U.S. DEPARTMENT OF TRANSPORTATION

OFFICE OF INSPECTOR GENERAL

Most Public Agencies Comply With Passenger Facility Charge Program Requirements, But FAA Can Improve the Use of Its Oversight Tools

FAA

Report No. AV2019015
December 18, 2018

Most Public Agencies Comply With Passenger Facility Charge Program Requirements, But FAA Can Improve the Use of Its Oversight Tools

Self-initiated

Federal Aviation Administration | AV2019015 | December 18, 2018

What We Looked At

Congress created the Passenger Facility Charge (PFC) program in 1990 to provide funding for airports' capital improvement projects and to increase competition between air carriers. While PFCs are local funds, the Federal Aviation Administration (FAA) oversees the program. Since 1990, FAA has approved the collection of $103.2 billion in PFC fees, which air carriers collect through passenger tickets and remit to public agencies (airport operators). To be eligible for PFC funding, public agency projects must (1) preserve or enhance the safety, security, or capacity of the national air transportation system; (2) reduce or mitigate airport noise; or (3) promote competition between or among air carriers. Given the public's involvement with PFCs and the substantial dollars the program generates, we initiated this audit; our objective was to review FAA's administration and oversight of airport operators' compliance with the use of PFC funds.

What We Found

Most public agencies comply with PFC program requirements, but FAA could use available tools more effectively to strengthen its oversight. For example, to assess compliance, FAA reviews public agencies' independent audit reports, but it does not ensure that those reports are timely or complete. FAA also lacks procedures for documenting public agency data in its database. As a result, the Agency does not require its Airport District Offices to verify that expenditure information is accurate or to record the receipt of audit reports and status of audit findings. Finally, while FAA officials work closely with public agency personnel to ensure that proposed projects are PFC eligible, the Agency does not have a process for determining whether completed projects meet PFC program goals.

Our Recommendations

We made six recommendations to improve FAA's administration and oversight of the PFC program. FAA fully concurred with two recommendations and partially concurred with three, but did not concur with our final recommendation.

Contents

Memorandum

Date: December 18, 2018

Subject: ACTION: Most Public Agencies Comply With Passenger Facility Charge Program Requirements, But FAA Can Improve the Use of Its Oversight Tools | Report No. AV2019015

From: Matthew E. Hampton
Assistant Inspector General for Aviation Audits

To: Federal Aviation Administrator

Congress created the Passenger Facility Charge (PFC) program in 1990 to provide funding for airports' capital improvement projects and to increase competition between air carriers. PFCs are local funds, but the Federal Aviation Administration (FAA) regulates, administers, and oversees the PFC program—including how airport operators use PFC funds—in accordance with statutory and regulatory requirements.

Since the program was launched in 1990, FAA has approved the collection of $103.2 billion in PFCs. Air carriers collect the fees through passenger tickets and remit the funds to airport operators. From 1992 through 2017, air travelers paid $53.4 billion in PFC fees. In 2015, Airports Council International – North America, an airport advocacy organization, proposed increasing PFC funding levels to match inflation; the last increase was in 2000, when the maximum fee grew from $3 to $4.50 per flight segment.[1]

The PFC statute[2] mandates that, to be eligible to impose the fees, a public agency—i.e., an airport operator—must have a project that (1) preserves or enhances the safety, security, or capacity of the national air transportation system; (2) reduces noise or mitigates noise impacts resulting from an airport; or (3) furnishes opportunities for enhanced competition between or among air carriers.

Given the flying public's involvement with PFCs and the substantial dollars the program generates, we initiated this audit to assess the effectiveness of FAA's

[1] The Federal Aviation Administrator may grant authority to a public agency that controls a commercial service airport to impose a PFC of $1, $2, $3, $4, or $4.50 on passengers enplaned at such an airport. Fees are limited to two flight segments each way or a total of $18 on a roundtrip ticket.
[2] 49 U.S.C. § 40117.

controls over the program. Accordingly, our objective was to review FAA's administration and oversight of airport operators' compliance with the use of PFC funds. (Airport operators will be referred to as public agencies for the rest of this report.)

We conducted this performance audit in accordance with generally accepted Government auditing standards. We met with representatives from FAA Headquarters and five FAA Airport District Offices (ADO) and their respective Regional Offices. In addition, we visited five public agencies and five independent auditing firms that audited PFC funds at these public agencies. We reviewed FAA-approved PFC applications, public agency financial records, and independent audit reports. In addition, we analyzed the requirements, policies, procedures, and guidance of the PFC program contained in Title 49, United States Code (U.S.C.), section 40117 (PFC statute); Title 14, Code of Federal Regulations (CFR), Part 158 (FAA regulation); FAA Order 5500.1; PFC Update 36-02; and FAA's PFC Audit Guide for Public Agencies. For more details about our scope and methodology, see exhibit A. For a list of the entities we visited or contacted, see exhibit B.

We appreciate the courtesies and cooperation of Department of Transportation (DOT) representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-0500 or Marshall Jackson, Program Director, at (202) 366-4274.

Results in Brief

Most public agencies use PFCs in compliance with program requirements; however, FAA could use available tools more effectively to strengthen its oversight.

Public agencies generally expend PFC funds in compliance with statutory and program requirements, even though FAA does not make full use of its oversight tools. While the Agency uses annual independent audit reports to determine whether public agencies are in compliance with PFC requirements, it could more effectively use independent audits for program oversight. Specifically, FAA does not ensure that audit reports are timely or include required information. This is because FAA's current regulation does not specify when the audit report must be issued, and ADOs do not always obtain full independent audit reports from the public agencies. For example, although an annual review is required, one report covered a 4-year period; it also revealed that the public agency had used an incorrect reporting method and, as a result, overstated its PFC expenditures by $3.6 million. In addition, FAA did not ensure that nearly $18.3 million in PFC fees collected for Chicago O'Hare International Airport and used at Gary/Chicago

International Airport were independently audited. Although the ADO said both had been audited, the independent audit firm said it had only been tasked to audit O'Hare's PFC activity, and its reports did not address Gary/Chicago. Furthermore, FAA lacks procedures to verify and record public agency data to ensure compliance with audit requirements. FAA has a database for recording public agency expenditures, receipt of PFC-related audit reports, and audit report findings. However, the Agency does not require ADOs to verify that expenditure information is accurate or to record the receipt of audit reports and status of findings. For example, one public agency reported zero expenditures to FAA in 2014 and in 2015, but independent audit reports show that it expended funds in both years. Finally, before the Agency's formal review of a PFC application, FAA officials work closely with public agency personnel to identify and resolve potential issues and ensure that proposed projects are PFC eligible. But FAA does not have a process in place to determine whether completed projects meet the goals of the PFC program.

We are making recommendations to improve FAA's administration and oversight of the PFC program.

Background

The PFC statute authorizes FAA to approve a public agency's application to impose a fee on airline passengers to finance projects that will enhance the capacity, safety, and security of the national air transportation system, reduce airport noise, and increase competition among air carriers. In addition, the PFC statute requires FAA to prescribe regulations that require public agencies to maintain records and obtain audits of their PFC accounts.

FAA's Financial Analysis and Passenger Facility Charge Program Branch develops the PFC program's policies and procedures. Per the FAA regulation, public agencies must submit quarterly reports to FAA on their PFC revenue and project expenditures. FAA retains these quarterly reports in its System of Airports Reporting (SOAR) database, which is also able to record the receipt of independent audit reports. In addition, at least annually during the period the PFC is collected, held, or used, public agencies must have their PFC accounts audited by an accredited independent auditor.

While Most Public Agencies Comply With PFC Requirements, FAA Could Strengthen Its Program Oversight

In general, public agencies are spending PFC funds as required by the PFC statute and regulation, although FAA's oversight of this activity is limited. The Agency monitors how public agencies comply with PFC requirements and use PFC funds primarily by reviewing annual independent audit reports and quarterly reports on program activities. However, FAA does not make full use of available tools to guide its oversight of the PFC program; for example, it does not ensure that the audit reports are current and contain the required opinions on internal controls. In addition, FAA lacks measures to verify and record public agency PFC data or assess whether completed projects are meeting PFC goals.

Public Agencies Generally Use PFC Funds in Compliance With PFC Requirements

We tested a statistical sample of 218 expenditures, with a total value of $231.9 million at four public agencies.[3] These expenditures included, but were not limited to, projects for terminal development and expansion, a deicing storm water plant, neighborhood soundproofing, taxiway and runway construction, and common-use gate improvements. We did not identify noncompliance by any public agency for the expenditures we tested.

We also reviewed independent audit reports for 89 public agencies and identified one public agency that used PFC funds without FAA approval in fiscal year (FY) 2014. FAA took corrective action to resolve the issue.

FAA Could Enhance Program Oversight With Improved Use of Independent Audits

FAA does not confirm that PFC-related audit reports are current or comprehensive, or that PFC funds used at one airport have been independently audited.

[3] The supporting documentation for one public agency was no longer available or extremely burdensome to retrieve, so those expenditures were omitted from our sample.

FAA Lacks a Process To Ensure That Independent Audit Reports Are Timely and Include Required Information

According to FAA officials, independent audits are an important component of the Agency's oversight of the PFC program. FAA policy requires ADOs to review the audit opinions on public agencies' internal controls and schedule of PFC transactions, and identify findings and material weaknesses in PFC programs. However, FAA does not ensure that independent audit reports are issued in a timely manner to facilitate correction of deficiencies or contain the required opinions.

The FAA regulation states that a public agency must obtain an audit of its PFC account "at least annually." At the 5 ADOs we visited, we reviewed 177 audit reports for 89 public agencies, for FY 2014 and FY 2015. We found that some public agencies did not meet annual audit requirements (see table). Thirteen of the 177 reports (7 percent) had been issued over a year after the end of the fiscal year. Furthermore, at some public agencies, multiple years were covered in a single report.

Table. Public Agencies That Did Not Meet Annual Audit Requirements

Public Agency	Airport Name	Public Agency End of Fiscal Year	Issue Date of Report
Border Coast Regional Airport Authority	Del Norte County Airport	June 30, 2014	January 28, 2016
		June 30, 2015	January 29, 2016
Port of Moses Lake	Grant County International Airport	December 31, 2012 December 31, 2013 December 31, 2014	February 18, 2016
City of Chico	Chico Municipal Airport	June 30, 2014 June 30, 2015	February 29, 2016
Sonoma County Department of Transportation and Public Works	Sonoma County Airport	June 30, 2012 June 30, 2013 June 30, 2014 June 30, 2015	May 12, 2016
Chicago Department of Aviation	Chicago O'Hare International Airport	December 31, 2014 December 31, 2015	December 19, 2016
Chicago Department of Aviation	Chicago Midway International Airport	December 31, 2014 December 31, 2015	December 19, 2016

Source: OIG analysis of 177 FY 2014 and FY 2015 PFC audit reports from the five ADOs we visited. The shaded sections highlight single reports that contain audits of several years of PFC transactions at the respective public agencies.

One report covered a public agency's PFC activity in FY 2012–2015 and reported a material weakness in all 4 years. The problem went uncorrected because FAA did not verify that the required audits were done. The independent auditor found that the public agency's airport had misreported its PFC expenditures—a $3.6 million overstatement. After the report was issued, the ADO gave the public agency 1 year to correct its reporting procedures, although this had been an issue since 2012. In May 2017, officials at the public agency told FAA that they had implemented corrective actions and would comply with the annual audit requirement.

The reports were not submitted timely because the FAA regulation does not provide a clear timeframe for issuing PFC audit reports. In contrast, Single Audit Reports of the Airport Improvement Program (AIP) must be issued no later than 9 months after the end of the grantee's fiscal year.[4]

In addition, the FAA regulation requires independent auditors to express opinions on (1) the fairness and reasonableness of the public agencies' internal controls and (2) whether the schedule of PFC transactions is fairly stated.

We identified 14 of 177 (8 percent) audit reports that did not contain the required opinion regarding internal controls. Similarly, 17 of the 177 (10 percent) reports did not contain the required opinion on whether the schedule of PFC transactions was fairly stated. However, for 8 of those 17 audits, FAA had not obtained the complete reports—which did include the required opinion—from the public agencies. We asked the ADOs why they did not obtain the complete reports from the public agencies. One ADO official told us the documents that were reviewed provided sufficient information for FAA to determine the PFC audit requirements had been met. Another ADO official said the focus of the ADO review was to identify findings, and the office expected public agencies and their auditors to follow FAA guidance.

While FAA's policy[5] requires the ADOs to review the audit opinions, it states that they "need only review the 'Report on Compliance.'" However, this report does not always contain the opinion on whether the PFC schedule is fairly stated, although it is sometimes included in other sections of a public agency's audit.

Furthermore, in response to an inquiry from one ADO, FAA Headquarters advised the ADO to accept a general statement on compliance from the auditor in lieu of an opinion on the schedule of PFC transactions. However, the two statements are not interchangeable, as one provides reasonable assurance that the public agency complied with PFC-related laws, regulations, and policies, while the other provides reasonable assurance that PFC financial information has been fairly

[4] OMB Circular No. A-133 (2013).
[5] PFC Update 36-02, issued in November 2001.

stated. The ADO has discontinued this practice, and now requires audits to include both opinions.

FAA Does Not Ensure That PFC Funds Used at Gary/Chicago International Airport Are Independently Audited

An agreement between the cities of Chicago, IL, and Gary, IN, created an authority called the Chicago-Gary Regional Airport Authority, which includes the cities' three airports (O'Hare, Midway, and Gary/Chicago). A provision in the agreement allows PFC funds to be collected at the two Chicago airports (O'Hare and Midway) and used for projects at the Gary airport. However, the funds used at the Gary airport are not subject to the same oversight as the funds used at the Chicago airports.

The regulation requires a public agency that collects, holds, or uses PFCs to conduct an annual independent audit. As of September 2017, FAA had approved approximately $28.9 million in PFCs collected for O'Hare to fund projects at the Gary airport, and Gary had used nearly $18.3 million.[6] But the Agency did not establish audit procedures to ensure proper oversight for the funds expended at Gary/Chicago. Specifically, FAA and the Chicago Department of Aviation (the public agency for the Chicago airports) said that Gary/Chicago is audited as part of the O'Hare annual independent PFC audits. However, representatives from the accounting firm that reviewed the Chicago airports stated they were not tasked to include the Gary airport, and the firm's audit reports refer only to O'Hare and Midway. Thus, FAA did not ensure that the $18.3 million in PFC funds used at Gary/Chicago Airport had been independently audited.

Timely and complete reports, along with consistently applied audit requirements, could help FAA conduct adequate oversight of the PFC program and facilitate the public agencies' corrective actions.

FAA Lacks Procedures To Verify and Record Public Agency PFC Data

In addition to independent audit reports, FAA has a second oversight tool for the PFC program: the SOAR database, which has been available since 2004. Per the FAA regulation, public agencies are required to submit quarterly updates to FAA on their PFC activities. Either FAA or the public agencies enter this information into SOAR. Then FAA uses it to monitor fee collection,[7] expenditures, and project

[6] The Gary/Chicago airport used PFCs to acquire Aircraft Rescue and Firefighting vehicles, terminal renovations, and a railroad relocation and runway extension.

[7] While the FAA regulation defines the term "collection" as the acceptance of a PFC payment from a passenger, in our interviews with FAA personnel and documentation reviews, "collection" typically was used to refer to the PFC funds that public agencies receive; this report uses the term in this manner as well.

completion and determine if funds are collected at a slower or faster pace than estimated. However, FAA does not verify the accuracy of the information by comparing the submitted data to the audit reports. SOAR also contains sections for documenting when audit reports are received and tracking public agencies' progress with audit findings, but ADOs do not consistently record this information. A few examples are listed below:

- **Verifying data accuracy.** One public agency reported zero expenditures in SOAR for 2014 and 2015. However, according to the independent audit reports, it had expended approximately $18,000 in 2014 and $20,000 in 2015. FAA officials only became aware of these discrepancies during our review.

  FAA's policy does not require ADOs to evaluate the information in the database, which should—but does not always—match what is reported in the audit reports.

- **Recording receipt of audit reports and findings.** None of the five ADOs we visited consistently recorded their receipt of the reports. One ADO, responsible for 18 airports, started recording this information in 2013—recording 2 reports in SOAR for that year, 17 for 2014, and none for 2015. In addition, one of the three ADOs that received reports with PFC-related findings did not comment on those findings or describe its follow-up actions in SOAR.

  According to FAA's PFC audit guide, public agencies are required to correct issues identified by the independent auditors. However, while the audit reports for four public agencies contained repeated findings, FAA did not record any information for one of those findings in SOAR. While that finding was initially included in a 2013 report, it remained open in 2015. The independent auditor found an internal control deficiency in the vendor-provided revenue system and labeled the issue "significant." A person at the ADO responsible for reviewing the annual audit reports told us they were satisfied with the response from the public agency—specifically, that the deficiencies were unacceptable, and it had procured a new vendor—and were content to wait for the FY 2016 audit report for an update. None of the ADO's actions were documented in the SOAR database. ADO staff stated that such documentation was unnecessary because the auditor had not issued an adverse opinion about the public agency's internal controls.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book)[8] recommends that agencies design internal controls to ensure that ongoing monitoring is part of normal operations. The lack

[8] GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G), September 2014.

of complete and accurate data in SOAR has a negative impact on FAA's ability to monitor the program and to obtain and use nationwide PFC information. In addition, staff at FAA Headquarters may be unaware of repeat findings or untimely audits. While there is no requirement to track audit findings in SOAR, more effective use of the database could provide staff with historical information about the public agencies and enhance the stewardship of the PFC program.

FAA Does Not Assess Whether Completed Projects Meet Program Goals

FAA officials expend significant effort during the initial PFC application phase,[9] working closely with public agency personnel to identify and resolve potential issues ahead of its formal review of a PFC application. This review is based on the public agencies' estimates and projections. However, when projects are completed, FAA does not require public agencies to provide evidence that they have achieved the desired outcomes or benefits. As a result, FAA lacks the information to determine whether completed PFC-funded projects have met program goals—increasing safety, security, and capacity; reducing noise; and enhancing competition among air carriers. Instead, during the application close-out process, public agencies only self-certify that the project has been completed in accordance with the plans, specifications, and applicable assurances and that all requirements under the FAA regulation have been met.

According to FAA officials, the Agency does not perform PFC-specific site visits or conduct reviews once projects have been completed, as such assessments are not required by the FAA regulation. FAA officials also told us an assessment of completed projects is not necessary because they make the determination that a project will meet the program's goals *before* they approve it. Per FAA's ADO personnel, PFC projects that also have AIP funding are reviewed through FAA's AIP inspection process. However, this process does not include assessments of whether PFC projects achieve program goals. Finally, we note the PFC statute provides FAA with the authority to audit the public agencies' use of PFCs. FAA officials indicated that this is addressed via annual independent audits, but these audits also do not examine whether completed projects achieve PFC program goals.

As noted above, the Green Book recommends that agencies design internal controls to ensure that ongoing monitoring is part of normal operations. While follow-up on completed projects is not a PFC program requirement, initiation of such efforts is consistent with internal control requirements. Further, reviews of completed projects can help identify opportunities for improvement and best

[9] During this phase, public agencies submit draft applications to FAA for preliminary comments.

practices, as well as areas where additional evaluation is needed to determine program effectiveness.

Conclusion

The Passenger Facility Charge program was created by Congress to be a significant funding source for public agencies seeking to improve and upgrade their airports. Considering that billions of dollars continue to be collected from the traveling public each year, FAA has a responsibility to strengthen its oversight and seek opportunities to assure stakeholders that passenger fees are being used to achieve the goals of the PFC program.

Recommendations

To improve FAA's oversight and administration of the Passenger Facility Charge (PFC) program, we recommend that the Federal Aviation Administrator:

1. Establish specific timeframes for issuing audit reports and verify that public agencies' independent audits are performed annually.
2. Update FAA's policy and procedures to require Airport District Offices (ADO) to obtain and review complete audit reports and ensure all required audit opinions are included.
3. Develop and implement procedures to ensure PFC expenditures at the Gary, IN, airport are independently audited, including the $18.3 million identified in our report.
4. Develop and implement policies and procedures for verifying that public agencies report accurate PFC collection and expenditure information to FAA.
5. Develop and implement policies and procedures that require ADO staff to consistently record certain items in the System of Airport Reporting database to enhance its oversight of the PFC program, such as the receipt of independent audit reports, PFC-related findings reported by independent auditors, follow-up actions and comments discussed with the public agency, status of audit findings, and whether the findings are repeated from prior years.

6. Develop a methodology to review completed PFC projects that determines whether they are achieving intended program goals, and identifies best practices and opportunities for improvement.

Agency Comments and OIG Response

We provided FAA with our draft report on October 15, 2018, and received its response, which is included as an appendix to this report, on November 9, 2018. FAA fully concurred with recommendations 1 and 2 and provided appropriate planned actions and completion dates. While the Agency partially concurred with recommendations 3, 4, and 5, it provided alternative actions and completion dates to address their intent. Therefore, we consider these five recommendations resolved but open pending completion of planned actions. FAA did not concur with recommendation 6, and we consider this recommendation open and unresolved. Specifically:

- FAA partially concurred with recommendation 3 because it does not agree that it should develop and implement separate procedures for Gary/Chicago International Airport. However, the Agency will notify the city of Chicago that it must secure an independent audit of PFC revenues and expenditures for Gary/Chicago International, including the $18.3 million identified in our report. As this plan meets the intent of our recommendation, we consider recommendation 3 to be resolved but open pending completion of planned actions.
- FAA partially concurred with recommendation 4, stating that it will improve existing internal FAA policies and procedures to ensure accurate reporting of PFC collections and expenditures rather than establish new policies and procedures. This plan meets the intent of our recommendation, and we consider recommendation 4 resolved but open pending completion of planned actions.
- FAA partially concurred with recommendation 5, stating that it will improve existing internal FAA policies and procedures to ensure that the System of Airport Reporting includes the necessary information to enhance FAA's oversight of the PFC program. This plan meets the intent of our recommendation, and we consider recommendation 5 resolved but open pending completion of planned actions.
- While FAA agreed that it has the authority to conduct audits, it did not concur with recommendation 6. According to the Agency, developing a methodology to determine whether completed projects have achieved program goals is not an effective use of FAA's limited resources,

particularly given the dynamic way the industry uses PFC-funded facilities. While we agree that industry use of these facilities evolves over time, the goals of the PFC program, such as increased safety and capacity, remain the same and billions of dollars are directed annually to this program. As we reported, FAA does not require public agencies to assess whether projects have achieved their desired outcomes. Thus, the Agency lacks the information it needs to determine program effectiveness and identify best practices for improving this key program established to enhance the Nation’s airports. Accordingly, we consider this recommendation open and unresolved and request that FAA reconsider its response.

Actions Required

We consider recommendations 1 through 5 resolved but open pending completion of planned actions. We consider recommendation 6 open and unresolved. In accordance with DOT Order 8000.1C, we request that FAA reconsider its position on recommendation 6 and provide us with a revised response within 30 days of the date of this report.

Exhibit A. Scope and Methodology

We conducted this performance audit from October 2015 through October 2018 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our objective was to review FAA's administration and oversight of airport operators' compliance with the use of PFC funds.

To assess FAA's administration and oversight of public agencies' use of PFC funds, we reviewed applicable laws, regulations, policies, and guidance, specifically, 49 U.S.C. § 40117 (PFC statute); 14 CFR § 158 (FAA regulation); FAA Order 5500.1; PFC Update 36-02; and FAA's PFC Audit Guide for Public Agencies. We also reviewed previous PFC-focused audit reports issued by our office and by GAO.[10]

To obtain an understanding of FAA's processes for PFC program oversight, we met with the Agency's Financial Analysis and Passenger Facility Charge Program Branch, as well as 5 of 21 ADOs and the Regional Offices that are responsible for the 5 public agencies we selected. We reviewed all 177 FY 2014 and FY 2015 audit reports pertaining to the 89 public agencies under the responsibility of the ADOs to identify potential misuse of PFC funds, as well as whether the audit reports were issued annually and contained the required, PFC-related opinions. We also reviewed application files at the ADOs to determine FAA's process for approving projects for PFC funding. Finally, we assessed each ADO's use of the SOAR database for recording receipt of independent audit reports and documenting report findings.

To determine if PFC funds were used in compliance with program requirements, we visited 5 of 89 public agencies pertaining to the 5 ADOs we visited, which are responsible for 6 airports, and the 5 independent auditing firms that reviewed the public agencies' PFC accounts. Two public agencies were selected based on their proximity to OIG staff, and one was selected based on information we obtained during the initial phase of the audit. The remaining 2 public agencies were randomly selected from a universe of 31 large and medium hub airports, located in 6 FAA regions that were not part of the initial audit phase. We interviewed

[10] *Report on Audit of Passenger Facility Charges*, (OIG Report No. R4-FA-6-012), issued on November 9, 1995, and GAO, *Raising Passenger Facility Charges Would Increase Airport Funding, but Other Effects Less Certain* (GAO-15-10), December 11, 2014.

public agency officials about their PFC processes and internal controls, as well as their involvement with FAA representatives during the PFC application process.

At 4 of the 5 public agencies, we tested a statistical sample of 218 expenditures totaling $231.9 million from a universe of 1,280 expenditures totaling $693.5 million. The expenditures from one public agency are not included in the sample we tested because the related projects were completed in the late 1990s and early 2000s, and the supporting documentation was no longer available or extremely burdensome to retrieve. Therefore, the sample includes expenditures for four of the five public agencies we visited. The expenditure dates for the four public agencies ranged from January 1, 2014, through December 31, 2015, for one visited during the early stage of the audit, and January 1, 2015, through July 31, 2016, for the three visited during the latter stage. We tested these expenditures and determined that they were for FAA-approved projects and met the PFC-eligibility criteria. We traced the expenditures through the public agencies' accounting systems, as well as through supporting documentation, such as FAA-approved PFC applications, bond documents, and invoices. Our sample did not yield any findings, and the results of our observations are not generalizable to all public agencies since the ones in our sample were not randomly selected.

At the independent auditing firms, we reviewed working papers supporting the five public agencies' most recent PFC audits and compared the firms' auditing methodology and procedures to the recommended procedures from FAA's PFC audit guide.

We visited the Gary/Chicago International Airport to see the PFC-funded projects and understand the process for funding projects at the airport. Finally, we met with Airlines for America and Airports Council International – North America to obtain the trade association perspective on the PFC program.

Exhibit B. Organizations Visited or Contacted

Department of Transportation

Federal Aviation Administration, Headquarters, Washington, DC

Office of the Secretary of Transportation, Office of Aviation Enforcement and Proceedings, Washington, DC

FAA Regions

Eastern Region Airports Division

Great Lakes Region Airports Division

Northwest Mountain Region Airports Division

Southern Region Airports Division

Western-Pacific Region Airports Division

FAA Airport District Offices

Chicago Airport District Office, IL

Harrisburg Airport District Office, PA

Orlando Airport District Office, FL

San Francisco Airport District Office, CA

Seattle Airport District Office, WA

Public Agencies

Allegheny County Airport Authority, PA

Chicago Department of Aviation, IL

City and County of San Francisco, CA

Miami-Dade Aviation Department, FL

Port of Portland, OR

Airports

Gary/Chicago International Airport, IN

Certified Public Accountants

BKD LLP, Pittsburgh, PA

Deloitte & Touche LLP, Chicago IL

KPMG LLP, Fort Lauderdale, FL

KPMG LLP, San Francisco, CA

PricewaterhouseCoopers LLP, Portland, OR

Trade Associations

Airlines for America, Washington, DC

Airports Council International – North America, Washington, DC

Exhibit C. List of Acronyms

ADO	Airport District Office
AIP	Airport Improvement Program
CFR	Code of Federal Regulations
DOT	Department of Transportation
FAA	Federal Aviation Administration
FY	fiscal year
GAO	Government Accountability Office
Green Book	*Standards for Internal Control in the Federal Government*
OIG	Office of Inspector General
PFC	Passenger Facility Charge
SOAR	System of Airport Reporting database
U.S.C.	United States Code

Exhibit D. Major Contributors to This Report

MARSHALL JACKSON	PROGRAM DIRECTOR
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Appendix. Agency Comments

Federal Aviation Administration

Memorandum

Date: November 9, 2018

To: Matthew E. Hampton, Assistant Inspector General for Aviation Audits

From: H. Clayton Foushee, Director, Office of Audit and Evaluation, AAE-1

Subject: Federal Aviation Administration's (FAA) Response to Office of Inspector General (OIG) Draft Report: FAA's Oversight of the Passenger Facility Charge (PFC) Program

The FAA is committed to continuous enhancement of PFC program oversight. Recent improvement efforts include the implementation of requirements for public agencies to perform independent PFC audits annually, and the provision of specific guidance to public agencies and field offices for completing and reviewing these audits.

We concur with recommendation 1 to "establish specific timeframes for issuing audit reports and verify that public agencies' independent audits are performed annually" as written. We plan to implement recommendation 1 by April 1, 2019.

We concur with recommendation 2 to "update FAA's policy and procedures to require Airport District Offices to obtain and review complete audit reports and ensure all required audit opinions are included" as written. We plan to implement this recommendation by October 1, 2019.

We partially concur with recommendation 3 to "develop and implement procedures to ensure PFC expenditures at Gary Chicago International Airport (GYY) are independently audited including the $18.3 million identified" in the report. We will notify the City of Chicago by December 1, 2018, that they must secure an independent audit that includes PFC revenue and expenditures for GYY, including the $18.3 million identified in the report. We do not agree to develop and implement separate procedures specifically for this airport. Rather, we believe that the implementation of the recommendations in this report will be sufficient to ensure that independent audits are completed annually at all airports participating in the PFC program. Updated audit procedures will include improved and clarified guidance for public agencies that govern more than one airport.

We partially concur with recommendation 4 to "develop and implement policies and procedures for verifying that public agencies report accurate PFC collections and expenditure information to the FAA." The FAA agrees that we should make improvements to existing internal FAA policies and procedures to ensure accurate reporting of PFC collections and expenditures. However, we do not believe that new policies and procedures are necessary to achieve these objectives. We plan to implement improvements to our policy and procedures by April 1, 2019.

We partially concur with recommendation 5 to "develop and implement policies and procedures that require ADO [FAA Airport District Office] staff to consistently record certain items in the System of Airport Reporting database to enhance its oversight of the PFC program." The FAA agrees that we should make improvements to existing internal FAA policies and procedures to ensure that the System of Airport Reporting includes the necessary information to enhance our oversight of the PFC program. We plan to implement improvements to our policy and procedures by April 1, 2020.

Consistent with feedback provided on an earlier draft of the OIG audit report, we remain deeply concerned, and do not concur, with recommendation 6 to "develop a methodology to review completed PFC projects that determines whether they are achieving intended program goals, and identifies best practices and opportunities for improvement." There is a fundamental difference between verifying that funding was utilized properly (which we routinely do), versus determining whether the resulting infrastructure contributes to anticipated or unanticipated changes in use by private-sector commercial entities (the airlines) which are the primary users of the infrastructure. Moreover, while FAA has audit authority, because of the dynamic nature of how our industry partners utilize funded facilities, we believe this recommendation would not be an effective use of FAA's limited resources. FAA has and will continue to ensure location-specific audits are conducted when there is evidence of impropriety in the use of PFC funds.

We appreciate this opportunity to respond to the OIG draft report. Please contact H. Clayton Foushee at (202) 267-9000 if you have any questions or require additional information about these comments.

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