



# **STATE OF NORTH CAROLINA**

## **PITT COUNTY- CITY OF GREENVILLE AIRPORT AUTHORITY FISCAL CONTROL AUDIT**

**OFFICE OF THE STATE AUDITOR**

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**STATE AUDITOR**

**PITT COUNTY - CITY OF GREENVILLE AIRPORT AUTHORITY**

**FISCAL CONTROL AUDIT  
GREENVILLE, NORTH CAROLINA**

**A. WAYNE HOLLOMAN, CHAIR  
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**AUDITOR'S TRANSMITTAL**

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August 4, 2011

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
Board of Directors, Pitt County - City of Greenville Airport Authority  
Jerry Vickers, Executive Director, Pitt County- City of Greenville Airport

This report presents the results of our fiscal control audit at the Pitt County - City of Greenville Airport Authority. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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### **OBJECTIVES, SCOPE, AND METHODOLOGY**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the Pitt County - City of Greenville Airport Authority. The audit was performed as a result of concerns voiced by citizens from the Pitt County/City of Greenville area. These concerns were based on the published accounts of the former Airport Director's retirement benefit amount.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

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 findings and conclusions

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)**

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 was conducted on the Pitt County – City of Greenville Airport Authority (Airport Authority). The Airport Authority is a body corporate and politic created to operate an airport and maintain real and personal property jointly owned by the City of Greenville (City) and Pitt County (County). Both the City and County are participating members of the Airport Authority per adopted formal resolutions and the appointment of the members to the Board. Both the County Commissioners and the City Council are responsible for designating one of its governing members to serve on the Airport Authority board, as well as appointing an additional three members each for a total of eight members.

The Airport Authority relies on the City to provide payroll processing and payments for all Airport employees. The City provides time tracking software to the Airport Authority for use in tracking time recorded and the payment of employee salaries. The Airport Authority reimburses the City for all expenditures made on behalf of employees. The City is also responsible for enrolling employees in the Local Governmental Employees' Retirement System and processing retirement documents for all Airport employees. The Airport Authority has, in certain circumstances, adopted City of Greenville personnel policies for their employees.

The Airport Authority has a memorandum of understanding with Pitt County for the processing and payment of all expenditures of the Airport Authority. The County is responsible for recording all transactions in off-the-shelf accounting software based on information received from the Airport Authority. The County also provides the bank reconciliation function for the Airport Authority on a monthly basis.

Our audit scope covered the time period July 1, 2009 through January 31, 2011, except for the review of the former Airport Director's compensation amounts. The audit scope for his compensation was expanded to his last four years' salary to fully address the amounts included in his retirement calculation. Our audit scope included selected internal controls in the following areas:

*General and Federal Expenditures* – Our audit included expenditures related to the general operations of the airport and to federal assistance programs. We examined internal controls related to the expenditures to ensure that expenditures were paid correctly and accounted for properly. We also examined internal controls designed to ensure compliance with applicable federal requirements.

*General Revenues* – Our audit included the general revenues received by the airport. These revenues consist of fuel sales, rental/lease income, parking fees and other miscellaneous fees. We examined internal controls designed to ensure that the Airport Authority appropriately collected and accounted for these funds. We also examined internal controls designed to ensure compliance with state cash management requirements.

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

*Salaries and Employee Benefits* – Our audit included expenditures for personal services, with emphasis on the former Airport Authority Director’s salary and retirement benefits. We examined internal controls to ensure that the Airport Authority properly approved and accounted for salary expenditures and that the Airport Authority’s administration of salaries was in compliance with internal policies. We also examined internal controls over factors that impact retirement benefit calculations to ensure compliance with *North Carolina General Statute 128 Article 3*.

*Board Oversight of Airport Operations* – Our audit included board oversight activities of the Pitt County – City of Greenville Airport Authority for the daily operations of the airport and the performance of the Airport Director. We examined the activities of the board and their involvement in developing and enforcing policies of the airport as well as overseeing the Airport Director for such activities as time reporting and performance appraisals. We also examined internal controls to ensure that the Board was in compliance with internal policies.

### **RESULTS**

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

Management’s responses are presented after each of the findings. We did not audit the responses, and accordingly, we express no opinion on them. However, *Government Auditing Standards* require that we add explanatory comments to the report whenever we disagree with an audit finding response. In accordance with this requirement, and to ensure that the nature and seriousness of the findings are not minimized or misrepresented, we have provided comments to the Airport Authority’s responses as appropriate.



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## AUDIT FINDINGS AND RESPONSES

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### 1. DEFICIENCIES IN AIRPORT AUTHORITY'S PAYROLL PROCESS

We identified deficiencies in the Airport Authority's payroll process. As a result, there is an increased risk of error or fraud occurring without timely detection.

The Airport Authority's payroll is processed through the City of Greenville. Additionally, the City of Greenville's personnel policies served as the foundation for those adopted by the Airport Authority in June 1981. Time worked by Airport Authority employees is entered into the City's timekeeping system, and bi-weekly payrolls are generated using salary rate information maintained in the City's payroll system. The City provides payroll documentation, including a payroll register and an invoice for the amount of the gross payroll, to the Airport Authority.

During our review of the payroll process for the Airport Authority, we identified the following deficiencies:

- There is no formal agreement between the Airport Authority and the City of Greenville for processing payroll. Such an agreement would clearly establish the responsibilities and obligations of the two entities. In some situations, we found it difficult to determine whether personnel policies of the City or the Airport Authority were to be applied. Payroll costs are significant to the Airport Authority and such a business arrangement should be clearly documented to protect both parties.
- Based on our review of personnel files and the board minutes, there was no evidence that the Authority's board took action to approve cost-of-living increases for airport employees. The Airport Authority's approved personnel policies state that cost-of-living increases will be reviewed by the Airport Authority's board, and if granted, will be made effective on the first day of the fiscal year. Instead, whatever cost-of-living increases were awarded to City of Greenville employees were also awarded to Airport Authority employees through normal payroll processing.
- Merit pay increases were given to employees without consistent documentation in the personnel records to support the review of employees' performance or the methodology for determining the amount of the merit increase. The Airport Authority's approved personnel policies provide that "meritorious pay increases of one or more steps may be granted by the Airport Manager after the personnel record of the employee has been reviewed and found deserving."
- There is insufficient oversight of the Airport Authority director's pay. The director reconciles the payroll register to the invoice provided by the City of Greenville, and the Authority's board chair signs the expenditure request for reimbursement of the payroll costs. However, there was no evidence of review of the director's hours reported as worked, leave taken, or time adjustments sent to the City of Greenville. It appeared that all such documentation is both prepared and submitted by the director without any review. This weakness resulted in the problems with the former director's compensation discussed below.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Recommendation:* The Airport Authority should ensure that there is adequate internal control over its payroll process. Personnel policies and procedures should be kept up-to-date, cover all types of compensation paid to employees, and be approved by the Airport Authority's board.

*Airport Authority Response:*

a. No formal payroll agreement with the City of Greenville

The payroll processing arrangement between the Authority and the City of Greenville has been in place since 1974. While this arrangement seems to have worked well for both parties, the better practice, as pointed out in the audit, would be to have this arrangement more formally documented and the responsibilities of each party delineated. Therefore, the Authority has executed a payroll agreement with the City of Greenville that went into effect as of July 1, 2011.

b. No Cost-of-Living Adjustment (COLA) approvals

It is obvious that the former manager believed the policy adopted by the Board on 2/18/1985 regarding COLA was a continuing approval for future COLA raises. During that meeting, the Board approved a 6% COLA for the upcoming year (FY 1985-1986) and then stated in the minutes: "further, that since the City of Greenville processes the payroll for Authority personnel, the Authority should follow the guidance of the City in cost of living adjustments as a matter of standard policy." We note that this policy decision was made four years subsequent to approval of the Authority's Personnel Policy in 1981 and was viewed as a modification to that policy. We also note that in the manager's proposed budget recommendation each year that under the category of "Personnel Costs" the following statement was always included: "Project for merit increases". COLA was not cited in these proposals and thus reflects the fact the previous manager was relying on the 1985 board decision.

Notwithstanding the lack of documentation in board minutes, it is inconceivable to consider that Authority board members from 1986 to 2009 would not address the COLA issue or question whether airport personnel were receiving COLA raises commensurate with other local governmental agencies, especially in light of the fact that other type raises such as merit raises were included in the budget proposal. In the context of local government consideration and approvals of any form of compensation increases, the degree and nature of these proposed increases is always a matter of local press coverage and debate.

It is noted that the Authority has by custom and standard practice adopted the City of Greenville's pay-related and other benefits for airport employees. Further, the Authority believes it would be a significant breach of faith with current employees to require them to pay back all raises received from COLA's dating back to 1986. Therefore, the Authority, having reviewed the history, custom and standard practice of adopting the City of Greenville's annual COLA increases, considers the COLA raises as retroactively approved dating back to July 1986. Since FY 2009-2010, the board

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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has reviewed and approved all COLA's during the normal budget process and will continue this practice as a matter of board policy.

c. Merit pay without consistent documentation

Though the Authority's Personnel Policy does not require or address the airport having a formal performance appraisal system, the airport has over the years implemented a system of documenting personnel performance. The system, however, has not been standardized and applied in a comprehensive way. The Authority will direct the airport director to propose for the board's approval a more thorough and comprehensive appraisal system that will be structured to document and support any awards of merit pay.

We note that beginning with the planning and review of the FY 2010-11 proposed budget, the Authority requested and reviewed detailed breakdowns of all aspects of compensation for each employee, including the airport director.

d. Insufficient oversight of the Airport Authority Director's pay

The Authority has implemented a policy and process for the Authority Chairman, Vice Chairman, or Secretary/Treasurer to regularly review the Airport Director's hours worked, vacation, and any time adjustments via the airport's bi-weekly payroll hours report. Further, the Authority has directed the Airport Director to prepare a new Personnel Policy for Authority review and approval. Personnel and board policies will be reviewed annually by the Finance Committee and full board during the budget preparation process.

**Auditor Comment:** In regards to the cost-of-living adjustments, the Airport Authority's response states "it is obvious that the former manager believed the policy adopted by the Board on 2/18/1985 regarding COLA was a continuing approval for future COLA raises." Our audit revealed that very little was "obvious" about any of the payroll activities undertaken by the Airport Authority. In several places, the response to the audit findings acknowledges the need to maintain clear personnel and payroll policies to help ensure that the board's intentions are carried out, which is a main point of the findings.

While stating that it was custom and standard practice to adopt and follow the City of Greenville's pay-related and other benefits for airport employees, the Airport Authority adopted its own personnel policies that deviated from those of the City of Greenville in June 1981. In addition, the Airport Authority's February 18, 1985 decision to follow the City's guidance on cost-of-living adjustments was not recognized as an update to its own internal policies. The Airport Authority's response focuses on a Board decision that was made 26 years ago and fails to recognize that the Airport Authority did not comply with its own officially adopted policies and procedures. Those policies provide that cost-of-living adjustments will be brought before the board for consideration and approval, which did not occur each year.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 2. PROBLEMS NOTED IN FORMER DIRECTOR'S COMPENSATION

We identified problems in the compensation paid to the Airport Authority's former director. A number of factors in addition to his base salary affected the former director's total compensation, including merit pay, cost-of-living adjustments, longevity pay, vacation sellback, and sick leave incentive bonus pay. We evaluated each of these pay components for the former director during the last four years prior to his retirement (see Exhibit A for breakdown of amounts paid during the period). Problems noted for each pay component are discussed below. We also found the former director's leave accounting practices to be deficient.

#### *Merit Pay*

The Airport Authority's personnel policy allows for awarding merit increases "after the personnel record of the employee has been reviewed and found deserving." We noted a significant deficiency in the procedures used to determine and account for merit pay for the former director.

Even though the merit pay raises were apparently intended to be permanent adjustments to the former director's salary, the increases were not paid as part of his base salary. Instead, the former director computed the amount of merit pay he should receive using an accumulation of all of the percentage increases granted over many years. He then converted the computed amount to the number of work hours that would generate that pay amount and entered the hours as overtime. The City of Greenville then processed the merit pay as overtime pay.

Up until July 2005, the City of Greenville has on file personnel action forms that supposedly indicate the former director's total base pay amount, including accumulated merit raises (see Exhibit B). However, based on amounts reflected as overtime pay prior to that date, it appears that the official base pay on the personnel action forms did not include the merit raises. After July 2005, personnel action forms on file for the former director only address cost-of-living adjustments and the merit raises were definitely not included in the base salary amount. As identified in Exhibit A, the actual amounts paid to the former director far exceeded the authorized amounts identified in the City of Greenville's payroll system as per Exhibit B.

Due to the length of time that this practice was in effect and the lack of a clear accounting for the former director's pay components, his true base salary is not readily determinable. Not tracking a reliable base pay amount increases the likelihood that the merit pay calculations were incorrect. This problem could also cause errors in the determination of other pay adjustment amounts, as discussed below.

#### *Cost-of-Living Adjustments*

The Airport Authority's personnel policy allows for the granting of cost-of-living adjustments. As noted above, Airport Authority employees received the same cost-of-living

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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adjustments as those provided by the City of Greenville. Cost-of-living adjustments of 3% were given in each fiscal year from 2005 through 2008. No cost-of-living adjustment was given for the 2009 fiscal year. Because the merit pay adjustments discussed above were not included in the former director's base salary, it is likely that amounts paid as the result of cost-of-living raises were incorrect.

### *Longevity*

The Airport Authority's personnel policy allows for an additional payment in recognition of long years of continuous and meritorious service to be paid annually on December 1st and calculated as a percentage of an employee's base salary as of that date. For employees with twenty or more full years of service, the percentage paid is 4.5% of the base salary. Because the merit pay adjustments discussed above were not included in the former director's base salary, it is likely that amounts paid for longevity were incorrect.

### *Vacation Sellback*

The Airport Authority's personnel policy states the following in relation to the sellback of unused vacation leave:

“The Pitt-Greenville Airport Authority reserves the right, in special cases, to substitute monetary compensation to an employee if by the employee taking his leave would interrupt the normal operation of the Airport.”

Our review of the Airport Authority's board minutes identified one instance in 1983 where the sellback of vacation by the former director was brought before the Airport Authority's board and approved. However, the vacation sellback became the regular practice of the former director, as we determined that it occurred for at least the 12 years preceding his retirement. The vacation sellback was physically accomplished by recording the hours to be sold as additional hours worked, generally during the month of May each year.

As noted above, we found no approvals by the Airport Authority's board for the vacation sellback other than in 1983. Therefore, based on board policy, all sellbacks other than 1983 may be considered improper. For the period July 2005 through July 2009, the former director was paid \$71,782 for the sellback of vacation leave. If the sellbacks are considered to be authorized, it is likely that amounts paid were incorrect because the merit pay adjustments discussed above were not included in the former director's base salary.

### *Sick Leave Incentive Bonus*

The Airport Authority's personnel policy does not address sick leave incentive bonus payments. However, the City of Greenville offers an incentive bonus for all regular full-time employees who have used less than four days of sick leave during the calendar year, and the Airport Authority apparently chose to apply the City of Greenville's policy.

These payments are made according to a schedule, with two days salary being the maximum bonus. This bonus payment does not affect the number of sick leave hours retained by the

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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employee, but is an additional payment made to the employee in January of each year, calculated using each employee's base pay at the time.

Based on leave records maintained by the City of Greenville, the former director qualified for the maximum sick leave incentive bonus payments. However, since the Airport Authority board never authorized them, the sick leave incentive bonus payments may be considered improper. For the period July 2005 through July 2009, the former director was paid \$5,392 in sick leave incentive pay.

If the sick leave incentive bonus payments are considered to be authorized, it is likely that amounts paid were incorrect because the merit pay adjustments discussed above were not included in the former director's base salary.

### *Vacation and Sick Leave*

We noted during our audit that the former director did not record any vacation or sick leave in the payroll timekeeping system. The only leave taken was from an off-the-books leave balance, described as "limbo leave." This leave was made up of his total accrued vacation leave less the maximum allowable amount that could be carried forward from one year to the next (384 hours) less the amount of vacation time sold back as described above.

This practice kept the former director from losing his unused and unsold vacation leave. He kept track of this time in his personal leave tracking system, and for the years we reviewed, generally recorded 48 hours of "limbo leave" each year to cover whatever time he may have been away from work. This method of recording leave taken also resulted in the former director qualifying for sick leave incentive bonus payments that he may not have qualified for had a true recording of time taken place.

### *Retirement Pay*

The former director of the Airport Authority retired effective August 1, 2009 and is receiving retirement benefits from the Local Governmental Employees' Retirement System. Retirement benefit payments are based in part on the highest consecutive 48 months of compensation paid, which for the former director would be the period August 2005 through July 2009. If any of the amounts described above are determined to be unauthorized compensation that should be repaid by the former director, then his retirement pay is also overstated.

*Recommendation:* The Airport Authority should keep its personnel policies and procedures up-to-date, ensure that they cover all types of compensation paid to employees, and are approved by the Airport Authority's board. Further, the Airport Authority should implement specific internal controls to ensure that the director's compensation and benefits are proper. In addition, the Airport Authority should review the matters discussed above and determine whether to seek to recoup any overpayments from its former director. Since such overpayments would affect the former director's retirement pay, the Airport Authority should consult with the North Carolina Department of State Treasurer to determine if retirement pay adjustments are needed.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### *Airport Authority Response:*

#### a. Merit Pay

Our payroll records indicate that the separation of Merit pay from base salary began in July 2000 and was the result of the former manager being awarded a 5% bonus in lieu of merit increase. Since the City of Greenville payroll system could not accommodate a “bonus” pay component, the only way to generate a temporary payment category for one year was to calculate the value of the raise and treat it as overtime.

Board minutes and extraneous records do not reflect any documented discussion and approval of using this procedure to separately account for subsequent merit pay increases beginning in July 2001 and continuing until the former manager’s retirement in 2009. Based on our calculations, however, separation of the merit pay did not result in any additional payments than what would have been paid to the previous manager if the separation did not occur. Indeed, we note that our payroll calculations (and in accord with records from the City of Greenville), show that the previous manager would have received \$67,977 in additional payments over his last four years of employment if the separation of merit pay had not occurred.

Though not the common practice, we are not aware of any law or regulations that would preclude this procedure of separating merit pay from base pay. During our Audit Exit Conference, we also inquired of the State Auditor as to whether there was anything improper about the procedure and we were advised that there was nothing illegal about the process.

Given that the previous manager did not receive any more compensation under this procedure than he would have received with the more traditional practice of adjusting base salary based on award of merit pay, the Authority has decided to retroactively approve the merit separation dating to its beginning in July 2000.

We also note that the annual percentage of merit increases received by the previous manager were appropriately documented and approved by the Authority over these years.

#### b. Cost-of-Living Adjustments

COLA underpayment is not an issue given that the merit pay separation is deemed allowable and annual COLA increases were computed on base salary minus the separate merit pay component.

#### c. Longevity

Longevity underpayment is not an issue given that the merit pay separation is deemed allowable and annual longevity payments were computed on base salary minus the separate merit pay component.



## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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### **d. Vacation sellback**

The Authority acknowledges that board minutes dating back to 1983 are the most recent documentation that addresses the issue of vacation sellback. Our Personnel Policy as quoted in your report allows monetary payment for excess leave in “special cases” where the absence of the employee would “interrupt the normal operation of the Airport”. From a review of historical vacation records and discussions with staff and airport tenants, the former manager worked exceptionally long hours and very rarely took vacation. Typically, he used 48 hours of leave per year as noted in your discussion under the finding of “Vacation and Sick Leave”, below.

Given the former manager’s work ethic with regard to the amount of time spent at work, the Authority considers the vacation sellback to be approved with the exception noted below under “Vacation and Sick Leave”.

### **e. Sick leave incentive bonus**

The City of Greenville implemented the sick leave incentive bonus in January 1999 and eligible airport personnel have participated in it since that date.

We acknowledge that there is no documentation in the board minutes that discusses or adopts the sick leave incentive bonus for airport employees. However, it is noted that the Authority has by custom and standard practice adopted the City of Greenville’s pay-related and other benefits for airport employees.

If this were a new program to be considered by the Authority today, we would adopt it for airport employees. Further, the Authority believes it would be a significant breach of faith with current employees to require them to pay back sick leave incentive bonuses they have received since 1999. Therefore, the Authority considers the sick leave incentive bonus program an appropriate benefit for airport employees and thus retroactively approves it dating to its inception in January 1999.

Going forward, the Authority will address the sick leave incentive bonus in a standing board policy document and in a revised personnel policy.

The issue of the former manager’s underpayments is not an issue since the merit pay separation is deemed allowable and annual sick leave incentive bonus were computed on base salary minus the separate merit pay component.

### **f. Vacation and Sick Leave**

The Authority was not aware that the former manager was using a personal leave tracking system that included “limbo leave” held over from previous year’s unused vacation and we would not consider retroactively approving that practice.

As discussed above in the “Vacation sellback” finding, we consider the sellback of excess vacation as approved with the exception of 48 hours per year based on the amount of vacation time actually taken over the last four years of employment. We specify the last four years because that timeframe determines the former manager’s

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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pension. The dollar value of this recoupment is \$16,137 and the Authority will take action to have the former manager repay this amount.

g. Retirement impact

If the Authority is successful in recouping the disallowed vacation time payments, we will consult with the North Carolina Department of State Treasurer to determine if retirement pay adjustments are needed.

**Auditor Comment:** The Airport Authority asserts in its response regarding merit pay that it is likely that a substantial error was made in the determination of the merit pay for the former Director. This proves the point made in the audit finding: tracking merit pay as a separate pay component created a weakness in internal control that could, and likely did, lead to errors in the amount paid.

The Airport Authority's response related to vacation sellback indicates retroactive approval of the former Director's sellback of unused vacation time. While this action may be within the board's authority, it is inconsistent with official board policy that vacation sellback only occur in "special cases." It is unclear how the former Director's absence did "interrupt the normal operations of the Airport," a required condition for vacation sellback according to the board-approved policy.

The Airport Authority's response to the sick leave incentive bonus issue also indicates retroactive approval, noting its custom to follow the City of Greenville's practices. However, it is unclear whether the former Director met the qualifications for receiving the benefit. As noted in the finding, the accuracy of the reporting of the former Director's leave is questionable. Per our analysis of the leave records maintained by the City of Greenville, the former Director reported no vacation or sick leave taken from 1997 until his retirement in 2009. However, the off-the-books timekeeping system indicated there was time away from the job. It seems unlikely that the former Director did not take time off that could have impacted his eligibility to receive the sick leave incentive bonus payments.

### 3. FORMER DIRECTOR RETROACTIVELY CREDITED WITH SICK LEAVE

The Airport Authority's board awarded sick leave to the former director retroactively. The ultimate effect of this was to inappropriately increase the former director's retirement pay.

During our review of the board minutes, we noted that the Airport Authority's board approved a policy change that provided all employees who have over 25 years of service with the airport with three days of sick leave per month, rather than one day per month as the previous policy provided for all employees. The new policy was approved in April 2006, and the former director's sick leave balance was retroactively credited back to when he completed his 25th year of employment. The policy change resulted in an additional 1,936 hours of sick leave credited to the former director's balance. Of this amount, 1,344 hours were awarded retroactively for the seven years since the former director attained 25 years of service.

As stated above, the former Airport Authority director retired effective August 1, 2009 and is receiving retirement benefits from the Local Governmental Employees' Retirement

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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System. Retirement benefit payments are based in part on total months of service. Under state law, unused sick leave can be counted as creditable service for the purpose of determining the retirement benefit amount.

*North Carolina General Statute 128-26(e)* states: “creditable service for unused sick leave shall be allowed only for sick leave accrued monthly during employment under a duly adopted sick policy and for which the member may be able to take credits and be paid for sick leave without restriction.” In our opinion, the retroactive sick leave awarded to the former director should not have been included in the calculation of retirement pay because the policy was not duly adopted and in force during that period of time.

*Recommendation:* The Airport Authority should consult with the North Carolina Department of State Treasurer to determine if retirement pay adjustments are needed due to the awarding of sick leave retroactively.

*Airport Authority Response:* The Authority agrees that the statutes appear to prohibit retroactive credit of sick leave. We note, however, that the Authority’s action - apparently without specific knowledge of the statute - was a good faith effort to correct a situation where the former manager was not registered in the Local Government Employee Retirement System (LGERS) by the City of Greenville during his first six months of employment.

The Airport Authority will consult with the North Carolina Department of State Treasurer to determine if retirement pay adjustments are needed due to the awarding of sick leave retroactively.

#### 4. MORE OVERSIGHT BY BOARD NEEDED

The board’s oversight of the Airport Authority was not sufficient. Without adequate oversight, there is a risk that decisions could be made that are not in keeping with the defining mission of the Airport Authority, including compliance with applicable laws and regulations.

The board is ultimately accountable for the activities of the Airport Authority. As such, board members are responsible for overseeing the proper allocation of resources, effective management of public assets, and making decisions that are in keeping with the defining mission and purpose of the organization. This requires board members to be well-informed and active participants in the oversight of the organization, particularly in overseeing senior management officials’ activities. We believe the following items, some of which have previously been discussed, represent deficiencies in the board’s oversight of the airport operations and its former director:

##### *Documentation of Meetings*

During our review of the minutes of the Airport Authority’s board, we noted there was no documentation for meetings of subcommittees or closed sessions prior to fiscal year 2010.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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As the Airport Authority is a public entity, it is subject to the requirements of the North Carolina Open Meetings Law. Accordingly, all such meetings should be formally documented and such documentation kept on file. This is especially important as we were told that many of the decisions related to the oversight of the former director occurred within the finance committee. It should be noted that the current director has corrected the issue with the closed sessions.

### *Formal Policies and Procedures*

Many of the policies and procedures of the Airport Authority are not formalized and easily accessible for reference. We were forced to review board minutes covering many years in an attempt to determine official board policy or intent regarding fiscal matters. We also noted that where policies do exist, such as the personnel policy, they are outdated (the personnel policy was approved June 1981 with no indication of any updates or amendments) and have not been followed. This situation could result in practices that are wrong or inconsistent with the wishes of the Airport Authority's board.

### *Compliance with Laws and Regulations Applicable to Public Authorities*

As a public authority, the Airport Authority is subject to compliance with various state laws and regulations related to financial oversight. We could not find evidence to support the Airport Authority's compliance with *North Carolina General Statute* 159-12, which requires the Airport Authority to submit a copy of its annual budget to the Office of the Clerk for both the City and County prior to enacting the budget. The Airport Authority should develop a formal process to ensure compliance with all state laws and regulations.

### *Director Oversight*

The Airport Authority's board should have exercised more oversight over the employment, compensation, and activities of the former director. From discussions with various officials during the audit, it appears that the former director was allowed to develop his own employment contract, setting the requirements of his employment and compensation. From our review of the most recent employment contract, we noted that the actual amount of compensation was not specifically identified in the contract. Rather, there was a reference to a minimum amount not to be lower than the previously contracted amount. Such ambiguity directly led to the fact that none of the interviewed board members were aware of the former director's annual compensation.

Performance appraisals for the former director were done verbally at the annual meeting of the finance committee. As such, there was no written documentation to support the justification for awarding the merit increases. In addition, there was not any documentation to support the methodology for computing the merit increases or why the merit increases stopped being included in the former director's base pay. In addition, as identified above, personnel policies were not consistently followed, including the regular sellback of vacation leave and the off-the-books recording of leave time taken. Payments for such items as cost-of-living adjustments and sick leave bonus incentives were consistent with policies of the

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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City of Greenville; however, there is no evidence that the Airport Authority's board approved such actions.

The Airport Authority's approved personnel policies state that "appropriate compensation rates shall be determined on the basis of prevailing pertinent local practice for positions of comparable size, scope and responsibility." During our audit period, the Airport Authority advertised for and hired a new director. We did not find evidence of any efforts by the Airport Authority to gather comparable pay information prior to the hiring process. Discussions with board members indicated that obtaining such information was not considered. However, it should be noted that due to questions raised about the former director's compensation, the current director attempted to obtain salary information for comparison purposes. We performed limited inquiries and noted that the current director's compensation, \$143,624 annually, was above similar manager-level positions within the City of Greenville. Salaries for similar positions for the City of Greenville ranged from \$100,000 to \$138,000, with an average of \$125,000, for department directors up to the Assistant City Manager. We also surveyed other airports throughout the State of North Carolina and found that the compensation level for both the former and current directors were above that of comparably sized airports (see Exhibit C).

*Recommendation:* The Airport Authority's board should take appropriate action to ensure members are educated about their responsibilities and legal obligations. Discussions and decisions from board and subcommittee meetings should be adequately documented for subsequent reference. In its role of monitoring management, the board should request and have unrestricted access to information necessary to ensure proper fiscal management, compliance with applicable laws and regulations, and achievement of the Airport Authority's strategic goals. The Airport Authority's board should update and formalize all policies and procedures of the Airport Authority to ensure that they are effective for guiding the operations of the Airport Authority and its staff and also ensure that the policies are accessible to all board members and Airport Authority's staff.

*Airport Authority Response:*

Documentation of meetings. As noted in the report, the Authority has taken action and corrected the issue with closed session minutes and documentation. As regards committee meetings, we note that our only standing committee—the Finance Committee—routinely meets in April of each year to conduct a detailed, initial review of the proposed budget from the airport staff. The committee has always produced a "Memorandum of Action" that discusses the results of their review and makes recommendations to the full board regarding the budget proposal. Though technically not identified as "minutes" per se, we have typically considered this memo an official record of the meeting. In the future—and to preclude generating two separate documents—our intent is to produce a set of minutes that complies with State statutes and also serves as our traditional Memorandum of Action to the Board. We note that we implemented this procedure for the Finance Committee's budget meeting on March 29, 2011.

Formal policies and procedures. We recognize that our Personnel Policy requires a complete revision and we will make that an Authority priority. Further, we recognize that

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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relying on minutes of previous Board meetings dating back a number of years to document Board policy is not an effective approach and is not conducive to newly appointed Board members being aware of previously approved policies. The Authority will implement a more formalized system of documenting previous and future Board policies to ensure Board members have a clear understanding of current and standing Board policies.

Compliance with Laws and Regulations Applicable to Public Agencies. Prior to the audit, the Authority was unaware that there was a statutory requirement to post a copy of the Board's proposed budget with the City/County Clerks prior to adoption. We note that after becoming aware of this requirement, we fully complied in terms of our FY 2011-12 budget process. We will implement a formal process to ensure continued compliance in future years and will continue to maximize opportunities to better inform citizens regarding the Authority's budget.

### Director Oversight:

Employment contract. In consultation with the Authority attorney, it is not unusual to re-negotiate or extend an employment contract and make reference to a previous level of salary without specifically stating that salary. It would be typical to state the specific salary for a new hire; however, in this particular case, the former manager had served for 35 years and had executed a number of contracts/extensions over time. The Authority attorney advised the Authority that this was legal practice and a legal contract.

We note that the current airport director's contract contains a specific level of salary and it is the Authority's position and policy that we will continue to include specific salary in future contracts. The Authority believes this is another check and balance, in addition to annual reviews of the airport director's compensation during budget reviews, that will ensure all board members are aware of all aspects of the director's compensation.

Performance appraisals, Merit pay documentation, Consistent application of policies, COLA adjustments, Vacation sellback, and Sick leave bonus. As regards performance appraisal, the former manager annually provided the Finance Committee and full Board a list "Accomplishments" for the previous year. Ostensibly, that document formed the basis for discussion of his performance during the budget process. Further, the full Board's minutes (typically for the June meetings when the budget was adopted based on recommendations from the Finance Committee) have always made a general reference to the level of performance of the previous manager to justify or document the increase in compensation and while supporting the Finance Committee's more detailed review. We recognize, however, that this procedure does not always quantitatively document the basis for recommended merit increases nor does it specifically identify the methodology for the recommended increase. We have previously identified in this response that the Authority will adopt a new procedure for board policies. These policies will specifically address an annual review of the airport director's performance. Further, this policy will include specific metrics that support and document any recommended increases in merit pay.

As regarding consistent applications of personnel policies, we have identified elsewhere in this response that the Authority will undertake a comprehensive revision to our

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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existing policies. We are confident that this revision in conjunction with implementing a more comprehensive process for Board policy will preclude any ambiguity regarding review and approval of issues such as COLA, sick leave incentive bonus, and vacation sellback.

As regards our current Personnel Policy that states “appropriate compensation rates shall be determined on the basis of prevailing pertinent local practice for positions of comparable size, scope and responsibility”, we note that in beginning with the FY 2010-2011 budget cycle, our current airport director conducted and presented to the Board an extensive analysis of pay comparability rates for all airport employees. Further, we have continued to refine and update that analysis and the Board has been presented detailed results on each revision. We also note the State Audit Team was provided results of these analyses. These efforts have presented the Board with a detailed picture of the total compensation of each individual employee and how the salaries of their position compare with local, regional, and airport-unique market rates. This comprehensive information has allowed the Board to make decisions about a long-term strategy to bring affected airport employees up to the market rate.

We believe it important to point out that unlike municipal or county governments, the airport does not receive local taxpayer funds for its annual operating expenses and cannot depend on a fixed tax base or authorized sales taxes for annual revenue. The airport functions as a business enterprise that must be financially self-supporting based entirely on discretionary spending by users of the airport. Thus no revenues are guaranteed in the airport’s annual budget and fluctuations such as the general local economic condition, changes in airline service levels, airfares, or changes in corporate/business general aviation travel can have dramatic effect on the airport’s ability to be self-supporting and not require tapping into the airport general funds or requiring taxpayer subsidies. Our position is that those level of responsibilities command a higher level of compensation than average municipal or county level managers who do not face the pressure and challenges of essentially operating as a not for profit organization.

In further addressing the issue of the Board’s decision about a salary for a new director, it should also be noted that our board members come from private business and government backgrounds. As business people, they are attuned to what is happening nationally, regionally, and locally with the economy and have a sense and feel for what management level CEO’s, directors and managers are being paid in myriad occupations. Indeed, most of our Board members are now managing or have experience in managing a payroll. They also have a keen sense of the Authority’s financial performance (as evidenced by the detailed financial reports documented in board minutes) and can discern the overarching value the manager brings to the organization and its bottom line. The Authority—unlike local governments—is not constrained by “one-size-fits-all” pay scales or pay grades typical of local government where it is difficult for a department head or other senior-level manager, to distinguish themselves in a particularly good year or series of years because his/her pay is tied to many others in the same pay grade.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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When the Authority was faced with its first ever challenge of recruiting and hiring a new manager to replace a manager with 35 years of experience—essentially the only airport manager ever at Pitt-Greenville Airport—the minimum qualifications for the position were very demanding. The Board did not want to lose any continuity and momentum in the superb progress they had made over the previous manager’s years of service. The Board also considered that they were facing major capital expansion projects with a value over \$12 Million, including such projects as a major terminal expansion/renovation, entrance road/ drainage improvements, parking expansion/re-configuration, et al. Most importantly, they wanted someone with a work ethic similar to the previous manager and experience with federal/state agencies to continue the flow of grant funding. Therefore, the Board understood that advertising the position using very selective and specific requirements would significantly limit the application pool and they would likely pay a premium to hire the particular type of individual they wanted to manage the airport.

We have limited comment on the audit report information on the pay comparability of airport managers of North Carolina airports contained in Exhibit C. It is our opinion that enplanements, staff size and nature of the oversight body are only a few of the metrics among many other metrics that could be used to judge the management level responsibility of airport managers. We further believe that economic and financial performance metrics would provide a broader comparison of manager responsibilities.

**Auditor Comment:** The audit finding correctly states that the Airport Authority did not follow its personnel policies in obtaining local compensation data prior to advertising and hiring its current director, though the current director did gather such data after his hiring. The response indicates that local government salaries may not be a comparable benchmark to use in setting Airport Authority salaries. If that is the case, then the Airport Authority should change its policy but ensure that an objective methodology is established for setting salaries comparable to the market. The response also points out that the Airport Authority is supported by fees charged to users. As a public authority, we believe it is incumbent upon the Airport Authority to provide services to citizens at the most affordable price, which means containing costs to the extent possible. Toward that end, the Airport Authority should have internal control in place to ensure that its salaries do not exceed the market.



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**Pitt-Greenville Airport Authority  
Schedule of Compensation Paid to Former Director  
July 2005 through July 2009**

**Exhibit A**

<b>Period</b>	<b>Base Salary Per Airport Authority (amount includes cost-of-living increases but not merit increases)</b>	<b>Merit</b>	<b>Longevity</b>	<b>Vacation Sellback</b>	<b>Sick Leave Incentive Pay</b>	<b>Total Compensation</b>
2005-06	\$ 167,586	\$ 32,952	\$ 7,541	\$ 11,603	\$ 1,289	\$ 220,971
2006-07	172,619	42,868	7,768	11,951	1,327	236,533
2007-08	177,798	55,544	8,001	12,309	1,367	255,019
2008-09	183,123	57,015	8,241	33,806 <b>(2)</b>	1,409	283,594
July 2009 <b>(1)</b>	15,495	2,166	6,180	2,113	0	25,954

**Legend:**

- (1)** Former Director retired effective August 1, 2009.
- (2)** Amount includes payout of leave balances prior to retirement

**Pitt-Greenville Airport Authority  
Base Pay History for Former Director According To  
City of Greenville Personnel Action Forms  
July 2001 through July 2009**

**Exhibit B**

<u>Date</u>	<u>Description</u>		<u>Hourly Pay Rate</u>	<u>Annual Salary</u>	
7/1/2001	Merit		\$68.13	\$141,710.40	
7/1/2002	Merit		\$69.84	\$145,267.20	
6/28/2003	Merit		\$71.94	\$149,635.20	
6/28/2003	New Pay Plan	(1)	\$73.09	\$152,027.20	
12/12/2003	Other		\$73.09	\$152,027.20	
6/26/2004	New Pay Plan		\$75.94	\$157,955.20	
6/26/2004	Merit		\$78.22	\$162,697.60	
6/25/2005	New Pay Plan	(2)	\$80.57	\$167,585.60	(4)
6/24/2006	New Pay Plan		\$82.99	\$172,619.20	(4)
6/23/2007	New Pay Plan		\$85.48	\$177,798.40	(4)
6/21/2008	New Pay Plan		\$88.04	\$183,123.20	(4)
8/1/2009	Termination	(3)	\$88.04	\$183,123.20	

**Legend:**

- (1) New Pay Plan indicates change due to City approved COLA adjustment
- (2) Personnel Action Forms related to merit pay no longer on file with the City of Greenville
- (3) Official retirement date of the former director
- (4) Amounts agree to Base Salary amounts presented in Exhibit A

**Pitt-Greenville Airport Authority**  
**Schedule of Airport Director Compensation for Selected Airports**

**Exhibit C**

<b>Airport Name</b>	<b>Salary July 2009</b>	<b>Salary July 2010</b>	<b>2010 Average Yearly Enplanements (1)</b>	<b>Full-Time Staff Size</b>	<b>Oversight Body</b>
<b>Pitt-Greenville Airport - Former Director</b>	\$ 283,600	\$ (3)	63,702	20	Authority - 4 members per City, 4 members per County
Raleigh-Durham International Airport	215,000	215,000	4,563,520	320	Authority - 2 members each from Raleigh, Durham, Wake County, Durham County
Charlotte-Douglas International Airport	200,000	210,000	19,096,963	250	No oversight Board
Wilmington International Airport	145,600	152,100	412,264	44	Authority - 5 members appointed by County
Asheville Regional Airport	129,000	145,000	369,576	60	Authority - 3 members per City, 3 members per County, 1 member by other Authority members
<b>Pitt-Greenville Airport - Current Director</b>	139,984 (2)	143,624	63,702	20	Authority - 4 members per City, 4 members per County
Coastal Carolina Regional Airport (New Bern)	91,553	91,553	134,863	62	Board - 8 members per County, 4 ex-officio
Fayetteville Regional Airport	89,742	89,742	259,454	21	Commission - 7 members per City, 3 ex-officio members
Albert J. Ellis Airport (Jacksonville)	80,600	80,600	154,160	26	Commission - 7 members per County
Kinston Regional Airport	69,000	69,000	5,765	8	Authority - NC Global Transpark Authority - 20 members

**Legend:**

- (1) Enplanements is an airport measurement for passenger boardings.
- (2) Current Director began employment in June 2009
- (3) Former Director retired in August 2009.

**Source:** Surveys of selected North Carolina airports.

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