

**HILLSBOROUGH COUNTY
AVIATION AUTHORITY**

Tampa International Airport
2012 Master Plan Capital Projects

Audit Performed Pursuant to
Chapter 2017-70, Laws of Florida



Sherrill F. Norman, CPA
Auditor General

Authority Members and Chief Executive Officer

During the period October 2015 through April 2017, Joseph Lopano served as Chief Executive Officer and the following individuals served as Hillsborough County Aviation Authority members:

Robert I. Watkins, Chairman
Gary W. Harrod, Vice Chairman
Bob Buckhorn
Victor D. Crist
Arthur F. Diehl, III from February 29, 2016^a
Sam Rashid through October 9, 2015^a

^a The Authority member position was vacant from October 10, 2015, through February 28, 2016.

The team leader was Jeffrey M. Brizendine, CPA, and the audit was supervised by Michael J. Gomez, CPA.

Please address inquiries regarding this report to Michael J. Gomez, CPA, Audit Manager, by e-mail at mikegomez@aud.state.fl.us or by telephone at (850) 412-2881.

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HILLSBOROUGH COUNTY AVIATION AUTHORITY

Tampa International Airport 2012 Master Plan Capital Projects

SUMMARY

As required by Chapter 2017-70, Laws of Florida, the Auditor General conducted an operational audit of the Hillsborough County Aviation Authority (Authority) Tampa International Airport 2012 Master Plan capital projects focusing on processes and practices, including those related to project funding and expenditures. Our operational audit disclosed the following:

Finding 1: The Authority did not document, nor did Authority policies and procedures require, justification for deviations from Technical Evaluation Committee (TEC) rankings of respondents to requests for professional service proposals and qualifications. In addition, written instructions explaining how to apply predetermined criteria when rating respondents were not available for TEC member use.

Finding 2: The Authority established an Art Program budget of \$3.5 million; however, Authority records did not demonstrate the legal authority for, or necessity of, the Art Program. In addition, the Art Program policy did not prescribe a reasonable and systematic methodology for determining the amount of Authority funds to be expended for artwork.

Finding 3: Authority policies required that contract change orders cumulatively exceeding a specified threshold be presented for Authority approval; however, the policies did not prohibit the inclusion of change orders for owner-direct purchases (ODPs) of construction materials when calculating the amount of cumulative change orders. As the inclusion of ODP change orders reduces the cumulative change order amount, there is an increased risk for other change orders to cumulatively exceed the threshold without Authority approval.

Finding 4: The Authority did not always process invoices for payment of construction costs within the time frames specified by State law.

Finding 5: The Authority needs to enhance procedures for verifying that subcontractors are properly licensed and selected using a competitive process and that subcontractor bid awards, contract amounts, and related payments agree.

Finding 6: Authority procedures need enhancement to ensure that only capital project expenditures meeting the Florida Department of Transportation Aviation Grants Program eligibility guidelines are submitted for reimbursement.

Finding 7: Authority records did not demonstrate why proposed salary adjustments for executive team members were not openly discussed at a public Authority meeting or clearly demonstrate the advantages of withholding salary adjustment information from public discussion. In addition, Authority members were not provided certain information pertinent to the salary adjustments, and the usefulness of a consultant report as a basis for the salary adjustments was limited.

Finding 8: Authority-approved budgets for the 2015-16 and 2016-17 fiscal years included projected operating revenues and expenditures; however, contrary to State law, the budgets did not include the balances brought forward from the respective prior fiscal years.

Finding 9: The Authority-approved 2016-17 fiscal year budget and amendments thereto did not include the estimated expenditures to be incurred, or the amount appropriated, for each project during the current fiscal year as required by State law and recommended by Government Finance Officers Association best practices.

Finding 10: Contrary to State law, the Authority did not post a budget amendment to the 2016-17 fiscal year budget on its Web site for two new projects with projected costs totaling \$132.4 million. In addition, Authority procedures were not consistent with State law as the procedures allowed budget amendments to be posted to the Web site within 30 days after adoption, instead of within 5 days after adoption, and did not require amendments to remain on the Web site for at least 2 years.

Finding 11: The Authority's audit committee policy could be enhanced to require each audit committee member to possess or obtain a basic understanding of governmental financial reporting and auditing; the committee have access to the services of at least one financial expert; the committee be composed of at least three members, rather than two members; and the committee present annually to the Authority a written report on how the committee discharged its duties and met its responsibilities.

Finding 12: A consultant engaged by the Authority determined that, during a project to expand the Authority's enterprise resource planning system (ERP Project), a lack of information technology security controls existed on servers within the ERP Project test environment. Because certain ERP security features were not enabled within the ERP Project test environment, the consultant could not provide a full and complete accountability analysis of the contracted firm employees' user activity within the ERP Project test environment. In addition, one contracted firm employee was given significantly more access than the other contracted firm employees, including access to the Authority network outside the ERP Project test environment. Authority records did not evidence whether this employee had unauthorized access to certain protected or sensitive information.

BACKGROUND

The Hillsborough County Aviation Authority (Authority) was created in 1945 as an independent special district.¹ The Authority manages airport facilities and grants airport concessions to further the development of commerce and tourism in or affecting the Tampa Bay area and the State.

The Authority is composed of five members, which include the Mayor of the City of Tampa; one member of the Hillsborough County Board of County Commissioners (BCC), who is selected by the BCC; and three members who are appointed by the Governor for 4-year terms. The Authority elects one member as Chairman, one member as Vice Chairman, one member as Secretary, one member as Treasurer, and one member as Assistant Secretary and Assistant Treasurer. Elections for Authority officers are held whenever a new member is appointed by the Governor. The Authority employs a Chief Executive Officer

¹ Hillsborough County Aviation Authority Act, Chapter 23339-825, 1945 Laws of Florida, was superseded by Chapter 2003-370, Laws of Florida, which was superseded by Chapter 2012-234, Laws of Florida (enabling Act).

who is responsible for the day-to-day administration, management, and operation of the Authority in accordance with policies established by the members. As of February 2017, the Authority employed 635 individuals.

This operational audit of the Authority focused on the Tampa International Airport 2012 Master Plan capital projects.

FINDINGS AND RECOMMENDATIONS

The Authority has exclusive jurisdiction, control, supervision, and management over all public airports within Hillsborough County, including the Tampa International Airport (Airport) and three general aviation airports. The Authority accounts for the airports in a single enterprise fund with multiple cost centers to identify the service costs of each airport. Service costs are recovered through user fees for:

- Airfield use to land cargo and passenger aircraft.
- Terminal building airline space rentals, food and beverage concession privileges, general merchandise stores, and other miscellaneous fees associated with the building.
- Airside buildings' airline facility rentals and other miscellaneous fees associated with the buildings.
- Commercial landside automobile parking; onsite rental cars and rental car company facilities rentals; onsite hotel privilege; and offsite rental car, cab, and limousine permits.

Operating revenues remaining after paying operating and maintenance expenditures, debt service, and required reserves are used to fund the capital development program. Other financing sources for capital development include Federal Airport Improvement Program grants, Florida Department of Transportation (FDOT) Aviation Grants Program funds, bond proceeds, passenger facility charges (PFCs), and customer facility charges (CFCs).

PFCs are fixed-rate airport user fees, which are approved by the Federal Aviation Administration (FAA) and assessed to individuals when airline tickets are purchased. These fees are to be used for capital projects specified in a PFC application to the FAA and, once approved, are included as part of airfares collected by airlines and remitted to the Authority. The FAA approved a \$3 PFC to be used for certain capital projects included in the 2012 Master Plan capital projects (2012 Plan) for the Airport. CFCs are airport user fees imposed on rental car users, collected by rental car companies, and remitted to the Authority. Table 1 shows the CFC daily rates assessed by the Authority since inception of the rate on September 1, 2011, through the end of our audit fieldwork.

Table 1
Customer Facility Charges
Daily Rates

| Effective Date | Daily Rate |
|-----------------------|-------------------|
| 09/01/2011 | \$2.50 |
| 04/06/2014 | \$5.00 |
| 07/06/2015 | \$5.95 |

Source: Authority records.

The Master Plan is updated every several years to accommodate the Airport's changing needs. For example, in November 2011, the Authority initiated an update to the Master Plan because of major economic climate changes that occurred since the previous Master Plan update in the 2005 calendar year. In April 2013, the Authority adopted the 2012 Plan that emphasized maximizing the capacity and longevity of the Airport's existing main terminal facilities as projections indicated that, by 2026, passenger traffic would exceed the Airport's capacity.² The 2012 Plan was developed using a three-phase approach over the 2012-13 through 2027-28 fiscal years with a total projected cost of \$2.5 billion.

The specific capital projects, projected costs, project phases, completion dates, and anticipated funding sources have evolved since the 2012-13 fiscal year. For example, updates to Phases 2 and 3, approved by the Authority in May 2017, reduced the total projected cost to \$2.3 billion and the time frame to the 2012-13 through 2025-26 fiscal years. Phase 1, referred to as the decongestion phase, focuses on reducing passenger and vehicle traffic in and around the main terminal. Capital projects in this phase include a 1.4-mile automated people mover (APM) that will transport passengers to and from the main terminal; a consolidated rental car facility (ConRAC) being constructed to relocate the rental car companies from the long-term parking garage to reduce vehicle traffic around the main terminal and return over 2,000 parking spaces to the Airport's long-term parking garage; and the main terminal and airport concessions (MTAC) redevelopment project. The MTAC redevelopment project is planned to create more space in the main terminal by extending the four airside shuttle lobbies beyond the main terminal interior.

The Authority planned to implement Phase 1 of the 2012 Plan during the 2012-13 through 2017-18 fiscal years. Table 2 shows the Phase 1 projects and funding sources.

² Authority's Master Plan Consultant Presentation, April 11, 2012.

Table 2
Phase 1 Projects and Funding Sources
(In Millions)

| Project | FDOT Grants ^a | Federal Grants | Authority Funds | Bank Letter of Credit | Customer Facility Charges | Revenue Bonds ^b | Totals |
|--|-----------------------------|----------------------|----------------------|-----------------------------|---------------------------------|-------------------------------|-----------------------|
| APM | \$178.6 | \$ - | \$ - | \$ - | \$ - | \$233.7 | \$412.3 |
| ConRAC | - | - | 1.5 | - | 54.8 | 267.2 | 323.5 |
| MTAC | 5.1 | - | - | - | - | 126.2 | 131.3 |
| Taxiway J Bridge Reconstruction | 8.7 | 6.2 | - | - | - | 19.2 | 34.1 |
| South Development Area Roadway Improvements | 6.4 | - | - | - | - | 19.3 | 25.7 |
| Reclamation of Long-Term Parking | - | - | - | 15.6 | - | - | 15.6 |
| Concessions Warehouse | - | - | - | - | - | 10.0 | 10.0 |
| Totals | <u>\$198.8</u> | <u>\$ 6.2</u> | <u>\$ 1.5</u> | <u>\$15.6</u> | <u>\$54.8</u> | <u>\$675.6</u> | <u>\$952.5</u> |
| Overall Phase 1 Contingency | | | | | | | \$ 19.3 |
| Authority-Approved Amount | | | | | | | <u>\$971.8</u> |

^a Includes FDOT Aviation Grant Program funds totaling \$194 million.

^b Includes general airport revenue bonds totaling \$145 million, PFC-supported revenue bonds totaling \$173.4 million, and CFC-supported revenue bonds totaling \$357.2 million.

Source: Authority records.

Phase 2, referred to as the enabling phase, is intended to enable future terminal complex expansion. Capital projects in this phase include development of a future site for the relocation of the Authority administration building, expansion of the curbsides around the main terminal to increase traffic flow, and demolition of existing facilities to be repurposed or relocated. The Authority plans to implement Phase 2 during the 2017-18 through 2022-23 fiscal years. Table 3 shows the Phase 2 projects and funding sources.

Table 3
Phase 2 Projects and Funding Sources
(In Millions)

| Project | FDOT Grants | Authority Funds | Passenger Facility Charges | Revenue Bonds ^a | Totals |
|----------------------------------|----------------------|----------------------|----------------------------------|-------------------------------|-----------------------|
| Gateway Development Area | \$ - | \$ - | \$ - | \$121.8 | \$121.8 |
| Red Side Curb Expansion | - | 61.8 | - | 58.0 | 119.8 |
| Central Energy Plant | - | - | - | 90.5 | 90.5 |
| Blue Side Curb Expansion | - | - | - | 74.0 | 74.0 |
| Crossfield Taxiway A Bridge | 3.6 | - | 54.3 | - | 57.9 |
| Post Office Exit Lane | - | - | - | 26.0 | 26.0 |
| George Bean Parkway Widening | - | - | - | 23.8 | 23.8 |
| Demolish Red Side Garage | - | - | - | 10.6 | 10.6 |
| Loading Dock Building | - | - | - | 9.5 | 9.5 |
| Demolish Administration Building | - | - | - | 5.3 | 5.3 |
| FAA Parking Lot | - | - | - | 4.6 | 4.6 |
| Totals | <u>\$ 3.6</u> | <u>\$61.8</u> | <u>\$54.3</u> | <u>\$424.1</u> | <u>\$543.8</u> |

^a Includes general airport revenue bonds totaling \$380.1 million and PFC-supported revenue bonds totaling \$44 million.

Source: Authority records.

Phase 3, referred to as the expansion phase, is planned to include the construction of a new airside containing 16 gates and is scheduled to occur during the 2022-23 through 2025-26 fiscal years. Cost projections for Phase 3 total \$798 million and the Authority will determine funding sources at a later date.

Finding 1: Selection of Professional Services

The Legislature has recognized in State law³ that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Effective accountability of the procurement process for contractual services typically requires documented:

- Requests for proposals.
- Consideration of the qualifications of the service providers that respond to the requests.
- Consideration of the anticipated benefits and related costs of the services.
- Selection of the most qualified service provider.

As part of the 2012 Plan Phase 1, the Authority entered into contracts for various services including consultant, advisor, and construction management entity services. To determine whether the Authority complied with State law, Authority policies and procedures, and good business practices, we examined Authority records supporting the selection of 16 professional services contractors who were awarded contracts associated with the 2012 Plan during the period October 2010 through November 2016. Contracts awarded to 10 of the 16 contractors totaled over \$1 billion, while contracts awarded to the

³ Section 287.001, Florida Statutes.

remaining 6 contractors included fees to be determined upon future services rendered. Our audit procedures disclosed that Authority policies and procedures for the procurement of professional services, including construction consulting engineering and bond counsel services, need improvement.

When selecting construction consulting engineers, State law⁴ and Authority policies⁵ require ranking, in order of preference, no fewer than three respondents deemed to be the most highly qualified to perform the required services based on predetermined criteria included in a request for qualifications (RFQ). In addition, Authority policies:

- Require the use of a technical evaluation committee (TEC) to evaluate each RFQ response and rank respondents based on predetermined criteria scoring.
- Require the Authority be provided with a recommendation of at least the top three highest-ranked respondents at a scheduled Authority meeting.
- Provide that the Authority may ask the respondents to make a presentation and that the Authority will establish the order of preference for undertaking contract negotiations.

Authority records indicate that, in July 2011, the Authority issued an RFQ for 2012 Plan construction consulting engineering services. The September 1, 2011, Authority meeting minutes indicate that the Authority was presented with the three highest-ranked respondents in order of ranking by the TEC, and the Authority’s Chief Executive Officer (CEO) recommended ranking the respondents in the same order. As shown in Table 4, based on the established criteria and weightings assigned to those criteria, the highest-ranked respondent (Respondent A) received a total score of 692 and the second highest-ranked respondent (Respondent B) received a total score of 664.

**Table 4
Technical Evaluation Committee Criteria and Original Scores
Construction Consulting Engineering Services Qualifications**

| | Respondent Organizational Structure | Key Personnel Staffing | Support Personnel Staffing | Team’s Experience | Location | Cost Control | Schedule Compliance and Commitment | Approach to the Project | Totals |
|------------------------|---|------------------------------|----------------------------------|----------------------|----------|-----------------|---|-------------------------------|------------|
| Maximum Weighted Score | 80 | 100 | 80 | 100 | 70 | 80 | 90 | 100 | 700 |
| Respondent A Score | 72 | 100 | 80 | 100 | 70 | 80 | 90 | 100 | 692 |
| Respondent B Score | 80 | 90 | 80 | 90 | 63 | 80 | 81 | 100 | 664 |
| Respondent C Score | 64 | 90 | 72 | 80 | 56 | 64 | 81 | 80 | 587 |

Source: Authority records.

As part of our audit procedures relating to the September 1, 2011, Authority meeting, we listened to the audio recording of the meeting and determined that the Authority approved changing the order of preference of the top two respondents based on concerns raised by Authority members. Specifically:

- One of the evaluation criteria used to rank respondents was “Location.” For this criterion, Respondent A received a weighted score of 70 (the highest score possible) and Respondent B received a weighted score of 63. Some Authority members questioned how much weight was

⁴ Section 287.055, Florida Statutes.

⁵ Prior to November 2011, the Authority procured consulting engineers pursuant to Aviation Authority Policies P711 and P712. Effective November 2011, the Authority replaced those Policies with Policy P411, which established the requirements for procuring consulting engineers.

placed on a respondent being local and why TEC members scored Respondent A higher than Respondent B. Authority management⁶ indicated that key personnel for both respondents assigned to the project were from other cities and that Respondent A committed to having staff work locally in Tampa; however, Respondent B would not make that commitment.

- Another evaluation criterion used to rank respondents was “Approach to the Project.” For this criterion, the RFQ stated that “this master plan update will validate the previously recommended development program, address aviation-related and business development opportunities, evaluate the current facilities, and provide a new and creative approach to planning the future of Tampa International Airport.” For this criterion, both Respondent A and Respondent B received a weighted score of 100. Some Authority members expressed concerns that Respondent A had prepared the previous Master Plan and indicated a desire for a fresh perspective. Although the RFQ reference to the “Approach to the Project” criterion included a statement about “a new and creative approach,” there was no indication in the RFQ that prior relationships with the Authority would negatively impact the application of this criterion.

The Authority approved changing the order of preference so that Respondent B was the highest-ranked respondent and Respondent A was the second highest-ranked respondent, and at the November 3, 2011, Authority meeting, the Authority awarded Respondent B a \$2.3 million contract for construction consulting engineering services to update the 2012 Plan. Although Authority policies provide for the Authority to establish the order of preference for negotiating with RFQ respondents, the policies do not require documentation supporting Authority deviations from the TEC rankings. Accordingly, the Authority did not, of record, rescore the “Location” or “Approach to the Project” criteria, taking into account the Authority’s concerns or retabulate the overall scoring to determine the impact on the TEC rankings. As such, Authority records did not demonstrate why the Authority changed the order of preference or that the Authority had negotiated with the most qualified firm as required by State law.⁷

In response to our inquiry, Authority management indicated that the Authority has the ultimate authority to rank and choose respondents as it wishes. Notwithstanding this response, adhering to Authority policies related to the selection of construction consulting engineering services based on predetermined criteria used to rate and rank respondents and documenting the reasons for why the Authority decided to deviate from the TEC rankings based on those criteria would enhance transparency of the procurement process and demonstrate the Authority’s commitment to the fair, equitable, and economical procurement of services.

Regarding the use of predetermined and established rating criteria, the NIGP: The Institute for Public Procurement,⁸ in its *Global Best Practices*, recommends:

- Use of clearly defined criteria for procurement decisions.
- A clear understanding by evaluation committee members of how criteria and scoring should be applied.
- Use of a consistent approach when scoring against preannounced criteria.

⁶ The Authority Director of Internal Audit facilitated a single, coordinated response to our various inquiries and requests for information throughout the audit.

⁷ Section 287.055(5)(a), Florida Statutes.

⁸ NIGP: The Institute for Public Procurement is a membership-based, nonprofit organization composed of members representing Federal, state, provincial and local government levels throughout the United States and Canada and provides support to professionals in the public sector procurement profession.

- Transparency of the selection criteria.

Pursuant to Authority policies,⁹ the procurement process for the construction consulting engineering services required the RFQ to include appropriate evaluation criteria. The TEC evaluated and ranked the respondents based on the eight evaluation criteria included in the RFQ¹⁰ and shown in Table 4. However, according to Authority management, the TEC members were not provided with written instructions regarding how to apply the criteria when rating respondents. Our review of the evaluation criteria included in the RFQ disclosed that the criteria descriptions were presented in such a way to invoke responses from the respondents but did not provide instructions that explained how the evaluators were to use such information when rating the respondents. For example, for the “Location” criterion, RFQ Section 7.5 required respondents to “Fully complete and submit Appendix F, entitled Location.” However, neither RFQ Section 7.5 nor Appendix F explained how the respondents’ location information would be used to rate respondents for this criterion. This lack of instructions may have contributed to the concerns expressed by certain Authority members about how this criterion was used to rate respondents.

In response to our inquiry, Authority management indicated that TEC members relied on the written description of the criteria in the RFQ, verbal instructions from Authority personnel handling the RFQ process, and access to such personnel for any clarifications needed. Notwithstanding this response, providing TEC members with written instructions that explain how to apply criteria using respondent information would provide additional assurance that TEC members consistently and appropriately apply the criteria when rating respondents.

Authority procedures¹¹ prescribe the process for the competitive procurement of bond counsel services, including an RFP solicitation process and a TEC to evaluate and rank RFP responses for Authority review and approval. On November 29, 2011, the Authority issued an RFP for bond counsel services for the Authority with six evaluation criteria and the TEC evaluated the RFP responses based on these criteria. At the March 1, 2012, Authority meeting, the Authority was presented with the TEC’s three highest-ranked respondents in order of ranking, and the CEO recommended ranking the respondents in the same order. As shown in Table 5, the highest-ranked Respondent (Respondent A) received a total score of 97.78 and the second highest-ranked respondent (Respondent B) received a total score of 95.68.

⁹ Prior to November 2011, consulting engineers were procured pursuant to Aviation Authority Policies P711 and P712. Effective November 2011, those Policies were replaced by Policy P411.

¹⁰ RFQ Sections 7.2 through 7.8.

¹¹ Aviation Authority Standard Procedure S410.04: *Request for Qualifications and Proposals Solicitations*.

**Table 5
Technical Evaluation Committee Criteria and Original Scores
Bond Counsel Services Proposals**

| | Respondent and Team's Experience | Principal's Experience | Approach / Capacity / Understanding | References | Fees | Interviews | Totals |
|--------------------|--|---------------------------|---|------------|-------|------------|---------------|
| Maximum Score | 20.00 | 20.00 | 15.00 | 5.00 | 25.00 | 15.00 | 100.00 |
| Respondent A Score | 20.00 | 20.00 | 15.00 | 5.00 | 22.78 | 15.00 | 97.78 |
| Respondent B Score | 20.00 | 20.00 | 15.00 | 4.50 | 21.18 | 15.00 | 95.68 |
| Respondent C Score | 18.00 | 16.00 | 10.50 | 5.00 | 24.03 | 14.25 | 87.78 |

Source: Authority records.

We reviewed Authority meeting minutes and listened to the audio recording of the March 1, 2012, Authority meeting and determined that the Authority chose not to follow the TEC- and CEO-recommended rankings but instead awarded the bond counsel services contract to the second highest-ranked respondent because Authority members expressed concerns about switching to a new firm (Respondent A) when the current firm (Respondent B) already had a proven track record. However, although two of the established criteria contemplated prior bond counsel experience, the RFP description of these criteria did not indicate that higher scores should be given to respondents based on prior work experience with the Authority and, as similarly noted for the TEC that evaluated the construction consulting engineering services RFQ respondents, the TEC members were not provided with written instructions explaining how to apply the criteria when rating the bond counsel services RFP respondents. The lack of such instructions may have contributed to concerns expressed by certain Authority members about how these criteria were used to rate respondents and, as a result, Authority records do not clearly demonstrate that the Authority negotiated with the most qualified bond counsel and procured the services using a competitive process as contemplated by Authority procedures and State law.

Adhering to Authority procedures and documenting justification for Authority deviations from TEC rankings would enhance the transparency of the procurement process and demonstrate the Authority's commitment to the fair, equitable, and economical procurement of services.

Recommendation: Authority policies and procedures governing the procurement of professional services should be revised to require documented justification for Authority deviations from TEC rankings. In addition, the Authority should ensure that the TEC members are provided written instructions that explain how to apply criteria when rating RFP and RFQ respondents.

Finding 2: Artwork Expenditures

To qualify as authorized expenditures, expenditures of public funds must be shown to be authorized by applicable law, reasonable in the circumstances, and necessary to the accomplishment of authorized purposes of the governmental entity. Authority records indicated that the Authority budgeted \$3.5 million for the purchase of artwork to be displayed in ten locations throughout the Airport facilities as part of the 2012 Plan. As of November 2, 2017, the Authority had contracted with nine artists for a total of

\$2.2 million and had paid those artists a total of \$1.4 million. The artwork commissioned from these artists included, for example:

- An LED tiles and metal display (35 by 41 by 12 feet) for \$572,320.
- A hanging sculpture (total height of approximately 14 feet) for \$300,000.
- A light display (approximately 29 by 21 by 3 feet) for \$300,000.
- A tapestry (30 by 20 feet by 1 foot) for \$297,000.

Notwithstanding the contracts for the Airport artwork, Authority records did not always demonstrate the legal authority for, or reasonableness of, artwork expenditures.

Authority policies¹² establish the Public Art Committee (Art Committee) to administer the Authority's Public Art Program (Art Program). The stated goal of the Art Program is to enhance the Airport environment while providing cultural awareness and support for the arts; reflect the abundant natural resources and rich cultural heritage of the region; and celebrate the legacy of Tampa Bay as the birthplace of commercial aviation.

As a statutory entity, the Authority possesses only such power as is expressly granted by law or necessarily implied therefrom in order to carry out an expressly granted power.¹³ Pursuant to its enabling legislation, the Hillsborough County Aviation Authority Act (Act), the Authority has the power to "promote the development of commerce and tourism" and to "advertise, promote, and encourage the use and expansion of facilities under its jurisdiction."¹⁴ Implicit in these provisions is the power to expend Authority resources toward the beautification of airport facilities, which could include the procurement of artwork. However, it was not apparent from the Art Program policy or other Authority records how the use of resources required for the creation of the Art Program was necessarily implied by the Act, and no aspect of the Act appears to imply that the Authority's purpose includes providing cultural awareness and support for the arts. Nor did the Art Program policy or other Authority records indicate how the Art Program promoted procuring artwork in the most economical way possible commensurate with acceptable quality or how the procurement of commissioned artwork compared to other less costly but effective ways of beautifying the Airport.

In response to our request for documentation supporting the establishment of the \$3.5 million budget amount for the purchase of artwork, Authority personnel provided a benchmarking grid showing art programs and art expenditures for other entities, including one airport operating under its own authority, four municipality-operated airports, the City of Tampa, and Hillsborough County. According to the benchmarking grid, the percentages of capital project costs budgeted for artwork by these other entities ranged from 0.5 to 2 percent. Accordingly, the Art Committee established the Art Program budget at 1 percent of the public-facing elements (i.e., areas of the facilities providing the public an opportunity to observe the artwork) of the 2012 Plan Phase 1 project costs attributable to construction accessible to the public. As the 2012 Plan construction accessible to the public was budgeted at \$350 million, the Art Program budget was established at \$3.5 million.

¹² Aviation Authority Policy P106 – Public Art Committee.

¹³ See Attorney General Opinion No. 87-39, dated May 7, 1987.

¹⁴ Chapter 2012-234, Laws of Florida, Sections 2.(9) and 6.(2)(w).

Although the \$3.5 million Art Program budget was determined based on the benchmarking grid, our review of the benchmarking grid information as a basis for establishing the Program budget disclosed that:

- Authority records did not evidence why Authority personnel selected the particular entities for the benchmarking. In response to our inquiry, Authority management indicated that the entities were selected because they were airports known to have reputable art programs. However, we were not provided documentation evidencing the entity characteristics considered when determining that the entities were comparable to the Airport. As such, comparable entities with artwork expenditures that were greater than or less than those included on the benchmarking grid may have been omitted.
- Authority records did not evidence the method used by Authority personnel to determine the level of artwork expenditures for the entities selected for the benchmarking. Nor did Authority records evidence how the percentage of capital project costs budgeted for artwork was calculated for each of the entities, the sources of information used to calculate the percentages, or the reliability of such sources. In response to our inquiry, Authority management indicated that Authority personnel did not request documentation supporting the other entities' methodologies and sources of information. Absent a determination of the relevance and accuracy of the information obtained for these entities, Authority records did not demonstrate the reliability of such information as a basis for benchmarking.

In addition, the Authority's Art Program policy did not specify a prescribed methodology to determine the amount, either in dollars or as a percentage of project costs, of Authority funds to be expended for artwork. Without such Authority-approved guidance, the Authority cannot demonstrate that the amounts of the 2012 Plan resources budgeted and expended on artwork were established using a reasonable and systematic methodology.

Recommendation: The Authority should revise its Art Program policy to:

- **Specify the provisions of the Authority's enabling Act or other law supporting the establishment of the Art Program.**
- **Specify how the Art Program promotes procuring artwork in the most economical way possible commensurate with acceptable quality.**
- **Prescribe a reasonable and systematic methodology for determining the amount, either in dollars or as a percentage of project costs, of Authority funds to be expended for artwork.**

Finding 3: Contract Change Order Policy

Authority policies¹⁵ require the CEO to approve modifications to a contract or agreement awarded by the Authority up to a cumulative total of 5 percent of the Authority-approved contract amount or \$100,000, whichever is greater. Contract modifications exceeding the CEO-authorized threshold are required to be approved by the Authority. To determine whether the Authority appropriately approved contract modifications as required, we examined Authority records pertaining to the 30 contract change orders occurring during the period April 2014 through June 2017 for the three largest construction management entity (CME) project contracts as shown in Table 6.

¹⁵ Aviation Authority Policy P410 – Procurement.

Table 6
Contract Change Orders for the Three Largest CME Project Contracts
During the Period April 2014 through June 2017

| | <u>Project 1</u> | | <u>Project 2</u> | | <u>Project 3</u> | | <u>Total</u> | |
|------------------------|------------------|----------------------------|------------------|------------------------------|------------------|----------------------------|------------------|------------------------------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Total |
| Total Increases | 7 | \$ 11,928,837 | 4 | \$ 11,808,385 | 1 | \$ 4,900,000 | 12 | \$ 28,637,222 |
| Total Decreases | 1 | (12,576,923) | 9 | (49,994,439) | 3 | (3,687,054) | 13 | (66,258,416) |
| No Change ^a | 2 | - | 3 | - | 0 | - | 5 | - |
| Totals | <u>10</u> | <u>\$ (648,086)</u> | <u>16</u> | <u>\$(38,186,054)</u> | <u>4</u> | <u>\$ 1,212,946</u> | <u>30</u> | <u>\$(37,621,194)</u> |

^a Five change orders reflect changes to contract terms that had no effect on the contract amount.

Source: Authority records.

The 30 change orders included 13 change orders for owner-direct purchases (ODPs) of construction materials that allowed the Authority to purchase eligible construction materials directly from CME suppliers and avoid sales tax on the purchases because of the Authority's tax-exempt organization status. ODPs result in change orders that reduce the CME contract amount by the amount of the construction materials purchased directly from the suppliers. Other than the sales tax savings, change orders for ODPs of construction materials (ODP change orders) do not reduce overall project costs; rather, the ODP change orders shift materials costs from the CME contract to a supplier purchase order.

To ensure that Authority approval is obtained for cumulative change orders exceeding the 5-percent contract change order threshold provided in policy, it is important for Procurement Department personnel to maintain a cumulative change order balance, by contract, for change orders approved by the CEO. If a change order results in a cumulative change order balance exceeding the calculated 5-percent threshold amount, the change order must be presented to the Authority for approval. According to Authority management, the Authority began using ODP change orders with the commencement of the 2012 Plan projects. By doing so, we noted that ODP change orders reduced the cumulative change order balances, as illustrated in Table 7 for Project 1.

**Table 7
CME Contract and Threshold Amounts
and Change Orders for Project 1**

| Original CME Contract Amount | | | | \$ 114,756,922 |
|--|----------|-------------------------------|---------------------|---------------------------------|
| Original CEO Change Order Approval Threshold Amount | | | | \$ 5,737,846 |
| Change Orders | | | | |
| Number | Date | Description | Amount | Cumulative Change Order Balance |
| 1 | 05/08/15 | Staffing Change | \$ - | \$ - |
| 2 | 07/07/15 | ODP Reduction | (12,576,923) | (12,576,923) |
| 3 | 03/02/16 | Increase in Scope | 2,073,334 | (10,503,589) |
| 4 | 03/23/16 | Refund of ODP | 5,923,797 | (4,579,792) |
| 5 | 05/13/16 | Increase in Design | 470,490 | (4,109,302) |
| 6 | 08/11/16 | Refund of ODP | 700,000 | (3,409,302) |
| 7 | 08/17/16 | Increase in Owner's Allowance | 1,230,876 | (2,178,426) |
| 8 | 10/19/16 | Increase in Owner's Allowance | 30,340 | (2,148,086) |
| 9 | 10/24/16 | Change to Contract Terms | - | (2,148,086) |
| 10 | 03/02/17 | Increase in Owner's Allowance | 1,500,000 | (648,086) |
| Total | | | \$ (648,086) | |

Source: Authority records.

As illustrated in Table 7, deducting ODP change orders early in a project's life cycle may significantly reduce the cumulative change order balance such that significant change orders may not be presented for Authority approval.

In response to our inquiry, Authority management indicated that the 5-percent cumulative change order threshold was intended to provide the CEO with flexibility to execute contract changes without disrupting construction schedules pending Authority approval. Our examination of change orders did not disclose any non-ODP change orders that cumulatively exceeded the 5-percent threshold; however, because the Authority's policies did not prohibit the inclusion of ODP change orders when calculating the cumulative change order balance, there was an increased risk for non-ODP change orders to cumulatively increase contract amounts in excess of the 5-percent threshold without Authority approval. Subsequent to our inquiry, the Authority approved a policy revision in October 2017 that provided that the execution of ODP change orders will not modify the cumulative total of contract changes.

Recommendation: Authority personnel should monitor implementation of the policy revision to ensure that change orders for ODPs of construction materials are excluded from the cumulative change order balance used to determine those change orders requiring Authority approval.

Finding 4: Disbursement Processing

The Local Government Prompt Payment Act¹⁶ provides for prompt payments by local governmental entities. If an agent must approve a construction services payment request or an invoice before the payment request or invoice is submitted to the local governmental entity, payment for the construction services¹⁷ is due 25 business days after the date on which the payment request or invoice is marked as received.¹⁸ Payments for construction services not made within this time period bear interest at the rate of 1 percent per month, or the rate specified by contract, whichever is greater.¹⁹

Our examination of Authority construction-related contracts and purchase orders, including tax-exempt ODPs of construction materials, disclosed that these documents contained certain invoicing requirements. For example, Authority CME contracts require that payment applications be submitted by the third day of each month,²⁰ be prepared on an application form provided by the Authority, and include two executed and notarized originals and two copies. Additionally, Authority purchase orders require invoices to be submitted electronically to a central e-mail address at the Authority; include the purchase order number; and include a unique invoice number, a date, pricing by line item, and unit price.

To determine whether the Authority made prompt payments relating to the 2012 Plan, we selected for examination:

- From Phase 1 CME payments, the most recent payment applications totaling \$25.4 million for services rendered through April 2017 for the Authority's three largest projects: APM, ConRAC, and MTAC. CME payment applications for these three projects collectively totaled \$621 million (91 percent) of the Phase 1 Project expenditures totaling \$680 million that were paid during the period December 2013 through May 2017. Our audit procedures disclosed that the Authority timely paid these payment applications.
- From documentation supporting 19 Phase 1 FDOT grant reimbursements totaling \$121.5 million received for the period October 2015 through April 2017 related to the APM, ConRAC, MTAC, Taxiway J Bridge, and the South Development Area Roadway Improvements projects, 30 invoices totaling \$4 million. Table 8 shows that, of the 30 invoices, 8 invoices for ODPs of construction materials totaling \$364,327 were paid 11 to 34 business days beyond the 25-business-day requirement.
- From other Phase 1 construction payments (other than payments to CMEs), such as for ODPs of construction materials and consulting services, totaling \$77.5 million for the period December 2013 through May 2017, 30 invoices totaling \$9.8 million for the APM, ConRAC, and MTAC projects. Table 8 shows that, of the 30 invoices, 2 invoices for ODPs of construction materials totaling \$1,082,030 were paid 11 and 22 business days, respectively, beyond the 25-business-day requirement.

¹⁶ Chapter 218, Part VII, Florida Statutes.

¹⁷ Section 218.72(2), Florida Statutes, defines construction services as all labor, services, and materials provided in connection with the construction, alteration, repair, demolition, reconstruction, or other improvements to real property.

¹⁸ Section 218.735(1)(a), Florida Statutes.

¹⁹ Section 218.735(9), Florida Statutes.

²⁰ With the exception of the month of September. Because of the fiscal year financial closeout, September applications for payment have different submission and payment dates.

**Table 8
Payments for Owner-Direct Purchases**

| Payment Type | Invoice Description | Amount | Date Invoice Received | Date Invoice Paid | Business Days Late | Cause According to Authority Management |
|-------------------------------------|----------------------------|---------------------------|-----------------------|-------------------|--------------------|---|
| FDOT Grant Reimbursements: | Concrete materials | \$ 45,900 | 04/01/16 | 06/16/16 | 28 | Change in product mix required an updated purchase order. |
| | Pumping equipment | 34,719 | 07/05/16 | 09/26/16 | 33 | Purchase order coding led to delays in design builder approval. |
| | Sealant materials | 13,967 | 10/27/16 | 01/06/17 | 22 | Large batch of invoices received resulted in longer processing and approval time. |
| | Air distribution materials | 55,000 | 12/13/16 | 02/15/17 | 18 | Purchase order revisions needed. |
| | Insulation materials | 36,642 | 01/17/17 | 03/09/17 | 11 | Large batch of invoices received resulted in longer processing and approval time. |
| | HVAC equipment | 128,712 | 12/23/16 | 03/22/17 | 34 | Design builder approval delay. |
| | Lighting | 30,563 | 02/10/17 | 04/10/17 | 15 | Design builder approval delay. |
| | Miscellaneous materials | 18,824 | 02/28/17 | 04/21/17 | 13 | Design builder approval delay. |
| | Subtotal | | \$ 364,327 | | | |
| Other Construction Payments: | Concrete materials | 409,292 | 09/22/16 | 12/01/16 | 22 | Large batch of invoices received resulted in longer processing and approval time. |
| | Lighting | 672,738 | 01/31/17 | 03/22/17 | 11 | Large batch of invoices received resulted in longer processing and approval time. |
| Subtotal | | \$1,082,030 | | | | |
| Total | | <u>\$1,446,357</u> | | | | |

Source: Authority records.

Without prompt payment of invoices and payment requests, the Authority is in noncompliance with the Local Government Prompt Payment Act and is subject to making interest payments.

Recommendation: The Authority should take appropriate actions to improve the timeliness of invoice and payment request processing to ensure payments are made in compliance with the time frames specified by State law.

Finding 5: Monitoring of Subcontractors

The Government Finance Officers Association (GFOA)²¹ recommends that jurisdictions establish policies and processes for capital project monitoring and reporting to ensure that capital project activity is consistent with applicable laws, including public bidding requirements. According to the Master Plan Phase 1 Processes Manual, the Authority's Planning and Development Office is responsible for construction administration.

We reviewed project files documenting the Authority's administration of the APM, ConRAC, and MTAC projects. Each of these projects utilized design-build contracts that employed subcontractors to perform

²¹ GFOA Best Practice, *Capital Project Monitoring and Reporting* (October 2007).

many aspects of project construction. Pursuant to the guaranteed maximum price (GMP) contracts,²² the CME is required to solicit bids for subcontractor services and secure all subcontractor licenses. Our review disclosed that:

- State law²³ establishes licensing requirements for persons engaged in construction, such as electrical, air conditioning, plumbing, and roofing contractors. However, Authority personnel had not, of record, verified that the APM, ConRAC, and MTAC projects' subcontractors were properly licensed. Authority management indicated there were no specific policies and procedures relating to monitoring subcontractor licensing because CME contracts require CMEs to use only properly licensed subcontractors. In response to our request for documentation supporting the licenses for 17 subcontractors selected from the approximately 470 subcontractors used for these projects and required to be licensed, Authority management provided us with documentation obtained from the CMEs. We examined the documentation and confirmed that the 17 subcontractors were properly licensed. While the CME contracts require the use of properly licensed subcontractors, the Authority is ultimately responsible for ensuring that subcontractors working on Authority facilities are properly licensed.
- Authority management indicated that they sometimes attend prebid subcontractor conferences; however, they do not dictate the bidding process or have specific policies and procedures for monitoring subcontractor bids and comparing such bids to contracts and related payments. Authority management provided us with documentation obtained from the CMEs relating to the selection of the 17 subcontractors used for the APM, ConRAC, and MTAC projects. We examined the documentation and determined that the bid awards were consistent with bid tabulations and related contracts, and either the lowest bidder was selected or proper justification for not selecting the lowest bidder was provided for our review.

Timely documented verification that subcontractors are appropriately licensed would provide the Authority additional assurance that the subcontractors who will be working on Authority facilities meet the qualifications to perform the work for which they are engaged. Additionally, without Authority policies and procedures requiring verification that CMEs used a competitive process for selecting subcontractors, and before payment of CME pay requests, that requested amounts agree with subcontractor bid awards and contract amounts, there is an increased risk that the Authority may not fully realize all potential cost savings.

Recommendation: The Authority should enhance its policies and procedures to include verification that:

- **Subcontractors are appropriately licensed before they commence work on Authority facilities and maintain documentation of such verification in Authority records.**
- **CMEs selected subcontractors using a competitive selection process and subcontractor bid awards, contract amounts, and related payments agree. Such policies and procedures should require Authority personnel to attend subcontractor bid openings and document comparisons of the subcontractor bid awards, contract amounts, and related payments.**

²² GMP contracts allow for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the Authority.

²³ Chapter 489, Florida Statutes.

Finding 6: Unallowed Grant Expenditures

As authorized by State law,²⁴ the FDOT administers the Aviation Grant Program²⁵ to provide funding for airport planning, airport capital improvement, land acquisition, airport economic development, and airport security and management. According to the FDOT's *Florida Aviation Project Handbook (Handbook)*, Aviation Grant Program funds may be used for up to 50 percent of the commercial service project costs to finance:

- Capital projects on airport property.
- Services that lead to capital projects such as planning and design services.
- Capital equipment not related to day-to-day operations.

In October 2014, the Authority entered into a joint participation agreement with the FDOT as part of the Aviation Grant Program to partially fund the APM project, reconstruction of the bridge for Taxiway J, and reconstruction of the public circulation roads located in the south terminal support area. As of April 30, 2017, the FDOT had awarded Aviation Grant Program funds totaling \$154 million to the Authority with the expectation that the Authority would be awarded an additional \$40 million by 2019. Subsequently, the Authority received approval to use up to \$5.1 million of the Aviation Grant Program funds for allowable costs associated with connecting the APM project to the main terminal expansion and MTAC project.²⁶ As such, the MTAC project was not otherwise eligible for Aviation Grant Program funding.

According to Authority management, monthly reimbursement requests are submitted to the FDOT as expenditures are incurred. Authority Projects and Grants Department personnel compile supporting documentation and summarize expenditure information on an FDOT invoice for reimbursement. Authority personnel use a project schedule of values, prepared by the Authority Development Program Services, as a guide for determining whether expenditures are eligible for grant reimbursement, except for ODPs for construction materials and other expenditures that are not included on the CME's pay application and are reviewed on a case-by-case basis. The invoice is then reviewed and approved by the Authority Projects and Grants Finance Manager, the Senior Manager of Financial Operations, and the Director of Finance.

The Authority submitted reimbursement requests totaling \$121.5 million to the FDOT during the period October 2015 through April 2017 and the FDOT reimbursed the Authority for these expenditures.²⁷ To determine whether the expenditures complied with grant restrictions, we examined Authority records supporting 30 selected expenditure transactions totaling \$4 million for which the Authority was reimbursed \$1.9 million from the Aviation Grant Program. We found that 2 of the 30 expenditure transactions, related to furniture purchases, were unallowable, resulting in the Authority being reimbursed \$11,723 for which it was not entitled. Specifically, in June and July 2016, the Authority made two MTAC

²⁴ The Florida Airport Development and Assistance Act, Sections 332.003 through 332.007, Florida Statutes.

²⁵ Aviation Development Grants (Catalog of State Financial Assistance No. 55.004).

²⁶ For the MTAC project, allowable costs are 9.7246 percent of the Program's 50-percent matching of the Authority's local share of project costs.

²⁷ In Finding 5 of our operational audit report No. 2017-121, *Department of Transportation Aviation Grant Program and Prior Audit Follow-Up*, we noted that reimbursement payments were not always supported by sufficient documentation.

project disbursements totaling \$241,095 for furniture used in day-to-day operations as part of the MTAC project. Based on the FDOT-approved percentage of MTAC project costs and the Aviation Grant Program matching of 50 percent of the Authority's local share of costs, \$11,723 of the \$241,095 was submitted to and reimbursed by the FDOT pursuant to reimbursement request Nos. 24 and 25 submitted in October and November 2016, respectively. The Catalog of State Financial Assistance²⁸ for the Aviation Grant Program provides that "airport capital equipment is eligible for funding if it is not too closely related to day-to-day operations" and also indicates that "in general, operational costs such as maintenance services, equipment, and supplies are not eligible for aviation grants." Insofar as these expenditures were for furniture used for day-to-day operations as part of the MTAC project, the furniture purchases were unallowable Aviation Grant Program costs.

In response to our inquiry, Authority management indicated that previous discussions with FDOT personnel regarding the eligibility of similar costs were not definitive. Subsequent to our inquiry, Authority personnel analyzed Authority records and identified additional questionable expenditures totaling \$415,138 that had been submitted to the FDOT and the FDOT had reimbursed the matching share of \$207,569. Authority personnel indicated that, to eliminate any doubt regarding the eligibility of the questionable expenditures, an adjustment was made on the grant reimbursement request submitted in August 2017 deducting expenditures totaling \$438,585 for the auditor-identified and Authority-identified questionable expenditures and submitting other eligible expenditures in their place.

Recommendation: The Authority should revise its procedures to ensure that only expenditures meeting the eligibility guidelines of the Aviation Grant Program are submitted to the FDOT for reimbursement.

Finding 7: Salary Adjustments

The Authority's enabling Act²⁹ provides that the CEO shall establish positions, duties, and a pay plan for personnel. Additionally, Authority policies³⁰ provide that the CEO will establish positions to assist in the administration and operation of the Authority and that the Authority will set the salary ranges of all positions submitted by the CEO as part of the annual budget process. Authority policies³¹ also provide for CEO approval of employee compensation, subject to annual budget approval by the Authority.

On February 14, 2014, the CEO provided a memorandum to Authority members regarding executive team member³² base salary adjustments that the CEO planned to make. The purpose for the planned salary adjustments were to restructure executive team member responsibilities, after elimination of an executive team position, and to retain and attract top talent. Because Authority policies allow the CEO

²⁸ Section 215.97(2)(c), Florida Statutes, defines the Catalog of State Financial Assistance as a comprehensive listing of State projects issued by the Department of Financial Services after conferring with the Executive Office of the Governor and all State awarding agencies. The Catalog of State Financial Assistance includes for each listed State project: the responsible State awarding agency; standard State project number identifier; official title; legal authorization; and description of the State project, including objectives, restrictions, application and awarding procedures, and other relevant information determined necessary.

²⁹ Chapter 2012-234, Section 6.(2)(e), Laws of Florida.

³⁰ Aviation Authority Policy P123 – Executive Organization.

³¹ Aviation Authority Policy P610 – Compensation for Authority Employees.

³² The executive team led Authority personnel responsible for the daily operation, administration, and maintenance of the Airport and three general aviation airports, which includes those with responsibilities related to development and implementation of the 2012 Plan.

to set salaries within Authority-approved salary ranges, the Authority was not required to, and did not, take official action on the planned salary adjustments. The six executive team member positions and related salary adjustments that were effective February 23, 2014, are shown in Table 9.

Table 9
Executive Team Member Salary Adjustments
Effective February 23, 2014

| Title | Original Salary | Percentage Increase | Adjusted Salary | Dollar Increase |
|---|-----------------|---------------------|-----------------|-----------------|
| Vice President of Facilities and Administration | \$193,109 | 7.5 | \$207,592 | \$14,483 |
| Vice President of Operations and Customer Service | \$186,533 | 7.5 | \$200,523 | \$13,990 |
| Vice President of Finance and Information and Technology | \$186,533 | 7.5 | \$200,523 | \$13,990 |
| Vice President of Marketing | \$192,265 | 7.5 | \$206,685 | \$14,420 |
| Vice President of Corporate Affairs and Real Estate and General Counsel | \$188,847 | 10.0 | \$207,732 | \$18,885 |
| Assistant Vice President of Media and Government Relations | \$128,970 | 10.0 | \$141,867 | \$12,897 |

Source: Authority records.

In the February 14, 2014, memorandum, the CEO indicated to the Authority members that the salary adjustment amounts were based on research, which included an in-house evaluation of executive salary ranges and in-house evaluations of each individual executive’s compensation, and the results of the engagement of an outside consultant to “determine the market compensation level for the executive team positions.” In the memorandum, the CEO further indicated that the in-house evaluations and the consultant “conclude that our current Executive salaries are below the midpoint of the market for similar sized organizations.”

Our inquiry of Authority management and review of related Authority records related to the salary adjustments disclosed that:

- Although the CEO communicated the basis for the recommended salary adjustments to the Authority members and the Authority was not required to take official action on the salary adjustments, Authority records did not demonstrate why the adjustments were not discussed at an Authority public meeting. An open discussion at a public meeting would have enhanced transparency, demonstrated the Authority’s consideration of the appropriateness of the salary adjustments, and allowed for public discussion regarding the reasonableness of the adjustments.
- Although the CEO referred to the consultant in his memorandum, Authority members were not provided a copy of the consultant’s report with the memorandum.³³ As discussed below, the consultant’s report included information that may have been useful to the Authority members in considering the salary adjustments.
- Information in the consultant’s report indicated that the usefulness of the report as a basis for the salary adjustments may have been limited as:
 - Salary surveys analyzed by the consultant did not contain data exclusive to airport authorities but rather the consultant was asked to review competitive data for comparable positions at

³³ After receiving the memorandum, one Authority member requested and was provided a copy of the consultant’s report.

organizations of comparable complexity in the general labor market, and the consultant only obtained salary data from one peer airport.

In response to our inquiry, Authority management indicated that the Authority competes for talent with a wide range of employers and very few Authority positions are filled by employees with airport experience, certain Authority positions are filled by local professionals who can also work with any organization regardless of industry, and the consultant's report was useful since it was based on data that provided a broader approach. Authority management further indicated that the consultant provided Authority personnel with industry data from two of the most-respected compensation consulting data firms in the world. Notwithstanding the reliability of the data provided by the consultant, salary data from organizations that are not substantially similar to the Authority limits the usefulness of such data in determining the reasonableness of Authority salaries.

Authority management also indicated that salaries are determined based on a number of factors, market data is a key part of benchmarking the external market, and the consultant's work was one indicator that a compensation change was reasonable. However, because the consultant's report only included data from one peer airport, the market data included in the consultant's report may not be reflective of industry-specific trends relevant to the Airport.

- The consultant strongly recommended that the Authority purchase a compensation survey published by the Airports Council International – North America (ACI-NA)³⁴ to use for industry-specific salary comparison purposes, and indicated that the survey³⁵ "is perhaps the most appropriate comparison" and that the consultant "did not have access to this survey."

In response to our inquiry, Authority management provided documentation evidencing that the Authority participated in and had access to the 2014 ACI-NA survey as early as February 4, 2014; however, Authority records did not demonstrate that the survey data was used for salary comparison purposes. Authority management stated that the ACI-NA survey data is more useful for small airports which make up the majority of the survey respondents. However, according to information provided to us regarding the 2014 ACI-NA survey, the survey data could have been used to develop a benchmark group of comparable entities for salary comparison purposes.

Recommendation: The Authority should ensure that future executive team member salary adjustments are:

- **Openly discussed at public Authority meetings or records are maintained to clearly demonstrate the advantages of withholding salary adjustment information from public discussion.**
- **Based on thorough and complete analysis of salary data obtained from industry-specific sources.**

Finding 8: Budget Preparation and Adoption

State law³⁶ requires the governing body of each special district to adopt a budget by resolution each fiscal year and provides that the total amount available from taxation and other sources, including balances

³⁴ The ACI-NA represents local, regional, and state governing bodies that own and operate airports in the U.S. and Canada.

³⁵ The ACI-NA annual Compensation and Benefits Survey was created in response to requests from airport directors for a creditable, reliable, and legally compliant source of market compensation data. Although information is not available on the ACI-NA Web site for prior year surveys, the 2017 edition of the Survey included 153 government airports, including 72 airport authorities.

³⁶ Section 189.016(3), Florida Statutes.

brought forward from prior fiscal years, must equal the total appropriations for expenditures and reserves. The Authority's enabling Act³⁷ requires the Authority to adopt an annual budget, which must include an estimate of all revenues and anticipated expenditures for the following fiscal year.

The Authority-approved final budget for the 2015-16 fiscal year included projected operating revenues of \$210.9 million less operating expenses, debt service, airline revenue sharing and incentives, and capital contributions totaling \$208.7 million, which resulted in net contributions to reserves totaling \$2.2 million. Additionally, the budget for the 2016-17 fiscal year included similar categories resulting in net contributions to reserves totaling \$3.4 million. However, the budgets for these 2 fiscal years did not include the prior fiscal year-end balances totaling \$825.7 million and \$940.1 million, respectively, as beginning net position amounts.

Authority management indicated that inclusion of the prior fiscal year ending net position as an available source in the budget is unnecessary because operating revenues included in the budget fully cover operating expenses and debt service, as well as airline revenue sharing, incentives, and capital contributions. Notwithstanding management's assertion that prior fiscal year carry forward funds are not needed as a source to cover current fiscal year expenditures, the exclusion of beginning net position from the budget is contrary to State law. Without including balances brought forward from prior fiscal years, the usefulness of the budget as a financial management tool is diminished and the budget presentation does not provide for transparency of all available sources, which increases the risk that the Authority may unnecessarily increase fees, charges, or other revenue sources to fund planned expenditures or to establish reserves.

Recommendation: The Authority should ensure that future budgets include all balances brought forward from prior fiscal years as required by State law.

Finding 9: Capital Development Program Budget

The Authority's enabling Act³⁸ requires the Authority to adopt an annual budget, which must include an estimate of all revenues and anticipated expenditures for the following fiscal year. Authority policies³⁹ require an annual budget for revenues, operating expenses, debt service, capital equipment, and capital projects. Additionally, the GFOA⁴⁰ recommends that the budget include a multiyear capital improvement plan and detailed information related to the budget year and that individual capital project information include the amount appropriated for the project during the budget year.

One of the major components of the Authority-approved 2016-17 fiscal year budget is the Capital Development Program (Capital Program), which includes capital projects initiated during the 2016-17 fiscal year as well as ongoing capital projects approved in prior fiscal years. Funding for the Capital Program is provided through a variety of sources, including Federal and State grants; bond proceeds; PFCs; and excess operating revenues remaining after funding operating and maintenance

³⁷ Chapter 2012-234, Section 6.(1)(e), Laws of Florida.

³⁸ Chapter 2012-234, Section 6.(1)(e), Laws of Florida.

³⁹ Aviation Authority Policy P430 – Annual Budget.

⁴⁰ GFOA Best Practice, *Incorporating the Capital Budget into the Budget Document* (January 2016).

expenditures, debt service, and required reserves. Capital Program disclosures in the budget included the following schedules:

- Schedule 6, Budget Request for Capital Improvement Projects, provided the project description, estimated total project costs, and funding sources for each capital project for the 2016-17 fiscal year. This schedule provided information for 26 capital projects with estimated costs totaling \$88.3 million.
- Schedule 7, Status of Capital Program, provided the project description and estimated total project costs for all capital projects, including those initiated prior to the 2016-17 fiscal year. This schedule provided information relating to 53 capital improvement projects (including the 26 capital projects for the 2016-17 fiscal year) with estimated costs totaling \$1.1 billion.

The budget schedules included multiyear capital improvement projects information as recommended by the GFOA. However, Authority procedures for establishing the budget did not comply with the enabling Act⁴¹ and were not consistent with GFOA-recommended best practices as the schedules did not include the estimated expenditures to be incurred, or the amount appropriated, for each project during the 2016-17 fiscal year. The estimated expenditures for the 2016-17 fiscal year were significant as the actual capital project expenditures totaled \$345 million for this period.

In response to our inquiry, Authority management indicated that the overall Capital Program budget is what is being managed and is the control mechanism to ensure that costs do not exceed Authority authorization and that management of the individual projects is thoroughly communicated to the Authority. Notwithstanding this response, including amounts appropriated for each capital project's estimated expenditures for the fiscal year in the budget would clarify the cash flow of expenditures and provide for increased transparency of capital project activities and, therefore, enhance the usefulness of the budget as a financial management tool.

Recommendation: The Authority should ensure that the annual budget includes, for each project, the amount appropriated for the capital project expenditures expected to be incurred in the budget fiscal year as required by the enabling Act and recommended by GFOA best practices.

Finding 10: Budget Amendments

State law⁴² provides that, if a governing body of a special district amends the budget for a purpose not specifically authorized in State law,⁴³ the adopted amendment must be posted on the special district's official Web site within 5 days after adoption and must remain on the Web site for at least 2 years. However, we noted that Authority procedures⁴⁴ were not consistent with State law, as the procedures allowed budget amendments to be posted to the Authority Web site within 30 days after adoption and did not require amendments to remain on the Web site for at least 2 years.

As noted in Finding 9, the Authority's 2016-17 fiscal year budget included budget requests for capital improvement projects totaling \$88.3 million. On May 4, 2017, the Authority approved a budget amendment for two new projects with projected costs totaling \$132.4 million; however, Authority

⁴¹ Chapter 2012-234, Section 6.(1)(e), Laws of Florida.

⁴² Section 189.016(7), Florida Statutes.

⁴³ Section 189.016(6)(a) and (b), Florida Statutes.

⁴⁴ Aviation Authority Standard Procedure S430.01: *Procedures for Establishing Budget and Budget Amendments*.

personnel did not comply with State law by posting the amendment on the Authority Web site. In response to our inquiries, Authority management indicated that the amendment was not posted due to an oversight since the Authority rarely prepares budget amendments.

Subsequent to our inquiry, Authority personnel posted the amendment on the Web site in July 2017 and revised procedures in August 2017 to require that budget amendments be posted to the Web site within 5 days after adoption. However, the revised procedures did not require budget amendments to remain on the Authority Web site for at least 2 years in accordance with State law. Posting and maintaining the required budget amendments on the Authority Web site provides transparency and enhances citizen involvement and the ability to analyze, monitor, and evaluate budget outcomes.

Recommendation: The Authority should continue efforts to ensure budget amendments are posted on the Authority Web site within 5 days after adoption. The Authority should also require and ensure that future budget amendments remain on the Authority Web site for at least 2 years as required by State law.

Finding 11: Audit Committee

The Authority provides for annual financial audits pursuant to State law.⁴⁵ Such financial audits performed by licensed independent certified public accountants give assurance to the reliability and completeness of the Authority's financial statements; provide a means for evaluating the effectiveness of the Authority's internal control over financial reporting; and include a determination of the extent to which the Authority complied with applicable laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Authority's financial statement amounts.

The Authority must select the financial auditor using the procedures prescribed in State law,⁴⁶ which requires the Authority to establish an audit committee to assist in the selection of the financial auditor and to specify the responsibilities of the audit committee. Such responsibilities include publicly announcing the need for audit services and using requests for proposals. Authority policies⁴⁷ prescribe the composition of the Authority's audit committee and provide that the audit committee is responsible for general oversight of Authority internal and external audit activities, which would include audit activities related to the 2012 Plan.

According to the GFOA,⁴⁸ an audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls; that procedures are in place to objectively assess management's practices; and that the independent auditors, through their own review,

⁴⁵ Section 218.39, Florida Statutes.

⁴⁶ Section 218.391, Florida Statutes.

⁴⁷ Aviation Authority Policy P104 – Audit Committee.

⁴⁸ GFOA Best Practice, *Audit Committees* (October 2008).

objectively assess the government's financial reporting practices. In addition, GFOA best practices include recommendations for the establishment of audit committees.

Our evaluation of the Authority's audit committee policy disclosed that the policy is inconsistent with GFOA best practices as the policy did not require:

- Each audit committee member to possess or obtain a basic understanding of governmental financial reporting and auditing. Nor did the policy require the audit committee to have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should, through both education and experience, and in a manner specifically relevant to the government sector, possess: 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions. Including these requirements in the policy would ensure that the audit committee includes, or has access to, individuals with the relevant expertise needed for the audit committee members to carry out their responsibilities.
- The audit committee be composed of at least three members. The policy provides for the audit committee to include only the Authority Chairman and the Treasurer. Requiring at least three audit committee members is necessary because two members may not provide for adequate discussion and could result in impasses when voting on such items as external auditor selection⁴⁹ and the internal audit plan.
- The audit committee to present annually to the Authority a written report on how the committee discharged its duties and met its responsibilities. After the audit committee meets, a committee report is verbally provided to the Authority at the next Authority meeting; however, there is no written report provided to the Authority addressing the issues recommended by the GFOA. Requiring a written report to the Authority promotes transparency of the audit committee process and helps demonstrate how the committee discharged its duties and carried out its responsibilities.

In response to our inquiry, Authority management indicated that the Authority will review the GFOA best practices and consider revisions to the audit committee policy.

Recommendation: The Authority should revise the audit committee policy to incorporate GFOA best practices.

Finding 12: Access Controls

Effective access controls include measures that restrict user access privileges to data and information technology (IT) resources to only those functions that promote an appropriate separation of duties and are appropriate and necessary for the user's assigned job duties. Appropriately restricted access privileges help protect data and IT resources from unauthorized modification, loss, or disclosure.

In September 2014, the Authority approved a project to expand its enterprise resource planning system (ERP Project) to support additional business functions including Human Resources, Employee Time Keeping, Payroll, Budgeting, Analytics, and Advanced Business Reporting. An Authority employee hired

⁴⁹ The Audit Committee recommends a listing of ranked firms, based on the results of a request for proposals evaluated by a technical evaluation committee, to the Authority, which makes the final selection of the external auditor.

specifically for the ERP Project and 18 other individuals employed by a contracted firm worked on implementing the ERP Project.

The Authority received allegations related to the implementation of the ERP Project, and the Authority's Internal Audit (IA) Department investigated the allegations and issued a report in January 2016. The IA report identified potential security risks associated with workers employed by the contracted firm to assist with the ERP Project. The Authority engaged a consultant to assess potential security violations of Authority networks, systems, and peripherals and to review the user activities of the 19 individuals employed to work on the ERP Project to determine whether inappropriate access, storage, or transmission of Authority data occurred. The consultant's report, issued in January 2016, noted that:

- Certain individuals were sharing passwords that allowed access to the ERP Project test environment.
- Contracted firm employees were generally restricted to the Project test environment, and the Authority's network security features prevented them from accessing data outside the Project test environment. However, 1 of the 18 contracted firm employees was given significantly more access than the other contracted firm employees, including access to the Authority network outside the ERP Project test environment. This contracted firm employee was the spouse of the Authority employee hired specifically for the ERP Project.

Subsequent to our inquiry, we were provided a copy of an internal review report indicating that this individual did not have access to Transportation Security Administration (TSA) "critical or sensitive information" and Authority management stated that the internal review did not disclose that this individual had access to unauthorized sensitive or personally identifiable information. However, neither the internal review or other Authority records provided for our review specifically addressed whether this employee had unauthorized access to protected⁵⁰ or sensitive⁵¹ information other than TSA information (e.g., protected or sensitive information related to Authority personnel or vendors).

- A lack of security controls existed on servers within the ERP Project test environment, although controls were in place to provide an adequate defense against malware delivered over the Authority network that could potentially impact the ERP Project test environment.
- Certain ERP security features were not enabled within the ERP Project test environment; consequently, the consultant could not provide a full and complete accountability analysis of the contracted firm employees' user activity within the ERP Project test environment.

The IA report noted several corrective actions completed prior to the release of the IA report, including termination of employment for the Authority employee hired specifically for the ERP Project, suspension of all staffing through the contracted firm contract, and disabling of all contracted firm employees' access.

Subsequently, the Authority engaged a second consultant to perform an assessment of the Authority's IT Department related to the administration, organization, and technology areas. The consultant's December 2016 report included several recommendations including the removal of the Authority IT security team's full administrative rights to the Authority network. Subsequently, the Authority revised its IT procedures to implement this recommendation.

⁵⁰ Protected information includes any information exempted from public inspection by law. For example, employee social security information is exempted from public inspection by Section 119.071(4)(a)1., Florida Statutes, and bank account, debit, charge, and credit card numbers are exempted from public inspection by Section 119.071(5)(b), Florida Statutes.

⁵¹ Sensitive information may include, for example, employee personal home addresses or telephone numbers not explicitly exempted from public inspection by law.

Recommendation: The Authority should continue its efforts to ensure the appropriateness of access privileges assigned to Authority and contracted firm employees to prevent unauthorized access to Authority data and IT resources. The Authority should also document, of record, whether the above-noted contracted firm employee had unauthorized access to any protected or sensitive information.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

Chapter 2017-70, Laws of Florida, required the Auditor General to conduct an operational audit of the Hillsborough County Aviation Authority's Tampa International Airport, 2012 Master Plan capital projects (2012 Plan) and required the audit to, at a minimum, evaluate the 2012 Plan Phase 1 processes and practices, including those related to project funding and expenditures.

We conducted this operational audit from May 2017 through October 2017 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the Authority's Tampa International Airport 2012 Master Plan capital projects. The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, bond covenants, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable laws, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records during the audit period October 2015 through April 2017, and selected transactions prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, bond covenants, contracts, grant agreements, and Authority policies and procedures, and interviewed Authority personnel to gain an understanding of the Authority's processes related to the scope of the audit.
- Reviewed reports issued by the Authority's Internal Audit Division during the audit period related to the 2012 Plan. We also evaluated the Authority's progress in resolving findings from those internal audit reports related to the scope of the audit.
- Examined Authority meeting minutes for the audit period, and the minutes of selected meetings prior and subsequent to the audit period, to determine the propriety and sufficiency of actions taken related to the scope of the audit.
- Reviewed the Authority's policies and procedures governing the Authority's audit committee to determine whether such policies and procedures conformed to best practices.
- Reviewed the Authority's policies and procedures for procuring artwork associated with the 2012 Plan.
- Tested compliance with the public record provisions of Chapter 119, Florida Statutes, and Section 286.011, Florida Statutes (Sunshine Law), and:
 - Reviewed the Authority's policies and procedures governing public records retention requirements, including retention of electronic communications.
 - Identified and reviewed three nondisclosure agreements entered into by the Authority with two former employees and one former contractor to determine whether they complied with public records and Sunshine Law requirements.
 - Interviewed current and former Authority members to determine whether they met individually with the CEO outside of public meetings to discuss their positions regarding approval of the 2012 Plan.

- Examined the Authority's adopted budgets, and amendments thereto, for the 2015-16 and 2016-17 fiscal years to determine compliance with Section 189.016, Florida Statutes; Chapter 2012-234, Laws of Florida (the Authority's enabling Act); and Authority policies and procedures.
- Determined the extent to which the Authority facilitated public discussions at Authority meetings or other venues and provided information to the public regarding the feasibility of the 2012 Plan and the status of related construction projects.
- Reviewed reports from consultants employed by the Authority and the FDOT for information supporting the feasibility of the 2012 Plan projects.
- Reviewed the projected profit and loss schedules included in the Authority-approved 2013 Strategic Business Plan supporting the financial feasibility of the 2012 Plan.
- Evaluated the reasonableness of revenue projections based on passenger enplanements, parking fees, concessions, and other facility usage charges earmarked as funding sources for the 2012 Plan projects by reviewing:
 - Projections for passenger activity levels and rental car revenues, from which specific user fees and charges are pledged to pay debt service for 2012 Plan revenue bonds, to determine whether such projections were reasonable and sufficient to cover pledged debt service.
 - Estimated increases to costs per enplanement charged to airlines to determine whether such estimates were supported and reasonable.
 - Estimated projections for rental car revenues to determine whether such estimates were supported and reasonable.
 - Estimates of existing airport capacity and projected increases in passenger traffic to determine whether such estimates and projections were supported and reasonable.
 - Recent reports from bond rating agencies for any concerns regarding the Authority's ability to generate sufficient revenues to comply with the debt service requirements.
 - Pro forma financial statements included in the official bond statements and subsequent disclosure updates to determine whether reported revenue amounts were supported by the Authority's financial records.
- Examined changes to the 2012 Plan project costs estimates and budgets for reasonableness. Also, we compared actual costs incurred and estimates of final costs to be incurred to determine whether project costs were properly managed.
- Determined whether Authority records evidenced discussion of the Authority's intention to use new or increased fees to fund 2012 Plan construction projects and whether such fees were authorized by applicable laws, bond covenants, contracts, grant agreements, and Authority policies and procedures.
- Examined records supporting the selection of 16 professional services contractors associated with the 2012 Plan to determine whether the contractors were selected in accordance with State law and Authority policies and procedures.
- Reviewed and evaluated construction administration procedures and records related to the APM, ConRAC, and MTAC projects, which accounted for \$621 million of the \$680 million 2012 Plan project costs as of May 2017. Specifically, we:
 - Reviewed Authority records to determine whether construction project plans and specifications were properly reviewed and approved in accordance with Authority policies and procedures.
 - Determined whether the Authority obtained payment and performance bonds from the CMEs as required by Section 255.05, Florida Statutes.

- Determined whether the Authority obtained adequate insurance coverages for the 2012 Plan pursuant to its owner-controlled insurance program.
- Determined whether the Authority included penalty clauses related to completion dates in the CME contracts.
- Reviewed Authority policies and procedures for monitoring CME subcontractor selection and licensure verification.
- Reviewed Authority procedures for ensuring that subcontractor bid awards, contract amounts, and related payments agree.
- Reviewed Authority records for three CME payment applications totaling \$25.4 million for services rendered through April 2017 to determine whether the Authority reviewed such payments for proper supporting documentation; paid CMEs promptly in accordance with contractual provisions and Chapter 218, Part VII, Florida Statutes (Local Government Prompt Payment Act); and took advantage of its sales-tax exemption for owner-direct purchases of construction materials.
- From the population of 3,657 payments totaling \$77.5 million through May 2017 for project costs not involving CME payments for the APM, ConRAC, and MTAC projects, we selected and tested 30 payments totaling \$9.8 million to determine whether the payments were adequately supported, reasonable, and promptly made in accordance with the Local Government Prompt Payment Act.
- Reviewed selected change orders occurring during the period April 2014 through June 2017 for the APM, ConRAC, and MTAC projects to determine whether the change orders were reasonable and approved in accordance with Authority policies and procedures.
- From documentation supporting Phase 1 FDOT grant reimbursements totaling \$121.5 million received during the audit period related to the MTAC, ConRAC, APM, Taxiway J Bridge, and South Development Area Roadway Improvements projects, tested 30 invoices totaling \$4 million to determine whether the applicable disbursements complied with grant restrictions and were promptly made in accordance with the Local Government Prompt Payment Act.
- Evaluated the reasonableness of Authority executive team member salary adjustments, and resultant compensation, effective February 23, 2014.
- For 2012 Plan debt issues:
 - Determined whether the Authority adopted resolutions allowing the use of negotiated sales for the bonds sold instead of by competitive bids in accordance with Section 218.385, Florida Statutes.
 - Compared Authority debt issuance costs to debt issuance costs incurred by other airports for reasonableness.
 - Determined whether the Authority complied with bond covenants for revenue bonds funding 2012 Plan projects.
- Reviewed Authority records to determine whether an alleged data security breach occurred that impacted 2012 Plan projects.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Chapter 2017-70, Laws of Florida, required the Auditor General to conduct an operational audit of Hillsborough County Aviation Authority's Tampa International Airport 2012 Master Plan capital projects, focusing on processes and practices, including those related to project funding and expenditures. Pursuant to the provisions of Section 11.45, Florida Statutes, and Chapter 2017-70, Laws of Florida, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Peter O. Knight Airport
Plant City Airport
Tampa Executive Airport

December 27, 2017

Hillsborough County
Aviation Authority
P.O. Box 22287
Tampa, Florida 33622
phone/ 813-870-8700
fax/ 813-875-6670
TampaAirport.com

Sherrill F. Norman
Auditor General
Claude Denson Pepper Building
Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Enclosed is our response to the November 29, 2017, preliminary and tentative audit findings and recommendations made as the result of your operational audit of the Hillsborough County Aviation Authority.

I would like to thank you for the opportunity to respond to the preliminary and tentative audit findings for inclusion in the final report.

Per your request, this response is being submitted electronically. If you have any questions, please contact our Director of Internal Audit, Laura Tatem, at 813-870-8774.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert I. Watkins", with a long horizontal line extending to the right.

Robert I. Watkins
Chairman, Board of Directors
Hillsborough County Aviation Authority

c: HCAA Board of Directors
Joseph Lopano, Chief Executive Officer

Joseph W. Lopano, Chief Executive Officer | Robert I. Watkins, Chairman | Gary W. Harrod, Vice Chairman | Commissioner Victor D. Crist, Secretary
Brig. General Chip Diehl, Treasurer | Mayor Bob Buckhorn, Assistant Secretary / Assistant Treasurer

December 27, 2017

Tampa International Airport's Responses to the Florida Auditor General Preliminary and Tentative Audit Findings

The Airport management appreciates the Auditor General's comprehensive and thorough review of Master Plan Phase 1 and additional areas of Airport operations. The Authority is committed to openness and transparency and operating to the highest standards of fiscal responsibility. The audit included the review of more than 2,000 documents, provided by Airport management during the past six months.

The preliminary and tentative results demonstrate that the Authority has been an excellent steward of the nearly \$1 Billion Master Plan project.

The Airport management has already acted on several recommendations made by the Auditor to further strengthen policies and procedures, and continues to examine additional recommendations and opportunities for improvement.

Below are the Authority's responses to the individual areas identified in the Preliminary and Tentative Audit findings.

Finding 1: Selection of Professional Services - The Authority did not document, nor did Authority policies and procedures require, justification for deviations from Technical Evaluation Committee (TEC) rankings of respondents to requests for professional service proposals and qualifications. In addition, written instructions explaining how to apply predetermined criteria when rating respondents were not available for TEC member use.

Recommendation: Authority policies and procedures governing the procurement of professional services should be revised to require documented justification for Authority deviations from TEC rankings. In addition, the Authority should ensure that the TEC members are provided written instructions that explain how to apply criteria when rating RFP and RFQ respondents.

Management Response: *Authority Management's Technical Evaluation Committees currently follow best practices for rating RFP and RFQ respondents, as evidenced by the Authority's attainment of the highest possible accreditation from the National Institute of Government Procurement. Final selections by the Authority allow for deviations from TEC rankings, within the criteria of the specific solicitation, with*

meeting minutes and recordings documenting the decision-making process. The Authority adhered to its procedures in both selections cited in the report. The Authority will consider the recommendations of the Auditor General and will determine if any Policy or Standard Procedure changes are necessary.

Finding 2: Artwork Expenditures - The Authority established an Art Program budget of \$3.5 million; however, Authority records did not demonstrate the legal authority for, or necessity of, the Art Program. In addition, the Art Program policy did not prescribe a reasonable and systematic methodology for determining the amount of Authority funds to be expended for artwork.

Recommendation: The Authority should revise its Art Program policy to:

- Specify the provisions of the Authority’s enabling Act or other law supporting the establishment of the Art Program.
- Specify how the Art Program promotes procuring artwork in the most economical way possible commensurate with acceptable quality.
- Prescribe a reasonable and systematic methodology for determining the amount, either in dollars or as a percentage of project costs, of Authority funds to be expended for artwork.

Management Response: *As the Auditor General noted, implicit within the Authority’s Enabling Act is “the power to expend Authority resources toward the beautification of Airport facilities, which would include the procurement of artwork.” Management studied other airports, the City of Tampa and Hillsborough County to determine appropriate Public Art procurement processes and expenditures. Its study found that most entities commission art to enhance specific locations. As recognized in the Auditor General’s Preliminary and Tentative Findings, those entities studied allocate between 0.5 percent and 2 percent of an entire construction budget to art. Authority management allocated 1 percent of the construction budget of only passenger-facing areas to commissioning public art. The Authority will consider the recommendations of the Auditor General and will determine if any Policy changes are necessary.*

Finding 3: Contract Change Order Policy - Authority policies required that contract change orders cumulatively exceeding a specified threshold be presented for Authority approval; however, the policies did not prohibit the inclusion of change orders for owner-direct purchases (ODPs) of construction materials when calculating the amount of cumulative change orders. As the inclusion of ODP change orders reduces the cumulative change order amount, there is an increased risk for other change orders to cumulatively exceed the threshold without Authority approval.

Recommendation: Authority personnel should monitor implementation of the policy revision to ensure that change orders for ODPs of construction materials are excluded from the cumulative change order balance used to determine those change orders requiring Authority approval.

Management Response: *As the Auditor General correctly states in its report, “Our examination of change orders did not disclose any non-ODP change orders that cumulatively exceed the 5-percent threshold....” To eliminate any future risk, the Authority updated the related Policy in October 2017.*

Finding 4: Disbursement Processing - The Authority did not always process invoices for payment of construction costs within the time frames specified by State law.

Recommendation: The Authority should take appropriate actions to improve the timeliness of invoice and payment request processing to ensure payments are made in compliance with the time frames specified by State law.

Management Response: *As the Auditor General correctly states, a sampling of payments shows some were made between 11 and 34 days late. Management has retrained staff and is revising processes to ensure payments are made within the 25 business day time frame specified by State law.*

Finding 5: Monitoring of Subcontractors - The Authority needs to enhance procedures for verifying that subcontractors are properly licensed and selected using a competitive process and that subcontractor bid awards, contract amounts, and related payments agree.

Recommendation: The Authority should enhance its policies and procedures to include verification that:

- Subcontractors are appropriately licensed before they commence work on Authority facilities and maintain documentation of such verification in Authority records.
- CMEs [Construction Management Entities] selected subcontractors using a competitive selection process and subcontractor bid awards, contract amounts, and related payments agree. Such policies and procedures should require Authority personnel to attend subcontractor bid openings and document comparisons of the subcontractor bid awards, contract amounts, and related payments.

Management Response: *As noted by the Auditor General, analysis of a sampling of subcontractors showed 100% compliance with licensing as well as bid award, contract amounts and payment requirements. Authority management is developing procedural changes and revising standard contract language to ensure continued compliance.*

Finding 6: Unallowed Grant Expenditures - Authority procedures need enhancement to ensure that only capital project expenditures meeting the Florida Department of Transportation Aviation Grants Program eligibility guidelines are submitted for reimbursement.

Recommendation: The Authority should revise its procedures to ensure that only expenditures meeting the eligibility guidelines of the Aviation Grant Program are submitted to the FDOT for reimbursement.

Management Response: *The grant reimbursement request submitted to FDOT in August 2017 was adjusted to remove the potentially ineligible expenditures. Other expenditures were submitted in the place of the potentially ineligible costs, thus ensuring all expenses were eligible. Authority Management provided additional training to staff to ensure that expenditures are properly reviewed and vetted for eligibility.*

Finding 7: Salary Adjustments - Authority records did not demonstrate why proposed salary adjustments for executive team members were not openly discussed at a public Authority meeting or clearly demonstrate the advantages of withholding salary adjustment information from public discussion. In addition, Authority members were not provided certain information pertinent to the salary adjustments, and the usefulness of a consultant report as a basis for the salary adjustments was limited.

Recommendation: The Authority should ensure that future executive team member salary adjustments are:

- Openly discussed at public Authority meetings or records are maintained to clearly demonstrate the advantages of withholding salary adjustment information from public discussion.
- Based on thorough and complete analysis of salary data obtained from industry-specific sources.

Management Response: *As noted by the Auditor General, "The Authority's Enabling Act provides that the CEO shall establish positions, duties, and a pay plan for personnel," and "...the Authority was not required to, and did not, take official action on the planned salary adjustments." The Authority Board evaluates and establishes the CEO salary in its public meetings; however, it is not common practice at public agencies to discuss other individual staff salaries in governing board meetings. The Authority Board reviews and approves headcount and salary ranges each year as part of the annual Operating Budget process. The CEO determines compensation based on a number of factors, and market data is a key part of benchmarking the external market. The Auditor General's recommendation to openly discuss salary adjustment at public Authority meetings is not based on any statute or guidance. The Authority will consider the recommendations of the Auditor General and will determine if any Policy changes are necessary.*

Finding 8: Budget Preparation and Adoption - Authority-approved budgets for the 2015-16 and 2016-17 fiscal years included projected operating revenues and expenditures; however, contrary to State law, the budgets did not include the balances brought forward from the respective prior fiscal years.

Recommendation: The Authority should ensure that future budgets include all balances brought forward from prior fiscal years as required by State law.

Management Response: *The current Authority management follows the same budget practices that have been in place at the agency for more than 20 years. A review of other airports throughout the country shows that the Authority's budget practices are common. The Authority acknowledges the Auditor General findings and will ensure that future budgets include balances brought forward from prior fiscal years.*

Finding 9: Capital Development Program Budget - The Authority-approved 2016-17 fiscal year budget and amendments thereto did not include the estimated expenditures to be incurred, or the amount appropriated, for each project during the current fiscal year as required by State law and recommended by Government Finance Officers Association best practices.

Recommendation: The Authority should ensure that the annual budget includes, for each project, the amount appropriated for the capital project expenditures expected to be incurred in the budget fiscal year as required by the enabling Act and recommended by GFOA best practices.

Management Response: *The current Authority management follows the same Capital Development Program Budget practices that have been in place for more than 20 years. The Authority acknowledges the Auditor General findings and will incorporate the recommendations in future Budgets.*

Finding 10: Budget Amendments - Contrary to State law, the Authority did not post a budget amendment to the 2016-17 fiscal year budget on its Web site for two new projects with projected costs totaling \$132.4 million. In addition, Authority procedures were not consistent with State law as the procedures allowed budget amendments to be posted to the Web site within 30 days after adoption, instead of within 5 days after adoption, and did not require amendments to remain on the Web site for at least 2 years.

Recommendation: The Authority should continue efforts to ensure budget amendments are posted on the Authority Web site within 5 days after adoption. The Authority should also require and ensure that future budget amendments remain on the Authority Web site for at least 2 years as required by State law.

Management Response: *The Authority has updated its Standard Procedure to reflect the current Florida Statute and the requirement to post amendments within five days and keep them on the website for two years.*

Finding 11: Audit Committee - The Authority's audit committee policy could be enhanced to require each audit committee member to possess or obtain a basic understanding of governmental financial reporting and auditing; the committee have access to the services of at least one financial expert; the committee be composed of at least three members, rather than two members; and the committee present annually to the Authority a written report on how the committee discharged its duties and met its responsibilities.

Recommendation: The Authority should revise the audit committee policy to incorporate GFOA best practices.

Management Response: *The Authority will consider the recommendations of the Auditor General and will determine if any Policy changes are necessary.*

Finding 12: Access Controls - A consultant engaged by the Authority determined that, during a project to expand the Authority's enterprise resource planning system (ERP Project), a lack of information technology security controls existed on servers within the ERP Project test environment. Because certain ERP security features were not enabled within the ERP Project test environment, the consultant could not provide a full and complete accountability analysis of the contracted firm employees' user activity within the ERP Project test environment. In addition, one contracted firm employee was given significantly more access than the other contracted firm employees, including access to the Authority network outside the ERP Project test environment. Authority records did not evidence whether this employee had unauthorized access to certain protected or sensitive information.

Recommendation: The Authority should continue its efforts to ensure the appropriateness of access privileges assigned to Authority and contracted firm employees to prevent unauthorized access to Authority data and IT resources. The Authority should also document, of record, whether the above-noted contracted firm employee had unauthorized access to any protected or sensitive information.

Management Response: *The state audit affirms what was concluded in previous audits: There was no evidence of a breach. Management has implemented continuous improvement to its controls and educated employees regarding cyber risks. Those efforts will continue. Further, the above-noted contracted firm employee did not have unauthorized access to any protected or sensitive information.*
