating the internal control structure over reserved retained earnings and passenger facility charges as well as testing for compliance with finance-related legal provisions. The audit covered the fiscal year ended December 31, 1993. The audit had one finding. The finding dealt with the lack of formal approval for transferring residual funds from the operating fund to the special construction account. The commission now approves transfers from its operating fund to the special construction account.

Other Audit History

The Metropolitan Airports Commission annually contracts with a certified public accounting firm to conduct an audit of its financial statements. The firm issued an unqualified audit opinion for the year ending December 31, 1997. The auditor's report included an observation relating to cash management. We reviewed the auditor's workpapers and relied on their work, where appropriate, in determining the extent of our testing.

<u>October 1, 1993, Legislative Audit Report 93-52</u> focused on evaluating the internal control structure over payroll, contracts, leases, and commissioner per diems and expenses. The audit also reviewed compliance with material finance-related legal provisions. The report contained one finding dealing with inadequate separation of payroll duties over temporary employees within MAC's maintenance department. The finding has since been resolved.