The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Transportation, Division of Aeronautics for the period of July 1, 2004 to April 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
July 3, 2007
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Department of Transportation  
Division of Aeronautics

**Scope**

We have completed an audit of the Department of Transportation (DOT), Division of Aeronautics for the period July 1, 2004 to April 30, 2007. Our audit included grant expenditures related to general aviation airports and revenue from aeronautical license fees, operator management fees and rents. These activities were accounted for in the General Fund and the Special Transportation Fund. Our audit did not include revenues from aeronautical fuel tax which is collected by the Department of the Treasury, Division of Revenue.

The mission of the Division of Aeronautics is to administer the airport development and aviation safety programs under the New Jersey Airport Safety Act of 1983; manage the Airport Safety and Zoning program under the Airport Safety and Zoning Act of 1983; license and inspect all aeronautical facilities in the state; conduct aviation education and safety awareness programs; and maintain regional liaison programs for municipalities, residents, and the aviation community. Fiscal Year 2006 grant expenditures were $13 million and revenues collected by the Division of Aeronautics from aeronautical license fees, operator management fees and rents were $112,000.

**Objectives**

The objectives of our audit were to determine whether the grant expenditures related to general aviation airports and the revenue from aeronautical license fees, operator management fees and rents were related to the programs, were reasonable, and were recorded properly in the state's accounting system.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.
Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Office of Management and Budget, and policies and procedures of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and the internal controls.

A non-statistical sampling approach was used. Our samples of the specific financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were sorted and transactions were judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the programs, were reasonable, and were recorded properly in the state’s accounting system. In making this determination, we noted certain internal control weaknesses and contract compliance issues meriting management’s attention.
CONTRACT COMPLIANCE

DOT owns the Greenwood Lake Airport and the South Jersey Regional Airport and has entered into separate contracts with the same management company to operate and maintain both of these airports. The Division of Aeronautics (division) is responsible for monitoring the contracts, and collecting and processing receipts. During our review we found that the division had new management personnel in place and they were not aware of the contract requirements and as a result they could not ensure the accuracy and appropriateness of the receipts collected. Revenue collected by the division includes aeronautical license fees, monthly operator fees and rental payments for farm land. For our audit period, the revenue collected and processed by the division was $364,000.

The contract for Greenwood Lake Airport requires monthly payments of $3,000 plus an annual Consumer Price Index (CPI) adjustment to be paid to the division. Payments are due by the 5th business day of the month. In addition, the management company is required to submit an annual payment of four percent of gross revenue greater than $150,000, excluding fuel sales. Our review disclosed:

- Monthly payments during the audited period were remitted two months late.
- The CPI adjustments for calendar years 2006 and 2007 totaling $3,759 were not paid.
- For calendar year 2005, the annual four percent of gross revenue payment, totaling $3,345, was paid eight months late after we brought it to management’s attention. The division has not received this payment for calendar year 2006.
which was due April 15, 2007.

- Audited financial statements have not been submitted as required by the contract.

The South Jersey Regional Airport contract requires a monthly payment of 15 percent of gross revenue collected, excluding fuel sales. The division also has a separate lease agreement for the rental of farm land at the South Jersey Regional Airport. The farm land agreement requires an annual payment of $15,000 and an annual CPI adjustment plus one percent to be paid at the beginning of each calendar year on January 15th. We noted the following weaknesses:

- The division was unaware that the monthly payments for February, March, and April 2006 were not paid. A payment of $16,202 for these months was received as a result of bringing this issue to management’s attention.

- The monthly payments for February 2007 through April 2007 have not been paid, totaling approximately $15,874. The January 2007 payment of $5,178 was not received until April 20, 2007.

- The annual rent on the farm land plus adjustments has not been paid for calendar years 2004 and 2007, totaling $31,864. For calendar year 2005, the farm rent was paid but the adjustments, totaling $1,271, were not paid. The 2006 payment of $15,000 was not received until April 26, 2007 and did not include the adjustments of $1,928. The collection of farm rent was also the result of this being brought to management’s attention.

In addition, a museum is renting space at the South Jersey Regional Airport and has not paid rent to the management company since April 2005. The division’s share of the monthly rent is $750.

As of the close of our fieldwork, the division and the Department of the Treasury, Purchase
Bureau, were in the process of preparing a Request for Proposal for the South Jersey Regional Airport. The current contract ends June 30, 2007.

We also found that gross receipts reported by the management company of the state-owned airports have not been reviewed by the division for accuracy. The division does not have written policies and procedures for the collection of revenues, does not restrictively endorse checks upon receipt and does not perform reconciliations of revenues received.

**Recommendation**

We recommend that the division personnel familiarize themselves with the terms of the contracts which would provide them with the guidance they need to monitor the payments and annual submissions. We also recommend that the division perform periodic site visits to verify the accuracy and reasonableness of the gross revenue for the South Jersey Regional Airport until the new contract is in place which will require audited financial statements to be submitted annually.

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**GRANTS**

The Airport Safety Fund grant program was established by the New Jersey Safety Act of 1983 to promote aviation safety, education, and aeronautics, and to preserve and rehabilitate the State general aviation airport system. For fiscal year 2007, $7 million was appropriated from the Special Transportation Fund for grants awarded through the airport safety program.

For fiscal year 2007, the division received requests for over $17 million for airport safety improvement and preventive maintenance projects. The division project selection committee, which included inspectors and engineers, convened to review the merits of each requested project. The projects were evaluated
based on the criteria used for the Federal Aviation Block Grant Program and then ranked by total score. The criteria included: safety, airport safety plan recommendations, preventive maintenance, and airport inspection reports. Other factors were taken into consideration by the project selection committee, such as funding awarded to a facility in previous and/or current years and potential change in ownership in determining the final adjusted ranking. Upon the completion of the selection process a proposed project plan was developed and submitted to the Commissioner of DOT for final approval.

Our review disclosed the division does not have formal written policies and procedures in place regarding the number of members and who should be on the project selection committee, the criteria used for the grant selection or the division’s monitoring of the Airport Safety Fund grant program. The absence of policies and procedures could result in a lack of clear guidance on how to select, manage and monitor the grant program.

**Recommendation**

We recommend that the division develop written policies and procedures to govern the Airport Safety Fund grant program and ensure that such policies are in accordance with applicable state regulations. The policies and procedures should identify the members of the project selection committee, the criteria used for the grant selection, and the division’s monitoring responsibility.
TO: Richard L. Fair  
State Auditor  
Office of State Auditor  
New Jersey Office of Legislative Services

FROM: Mark Stout  
Assistant Commissioner  
Department of Transportation

DATE: July 2, 2007

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SUBJECT: Audit of Division of Aeronautics for the period July 1, 2004 to April 30, 2007.

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We received a copy of your recent audit of the Division of Aeronautics for the period July 1, 2004 to April 30, 2007. The report is well written and accurate. We offer no exceptions and concur with the report as presented. If you have any questions, let me know.

c: Deputy Commissioner Dilts  
   Robert Salman  
   Alemmesh Tessema  
   Steven Hanson

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