

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT AIRPORT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 2014 AND 2015*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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August 1, 2019

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut Airport Authority. The objectives of this review were to evaluate the authority's internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the fiscal years ended June 30, 2014, and 2015.

A key finding and recommendation is presented below:

<p>Page <u>7</u></p>	<p>The Connecticut Airport Authority did not perform evaluations required by its affirmative action policy when it processed certain personnel actions. The authority should follow the procedures set forth in the affirmative action policy it adopted under Section 1-121 of the General Statutes.</p>
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AUDITORS OF PUBLIC ACCOUNTS

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210 Capitol Avenue
Hartford, Connecticut 06106-1559

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August 1, 2019

AUDITORS' REPORT CONNECTICUT AIRPORT AUTHORITY FISCAL YEARS ENDED JUNE 30, 2014 AND 2015

We have audited certain operations of the Connecticut Airport Authority in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2014, and 2015. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions; including whether the authority has complied with its regulations concerning affirmative action, personnel practices, the purchases of goods and services, the use of surplus funds, and the distribution of loans, grants and other financial assistance, as applicable; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying *Résumé of Operations* is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the authority's management and the state's information systems, and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Airport Authority.

COMMENTS

FOREWORD

The Connecticut Airport Authority (CAA) was established by Public Act 11-84, effective July 1, 2011. The Connecticut Airport Authority operates principally under the provisions of Title 15, Chapter 267b of the General Statutes. Section 15-120bb(a) of the General Statutes names CAA a public instrumentality and political subdivision of the state created for the performance of an essential public and governmental function. Pursuant to Chapter 12, Section 1-120, CAA is classified as a quasi-public agency subject to the requirements found in Chapter 12. As a quasi-public agency, the authority's financial information is included as a component unit in the state's Comprehensive Annual Financial Report.

The Connecticut Airport Authority operates Bradley International Airport and the state's 5 general aviation airports (Danielson, Groton-New London, Hartford-Brainard, Waterbury-Oxford, and Windham). The authority's mission is to provide outstanding airport service and grow the regional economy.

Board of Directors and Administrative Officials

Pursuant to Section 15-120bb(b) of the General Statutes, the Connecticut Airport Authority Board of Directors consists of 11 voting members, of which 3 serve as ex-officio members and 8 are appointed members.

Members of the board as of June 30, 2015, were as follows:

Ex-Officio Members:

Peter B. McAlpine	State Treasurer's Designee
James P. Redeker	Commissioner, Department of Transportation
Catherine H. Smith	Commissioner, Department of Economic and Community Development

Appointed Members:

Robert J. Aronson	
Brett C. Browchuk	
Mary Ellen S. Jones	Chair
Charles R. Gray	
J. Scott Guilmartin	
Karen M. Jarmoc	
Matthew J. Kelly	
Michael T. Long	Vice Chair

In addition, the board has set up several committees and subcommittees to expedite certain CAA business activities and to maintain controls over its transactions. During the audited period, the authority's board had 5 standing committees:

- Bradley Advisory Committee
- Economic Asset Development Committee
- Finance and Operations Committee
- Human Resources and Governance Committee
- Investment Committee

The board appoints the CAA executive director. Kevin Dillon was appointed executive director in June 2012, and served in that capacity throughout the audited period.

Significant Legislation

Noteworthy legislation that took effect during the period under review and thereafter is presented below:

- **Public Act 11-84** established CAA, effective July 1, 2011, to operate Bradley International Airport and the state's 5 general aviation airports. Prior law assigned airport-related powers, duties, and functions to several agencies, most of which were automatically transferred to CAA by the act. However, the Department of Transportation (DOT) retained its responsibilities in this area until they were transferred to CAA by memoranda of

understanding, as of July 1, 2013. The Department of Transportation retained its interests in the Bradley International Airport parking garage, surface parking lots, and parking lease until June 10, 2015.

- **Public Act 14-199** implemented revisions to transportation-related statutes, effective June 12, 2014, including allowing CAA to develop and implement retirement plans and group welfare benefits for the executive director, and requiring the CAA executive director to establish an advisory committee to consult with on matters related to Bradley International Airport.
- **Public Act 15-192** implemented revisions to transportation-related statutes, effective June 7, 2015, requiring the CAA advisory committee to include at least one representative from western Massachusetts, and increasing the executive director's authority to make non-budgeted expenditures of up to \$500,000 without prior board approval.
- **Public Act 16-129**, effective June 6, 2016, amended Section 15-120dd(c) of the General Statutes by allowing the CAA to obtain insurance covering board members, the director, and employees, instead of executing a surety bond for them. The insurance must be equivalent to the bond, issued by an insurer licensed in Connecticut and paid for by the CAA.

RÉSUMÉ OF OPERATIONS

Introduction

The Connecticut Airport Authority was established on July 1, 2011, but no significant transactions occurred until July 1, 2013. At that time, the assets and liabilities of Bradley International Airport (Bradley) and the State of Connecticut's general aviation airports were transferred by memorandum of understanding to CAA, except for those pertaining to the Bradley parking garage, surface parking lots, and parking lease. Effective June 10, 2015, the Department of Transportation (DOT) completed the transfer of the parking garage and surface parking lots at Bradley International Airport to CAA. DOT also assigned CAA all of its rights, title and interest including all of its responsibilities under the Construction, Financing and Operating Special Facility Lease Agreement dated March 1, 2000 and the Guaranty Agreement of Standard Parking Corporation, as of March 1, 2000.

The financial position of CAA as of June 30, 2014 and 2015, per its audited financial statements, is presented below.

Connecticut Airport Authority Statement of Net Position		
Fiscal year Ended June 30,		
	2014	2015
Assets:		
Current and Other Assets	\$ 178,997,000	\$ 193,834,000
Net Capital Assets	275,325,000	266,314,000

Total Assets	454,322,000	460,148,000
Deferred Outflows of Resources		
Interest Rate Swap	19,646,000	19,290,000
Deferred Loss on Bond Refunding	2,122,000	1,999,000
Total Assets and Deferred Outflows of Resources	476,090,000	481,437,000
Liabilities:		
Long-term Debt Outstanding	129,415,000	122,980,000
Other Liabilities	18,064,000	22,737,000
Interest Rate Swap	19,646,000	19,290,000
Net Pension Liability	-	47,576,000
Total Liabilities	167,125,000	212,583,000
Deferred Inflow of Resources:		
Change in Projected Pension Investment Earnings	-	1,699,000
Total Liabilities and Deferred Inflow of Resources	167,125,000	214,282,000
Net Position		
Net Investments in Capital Assets	140,623,000	132,752,000
Restricted	107,243,000	112,023,000
Unrestricted	61,099,000	22,380,000
Adjustment for Net Pension Obligation*	(45,502,000)	-
Total Net Position	263,463,000	267,155,000
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 430,588,000	\$ 481,437,000

* Fiscal year 2013-2014 Net Position is restated in order to reflect the Authority's Net Pension Liability in conjunction with the implementation of GASB 68

Revenue and Expenditures

Connecticut Airport Authority Statement of Revenues, Expenses and Changes in Net Position		
Fiscal year Ended June 30,		
	2014	2015
Operating Revenues		
Landing Fees	\$ 15,759,000	\$ 16,760,000
Airline Terminal Rent	9,938,000	10,021,000
Apron and Remote Aircraft Parking	3,672,000	3,814,000
Auto Parking	10,703,000	10,928,000
Rental Cars	8,695,000	8,783,000
Terminal Concessions	3,946,000	4,001,000
Land rent	4,052,000	4,411,000
Other Concessions	3,271,000	3,272,000
Other Operating Revenue	2,304,000	2,510,000
Total Operating Revenues	62,340,000	64,500,000
Operating Expenses		
Salaries and Related Expenses	20,221,000	19,981,000
Administrative and General	15,148,000	15,923,000
Repairs and Maintenance	6,738,000	7,388,000
Energy and Utilities	5,554,000	5,875,000
Operating Expenses Before Depreciation	47,661,000	49,167,000
Operating Income Before Depreciation	14,679,000	15,333,000
Depreciation and Amortization	16,426,000	15,817,000
Operating Loss	(1,747,000)	(484,000)

Nonoperating Revenues (Expenses)		
Car Rental Facility Charge Revenue	5,191,000	5,515,000
Passenger Facility Charge Revenue	11,738,000	12,248,000
Investment Income	103,000	121,000
Revenue Bond Interest Expense	(5,930,000)	(5,028,000)
Other Non-Operating Expenses	(4,966,000)	(9,955,000)
Actuarial Pension Expense	-	(3,773,000)
Net Nonoperating Revenues (Expenses)	6,136,000	(872,000)
Income Before Capital Contributions	4,389,000	(1,356,000)
Capital Contributions *	304,576,000	5,048,000
Change in Net Position	308,965,000	3,692,000
Total Net Position, Beginning of Year (as restated above)	-	263,463,000
Total Net Position, End of Year	\$ 308,965,000	\$ 267,155,000

* Total capital contributions in the 2014-2015 fiscal year were \$5,048,000, a significant decrease of \$299,527,000 from 2013-2014 fiscal year capital contributions of \$304,575,000. The fiscal year 2013-2014 amount was significantly higher due to the transfer of the Bradley Enterprise Fund from DOT to the CAA. The primary source of the 2014-2015 fiscal year contributed capital is from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP).

Operating revenues for the 2014-2015 fiscal year totaled \$64,500,000, an increase of \$2,160,000 from the previous year. Operating revenues consisted of airline and non-airline sources. The airlines pay rates and charges based on budgeted operating expenditures and debt service allocated to airline cost centers including the landing area, terminal building, and aircraft parking aprons. Non-airline revenues consist of various concessions including parking, rental cars, food and beverage, retail, and advertising.

Operating expenses for the 2014-2015 fiscal year totaled \$64,984,000, an increase of \$897,000 from the previous year. Operating expenses included salaries, contractual services, energy, utilities, and depreciation.

Nonoperating revenues and expenses included Bradley's Passenger Facility Charges, customer facility charges, investment income, revenue bond interest expense, and other expenses.

Overall revenues were slightly higher in the 2014-2015 fiscal year than in the previous year. Overall expenses increased in the 2014-2015 fiscal year due to necessarily airport repairs and maintenance.

Financial Statement Audits

Independent public accountants (IPA) audited the CAA financial statements for the fiscal years under review. Those audits attested that the financial statements presented fairly, in all material respects, the financial position of CAA for the audited period, and the results of its operations and cash flows during that period in conformity with accounting principles generally accepted in the United States of America.

As an integral part of their financial statement audits, the IPA also provided reports on compliance and internal control over financial reporting, which indicated that no material weaknesses in compliance and internal control over financial reporting were identified. However, for the 2014-2015 fiscal year, the IPA reported a deficiency in internal control, noting that the

authority accrued construction costs on projects funded by federal grants, but did not accrue the resulting additional grant revenue and receivables. The authority's management did not believe that the authority was entitled to grant revenue until the allowable costs were paid, but will accrue grant revenue based on allowable costs incurred in the future.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Connecticut Airport Authority disclosed the following finding and recommendation:

Noncompliance with Affirmative Action Policy

Criteria: Section 1-121 of the General Statutes establishes a formal process for the adoption of procedures by quasi-public agencies. Section 15-120dd specifies that the Connecticut Airport Authority is required to adopt written procedures in the manner specified in Section 1-121 for matters including procedures for hiring, dismissing, promoting and compensating authority employees, which must incorporate an affirmative action policy.

The authority's board approved its affirmative action policy on December 20, 2012. Under the policy, the authority must assess the equal employment opportunity and affirmative action efforts and achievements of its managers and employees prior to their promotion or awarding them discretionary salary increases.

Condition: We asked the authority to provide us with documentation evidencing that it completed these assessments, as required by its affirmative action policy. The authority told us that it was not performing the required assessments.

Effect: The authority is legally required to follow the procedures it adopts under Section 1-121 of the General Statutes. As the authority did not perform the assessments required by its affirmative action procedures, it did not meet this statutory obligation.

Cause: The human resource department did not fully implement the affirmative action policy.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Airport Authority should follow the procedures set forth in the affirmative action policy it adopted under Section 1-121 of the General Statutes. (See Recommendation 1.)

Agency Response: "We strongly disagree with the finding that the CAA is not in compliance with its Affirmative Action Policy, as we have implemented the policy in the manner we believe is most practical and effective for the CAA. There is no requirement for a formal written documentation process to be in place in order to complete a specific assessment prior to promotion or pay increase.

CAA managers and employees are reviewed on an annual basis. Bargaining unit employees are evaluated through bargained forms. The CAA has no

control over the forms or the categories which are available for rating. Similarly, the CAA has no control over contractually bargaining salary increases for our bargaining unit staff.

CAA unclassified employees have been evaluated through a CAA-developed form in the past and are now evaluated through an electronic evaluation system. All CAA employees are expected to comply with agency policies, and that is a key component of our regular review process. Any employee with a record of non-compliance with CAA policy is noted in his or her annual performance review.

Nevertheless, we will look at the potential for including this policy more formally in our performance review checklist.”

*Auditors’ Concluding
Comments:*

The affirmative action policy does not call for written documentation of each step. However, we were informed that the authority was not performing the required assessments of the equal employment opportunity and affirmative action efforts and achievements of managers and employees prior to their promotion or the award of discretionary increases. Connecticut Airport Authority administrators do not have the authority to determine which elements of policies approved in accordance with Section 1-121 of the General statutes should be implemented.

RECOMMENDATIONS

Status of Prior Audit Recommendations

The Connecticut Airport Authority is a recently created quasi-public agency; this audit is the first audit since it was created.

Current Audit Recommendations

- 1. The Connecticut Airport Authority should follow the procedures set forth in the affirmative action policy it adopted under Section 1-121 of the General Statutes.**

Comment:

The Connecticut Airport Authority was not evaluating equal employment opportunity and affirmative action efforts and achievements of managers and employees prior to their promotion or the award of discretionary increases as required by the authority's affirmative action policy.

ACKNOWLEDGMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Marcin Baran
James Carroll
Jacob Rocco
Tatsiana Sidarau

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Airport Authority during the course of our examination



Marcin Baran
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor