



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report-Issued January 11, 2013

Massachusetts Port Authority

For the period July 1, 2008 through June 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Massachusetts Port Authority (MassPort) is an independent public authority created by Chapter 465 of the Acts of 1956, as amended. MassPort owns and operates the Boston Logan International Airport, the Lawrence G. Hanscom Field, the Worcester Regional Airport, and the facilities comprising the Port of Boston. The Port of Boston facilities consist primarily of piers, buildings, and land located in several of the city's neighborhoods, including Boston proper, South Boston, East Boston, and Charlestown.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor conducted an audit of MassPort for the period July 1, 2008 through June 30, 2011. The objectives of this audit were to assess the adequacy of MassPort's internal controls over its administrative costs and expenses, property management and revenues, consultant services and homeland security procurements and expenditures and to conduct testing in these areas to assess MassPort's compliance with applicable laws, regulations, and its own internal policies and procedures.

Based on our audit, we have concluded that for the period July 1, 2008 through June 30, 2011, MassPort maintained adequate internal controls and complied with applicable laws, regulations, and its own internal policies and procedures in the areas reviewed.

OVERVIEW OF AUDITED AGENCY

The Massachusetts Port Authority (MassPort) is an independent public authority created by Chapter 465 of the Acts of 1956 of the Massachusetts General Laws, as amended. MassPort owns and operates the Boston Logan International Airport, the Lawrence G. Hanscom Field, the Worcester Regional Airport and the facilities comprising the Port of Boston. The Port of Boston facilities consist primarily of piers, buildings, and land located in several of the city's neighborhoods, including Boston proper, South Boston, East Boston, and Charlestown. MassPort continues to implement several short-term and long-term development programs to revitalize the Port of Boston and thereby stimulate economic development for Massachusetts and the surrounding region.

MassPort is governed by a Board of Directors whose seven members serve without compensation. Six of the members are appointed to seven-year terms by the Governor of Massachusetts, and the seventh member is the Massachusetts Secretary of Transportation. An Executive Director, who is appointed by and reports directly to the board, carries out MassPort's day-to-day management.

MassPort's business consists of two distinct operating departments: Aviation and the Port. During fiscal year 2011, MassPort generated approximately \$537.6 million in operating revenues from these departments, which represented an increase of \$9.7 million, or 1.8%, compared to fiscal year 2010. Its total operating expenses during fiscal year 2011 were approximately \$524.3 million, an increase of \$16.8 million, or 3.3%, from fiscal year 2010.

MassPort has no taxing power and is not taxpayer-funded. It uses revenues from landing fees, parking fees, fees from terminals and other rentals, revenues from concessions, ground rents, and other fees and charges to fund its operating expenses. It funds its capital programs with bonds secured solely with these revenues. MassPort also funds its capital expenditures with sources of revenues such as federal grants, passenger facility charges (PFCs), and customer facility charges (CFCs).

Passenger Facility Charges

The Aviation Safety and Capacity Expansion Act of 1990 authorized certain airports to collect PFCs to fund projects that preserve or enhance airport capacity, security, and safety; mitigate aircraft noise; and enhance airline competition. Effective October 1, 2005, MassPort received approval from the Federal Aviation Administration to increase its PFC to \$4.50 for each passenger boarded at

MassPort-operated airports.¹ MassPort collected approximately \$58.5 million in PFCs for the fiscal year that ended June 30, 2011, and since its inception it has collected approximately \$1.3 billion in PFCs.

Customer Facility Charges

CFCs are collected by rental car companies from customers. In fiscal year 2009, MassPort instituted a CFC of \$4.00 per day for car rentals on all cars that originate from Logan Airport. Effective December 2009, the CFC was increased to \$6.00 per day. CFC proceeds are being used to evaluate, design, and construct a consolidated rental car facility (ConRAC). During fiscal year 2011, MassPort issued \$214.1 million in CFC-backed Special Facility Revenue Bonds to further the design and construction of the ConRAC. Construction began in the fall of 2011 and is expected to be completed in 2013. MassPort collected approximately \$26.2 million in CFCs for the fiscal year ended June 30, 2011, and since its inception MassPort has collected approximately \$46.9 million in CFCs.

Fiscal Year 2010 – 2014 Capital Program

On May 20, 2010, MassPort's Board approved its capital program for fiscal years 2010 through 2014, which represents a comprehensive and coordinated capital improvement and financial master plan for all MassPort facilities. The capital program dedicates \$1.1 billion to fund further security initiatives, terminal and airfield improvements, and the financing of ConRAC.

Capital Financing and Debt Management

As of June 30, 2010, MassPort's outstanding debt obligations totaled approximately \$1.4 billion. This debt comprised a series of revenue bonds to finance portions of its capital program. In addition, in prior years, MassPort has defeased (redeemed) certain bonds by placing the proceeds of new bonds in an irrevocable trust with the trustee for such bonds to provide for all future debt service payments on the old bonds. As of June 30, 2011, the balances for those defeased bonds totaled \$51.7 million.

Payments in Lieu of Taxes

Although MassPort is a tax-exempt entity under the laws of the Commonwealth, it has agreed to make payments in lieu of taxes (PILOT) to the City of Boston and the Town of Winthrop. During fiscal year 2011, MassPort made PILOT payments of approximately \$17.3 million. The payments

¹ This fee is included in the Taxes & Fees section of every ticket.

represent a decrease from PILOT payments made in fiscal years 2009 and 2010, and are a result of the Transportation Reform Act of 2010, which transferred ownership of the Tobin Bridge (and the related PILOT obligations to the City of Chelsea) from MassPort to the Massachusetts Department of Transportation.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of the Massachusetts Port Authority (MassPort) for the period July 1, 2008 through June 30, 2011. The scope of our audit was to review the adequacy of MassPort's management controls over administrative costs and expenses, property management and revenues, consultant services, and homeland security procurements and expenditures.

We conducted this 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 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.

Our audit objectives were to:

- Review and evaluate the adequacy of MassPort's internal controls over its administrative expenses, and test a sample of administrative expenditures, including payroll, travel, conferences, and credit card charges to determine whether these costs were allowable, appropriate, and reasonable.
- Examine a sample of consultant contracts that were in effect during our audit period to determine their reasonableness and relevance to MassPort's mission.
- Review and evaluate MassPort's procedures for establishing lease and rental rates, determine whether its current rates are adequate and appropriate, and determine whether MassPort is collecting all rental income to which it is entitled on a timely basis.
- Review MassPort's automobile use policies and determine whether these policies are effective and adequately monitored to prevent abuses, identify the number of vehicles owned or leased by MassPort, and test vehicle usage records to assess compliance with MassPort's vehicle use policies.
- Review homeland security expenditures and procurement activities to determine whether federal grants are being used efficiently and effectively, for the purposes intended, and in compliance with federal grant requirements.

To achieve our objectives, we examined MassPort's accounting records and other related documents and interviewed MassPort officials and personnel. We reviewed MassPort's policies and procedures governing administrative expenses, consultant services, and property management and tested selected transactions using judgmental and other sampling methods to determine the adequacy and

effectiveness of MassPort's internal controls. We examined and tested MassPort's vehicle procurement, maintenance, and use procedures and records. We reviewed reports prepared by MassPort's public accounting firm on MassPort's internal controls and financial statements for the fiscal years 2009 through 2011. We also reviewed MassPort's compliance with applicable laws, rules, and regulations relative to FAA regulations governing fees and charges. In addition, we relied on MassPort's Internal Audit Department's work in some areas related to our audit objectives after thorough consideration of its competence and independence in order to perform this audit more efficiently, effectively, and with minimal duplication of effort.

Based on our audit, we have concluded that, for the period July 1, 2008 through June 30, 2011, MassPort maintained adequate internal controls and complied with applicable laws, regulations, and its own internal policies and procedures in the areas reviewed.

APPENDIX

MassPort Board Members as of February 2012

Sec. Richard Davey, Chairman

Michael Angelini

Douglas Husid

L. Duane Jackson

Sean M. O'Brien

Fred Mulligan

Kathryn West