
Office of Inspector General

Audit Report

**Report on Imperial County
Airport Hotline Complaint**

Federal Aviation Administration

Report Number: AV-1998-196

Date Issued: September 1, 1998





Memorandum


U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Subject: INFORMATION: Report on
Imperial County Airport Hotline Complaint
AV-1998-196

Date: September 1, 1998

From: Alexis M. Stefani 
Deputy Assistant Inspector General
for Aviation

Reply to
Attn of: JA-10:60500

To: Susan L. Kurland
Associate Administrator for Airports, ARP-1

Background

This report summarizes the results of our review of a hotline complaint alleging misuse of Federal Aviation Administration (FAA) grant funds at the Imperial County Airport (Airport) offices in Imperial, California. The complainant alleged that Imperial County (sponsor for Imperial County Airport): (1) used grant funds to pay for airport operating costs unrelated to the grants, (2) earned interest on grant funds and improperly used this money to pay the local matching share¹ of project costs, and (3) did not deposit revenues from a lease on Airport property in an Airport operating account as required by FAA regulations.

We performed our review at the FAA Airport District Office in Los Angeles, California; the Imperial County offices in El Centro, and the Airport offices in Imperial, California. We reviewed grant files, financial records, and audit workpapers prepared by the sponsor's internal auditors. We interviewed FAA, sponsor, and Airport officials; toured Airport property; and reviewed the Airport Layout Plan. We reviewed 12 open Airport Improvement Program grants with grant awards totaling \$7.6 million. The review covered Airport grant activities and use of revenue for Fiscal Year 1987 through March 1998, and was performed in March 1998. The work was done in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

¹ Recipients of Federal Airport Improvement Program grants, as part of the grant agreement, must agree to contribute a specified percentage of total project costs, referred to as local matching share.

RESULTS

Based on our review, we determined interest was not earned on grant funds, and therefore was not used for local matching share. However, we found the sponsor violated grant fund assurances by diverting about \$553,600 in Airport revenue and did not have documentation supporting the expenditure of \$221,402 in grant funds.

Revenue Diversion

We confirmed that \$350,000, as alleged by the complainant, and an additional \$41,600 in lease revenues were not deposited in an Airport account. Furthermore, the sponsor was not paying the Airport annual rents of about \$162,000 for using Airport property.

Lease Income of \$391,600 Was Not Deposited in Airport Accounts. The sponsor collected about \$391,600 (\$350,000 plus \$41,600) from leasing two facilities on Airport property during the period July 1996 to March 1998, and did not remit the money to the Airport. The Airport and Airway Improvement Act of 1982, as codified by Title 49 United States Code (U.S.C.), Section 47107; and Grant Assurance² Number 25, require that airport revenue be used only for airport purposes, and any other use is considered a revenue diversion. Sponsor officials told us proceeds from the leases were used to offset capital investments the sponsor made in the rented facilities during 1989 and 1990. The Federal Aviation Authorization Act of 1996 requires a sponsor to request approval from FAA no later than 6 years after the date in which capital contributions were made to the airport, in order to recover the expenditures. However, at the time of our review, the sponsor had not requested approval from FAA, and the 6 year limitation has expired. Therefore, the sponsor should reimburse the Airport \$391,600 for Airport property lease income.

Airport Was Not Paid \$162,000 in Annual Rents. Airport property was being used by the sponsor without rent payments to the Airport. The Airport was not collecting rent for the sponsor's veterans administration office, fire station, and agricultural testing facility located on Airport property. The fire station provides fire rescue service to the Airport, but the sponsor has not determined the value of these services. Based on comparable rates charged other Airport tenants, the Airport is losing revenues of about \$162,000 annually. Therefore, the sponsor should pay the Airport \$162,000 in annual rent for offices occupied on Airport property at no charge, less the cost of services provided to the Airport by the fire station.

Use Of Grant Funds

² As a condition for receiving airport grants, airport sponsors must agree to written assurances contained in grant applications.

We found that \$4,686 in Airport Improvement Program grant funds were used for ineligible costs as alleged by the complainant. In addition, we identified \$216,716 in unsupported costs charged to Air Improvement Program Grants. The sponsor should reimburse FAA \$4,686 for ineligible costs and either provide appropriate support for the \$216,716 or reimburse FAA this amount.

Ineligible Costs of \$4,686 Charged to Grants. The complaint alleged \$25,000 in grant funds were used to purchase a computer system for Airport staff and a tractor for Airport maintenance; and \$15,000 in grant funds were used for fence repairs, minor construction, and tools; all unrelated to the Airport Improvement Program grant. We determined grant funds were not used to purchase a computer system or a tractor. However, \$4,686 was charged to Airport Improvement Program grant number 3-06-0109-05 for fence repairs, minor construction, and tools, which were not related to the grant. FAA Order 5100.38A, Airport Improvement Program Handbook, Section 2 states that grant funds can be used only for costs which are necessary and reasonable for accomplishing the purpose of the grant. Therefore, the sponsor should reimburse FAA \$4,686 in ineligible costs.

Unsupported Costs of \$216,716 Charged to Grants. During our review, we identified unsupported charges to six grants. The sponsor's internal audits of Airport activities, conducted for Fiscal Years 1996 and 1997, also disclosed similar results. Unsupported costs for the six grants from September 1983 through January 1998 are as follows: (See the Exhibit to this report for details on each grant.)

| <u>Grant Number</u> | <u>Costs Not Supported</u> |
|---------------------|----------------------------|
| 3-06-0109-01 | \$ 18,284 |
| 3-06-0109-03 | \$ 56,741 |
| 3-06-0109-04 | \$ 7,094 |
| 3-06-0109-05 | \$128,631* |
| 3-06-0109-07 | \$ 3,132 |
| 6-06-0109-07 | <u>\$ 2,834</u> |
| Total | <u>\$216,716</u> |

*Does not include \$4,686 discussed above.

Recommendations

We recommend the FAA Airports Division Manager, Western-Pacific Region, direct Imperial County to:

1. Reimburse the Airport \$391,600 (\$350,000 plus \$41,600) in lease payments not remitted to the Airport.
2. Pay the Airport \$162,000 in annual rent for offices occupied on Airport property at no charge, less the cost of services provided to the Airport by the fire station.
3. Reimburse FAA for ineligible costs of \$4,686 and either provide appropriate support for the \$216,716 of costs identified above or reimburse FAA this amount.

Management Response

In an August 3, 1998 reply to our July 2, 1998 Draft Advisory Memorandum, FAA concurred with the findings and directed Imperial County to either substantiate the accuracy of financial transactions questioned by the Office of Inspector General; or reimburse the Airport \$391,600 in lease payments, pay the airport \$162,000 in annual rent, and reimburse FAA \$4,586 for ineligible costs and \$216,716 for unsupported costs. FAA's comments are included as the appendix to this report.

Office of Inspector General Comments

We consider the actions taken by FAA to be responsive to the recommendations. Therefore, the recommendations are considered resolved subject to the followup provisions of Department of Transportation Order 8000.1C.

We appreciate the courtesies and cooperation extended by FAA. If you have any questions, please call me on (202) 366-0500 or Robin K. Hunt, Director for Aviation Security and Infrastructure, on (415) 744-3090.

Attachments

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| <u>Grant Number</u> | <u>Costs Not Supported</u> | <u>Comments</u> |
|---------------------|----------------------------|--|
| 3-06-0109-01 | \$18,284 | The Airport's requests for reimbursement from FAA exceeded actual project costs. Actual costs totaled \$377,644 requiring an FAA matching share of \$339,880. However, the Airport reported \$397,960 in project expenditures and FAA reimbursed \$358,164. Thus, FAA overpaid the Airport \$18,284 (\$358,164 minus \$339,880). |
| 3-06-0109-03 | \$56,741 | The Airport's requests for reimbursement from FAA exceeded actual project costs. Actual costs totaled \$356,510 requiring an FAA matching share of \$320,859. However, the Airport reported \$419,556 in project expenditures and FAA reimbursed \$377,600. Thus, FAA overpaid the Airport \$56,741 (\$377,600 minus \$320,859). |
| 3-06-0109-04 | \$7,094 | The Airport's requests for reimbursement from FAA exceeded actual project costs. Actual costs totaled \$325,451 requiring an FAA matching share of \$292,906. However, the Airport reported \$333,556 in project expenditures and FAA reimbursed \$300,000. Thus, FAA overpaid the Airport \$7,094 (\$300,000 minus \$292,906). |
| 3-06-0109-05 | \$128,631 | Claims for reimbursement were not adequately supported. |
| 3-06-0109-07 | \$3,132 | Claim 1 reported construction and project improvement costs of \$53,515, but the correct cost was \$50,035. Therefore, FAA overpaid the Airport \$3,132 or 90 percent of \$3,480 (the amount overstated). |
| 6-06-0109-07 | \$2,834 | The Airport did not have invoices to support \$2,834 in FAA reimbursements for claim number 2. |



U.S. Department
of Transportation
**Federal Aviation
Administration**

Appendix
(3 pages)

Memorandum

Western-Pacific Region
Airports Division
P.O. Box 92007
Los Angeles, CA 90009-2007

Subject: **INFORMATION:** Draft Advisory Memorandum on Imperial County Hotline Complaint Date: August 3, 1998

From: Manager, Airports Division, AWP-600 Reply to AWP-600
Attn. of:

To: Deputy Assistant Inspector General
for Aviation Office of Inspector General

This correspondence is in response to your Draft Advisory Memorandum dated July 2, 1998, concerning the Imperial County Hotline Complaint.

We concur with your findings in your Draft Advisory Memorandum. Unless the county of Imperial can provide documentation to substantiate its disagreement with your conclusions of the review, we are directing the county to:

- a. Reimburse Imperial County Airport for \$391,600 (\$350,000 and \$41,600 from two lease parcels) in lease payments not remitted to the airport account.
- b. Pay Imperial County Airport \$162,000 in annual rent for airport office properties occupied at no charge, less the cost of services provided by the fire station on airport property.
- c. Reimburse Federal Aviation Administration for ineligible costs of \$4,686 and either provide appropriate documentation and support for the \$216,716 of costs identified or reimburse FAA for this amount.

The attached letter was sent on August 3, 1998 to the county of Imperial with the above conclusions, including your Draft Advisory Memorandum. We requested the county reply by August 28, 1998 with documentation to substantiate their corrective action or any disagreement with the conclusions of the hot line review.


Herman C. Bliss

Attachment

Cc: Robin Hunt



U.S. Department
of Transportation

Federal Aviation
Administration

Western-Pacific Region
Airports Division

P O Box 92007 WPC
Los Angeles CA 90009-2007

August 3, 1998

Mr. David L. Conn
Director of Airports
County of Imperial
1099 Airport Road
Imperial, CA 92251

Dear Mr. Conn:

Office of Inspector General
Results of Hotline Complaint Review

Enclosed is a Draft Advisory Memorandum on Imperial County Airport Hotline Complaint from the Department of Transportation, Office of Inspector General (OIG). The OIG conducted a review of a hotline complaint alleging misuse of Federal Aviation Administration (FAA) airport grant funds at Imperial County Airport. The complainant alleged that Imperial County (sponsor of Imperial County Airport) did the following:

1. Used grant funds to pay for airport operating cost unrelated to grants.
2. Interest earned from grant funds were improperly used to pay local matching share of project costs.
3. Revenues from airport property leases were not deposited in an airport operating account, as required by FAA regulations.

The OIG findings from their review of documents from our office, Imperial County offices in El Centro, and the airport office at Imperial County Airport determined interest was not earned on Airport Improvement Program Grant funds. Therefore, the local matching share on current and subsequent grants did not involve interest earned from previous grant funds. However, our grant assurances were violated by diverting about \$553,600 in airport revenue and there was no documentation for supporting the expenditure of \$221,402 in grant funds. Details of these findings are discussed in the Draft Advisory Memorandum.

We recommend Imperial County take action on the following based on the findings in the Draft Advisory Memorandum:

1. Reimburse Imperial County Airport for \$391,600 (\$350,000 and \$41,600 from two lease parcels) in lease payments not remitted to the Airport account.

2. Pay Imperial County Airport \$162,000 in annual rent for airport office properties occupied at no charge, less the cost of services provided by the fire station on airport property.
3. Reimburse FAA for ineligible costs of \$4,686 and either provide appropriate documentation and support for the \$216,716 of costs identified or reimburse FAA for this amount.

Please reply by August 28, 1998, with documentation to substantiate your corrective action or any disagreement with the conclusions of the OIG hotline review. The OIG will not finalize its hotline investigation until the County of Imperial satisfactorily resolves the issues raised in the OIG review.

Please send your reply to:

Federal Aviation Administration
Airports Division, AWP-621
P.O. Box 92007
Los Angeles, CA 90009-2007

If you have any questions, please contact Eric Vermeeren at (310) 725-3631.

Sincerely,

COPIED BY
JOHN P. MILLIGAN

John P. Milligan
Supervisor, Standards Section, AWP-621

Enclosure

cc: Robin Hunt

File: OIG Audit File
WP: IPL Results of Airport Hotline Complaint to Sponsor.DOC
AWP-621.6, Evermeeren, EV, x3631, 08/03/98