

Metropolitan King County Council

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MANAGEMENT LETTER

DATE: November 15, 1999

TO: Metropolitan King County Councilmembers

VIA: Don Eklund, County Auditor

FROM: Makoto (Mac) Fletcher, Principal Financial Auditor

SUBJECT: Special Study of Airport Accounting Practices

Introduction and Background

The review of King County International Airport (the "Airport") accounting practices was mandated by a proviso in the 1999 Budget Ordinance (No. 13340) and subsequently included in the 1999 Auditor's office work program. The budget proviso directed Airport management to work with the county auditor to "... review the current accounting practices ... to ensure that they meet established standards and procedures and that they allow for an accurate assessment of the financial transactions and conditions of the airport fund(s) ..." Another relevant proviso directed Airport management to "... develop an accurate financial history that covers the period from 1992 through 1998 and a financial plan for the period from 1999 through 2001 ..."

The Council became concerned about Airport accounting practices because Airport staff could not prepare consistent financial data upon request during the course of the public hearings for the Noise Reduction work plan and in an early phase of the 1999 budget process. The primary concern revolved around the lack of consistent presentation of the Airport's fund balance. Airport staff derived different beginning fund balances and varying financial results of airport operations, both of which led to substantially different estimated current fund balances each time the staff was requested to present the Airport financial condition. These variances consequently led the Council to question the adequacy of Airport accounting practices to accurately record and present the result of financial transactions.

General Conclusion

At the time, the Airport had a key financial position vacancy which led to a lack of expertise to derive financial data from existing accounting records in a consistent manner. However, the vacancy has been filled since mid-1998, and based on audit staff review, the current accounting practices of the Airport meet established standards and procedures and are adequate to allow for an accurate assessment of financial transactions and the condition of the airport funds.

Auditor's Review and Findings

Audit staff review and analyses were based on interviews and review of documents and materials furnished by Council staff, the Airport, the State Auditor's Office, and data obtained from county financial records.

1. A consistent procedure to determine the fund balance was not used. However, subsequent staffing and procedural enhancements have resolved the issue.

The varying fund balances calculated by Airport staff during the course of the aforementioned work plan and budget processes resulted from a failure to use a consistent methodology to determine the beginning fund balance and the financial results of Airport operations. Because of the vacancy in the finance manager position from March to July 1998, other Airport staff, including finance staff, were apparently not aware of the requirements for calculating the fund's beginning balance and the actual and estimated results of the fund's operations.

According to the "Quarterly Report Instructions" for non-CX (non-Current Expense) agency financial plans prepared by the Budget Office, beginning fund balances for enterprise funds such as the Airport fund, are calculated on the basis of "Adjusted Working Capital." This requires analyses of the most recent Comprehensive Annual Financial Report (CAFR) to determine working capital, which is current assets less current liabilities. This figure is then adjusted for "assets not readily available," such as inventory of supplies and "ongoing liabilities for which funds have been reappropriated in the current year," such as capital leases payable, to arrive at the adjusted working capital basis for the fund's beginning balance. Similarly, the financial results of enterprise operations are derived by analyzing available documentation, such as the "fourteenth month balance sheet" and prior year(s) adopted revenues and expenditures.

The new Airport Finance/Budget Manager, with the assistance of Department of Finance Accounting Services and the Budget Office, reviewed and analyzed airport accounting records and procedures to prepare the financial plan. This was summarized as the Airport Financial Plan Worksheet (Exhibit 1) to verify and present the Airport's financial history for fund balances since 1990. Subsequently, based on this worksheet, the "1999 Airport Financial Plan" (Exhibit 2) was prepared.

Audit staff reviewed the financial plan and the related worksheet. We also reviewed some of the underlying details of the financial data used to prepare the plan and the worksheet, such as working capital figures from the CAFR and budget data. Based on our review, the 1999 Financial Plan was prepared in accordance with existing Budget Office instructions using accurate underlying data. Moreover, the Airport has now documented the procedure to prepare financial plan data, including the beginning fund balance and the financial results of Airport operations so that Airport staff can consistently and accurately prepare such requested information.

2. Current Airport accounting practices meet established standards and procedures.

The Airport Division was one of the county agencies selected by the State Auditor's Office (SAO) in its routine audit of King County's 1998 annual report. The SAO reviewed the Airport's financial and administrative internal controls over key accounting procedures. Accordingly, their review focused on such key procedures as payroll and accounts payable/disbursements and major revenue, such as leases.

County auditor staff met with the lead SAO staff on the Airport audit and discussed the State Auditor's Office audit procedures and findings. While minor procedural enhancements were noted and referred to Airport management for corrective action, SAO indicated that the result of its overall review disclosed no material weaknesses in the Airports accounting procedures that may lead to material misstatement of the Airport's financial condition. Additionally, county audit staff met with Airport management to review and discuss Airport accounting practices and certain items noted in audit staff review of the Airport's 1998 accounting records. The result of this review, also, did not disclose any instances of material departure from established accounting procedures and practices.

Accordingly, it is the opinion of audit staff that current accounting procedures and practices and those existing throughout 1998 met established standards and practices and were adequate to allow for an accurate assessment of financial transactions and the condition of airport fund(s).

If you have any questions, please contact Don Eklund at 296-0382 or Mac Fletcher at 296-0379.

cc: Ron Sims, County Executive
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**EXHIBIT 1
AIRPORT FINANCIAL PLAN WORKSHEET**

AIRPORT FINANCIAL PLAN WORKSHEET

CAFR	1990	1991	1992	1993	1994	1995	1996	1997
Total current assets	7,228,320	8,739,981	9,742,626	10,683,735	10,792,082	11,893,809	11,026,186	15,183,235
Inventory of supplies	(65,757)	(66,069)	(77,993)	(73,877)	(100,511)	(117,894)	(134,690)	(147,946)
Prepaid debt service	(269,936)	(249,112)	(228,680)					
Total current liabilities	(1,161,038)	(687,554)	(820,418)	(1,332,584)	(948,507)	(894,170)	(1,776,771)	(1,725,499)
Estimated claim settlements								77,912
GO bonds payable	591,299	354,978	375,207	386,854	396,739	421,448	83,221	86,889
Interest payable	15,374	11,413	9,900	6,591	8,932	17,209	14,518	12,835
Customer deposit	(123,793)	(115,202)	(116,038)	(119,631)	(123,209)	(114,286)	(117,151)	(162,479)
CIP Assets and Liabilities reported as current in CAFR								
Fund 795003380 Accounts payable							936,521	
Fund 000003380 Accounts payable							138,160	
Fund 000003380 Due from other funds							(37,094)	
Fund 000003380 Due to other funds							20,955	
Designated for Unrealized gains								(130,155)
Working Capital	6,214,469	7,988,435	8,884,604	9,551,088	10,025,526	11,206,116	10,153,855	13,194,792
Beginning Working Capital		6,214,469	7,988,435	8,884,604	9,551,088	10,025,526	11,206,116	10,153,855
Budgetary basis revenues		5,933,521	6,679,713	6,955,084	6,932,686	7,640,788	8,102,470	8,709,367
Post-closing adjustment							138,061	
Fund 338 to 429 FAA Grant Adjustment (TC34 9704114)								522,058
Budgetary basis expenditures		(5,531,777)	(5,783,546)	(6,283,990)	(6,449,780)	(6,451,262)	(9,360,229)	(6,151,815)
1995 GL513204 posted GAAP basis interest accrual adjustment to Fund 00000429 in error.						(8,932)		
Unidentified variance in CAFR Airport Operating Fund Balance Sheet and Operating Statements							67,436	
Unidentified variance in CAFR Airport Operating Fund Balance Sheet and Operating Statements								28,442
GASB 31 Prior Period Adjustment								63,040
Designated for Unrealized gains								(130,155)
		6,616,213	8,884,602	9,555,698	10,033,994	11,206,121	10,153,854	13,194,792
Out-of-balance Balance Sheet vs. Budgetary Basis Rev. & Exp.**		1,372,222	2	(4,610)	(8,468)	(5)	0	0

Footnotes

** Difference in 1991 represents a probable misclassification of Accounts in 1990, succeeding years 1992 through 1995 show a difference as well but the difference is deemed to not be material. Years 1996 and 1997 however show a full reconciliation and shows an accurate picture of the Fund balance

EXHIBIT 2

AIRPORT FINANCIAL PLAN

AIRPORT FINANCIAL PLAN

	1997 Actual	1998 Adopted	1998 Estimated	1999 Proposed	2000 Estimated ³	2001 Estimated ⁴
Beginning Fund Balance	\$10,153,855	\$11,685,750	\$13,194,792	\$5,122,449	\$3,305,882	\$3,474,258
Revenues						
* Operating	8,709,367	8,413,158	8,413,158	9,508,918	9,794,186	10,088,011
* CX Transfer		130,000	137,500	67,500	69,525	71,611
* FAA Grants	522,058			200,000	200,000	200,000
* Other Financing Sources				100,000	103,000	106,090
Total Revenues	\$9,231,425	\$8,543,158	\$8,550,658	\$9,876,418	\$10,166,711	\$10,465,712
Expenditures						
* Operating	(6,151,815)	(7,830,207)	(7,889,261)	(8,444,985)	(8,698,335)	(8,959,285)
* Transfer to Capital Fund ⁵		(2,733,740)	(8,733,740)	(3,248,000)	(1,300,000)	(238,952)
Total Expenditures	(\$6,151,815)	(\$10,563,947)	(\$16,623,001)	(\$11,692,985)	(\$9,998,335)	(\$9,198,237)
Estimated Underexpenditures						
Other Fund Transactions						
* Miscellaneous Financial Adjustments	28,442					
* GASB 31 Prior Period Adjustment	63,040					
* Designated for Unrealized Gains	(130,155)					
Total Other Fund Transactions	(\$38,673)	\$0	\$0	\$0	\$0	\$0
Ending Fund Balance	\$13,194,792	\$9,664,961	\$5,122,449	\$3,305,882	\$3,474,258	\$4,741,733
Less: Reserves & Designations						
* Museum of Flight Loan ¹	(2,088,450)	(2,136,000)	(2,037,750)	(1,983,780)	(1,926,328)	(1,865,170)
* Balance in CIP Transfer Account		(566,122)	(566,122)			
Total Reserves & Designations	(\$2,088,450)	(\$2,702,122)	(\$2,603,872)	(\$1,983,780)	(\$1,926,328)	(\$1,865,170)
Ending Undesignated Fund Balance	\$11,106,342	\$6,962,839	\$2,518,577	\$1,322,102	\$1,547,930	\$2,876,563
Target Fund Balance²	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000

Financial Plan Notes:

- ¹Funds not available for use
- ²Target Fund Balance based on internal policy
- ³2000 Projected Numbers are based upon a 3% increase over 1999.
- ⁴2001 Projected Numbers are based upon a 3% increase over 2000.
- ⁵The CIP transfer in 2000 & 2001 is based upon the Airport's 6-year CIP planned expenditures.