

Office of the Auditor General
Performance Audit Report

Office of Aeronautics
Michigan Department of Transportation

April 2017

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Performance Audit

Office of Aeronautics (OA)

Michigan Department of Transportation

Report Number:
591-0190-16

Released:
April 2017

OA's mission is to develop and preserve a safe, high-quality Statewide air transportation system. OA facilitates continuous capital improvement at the State's airports by providing project management for the programming, planning, design, safety evaluation, and construction of airport projects. Also, OA inspects airports and flight schools; monitors airport weather devices; and licenses or registers airports, flight schools, aircraft, and aircraft dealers. OA expended \$87.8 million for fiscal year 2015 and had 45 employees as of July 8, 2016.

Audit Objective			Conclusion
Objective #1: To assess the sufficiency of OA's oversight of the Airport Capital Improvement Program.			Sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.		Not applicable.	

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of OA's administration of safety and education programs, air transportation services, and organizational functions.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.		Not applicable.	
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Michigan's aircraft registration fees are the second lowest among six Midwestern states and have not been revised since 1945 (Observation #1).			Not applicable for observations.

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Doug A. Ringler, CPA, CIA
Auditor General

April 20, 2017

Mr. Todd Wyett, Chair
State Transportation Commission
and
Mr. Russell A. Kavalhuna, Chair
Michigan Aeronautics Commission
and
Kirk T. Steudle, PE, Director
Michigan Department of Transportation
Murray D. Van Wagoner Building
Lansing, Michigan

Dear Mr. Wyett, Mr. Kavalhuna, and Mr. Steudle:

I am pleased to provide this performance audit report on the Office of Aeronautics, Michigan Department of Transportation.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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OFFICE OF AERONAUTICS

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

OVERSIGHT OF THE AIRPORT CAPITAL IMPROVEMENT PROGRAM (ACIP)

BACKGROUND

The Office of Aeronautics (OA) administers ACIP. OA works with licensed Michigan airports to develop each airport's five-year capital improvement plan and monitors the completion of and provides project management and accounting services for approved capital improvement projects. Projects are funded through State or federal grants and require a local match. Since October 2013, OA facilitated ACIP assistance to 75 licensed Michigan airports.

ACIP project expenditures were:

Fiscal Year	Number of Projects	Expenditures			
		Federal	State	Local	Total
2014	194	\$73,789,922	\$4,622,740	\$13,571,917	\$91,984,579
2015	168	\$73,453,716	\$1,530,217	\$6,872,235	\$81,856,168

AUDIT OBJECTIVE

To assess the sufficiency of OA's oversight of ACIP.

CONCLUSION

Sufficient.

FACTORS IMPACTING CONCLUSION

- OA's comprehensive process to assist airports in identifying and prioritizing eligible capital improvement projects in a timely manner helped to maximize federal funding.
- OA approved, monitored, processed invoices for, and closed the 10 projects reviewed in a timely manner.
- The Federal Aviation Administration's (FAA's) annual audits during 2014 and 2015 concluded that OA's grant management process was followed for the 10 airports audited each year.

ADMINISTRATION OF SAFETY AND EDUCATION PROGRAMS, AIR TRANSPORTATION SERVICES, AND ORGANIZATIONAL FUNCTIONS

BACKGROUND

OA provides various aeronautical services to airports, pilots, the general public, and State government operations, including:

- Licensing airports, flight schools*, and aircraft dealers*.
- Registering aircraft.
- Inspecting airports and flight schools.
- Offering pilot safety and education seminars.
- Monitoring and maintaining the 41 automated weather observing stations (AWOS) weather devices at airports located throughout the State.
- Operating and maintaining four aircraft for State business purposes and one aircraft for OA's purposes.

AUDIT OBJECTIVE

To assess the effectiveness* of OA's administration of safety and education programs, air transportation services, and organizational functions.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- OA conducted triennial inspections of the 233 licensed airports and the 70 licensed flight schools during fiscal years 2014, 2015, and 2016.
- OA managed the annual licensure of approximately 140 aircraft dealers.
- OA processed 6,815, 7,035, and 6,874 aircraft registrations in fiscal years 2014, 2015, and 2016, respectively.
- OA conducted 28 pilot safety and education seminars from October 2013 through May 2016, with an average attendance of 33 participants.
- OA continuously monitored the 41 AWOS weather devices in the State and triennially inspected and properly maintained repair logs for the five devices reviewed.

* See glossary at end of report for definition.

- OA operated 577 and 556 flights during fiscal years 2014 and 2015, respectively, utilizing each of the four business-use aircraft every 1.5 to 2.1 business days. Also, OA turned down 59 and 54 flight requests, respectively, because of maintenance, scheduling conflicts, or unavailable crew.
- OA completed and properly documented the required routine maintenance for the three State aircraft reviewed.
- OA analyzed air transportation service costs and updated its air transportation service fees on an annual basis. OA recouped 82.5% and 97.5% of its air transportation service costs for fiscal years 2014 and 2015, respectively.

OBSERVATION #1

Michigan's aircraft registration fees second lowest among six Midwestern states.

Michigan's aircraft registration fees have not been revised since enacted in 1945.

Michigan's annual aircraft registration fee was established under Public Act 327 of 1945 at \$.01 per pound of the aircraft. The Act indicates that the registration fee is in lieu of all general or local property taxes on the aircraft and requires all aircraft tied down, moored, hangered, or based within the State to be registered annually.

We obtained aircraft registration, fee structure, and revenue collection data for Michigan and five other Midwestern states for fiscal year 2015. Although the six states utilized four different fee structures, Michigan's fee structure resulted in having the second lowest average aircraft registration fee as follows:

Aircraft Registration Fees by Midwestern State
Fiscal Year 2015

<u>State</u>	<u>Fee Structure Method</u>	<u>Average Fee¹</u>	<u>Number Registered</u>	<u>Revenue Collected</u>
Illinois	\$20.00 flat fee every two years, prorated.	\$ 11.89	9,017	\$107,240
Michigan	\$.01 per pound of the aircraft, annually.	\$ 35.16	7,035	\$247,370
Ohio	\$15.00 per seat, annually.	\$ 54.82	7,366	\$403,830
Indiana	\$10.00 flat fee plus \$0.005 to \$0.09 per pound depending on age and class of aircraft, annually.	\$109.13	5,622	\$645,000
Wisconsin	\$30.00 to \$3,125 fee using a tax table by weight of aircraft, annually.	\$125.00	4,000 ²	\$500,000 ²
Minnesota	\$100 for aircraft under \$500,000 MSRP ³ and up to \$75,000 for aircraft over \$40,000,000 MSRP, annually.	\$531.55	6,863	\$3,648,000

¹Based on revenue collected and number of registered aircraft.

²Estimates provided by the Bureau of Aeronautics, Wisconsin Department of Transportation.

³MSRP - manufacturer's suggested retail price.

AGENCY DESCRIPTION

OA operates under the Michigan Aeronautics Commission, established under Public Act 327 of 1945 (Sections 259.1 - 259.208 of the *Michigan Compiled Laws*). The Aeronautics Commission is responsible for the general supervision of all aeronautics in the State and, in doing so, is empowered to make rules and regulations governing all airports, flight schools, and other aeronautical activities. OA is responsible for implementing and enforcing these rules and regulations.

The mission* of OA is to develop and preserve a safe, high-quality Statewide air transportation system. OA facilitates continuous capital improvement at the State's airports by providing project management for the programming, planning, design, safety evaluation, and construction of airport projects.

OA expended \$87.8 million for fiscal year 2015 (86% funded by FAA and 14% funded by State aviation fuel taxes and other various fees). As of July 8, 2016, OA had 45 employees.

* See glossary at end of report for definition.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the operations, records, and processes of OA. We conducted this performance audit* 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, and quality assurance, generally covered October 1, 2013 through August 31, 2016.

METHODOLOGY

We conducted a preliminary survey of OA to formulate a basis for establishing our audit scope and methodology. During our preliminary survey, we:

- Reviewed applicable laws, rules, regulations, policies, and guidance documents.
- Interviewed OA management and staff to obtain an understanding of their responsibilities and processes.
- Reviewed OA's Airport Loan Program reports for fiscal years 2014 and 2015.
- Reviewed OA's hangar rental agreement with the Department of Military and Veterans Affairs.
- Verified OA's financial reports to the State's accounting records.

OBJECTIVE #1

To assess the sufficiency of OA's oversight of ACIP.

To accomplish this objective, we:

- Interviewed OA personnel and documented the processes and procedures used in administering ACIP.
- Reviewed the five-year plans for 5 judgmentally selected airports for fiscal year 2016.
- Reviewed project files for 10 ACIP projects for Commission approval, invoice review, and timely repayment and closure. We judgmentally selected the

* See glossary at end of report for definition.

projects based on the increased risks associated with extended project closeout dates and higher costs; therefore, we could not project our results to the entire population.

- Reviewed FAA's 2014 and 2015 audits of OA's grant management process.

OBJECTIVE #2

To assess the effectiveness of OA's administration of safety and education programs, air transportation services, and organizational functions.

To accomplish this objective, we:

- Reviewed OA's inspection and licensure records of all public-use airports.
- Verified that the State's airports with provisional licenses were properly monitored.
- Obtained OA's AWOS inspection summary and verified the inspections and maintenance logs of 5 judgmentally selected AWOS weather devices.
- Reviewed OA's aircraft registration process.
- Reviewed OA's records related to the pilot safety and education seminars conducted.
- Reviewed OA's listings of aircraft dealers and flight schools licensed for fiscal years 2015 and 2016.
- Conducted Internet research for active flight school and aircraft dealer businesses.
- Reviewed time sheets, flight logs, and overtime charges for three OA employees. We judgmentally selected the employees based on the amount of overtime charged; therefore, we could not project our results to the entire population.
- Reviewed OA's pilot and fleet utilization.
- Obtained aircraft registration, fee structure, and revenue collection data for Michigan and five other Midwestern states.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions*.

* See glossary at end of report for definition.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Not applicable.

PRIOR AUDIT FOLLOW-UP

Following is the status of the reported findings from our January 2012 performance audit of the Office of Aeronautics, Michigan Department of Transportation (591-0190-11):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Flight School Licensing and Inspection	Complied	Not applicable
2	State Reporting Requirements	Complied	Not applicable
3	Airport Provisional Licenses	Complied	Not applicable
4	Communication of Known Airport Deficiencies to Pilots	No longer applicable.	

GLOSSARY OF ABBREVIATIONS AND TERMS

ACIP	Airport Capital Improvement Program.
aircraft dealer	A person engaged in the business of purchasing, selling, brokering, exchanging, or dealing in aircraft parts or in aircraft of a type required to be registered.
AWOS	automated weather observing station.
effectiveness	Success in achieving mission and goals.
FAA	Federal Aviation Administration.
flight school	Any person providing or offering to provide flight training leading to pilot or flight instructor certification, for hire or compensation, and engaged in advertising or calling oneself a flight school or the equivalent to a flight school or hiring, contracting or otherwise using one or more flight instructors.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
mission	The main purpose of a program or an entity or the reason that the program or the agency was established.
OA	Office of Aeronautics.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.



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