OVERVIEW

Financial Audit of the Airports Division of the Department of Transportation

Report No. 99-8, February 1999

Summary

The Office of the Auditor and the certified public accounting firm of KPMG Peat Marwick LLP conducted a financial audit of the Airports Division of the Department of Transportation for the fiscal year July 1, 1997 to June 30, 1998. In the opinion of KPMG Peat Marwick LLP, except for the effects of adjustments (if any) resulting from the Year 2000 issues, the financial statements of the division present fairly the financial position and the results of its operations and cash flow for the year ended June 30, 1998 in conformity with generally accepted accounting principles.

We found significant deficiencies in the Airports Division's procurement process including the failure of the division to ensure competition in the contractor selection process for a new multi-million dollar Airports Management Information System (AIRMIS/2000). Also, one of the contracts to develop and implement this computer system may have been improperly procured as a sole source contract. We found other instances where the division did not comply with the Hawaii Public Procurement Code and administrative rules relating to change orders and small purchases.

We also found that the division did not properly plan for the contracted work relating to the AIRMIS/2000 and contract files for this project were not properly maintained.

We found that ineffective controls over lease renewals and renegotiations and untimely actions on delinquent accounts have resulted in improper billings to lessees and potentially uncollectible lease rents of more than $180,000. Furthermore, the division's ability to monitor and collect outstanding receivables of approximately $50 million is hampered because cash receipts are not applied to specific invoices.

Additionally, controls over the millions of dollars of cash receipts are inadequate. Also, the division needs to evaluate and hasten its Year 2000 remediation efforts. Finally, we found that the division has not formalized an agreement to have Duty Free Shoppers Group LP (DFS) fulfill its original lease fee obligation, and controls over federal grant assurances could be improved.

Recommendations and Response

We recommend that the division maintain competition in the selection of contractors, and adhere to the Hawaii Public Procurement Code and related administrative rules. We also recommend that the division adequately plan for contracted work and maintain an adequate filing system.

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We recommend that the division improve its accounts receivable system including its aged accounts receivable ledger. Further, the division needs to enforce collection policies and procedures to minimize past due rents. In addition, the cash receipts function should be properly segregated. We further recommend that the division comply with the State's Year 2000 requirements.

We recommend that the division resolve the delinquent rent from DFS and perform periodic reviews of the bond issuer to ensure that the issuer has the ability to perform under the terms of the concession bond. Finally, we recommend that the division resolve outstanding issues with the U.S. Department of Transportation's Office of the Inspector General, perform thorough reviews of transactions, and maintain closer communications with the Federal Aviation Administration.

The department generally concurs with most of our findings and recommendations. It states that "corrective steps have been initiated or are under discussion." To improve billing and collection practices, the department indicated that it has entered into a contract with the Department of the Attorney General's Civil Recoveries Division to aggressively pursue delinquent accounts. Further, the department stated that the AIRMIS/2000 computer system is anticipated to improve the deficiencies with the aged accounts receivable ledger and will work on segregating the duties over cash receipts. The department acknowledged on-going negotiations with Duty Free Shoppers regarding delinquent rent and promises to review transactions more thoroughly to ensure compliance with grant assurances.

The department disagrees with the finding that the lack of competition in "the contractor selection process may have violated the Hawaii Public Procurement Code." We disagree. This finding did not identify the contractor selection process as violating the Hawaii Public Procurement Code, rather the issue was the division's failure to protect State resources by limiting its contractor selection.

The department also defends its sole source contract with IBM stating that "the current contractor that began the AIRMIS 2000 analysis project, already possessed the background knowledge needed to quickly complete the financial management analysis phase." We disagree with this reasoning. Other contractors could have performed the required assessment for a financial reporting system and provided alternatives for its construction and delivery.

Finally, the department disagrees with our finding that the division has not developed a comprehensive Year 2000 project plan. While we recognize that the division has taken some steps toward Year 2000 compliance, it has yet to complete all critical elements to ensure compliance.

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