

**Examination of Certain Policies, Procedures, Controls, and
Financial Activity of the Cincinnati/Northern Kentucky
International Airport**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

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Table of Contents

TRANSMITTAL LETTER

EXECUTIVE SUMMARY i

Chapter 1

Introduction and Background..... 1

Chapter 2

Findings and Recommendations 9

Exhibits

1. **Cincinnati/Northern Kentucky Airport (CVG) Analysis of Peer Airports Surveyed by APA** 41
2. **Board and Executive Committee Criteria** 44
3. **Kentucky Post Article August 22, 1998** 45

Kenton County Airport Board Response 48



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

August 19, 2014

Bill Robinson, Board Chairman
Kenton County Airport Board
P.O. Box 752000
Cincinnati, Ohio 45275

RE: Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Cincinnati/Northern Kentucky International Airport

Dear Chairman Robinson:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Cincinnati/Northern Kentucky International Airport (CVG). The examination period, unless otherwise specified, was July 1, 2012 through December 31, 2013.

The enclosed report presents 12 findings and offers multiple recommendations to strengthen the Kenton County Airport Board (Board) governance, internal controls, and management oversight. Report findings and recommendations involved restructuring the Board, contract procurement and oversight, excessive expenditures for Board travel and meals, and other issues.

Procedures for this examination included discussion and interviews with current and former Board and Advisory Committee members, Kenton County Judge/Executive, current and former CVG Chief Executive Officers, CVG management, Board attorney, and certain CVG contractors. In addition, we requested and examined various CVG documents that included, but was not limited to, Board meeting minutes, organizational charts, certain travel and expense reimbursements, procurement card statements, vendor invoices and payments, contracts, policies, procedures, and other information.

The purpose of this review was not to provide an opinion on financial statements or to duplicate work of routine annual financial statement audits. To accomplish the examination, the APA developed the following specific examination objectives:

- Review Board policies and evaluate the policies using APA recommendations applicable to Public and Nonprofit Boards.
- Review the Board governance structure to determine if inefficiencies, redundancies, or conflicts exist.

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FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M/F/D

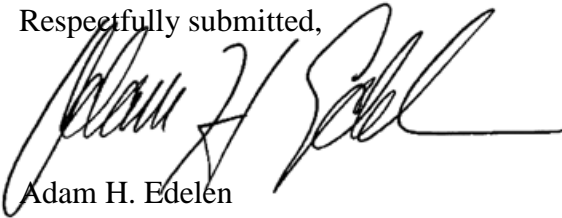


Chairman Robinson
August 19, 2014
Page 2

- Analyze certain categories of financial activity for compliance with Board policies and for various transaction activities, and determine whether transactions appear reasonable, excessive, necessary, and have a related business purpose.

The Auditor of Public Accounts requests a report from CVG on the implementation of recommendations within sixty (60) days of the completion of the enclosed report. If you wish to discuss this report further, please contact me or Brian Lykins, Executive Director of the Office of Technology and Special Audits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written over a horizontal line.

Adam H. Edelen
Auditor of Public Accounts



Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Cincinnati/Northern Kentucky International Airport

Scope and Objectives for Examination

The Auditor of Public Accounts (APA), in response to questions and concerns expressed to this office regarding certain financial and other activity of the Cincinnati/Northern Kentucky International Airport (CVG) and the Kenton County Airport Board (Board), initiated an examination of specific issues involving CVG and the Board. The examination included a review of certain CVG policies, internal controls, and financial transactions. To accomplish the examination, the APA developed the following specific examination objectives:

- Review Board policies and evaluate the policies using APA recommendations applicable to Public and Nonprofit Boards.
- Review the Board governance structure to determine if inefficiencies, redundancies, or conflicts exist.
- Analyze certain categories of financial activity for compliance with Board policies and for various transaction activities, and determine whether transactions appear reasonable, excessive, necessary, and have a related business purpose.

The purpose of this examination was not to provide an opinion on the financial statements or to duplicate work of routine annual financial statement audits. Unless otherwise indicated, the examination period for this engagement was July 1, 2012 through December 31, 2013.

Airport Background

The airport, located in Boone County, Kentucky, was sponsored by the neighboring Kenton County Fiscal Court and was originally established as a training facility for the United States military during World War II. The United States Army used the property for approximately a year before declaring the airfield surplus property in 1945. After being declared surplus property, the airfield was transitioned into a commercial airport with its first commercial flight flown in 1947. Between 1960 and 1970, annual activity doubled and in response to its growth, in 1974, CVG added two new terminals.

In the 1980s, CVG became a hub airport for one commercial and one freight carrier. While CVG continued to expand over the years, changes in our national economy have affected the aviation industry as a whole, leading to airline consolidations and reducing the number of airline hubs. As a result of airline consolidations, one major commercial carrier, who has provided service at CVG for decades, has greatly reduced its flight activity at CVG over the last several years. Though service provided by this long serving major commercial carrier has caused concern, CVG has in recent years attracted two low cost commercial carriers to provide service in the region.

Kenton County is the original sponsor of CVG, providing financial assistance at the onset of the project and establishing the original governing body for the airport. However, CVG, as the Kenton County Airport Board, is a separate legal entity from the Kenton County Fiscal Court. CVG, including the land on which it operates, is not included in the financial statements of the Kenton County Fiscal Court. Moreover, Kenton County provides no funding for CVG and CVG does not remit taxes or fees to Kenton County.

Financial Information

The CVG fiscal year (FY) begins January 1 and ends December 31. Each fiscal year, the Board engages the services of a CPA to perform a financial statement audit. The most recent financial statement audit report was issued on June 16, 2014.

Revenues

CVG revenues are generated from airport user fees to fund all operating expenses and debt service requirements. The operations of CVG are self-supporting, with no tax revenues generated from the public. Since the CVG Board is not publically elected, the Kenton County Judge Executive has historically acted as the approving signatory for CVG revenue bonds due to Kenton County initially sponsoring the airport. Internal Revenue Code 147(f)(2)(A) requires the issue of revenue bonds to be approved by an applicable elected representative of a governmental

unit. However, these revenue bonds are not a general obligation or indebtedness of Kenton County.

In FY 2013, CVG operating revenues totaled over \$98 million. Table and Graph 1 summarize the operating revenues by source for FY 2012 and 2013. The majority, or 78 percent, of CVG operating revenues in FY 2013 were generated from Field Landing Fees, Concessions, and Fixed Rentals.

Operating Expenses

In FY 2012, CVG operating expenses were approximately \$69 million, with the majority of the operating expenses, approximately 49 percent, incurred for salaries, wages, and benefits. Total CVG operating expenses rose slightly in FY 2013 to approximately \$69.9 million.

Findings and Recommendations

Finding 1: One individual appoints all seven voting members of the CVG Board and the majority of the Board's 11-member Advisory Committee, a structure that has created confusion among Board and Advisory Committee members, and increases the risk of political influence directly impacting Board member decisions.

The Kenton County Airport Board, established as authorized in KRS 183.132(4)(b) relating to local air boards, is comprised of seven Board members appointed by the Kenton County Judge/Executive. The seven-member Board was initially established by a resolution of the Kenton County Fiscal Court in 1943, and is the governmental body in charge of operating the Cincinnati/Northern Kentucky International Airport (CVG). In 1964, a six-member "Advisory Committee to the Kenton County Airport Board" (Advisory Committee) was established by Executive Order, for the purpose of "assisting in an advisory capacity the Kenton County Airport Board in its official duties as the governmental body charged by statute with the operation of such air facility." All six Advisory Committee members were appointed by the Governor. In 1998, through another Executive Order, this Advisory Committee was reorganized by increasing the number of Advisory Committee members from six to 11, and was expanded by increasing the number of appointing authorities for the Advisory Committee's members to include other local area governments. The Kenton County Judge/Executive is the appointing authority for all seven of the voting Board members, and also for a majority, six of 11, of the non-voting Advisory Committee members. The existing structure provides appointments from primarily a single authority, and the two-tiered structure by which the Board and the Advisory Committee operate has caused

confusion and conflict among the Board members and Advisory Committee members. The conflict among Board and Advisory Committee members, coupled with the limited appointing authority, has led to concerns that political influence exists over Board members.

Recommendations: We recommend the Kentucky Governor and Legislature work together to revise statutes to restructure the current governance model of the Board. We recommend this restructuring eliminate the Advisory Committee of the Board. We further recommend the Board be expanded from a seven member board to an 11 member board, with each member having equal standing and voting authority. Further, to reflect the regional community served by an airport such as CVG, to foster community involvement, and to reduce the risk of political influence on the Board, we recommend governance revisions incorporate the following distribution of appointment authority:

- Kenton County Judge/Executive – three Board appointments with appointments confirmed by Fiscal Court;
- Boone County Judge/Executive – two Board appointments with appointments confirmed by Fiscal Court;
- Campbell County Judge/Executive – one Board appointment with appointment confirmed by Fiscal Court;
- Kentucky Governor – two Board appointments;
- Ohio Governor – one Board appointment;
- Mayor of Cincinnati, Ohio – one Board appointment confirmed by City Council; and
- Hamilton County, Ohio Board of Commissioners – one Board appointment.

The recommended distribution of appointments is based in part on historical investment by these communities in CVG and the current economic impacts CVG has on these communities. See report Introduction Chapter for further details. We recommend the restructured Board, at its discretion, partner with individuals to assist or advise the Board on various relevant Board issues; however, these advisors would not be appointed by any government body and should only assist or advise the Board in specific instances for the period of time that their expertise is valuable to the Board to address an issue. We further recommend the Board develop a policy regarding the use of advisors that clearly documents the fact that advisors have no vote or authority on the Board or Board committees, serve only in a limited capacity to assist the Board on specific issues, and serve at the pleasure of the Board. We recommend this policy be provided to all Board members and potential advisors.

Finding 2: The Board paid a contractor over \$41,000 for work completed; however, the Board chose to maintain the reports as drafts, which appears to circumvent open record laws.

The Board engaged the services of a contractor to “develop a performance goal setting and assessment process for the Chief Executive Officer of the Board.” On July 18, 2013, final payment of over \$41,000 was made to the contractor based on Board approval and acceptance of the three draft reports completed by the contractor. However, the Board did not request the contractor to provide reports no longer designated as draft. Given the interest and controversy surrounding these contracts and the discord among Executive Board members and Advisory Committee members, certain members expressed to auditors during the examination that the lack of a final work product could be an attempt to circumvent transparency and report distribution.

Recommendations: We recommend the Board acknowledge when a report or other document is complete and final, and refrain from placing documents in permanent draft/confidential status when it is known that a final work product was delivered and paid for in full by CVG. We recommend the Board clearly document in Board meetings its actions to accept a final report or other document, which will assist the Board, the public, and others in determining those documents in the possession of CVG that are subject to the Kentucky Open Records law. We recommend CVG and the Board enforce contract terms established. Expenses charged to CVG by a contractor should be supported by original detailed receipts before reimbursement for the expenses can be approved for payment to the contractor. If the original detailed receipts are not provided to CVG to support the expense, payment for those expenses should not be made.

Finding 3: A contract for services totaling \$24,500, plus expenses, was discussed and approved by the Board after the contractor completed the work and submitted the final report to the Board Chair in violation of Board purchasing policies.

A contract for services totaling \$24,500, plus expenses, was approved by the Board on August 20, 2012, three days after the contractor completed the work and submitted the final report to the Board Chair. CVG records document that the report was distributed to Board and Advisory Committee members the same day as the date of the report, August 17, 2012. As evidenced by its actions, the Board knowingly incurred an expense then subsequently approved the contract and payment so that the expense could be paid by CVG. Furthermore, the action violated the Board Purchasing Policy which requires the creation and approval of either a Purchase Order (PO) or the execution of a contract before funds are committed.

Recommendations: We recommend the Board follow its established purchasing policy and ensure contracts for vendor services are properly approved prior to services rendered on behalf of the Board and CVG unless a legitimate emergency situation exists. In the event of an emergency, the situation should be documented to explain the situation and a contract should be developed, reviewed, and approved as soon as possible.

Finding 4: The Board engaged a contractor for \$60,000 to provide public relations services without first consulting CVG staff, leading to potential duplication of services and wasteful spending.

The Board engaged a contractor at a monthly cost of \$5,000 to provide public relations (PR) services for a one-year period. This action was taken without first consulting CVG staff to determine whether internal resources were available to provide such services or considering whether another contractor had already performed certain services. The expedited process followed by the Board to engage the services of this contractor may have led to duplication of services and wasteful spending of CVG funds.

Recommendations: We recommend the Board, or a committee of the Board, discuss any future potential service needs with the CEO and other key CVG airport management prior to initiating a contract with an outside vendor. The purpose of these discussions should be to identify whether comparable internal resources already exist to provide the services desired by the Board so funds are not wasted. If internal resources do not already exist and it is determined that an outside contractor is needed, we recommend the Board discuss this determination in an open meeting of the Board and sufficiently document its need for these contracted services in its meeting minutes.

Finding 5: The Board has not had a formal written contract with its Board attorneys’ firm for decades.

The Board has not had a formal written contract with its Board attorneys’ firm since it first began providing services in 1962, despite CVG spending millions for these legal services. Between July 2012 and December 2013 alone, CVG paid over \$511,000 to its Board attorneys’ firm for services rendered. The CVG procurement policy excludes these legal services from the requirements of a contract.

Recommendations: We recommend the Board ensure any agreement it enters into is documented in a formal written contract. Contracts entered into should specify the services the contractor will perform and the terms of the contract including the amount to be paid by the Board in return for these services. The contract should include specific language requiring detailed invoices from a contractor to include a description of the work

performed, the number of hours associated with each work step, and the rate at which services are being charged. If services are performed by individuals at various levels of responsibility or authority within the organization, the rates charged for those at these various levels should also be specified. We further recommend CVG revise its procurement policy to eliminate the exception to the contract requirement for the services of a general counsel, so that contracting for a general counsel will follow the same procurement process established for other contract services.

Finding 6: The Board engaged the services of a contractor to perform duplicative work.

The Board engaged the services of a contractor for approximately \$25,000 to perform services duplicative to those scheduled to be performed by the Kentucky Auditor of Public Accounts (APA). The Board then directed executive management to provide the contractor with all documentation requested by the APA throughout the examination process. The action of the Board to engage a contractor, upon initiation of the APA's examination, to perform essentially the same services of the APA appears questionable, wasteful, and fiscally irresponsible.

Recommendations: As recommended previously in recommendations to Finding 4, we recommend the Board, or a committee of the Board, discuss any future potential service needs with the CEO and other key CVG airport management prior to initiating a contract with an outside vendor. The purpose of these discussions should be to identify whether comparable internal resources already exist to provide the services desired by the Board so funds are not wasted. We further recommend the Board carefully evaluate the necessity and timing of services contracted and that these services and use of funds are based on a sound business decision in the best interests of CVG and not self-serving to the Board.

Finding 7: The cost for industry conferences associated with Board and Advisory Committee members' travel appears excessive.

CVG expended almost \$96,000 in association with four industry conferences attended by various Board and Advisory Committee members between July 1, 2012 and December 31, 2013. Of this cost, over \$86,400 was expended directly in association with various Board and Advisory Committee members. The average attendance at these conferences by Board and Advisory members, excluding the international conference held in Bologna, Italy in the fall of 2013, comprised 10 percent to 20 percent of all conference attendees.

Recommendations: We recommend the Board develop a process by which Board members may travel to a limited number of conferences each year on

rotating basis. The Board should limit the number of attendees to a minimum reasonable number, possibly no more than three or four attendees per conference. Once the process is developed and the limit is established, the Board should formalize its action in writing and include as part of the Board travel policy. Further, we recommend the Board require conference attendees to provide a report of their trip to the Board upon their return and document the report in the Board meeting minutes. We also recommend the Board seek different options for all Board members to obtain cost effective updates or training on current industry issues and trends, rather than solely relying on travel to industry conferences, to reduce its expenses and allow all members an opportunity to learn.

Finding 8: CVG incurred expenses on behalf of the Kenton County Judge/Executive and his spouse in conflict with existing Board policy.

CVG reimbursed over \$5,600 in expenses to the Kenton County Judge/Executive and incurred another \$3,200 in conference fees on behalf of the Judge/Executive and his spouse in conflict with existing Board policy. The majority of these expenses were associated with the Judge/Executive attending national and international airport industry conferences in 2011 and 2012. At the time these expenses were incurred, the Board travel policy specified that it applied to Board and Advisory Committee members, and as such, did not include travel and meal expenses incurred on behalf of other parties such as the Board's appointing authority.

Recommendations: We recommend the Board eliminate the practice of inviting its appointing authority to attend airport industry conferences and other travel at the expense of CVG, unless a specific circumstance exists that as determined by Board vote requires an appointing authority to travel on behalf of CVG. We recommend if the Board makes such a determination, the specific business purpose necessitating the travel and the vote of the Board authorizing it be documented in the Board meeting minutes. We further recommend if an appointing authority personally deems it necessary to attend such travels, the appointing authority pay the travel expenses with personal funds. We recommend the Board revise its travel and expense policy to specifically state that spouse registration fees to industry conferences will not be covered by CVG funds.

Finding 9: CVG routinely incurred excessive costs for Board meals.

Between July 2012 and December 2013, CVG expended over \$32,586 in airport funds solely for Board group meals, including meals catered on-site after Board meetings, off-site locally, and off-site while traveling to airport industry conferences. While such

meals have been a long-standing tradition at CVG among Board members, the cost of these meals reviewed during the examination period appeared excessive. Most of the meals examined exceeded the U.S. General Services Administration (GSA) guidelines for individual meal expenses and included the purchase of alcohol.

Recommendations: We recommend the Board take action to finalize revisions to its travel and expense policy. We recommend CVG evaluate the need to provide meals in conjunction with regularly scheduled Board meetings, we recommend the Board adopt guidelines with its travel and expense policy, such as GSA reimbursement rates, to assist with controlling the costs of these meals. These guidelines should also be used when arranging for any special airport event in which a meal will be provided to Board members or CVG staff. Further, we recommend CVG funds not be used for the purchase of alcohol at Board functions. Alcohol, if allowable during Board business meals, should be considered a personal expense. Finally, we recommend each Board member attending an industry conference personally incur meal or other necessary expenses and individually seek reimbursement, if appropriate, through the normal travel and expense reimbursement process.

Finding 10: Several exceptions to Board travel and expense policies were approved by the former Board Chair.

Auditors examined all Board, Advisory Committee, and CVG executive management travel and expense reimbursements paid to individuals between January 1, 2012 and December 31, 2013, which totaled over \$101,000. As a result of this review, auditors identified several instances in which exceptions to Board policies were approved by the former Board Chair. These exceptions included 40 instances in which either insufficient or no supporting documentation existed for an expense over \$25, three instances in which reimbursement requests were submitted more than 45 days after the completion of travel, and over 30 instances when requests were made for a portion of an expense without identifying the specific charges for which reimbursement was being requested. Consistent approval of such Board policy exceptions circumvents the intent of an established policy and encourages continued disregard of the policy.

Recommendations: We recommend the Board establish a reasonable per diem rate based on GSA guidelines established for federal employees. Given the various destinations associated with Board member travel, the per diem rate should allow for high and low rate areas. We also recommend the Board revise its policy to state that exceptions to the Board travel and expense policy may be approved by a committee of the

Board, such as the Finance Committee or the Audit Committee. Further, we recommend that the Board Chair not serve as the chair of the committee assigned the responsibility to review exceptions to allow for independence and strong segregation of duties. Once a committee is designated to review and approve exceptions, the policy should require any exception to the policy be documented along with the reason for the exception. Documentation of the exception and the reason for the exception should be maintained with the original expense reimbursement request in CVG records to support the payment of the exceptional expense. We recommend exceptions to the travel policy only be authorized in unique circumstances when compliance with policy is unreasonable; otherwise, exceptions to the travel policy should not be authorized, which would result in the individual being responsible for the expense incurred.

Finding 11: CVG did not follow its required employment process when hiring a relative of the Board's appointing authority.

Human resource records document CVG did not follow its required employment process when it hired the Kenton County Judge/Executive's daughter in August 2012. The Judge/Executive's daughter was hired to fill a position in the Field Maintenance Department, even though the position had not been posted, she had not applied for the position, and no other candidates were considered for the position.

Recommendations: We recommend CVG ensure its employment hiring policies are consistently followed. This includes documenting and maintaining in the job posting file the posting of positions to be filled and the date of the position posting. We also recommend CVG maintain within the job posting file a position description, documentation showing approval by management to fill the position, all employment applications and inquiries relating to the position, all candidate interview notes, and documentation of the recommended candidate for the position and management approval for the hiring of the selected candidate. We further recommend CVG personnel not circumvent its established hiring process. To ensure the best qualified candidate is selected, CVG should refrain from limiting its candidate pool and should select the appropriate candidate for the position from a full pool of applicants when possible. Further, we recommend before the hiring process is finalized, the Director responsible for personnel review the documentation to ensure the employment policies were followed. If policy was not appropriately followed, the Director should address the issue and be required by policy to notify the Human Resources Committee of the Board.

Finding 12: The Board’s independent process designed to receive, analyze, investigate, and resolve concerns is not openly shared with the public, limiting its effectiveness.

The Board’s independent process designed to receive, analyze, investigate, and resolve concerns is not openly shared with the public, limiting the effectiveness of this control. While the process for employees to report a concern is outlined within the Board’s Code of Conduct policy for CVG personnel, which is posted online through the CVG website, the contact information for reporting potential violations of policy or law is buried in the employee policy. Further, no information is disclosed to the public, vendors, or others regarding how concerns from these groups may be shared through an independent process.

Recommendations: We recommend CVG update its website to ensure the hotline is more accessible for employees and the public by making the hotline available from the homepage of the CVG website. We also recommend CVG change the name of the hotline currently referred to as the “Advice Line” as this does not properly communicate the purpose of this service. The current name may indicate this is a general information service and not a means to report concerns and could discourage individuals from using this resource. We recommend CVG clearly communicate to employees and the public, beyond the Code of Conduct policy, that a hotline service is available to report concerns involving various issues.

Chapter 1

Introduction and Background

Scope and Objectives for Examination

The Auditor of Public Accounts (APA), in response to questions and concerns expressed to this office regarding certain financial and other activity of the Cincinnati/Northern Kentucky International Airport (CVG) and the Kenton County Airport Board (Board), initiated an examination of specific issues involving CVG and the Board. The examination included a review of certain CVG policies, internal controls, and financial transactions. To accomplish the examination, the APA developed the following specific examination objectives:

- Review Board policies and evaluate the policies using APA recommendations applicable to Public and Nonprofit Boards.
- Review the Board governance structure to determine if inefficiencies, redundancies, or conflicts exist.
- Analyze certain categories of financial activity for compliance with Board policies and for various transaction activities, and determine whether transactions appear reasonable, excessive, necessary, and have a related business purpose.

The purpose of this examination was not to provide an opinion on the financial statements or to duplicate work of routine annual financial statement audits. Unless otherwise indicated, the examination period for this engagement was July 1, 2012 through December 31, 2013.

For the period examined, we requested and reviewed certain CVG records including, but not limited to, policies, Board and select committee meeting minutes, organizational charts, purchasing card statements, select vendor contracts, as well as travel and expense reimbursements for executive management, Board members, and Advisory Committee members. Our examination included discussions and interviews with numerous current and former Board and Advisory Committee members, current and former CVG employees, and contractors.

In addition to information obtained directly from CVG and its employees, information was gathered from a sample of other airports for comparison to CVG. Some airports were selected based on proximity in geographic location to CVG, while other airports were selected due to similar hub size, and comparable ranking from the most recent Federal Aviation Administration (FAA) data for airport enplanements. In some instances, the airports selected for comparison to CVG met more than one of the selection criteria. The airports identified for benchmarking purposes were contacted by auditors to understand each organization's governance structure, number of Board members, policy related to travel and related reimbursements for Board members and the Board appointing authority, policy related to alcohol purchases, and other matters. The airports selected based on varying criteria include:

- Dayton International Airport (DAY);
- Columbus Regional Authority (CMH);
- Cleveland Airport System (CLE);

Chapter 1

Introduction and Background

- Louisville Regional Airport Authority (SDF);
- Blue Grass Airport (LEX);
- Pittsburgh International Airport (PIT);
- Raleigh –Durham International Airport (RDU);
- Memphis International Airport (MEM); and
- Indianapolis International Airport (IND).

Of the nine airports contacted, five were initially selected based on proximity in geographic location to CVG: (1) Dayton International Airport, (2) Columbus Regional Authority, (3) Cleveland Airport System, (4) Louisville Regional Airport Authority, and (5) Blue Grass Airport. Two of these airports initially selected, due to their geographic proximity to CVG, were, according to FAA data, also considered a medium sized hub similar to CVG. The medium sized hub airports selected for comparison to CVG include: (1) Columbus Regional Airport Authority, (2) Cleveland Airport System, (3) Pittsburgh International Airport, (4) Raleigh – Durham International Airport, (5) Memphis International Airport, and (6) Indianapolis International Airport. Finally, auditors selected airports for comparison to CVG based on FAA rank by the number of enplanements. Of the nine airports selected, seven airports were closely ranked to CVG. See Exhibit 1 for FAA ranking by enplanement and a summary of survey results involving Board governance, number of Board members, Board appointments, appointing authority and Board travel, and alcohol purchases.

Airport Background

History

In 1942, President Franklin Roosevelt approved \$2 million in preliminary funds for the site development of CVG through the Civil Aeronautics Administration. The airport, located in Boone County, Kentucky, was sponsored by the neighboring Kenton County Fiscal Court and was originally established as a training facility for the United States military during World War II. The United States Army used the property for approximately a year before declaring the airfield surplus property in 1945. After being declared surplus property, the airfield was transitioned into a commercial airport with its first commercial flight flown in 1947. Between 1960 and 1970, annual activity doubled and in response to its growth, in 1974, CVG added two new terminals.

In the 1980s, CVG became a hub airport for one commercial and one freight carrier. While CVG continued to expand over the years, changes in our national economy have affected the aviation industry as a whole, leading to airline consolidations and reducing the number of airline hubs. As a result of airline consolidations, one major commercial carrier, who has provided service at CVG for decades, has greatly reduced its flight activity at CVG over the last several years. Though service provided by this long serving major commercial carrier has caused concern, CVG has in recent years attracted two low cost commercial carriers to provide service in the region.

Chapter 1

Introduction and Background

Governance

In June 1943, the Board was created pursuant to a Kenton County Fiscal Court resolution under the provisions of Kentucky Revised Statute (KRS) 183.390 and 183.400. Upon initial creation, Kenton County Fiscal Court minutes from June 3, 1943, document that a six-member Board was established. The Board was created and organized as a public body politic and corporate. In 1960, KRS 183.390 and 183.400 were repealed and KRS 183.132 through 183.138 were enacted, giving the Board authority to govern its own actions and expanding the Board membership to seven members. The addition of another Board member specified an appointment was to be made from the jurisdiction where the airport is physically located in Boone County, Kentucky.

In 1964, through Executive Order 64-932, former Kentucky Governor Edward Breathitt created the Kenton County Airport Board Advisory Committee for the purpose of assisting the Board in an advisory capacity. Through this Executive Order, the Kentucky Governor was responsible for appointing the six-member Advisory Committee. In 1998, this Executive Order was amended by former Kentucky Governor Paul Patton through Executive Order 98-1665. Per this Executive Order, the number of Advisory Committee members and the appointing authority for the Committee was expanded to include other area governments. Currently, appointments to the Advisory Committee are made as follows:

Six (6) members appointed by the Kenton County Judge/Executive, and one (1) member appointed by each of the following:

- Governor of Kentucky;
- Boone County/Judge Executive;
- Campbell County/Judge Executive;
- Mayor of Cincinnati, Ohio; and
- Hamilton County Ohio Board of Commissioners.

Board Officers and Committees

Board officers consist of a Board Chairman, Vice-Chairman, Secretary-Treasurer and one or more Assistant Secretary-Treasurers. Per Board bylaws, each year the Board Chairman shall appoint a Nominating Committee, “consisting of two voting members of the Board and three members of the Advisory Committee, to select nominees for the office of Chairman and Vice Chairman who shall be voting members of the Board, and for the office of Secretary-Treasurer and one or more Assistant Secretary-Treasurers.”

Board bylaws specifically establish the following committees of the Board:

- An Executive Committee composed of all voting members of the Board.
- A Finance Committee composed of not less than four (4) nor more than nine (9) members appointed by the Chairman.

Chapter 1

Introduction and Background

- An Audit Committee composed of the Board Chairman and two members of the Finance Committee appointed by the Chairman.

In addition to these committees, Board bylaws allow the Chairman of the Board to create other committees as deemed necessary. In addition to the Executive, Finance, and Audit Committees, the Board has formed the following committees:

- Business Management Committee;
- Operations & Development Committee;
- Air Service Ad Hoc Committee;
- Executive Compensation and Talent Management /HR Committee; and
- Boone County Planning Ad Hoc Committee.

Involvement of Kenton County

As the sponsor for the initial airfield project, the Kenton County Fiscal Court purchased the original 950 acres of land in Boone County for CVG at a cost of approximately \$131,000 using Kenton County funds. According to Board minutes from January 12, 1945, it appears that from July 1, 1942 to December 31, 1944, CVG received funding from Kenton County totaling \$218,279.53. According to recent research conducted by the Board attorney, “[i]t is generally assumed that the \$218,279.53 was provided by the County of Kenton (since the airport board was not generating funds before December 31, 1944). This sum together with a grant made by the County of Kenton in 1947 of \$195,000 indicates that the County of Kenton provided \$413,279.53 toward the acquisition of land and other costs related to the beginning of CVG.”

Between 1951 and 1960, Kenton County using Kenton County Airport Board funds purchased an additional 17 parcels of land on behalf of the airport, adding 739 acres to the airport property. Per the Board attorney, these parcels of land “were acquired at a time when the Kentucky statute required land for the airport to be held in the name of the governmental unit forming an airport board. Subsequently the Kentucky statute was amended to provide that title to land could be taken in the governmental unit forming an airport Board or in the name of the airport board itself. After the amendment to the statute, as a matter of convenience, title to parcels were taken in the name of the airport board at CVG.” Currently, CVG consists of approximately 7,500 acres of land, including approximately 1,740 acres still in the name of Kenton County. As of December 31, 2013, CVG reported over \$1.4 billion in capital assets, with over \$780 million in capital assets net of accumulated depreciation.

According to research performed by the Board attorney, the majority of CVG terminal and concourse structures are located on the original parcel boundary purchased by the Kenton County Fiscal Court. Because Kenton County has maintained title to this land, the FAA requires the county to be co-sponsor of any Federal grants and awards CVG may receive. Federal funding can place restrictions on the use of land and the FAA recognizes that the county may place restrictions on land it owns.

Chapter 1

Introduction and Background

CVG historical records maintained by the Chief Financial Officer (CFO) indicate that funding for the initial and later expansion of runways and various CVG buildings is attributable to various sources, including, but not limited to, federal funds, revenue bonds, and airline revenues.

Kenton County is the original sponsor of CVG, providing financial assistance at the onset of the project and establishing the original governing body for the airport. However, CVG, as the Kenton County Airport Board, is a separate legal entity from the Kenton County Fiscal Court. CVG, including the land on which it operates, is not included in the financial statements of the Kenton County Fiscal Court. Moreover, Kenton County provides no funding for CVG and CVG does not remit taxes or fees to Kenton County.

Financial Information

The CVG fiscal year (FY) begins January 1 and ends December 31. Each fiscal year, the Board engages the services of a CPA to perform a financial statement audit. The most recent financial statement audit report was issued on June 16, 2014. The following analysis is based on the most recent CVG financial statement audit report.

Revenues

CVG revenues are generated from airport user fees to fund all operating expenses and debt service requirements. The operations of CVG are self-supporting, with no tax revenues generated from the public. Since the CVG Board is not publically elected, the Kenton County Judge Executive has historically acted as the approving signatory for CVG revenue bonds due to Kenton County initially sponsoring the airport. Internal Revenue Code 147(f)(2)(A) requires the issue of revenue bonds to be approved by an applicable elected representative of a governmental unit. However, these revenue bonds are not a general obligation or indebtedness of Kenton County.

Per Management’s Discussion and Analysis section within the FY 2013 financial statement audit, “[c]apital projects are funded through the issuance of bonds, the collection of Passenger Facility Charges (“PFCs”), the collection of Customer Facility Charges (“CFCs”), the receipt of federal and state grants and internally generated funds.”

A PFC is a fee of up to \$4.50 that commercial airports controlled by a public agency can charge every boarded passenger to fund FAA-approved projects to enhance safety, security, capacity, or other specific projects. A CFC is a fee an airport requires car rental companies to collect that is used to pay for new car rental facilities.

Chapter 1 Introduction and Background

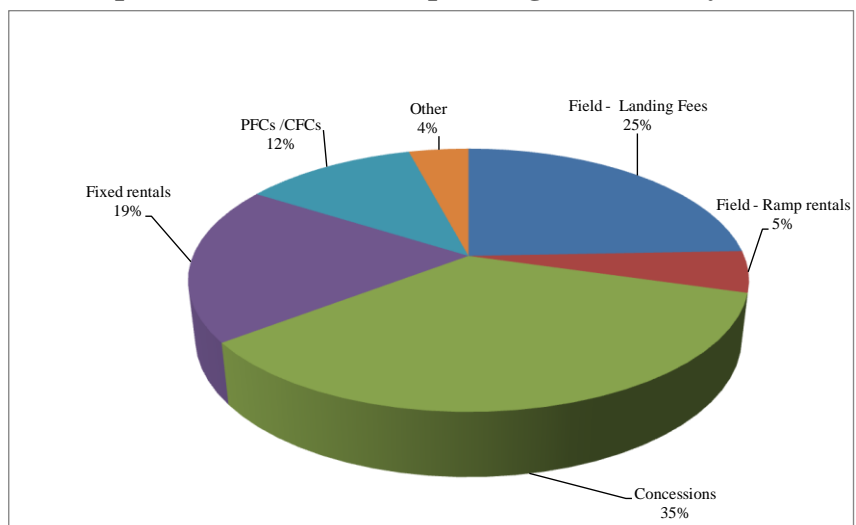
In FY 2013, CVG operating revenues totaled over \$98 million. Table and Graph 1 summarize the operating revenues by source for FY 2012 and 2013. The majority, or 78 percent, of CVG operating revenues in FY 2013 were generated from Field Landing Fees, Concessions, and Fixed Rentals. Table 1, shows the same sources of revenue comprised the majority, or 73 percent, of CVG operating revenues in FY 2012, as well.

Table 1: FY 2012 and 2013 CVG Operating Revenue by Source (in thousands of dollars)

Operating Revenue	FY 2012	FY 2012 Percentage of Total	FY 2013	FY 2013 Percentage of Total
Field - Landing Fees	\$23,683	22.9%	\$24,035	24.4%
Field - Ramp rentals	5,140	5.0%	4,997	5.1%
Concessions	32,529	31.4%	34,666	35.2%
Fixed rentals	19,795	19.1%	19,074	19.3%
PFCs /CFCs	17,820	17.2%	11,747	11.9%
Other:				
Field - Other	159	0.2%	154	0.2%
Rebilled services	2,972	2.9%	2,808	2.8%
Grants and Federal awards	710	0.7%	467	0.5%
Police forfeiture revenues, Investment income, and Miscellaneous revenues	739	0.7%	626	0.6%
Total Operating Revenue	\$103,547		\$98,574	

Source: Financial Statements and Independent Auditor's Report.

Graph 1: CVG FY 2013 Operating Revenues by Source



Source: Financial Statements and Independent Auditor's Report.

Chapter 1 Introduction and Background

CVG operating revenues must meet certain requirements per revenue bond resolutions and airline “use agreements.” According to its revenue bond resolutions, the Board “will charge and collect a schedule of rates, charges and fees for the use of the Airport which will annually produce Net Revenues at least equal to 120% of (1) the current principal and interest requirements of the outstanding Bonds and any Additional Bonds plus any required payments into the Depreciation Fund.” The “use agreements,” which provide the basis for determining landing fee rates and other charges to the airlines for use of CVG facilities, require “that in no event shall Airport revenues be less than that required by the various bond resolutions.” FY 2013 financial statement audits document that CVG operating revenues of over \$98 million were sufficient to satisfy the requirements of both the revenue bond resolution and airline “use agreements.”

Operating Expenses In FY 2012, CVG operating expenses were approximately \$69 million, with the majority of the operating expenses, approximately 49 percent, incurred for salaries, wages, and benefits. Total CVG operating expenses rose slightly in FY 2013 to approximately \$69.9 million. A summary of operating expenses can be found in Table and Graph 2.

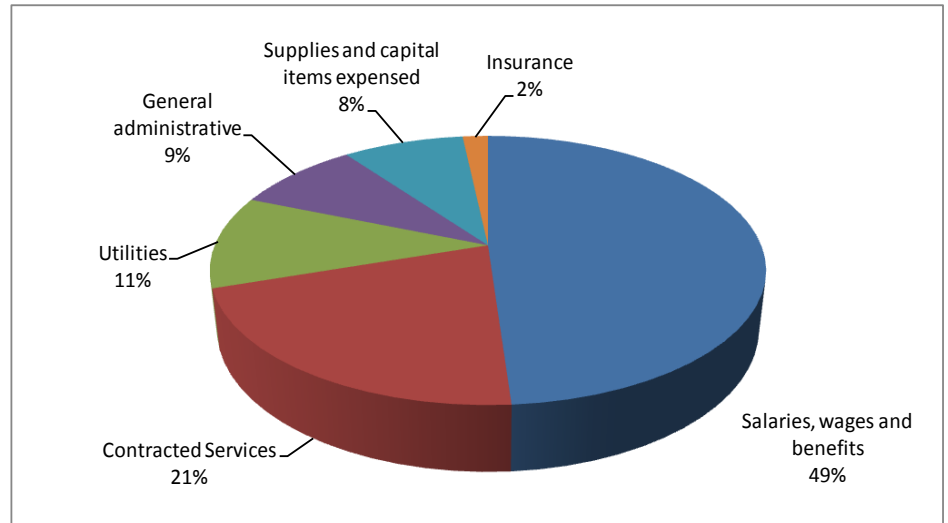
**Table 2: FY 2012 and FY 2013 CVG Operating Expense by Type
(in thousands of dollars)**

Operating Expenses	FY 2012	FY 2012 Percentage of Total	FY 2013	FY 2013 Percentage of Total
Salaries, wages and benefits	\$33,230	48.1%	\$34,176	48.9%
Contracted Services	14,937	21.6%	14,721	21.1%
Utilities	7,627	11.0%	7,813	11.2%
General administrative	6,117	8.9%	6,092	8.7%
Supplies and capital items expensed	5,858	8.5%	5,886	8.4%
Insurance	1,302	1.9%	1,231	1.8%
Total Operating Revenue	\$69,071		\$69,919	

Source: Financial Statements and Independent Auditor’s Report.

Chapter 1 Introduction and Background

Graph 2: CVG FY 2013 Operating Expenses by Type



Source: Financial Statements and Independent Auditor's Report.

Payroll deductions

As of December 31, 2013, CVG reported having 360 full-time employees, 56 part-time employees, and 28 seasonal on-call employees. Salaries, wages, and benefits reported for FY 2013 totaled over \$34 million with over \$740,000 paid by CVG in payroll taxes to the Commonwealth of Kentucky. Because CVG is located in Boone County, it pays the county various payroll withholdings including Board of Education tax for residents, as well as, mental health and ordinance withholdings. According to 2013 CVG payroll records, approximately \$204,000 from employee withholdings was paid to Boone County. No other taxes or fees are remitted regularly to any other county government entity.

Retirement

All CVG full-time employees are members of the Kentucky Retirement System's County Employees Retirement System (CERS). CERS is administered by the Kentucky Retirement Systems under KRS 61.645, and provides retirement, death, and disability benefits to members. The required contribution rates for this plan are determined by the Kentucky Retirement Systems Board of Trustees. In FY 2013, CVG employer and employee retirement contributions totaled over \$2.8 million and were at 100 percent of the required contribution amounts.

Revenue Bonds

As of December 2013, CVG reported the Board having \$100,430,000 of revenue bonds outstanding. Due to the scheduled maturity of certain revenue bonds and retiring other revenue bonds from existing funds, the Board had \$62,815,000 of revenue bonds outstanding as of March 1, 2014. The next principal bond payment will not occur until March 1, 2015. According to the CVG Vice-President of Financial Operations, the airport's credit rating, issued by Standard and Poor's, was recently re-evaluated and while it remains at "A-," the outlook has changed from negative to stable.

Findings and Recommendations

Finding 1: One individual appoints all seven voting members of the CVG Board and the majority of the Board's 11-member Advisory Committee, a structure that has created confusion among Board and Advisory Committee members, and increases the risk of political influence directly impacting Board member decisions.

The Kenton County Airport Board, established as authorized in KRS 183.132(4)(b) relating to local air boards, is comprised of seven Board members appointed by the Kenton County Judge/Executive. The seven-member Board was initially established by a resolution of the Kenton County Fiscal Court in 1943, and is the governmental body in charge of operating the Cincinnati/Northern Kentucky International Airport (CVG).

In 1964, a six-member "Advisory Committee to the Kenton County Airport Board" (Advisory Committee) was established by former Governor Edward Breathitt's Executive Order, for the purpose of "assisting in an advisory capacity the Kenton County Airport Board in its official duties as the governmental body charged by statute with the operation of such air facility." All six Advisory Committee members were appointed by the Governor.

Later, in 1998, through another Executive Order issued by Governor Paul Patton, this Advisory Committee was reorganized by increasing the number of Advisory Committee members from six to 11, and was expanded by increasing the number of appointing authorities for the Advisory Committee's members to include other local area governments. Currently, appointments to the Advisory Committee are made as follows:

Six (6) members appointed by the Kenton County Judge/Executive, and one (1) member appointed by each of the following:

- Governor of Kentucky;
- Boone County Judge/Executive;
- Campbell County Judge/Executive;
- Mayor of Cincinnati, Ohio; and,
- Hamilton County, Ohio Board of Commissioners.

Thus, the Kenton County Judge/Executive is the appointing authority for all seven of the voting Board members, and also for a majority, six of 11, of the non-voting Advisory Committee members. These appointments are made solely by the Judge/Executive, with no action required to be taken by the Kenton County Fiscal Court in association with these appointments. The existing structure provides appointments from primarily a single authority, and the two-tiered structure by which the Board and the Advisory Committee operate has caused confusion and conflict among the Board members and Advisory Committee members. The conflict among Board and Advisory Committee members, coupled with the limited appointing authority, has led to concerns that political influence exists over Board members. Many current and former Board and Advisory Committee members, as well as others interviewed, described the Board and Advisory Committee operations as dysfunctional, which, if allowed to continue, will only detract from CVG's mission and deflate the public's trust, potentially harming a significant economic driver in the region.

Auditors performed a survey of seven airports similar to CVG that also had board members appointed by an outside authority. For six of the seven airports surveyed, board members were appointed by multiple authorities and/or approved by a legislative body. Only one of the airports surveyed had a single authority appointing board members similar to the approach followed by CVG. See survey results at Exhibit 1.

Though the seven-member Board authorized by statute, and the 11-member Advisory Committee authorized by executive order, were legally established as separate bodies, individuals interviewed throughout the examination process, including current and former Board and Advisory Committee members, CVG management and staff, as well as outside consultants, consistently referenced these two bodies collectively as “the Board.” Many perceive that there is an 18-member Board comprised of voting and non-voting members at Board meetings. Advisory Committee members are thought to be Board members who attend Board meetings, travel to industry conferences, are reimbursed for travel expenses, attend Board group meals, but do not vote on matters before the Board. However, regardless of perception, the seven-member Board is the only body that legally governs CVG.

Advisory Committee members do, however, serve as voting members on the various Board committees to which they are assigned. During the examination period, members also served as chairs of various Board committees. Although it may be acceptable to have Advisory Committee members assigned to various committees of the Board to continue to act in an advisory capacity, there appears to be no legal authority, either in the statutes or executive orders, allowing Advisory Committee members to either serve as Board committee chairs or to vote as Board committee members, as they are not actual Board members. Certain Advisory Committee members interviewed stated that not being able to vote at Board meetings was alright because the real decisions and influence are made in the various Board committee meetings where they are allowed to vote and subsequently make recommendations for actions to the Board.

Advisory Committee members interviewed felt it was important to participate at that Board committee level and noted, erroneously, that they were part of the Board. One Advisory Committee member noted the involvement of the Advisory Committee members at this level has worked for several years until more recently, explaining that the Executive Committee of the Board, which consists of all seven voting members of the Board, began making decisions without the guidance or advice of Advisory Committee members. This criticism appears to stem from Board members conducting Executive Committee, or Board, meetings, taking action in those meetings, and not seeking input from the Advisory Committee members, or immediately afterward reporting the discussions and actions taken

directly to Advisory Committee members. Such criticism has been credited by some as the reason the current Board has suspended having Board meetings separate from the Advisory Committee. While the Board bylaws establish an Executive Committee, the reference to an Executive Committee appears questionable given that the seven members are in fact the Board membership responsible for the governance of CVG.

KRS 183.132(3) states that a local air board such as the Kenton County Airport Board “shall be a body politic and corporate with the usual corporate attributes.” A “usual corporate attribute” of a Kentucky non-profit corporation established in accordance with KRS Chapter 273, is that the corporate board of directors, by resolution adopted by a majority of the directors in office, may designate and appoint one or more committees of the board, each of which committees shall consist of two or more members of the board. See KRS 273.221. Thus, it is not a usual corporate attribute for persons who are not corporate board members to serve as members of the board’s committees. We find no legal authority authorizing members of the Advisory Committee to serve as Board members, whether voting or non-voting members, of the Board’s committees.

A clear divide has developed among the Board and several Advisory Committee members. At least one former Board member interviewed believed there was a power struggle within these two groups due to local political pressures, which have affected the Board and Advisory Committee operations. The concern of potential political influence on the Board has also been voiced by current and former CVG personnel and reported by media. The former CEO stated that while at CVG, he believed there had been political influence on the Board, noting a migration from what he termed a professional orientation to a political orientation when the former Kenton County Judge/Executive was replaced by the current Judge/Executive. Also noted are the campaign contributions made to the Kenton County Judge/Executive’s political campaigns by Board and Advisory Committee appointees of the Judge/Executive.

In an attempt to identify documentation of such political influence on the Board, auditors requested from the Kenton County Judge/Executive, all emails, letters, memoranda, or other written correspondence between the Judge/Executive and specific individuals, including the current CVG CEO, select consultants, and all current and former Board members. Within the response to this request, auditors identified a document outlining criteria for “Ideal Board Members” and “Ideal Advisory Board members,” which the Kenton County Judge/Executive stated was something he created early in his term in office. Though most of the criteria for ideal candidates established by the Judge/Executive may be appropriate for the selection of a candidate to appoint to either the Board or the Advisory Committee, both sets of criteria established by the Judge/Executive also included a bullet which stated: “Current supporter or future supporter of my campaign.” See document at Exhibit 2.

The Kenton County Judge/Executive noted that the document was not an adopted policy; rather, it was “merely me thinking out loud and putting into words my thoughts on how I could help advance cvg within the regional community.” However, specifically including such a statement in the criteria for the selection of candidates appears to indicate that political influence on the Board may exist, or, at a minimum, was a consideration and as such may have led, in part, to what many current and former Board and Advisory Committee members, as well as CVG management, have described as the dysfunction of Board and Advisory Committee relations and operations.

In a presentation entitled *Ongoing Issues in Airport Governance*, given in September 2013 during an internationally recognized aviation industry legal conference, airport authority best practices suggest “no one jurisdiction can appoint a majority” so as to reduce the level of political involvement on the Board. This best practice presentation also notes that board size should be between seven to 11 members, with the median of nine among airport boards. Though the Board’s size technically meets best practice, with seven Board members, the Board is actually functioning as an 18-member, two-tier Board, and as such is not following this industry standard of best practices for airport boards.

Our survey included seven airports similar to CVG that were governed by boards. All seven airport boards followed this best practice regarding the number of board members with the boards consisting of seven to 11 members. Each of these boards consisted of voting members except for one 10 member board, which had a single non-voting member. See survey results at Exhibit 1.

A thoughtful restructuring of this Board is essential to ensure that the significant work of governing this vital public resource is able to continue in a manner that minimizes the risk of political influence, dysfunction, and confusion. The conflicts perceived among its members and threat of undue political influence on the governance of CVG will likely continue until changes are effectuated to address the root issues. Restructuring of governance must be performed in a manner consistent with industry best standards and should be done only in the best interests and to the benefit of CVG and the public it serves.

Recommendations

We recommend the Kentucky Governor and Legislature work together to revise statutes to restructure the current governance model of the Board. We recommend this restructuring eliminate the Advisory Committee of the Board. We further recommend the Board be expanded from a seven member board to an 11 member board, with each member having equal standing and voting authority.

Further, to reflect the regional community served by an airport such as CVG, to foster community involvement, and to reduce the risk of political influence on the Board, we recommend governance revisions incorporate the following distribution of appointment authority:

Findings and Recommendations

- Kenton County Judge/Executive – three Board appointments with appointments confirmed by Fiscal Court;
- Boone County Judge/Executive – two Board appointments with appointments confirmed by Fiscal Court;
- Campbell County Judge/Executive – one Board appointment with appointment confirmed by Fiscal Court;
- Kentucky Governor – two Board appointments;
- Ohio Governor – one Board appointment;
- Mayor of Cincinnati, Ohio – one Board appointment confirmed by City Council; and
- Hamilton County, Ohio Board of Commissioners – one Board appointment.

The recommended distribution of appointments is based in part on historical investment by these communities in CVG and the current economic impacts CVG has on these communities. See report Introduction Chapter for further details.

We recommend the restructured Board, at its discretion, partner with individuals to assist or advise the Board on various relevant Board issues; however, these advisors would not be appointed by any government body and should only assist or advise the Board in specific instances for the period of time that their expertise is valuable to the Board to address an issue. We further recommend the Board develop a policy regarding the use of advisors that clearly documents the fact that advisors have no vote or authority on the Board or Board committees, serve only in a limited capacity to assist the Board on specific issues, and serve at the pleasure of the Board. We recommend this policy be provided to all Board members and potential advisors.

Finding 2: The Board paid a contractor over \$41,000 for work completed; however, the Board chose to maintain the reports as drafts, which appears to circumvent open record laws.

During the examination period, the Board engaged the services of a contractor to “develop a performance goal setting and assessment process for the Chief Executive Officer of the Board.” On July 18, 2013, final payment of over \$41,000 was made to the contractor based on Board approval and acceptance of the three draft reports completed by the contractor. However, the Board did not request the contractor to provide reports no longer designated as draft. Given the interest and controversy surrounding these contracts and the discord among Executive Board members and Advisory Committee members, certain members expressed to auditors during the examination that the lack of a final work product could be an attempt to circumvent transparency and report distribution.

Under the terms of the contract signed by the former Board chair and dated December 28, 2012, the contractor, in exchange for \$35,000 plus expenses, would provide a report and face-to-face feedback both to the Chief Executive Officer (CEO) and to the Board. Based on interviews with current and former Board members, as well as the CEO, the only reports provided by the contractor to date have all been marked draft and confidential. According to the contractor, three reports were issued in association with this contract and all three reports were shared with the Executive Board members and the CEO. The contractor stated that their final reports are typically marked confidential/draft and that the client, in this case the Board, had not requested any change to remove this from the report covers.

Advisory Committee members interviewed stated that they had not seen a copy of the contractor's reports, although some had requested to see the reports as late as August 19, 2013, and had been told by some Board members that they were not finalized, or were being tweaked, and for that reason the reports could not be shared. One former Board member and one Advisory Committee member stated that they believed the reports had intentionally not been finalized to keep the public and Advisory Committee members from reviewing the reports. Another individual interviewed noted that there were factions among the Board and Advisory Committee members and there was concern that the reports, particularly the one related to an assessment of the CEO, would be released to the public.

In discussing the work product with the former Board Chair, he recalled reviewing a draft report but could not recall if a final report had been provided to the Board. While he assumed that there would be a final report if the Board had paid the full amount of the contract, he had no knowledge of that and referred auditors to the Board attorney. The Board attorney stated that the reports provided by the Cincinnati/Northern Kentucky International Airport (CVG) to the auditor's request for documentation, which are identified as draft, were the only reports received by CVG.

In an interview with the Board member designated as the primary contact for these contracted services, the Board member stated that the Board had received a final report from the contractor and kept it in draft form after speaking with the Board attorney as the Executive Committee was concerned about the distribution of the report to the media. He noted the Executive Committee members received the three reports from the contractor but he did not know whether the reports were provided to Advisory Committee members, noting that some received copies from an unknown source at some point. The Board member acknowledged that some Advisory Committee members may have been told the reports were being tweaked, but ultimately anyone who wanted to see them was told to contact the Board attorney's office to review the reports. The Board attorney stated that though someone may have suggested members contact his office, he was not aware of this statement. He further stated that no Advisory Committee members contacted his office to review the report.

Findings and Recommendations

Based on statements made by all parties interviewed and documentation provided by CVG and others, it appears that the Board has attempted to circumvent Kentucky's Open Records law by keeping the reports in draft form. Given that the Board representative designated as the point of contact for these contracted services and the contractor engaged to perform the services both agree that both parties consider these reports as final work products and not drafts subject to further revision, it would appear that these reports would be subject to disclosure under the Open Records law, and as such, should have been made available to Advisory Committee members as requested.

In addition to circumventing transparency and distribution of the final contract work product, auditors also found the Board did not require the contractor to abide by the terms of the agreement by submitting adequate supporting documentation for \$4,554 in contractor expenses. The contract terms specifically require the contractor to include with an invoice a detail of reimbursable expenses claimed by the contractor "along with supporting documentation and receipts for same." However, a review of the supporting documentation for payments made to the contractor found the supporting documentation for the expenses only included expense ledger reports and not actual receipts.

The CVG Vice-President of Financial Operations stated that in his opinion contract administrators should always obtain receipts from vendors when being billed for travel and meal expenses, except in situations where the contract is a lump sum amount or in a situation where the expenses do not vary or affect the amount invoiced to the client. However, the Vice-President noted that the consultant's contract was "a difficult situation from a contract administration standpoint," noting that the contract was initiated and approved by the Board, with a component of the engagement to evaluate the CEO. He stated this placed the CEO in the position of having to administer the contract and he was not certain how free the CEO was to enforce the provisions of the contract.

Recommendations

We recommend the Board acknowledge when a report or other document is complete and final, and refrain from placing documents in permanent draft/confidential status when it is known that a final work product was delivered and paid for in full by CVG. We recommend the Board clearly document in Board meetings its actions to accept a final report or other document, which will assist the Board, the public, and others in determining those documents in the possession of CVG that are subject to the Kentucky Open Records law.

We recommend CVG and the Board enforce contract terms established. Expenses charged to CVG by a contractor should be supported by original detailed receipts before reimbursement for the expenses can be approved for payment to the contractor. If the original detailed receipts are not provided to CVG to support the expense, payment for those expenses should not be made.

Findings and Recommendations

Finding 3: A contract for services totaling \$24,500, plus expenses, was discussed and approved by the Board after the contractor completed the work and submitted the final report to the Board Chair in violation of Board purchasing policies.

A contract for services totaling \$24,500, plus expenses, was approved by the Board on August 20, 2012, three days after the contractor completed the work and submitted the final report to the Board Chair. The contractor was to provide “guidance and support to the Kenton County Airport Board and senior airport staff regarding strategies to enhance airport business development and operational efficiency.” In addition, the contractor was to review goals, expectations, current plans, and committed resources to determine how well these are aligned.

CVG records document that the report was distributed to Board and Advisory Committee members the same day as the date of the report, August 17, 2012. As evidenced by its actions, the Board knowingly incurred an expense then subsequently approved the contract and payment so that the expense could be paid by CVG. The motion to approve a contract for services and the subsequent unanimous approval by the Board gave the appearance that the contractor’s work had not yet begun, which misrepresents the actual sequence of events. Furthermore, the action violated the Board Purchasing Policy which requires the creation and approval of either a Purchase Order (PO) or the execution of a contract before funds are committed.

Based on CVG records, it appears the Board initially discussed meeting with this vendor during an Executive Committee meeting held on June 18, 2012. During this Executive Committee meeting, the Board voted unanimously to invite the vendor to CVG for discussions with the Board and CVG management and authorized reimbursement to the vendor for his expenses to visit CVG. At this time, there was no documented discussion of the vendor performing contract services. While the Board approved a visit from the vendor along with reimbursement of his expenses, it does not appear, according to CVG records, that the vendor billed or was paid anything specifically associated with this Board visit. Rather, the only payment made to the vendor, in the amount of \$28,642, occurred in November 2012 and was associated directly with the contract approved on August 20, 2012.

The contract with the vendor, signed by the former Board Chair, was established at a fixed price of \$24,500, plus expenses. Exhibit A of the vendor’s contract states that the work will commence on August 4, 2012 and a final written report will be submitted on or before August 17, 2012. In discussing the contract work directly with the vendor, auditors confirmed the vendor’s report was in the form of a power point presentation and was provided by the vendor directly to the Board Chair on August 17, 2012. Email correspondence provided by CVG shows that the CEO, at the direction of the Board Chair, forwarded the vendor’s report to all Board and Advisory Committee members on August 17, 2012, stating:

The contract for Dunham Group LLC will be brought to the Board for consideration at Monday’s meeting. A copy of the draft motion for approval of the contract is contained the Board Blue Book.

Findings and Recommendations

According to the Board’s purchasing policy, “[t]he expenditure of Board funds should not be committed prior to the creation and approval of either a PO or the execution of a contract. While the policy does list certain exceptions to this requirement, such as “in cases where an immediate, significant and unexpected safety, security, regulatory compliance or customer affecting situation, or a situation with significant and unexpected operational ramifications is encountered,” there is no documentation to suggest that this work met those criteria and as such would not be an allowable exception to the purchasing policy.

The services associated with the vendor’s contract, though formally approved by the Board on August 20, 2012, was clearly initiated and completed well before the Board’s formal action. Further, the PO to pay the expense associated with this work was not created until September 4, 2012. The action taken by the Board violates its own purchasing policy and does not foster transparency or accountability to the public. Furthermore, the Board exposes CVG to potential financial liability for work performed if the contract was not approved.

Recommendations

We recommend the Board follow its established purchasing policy and ensure contracts for vendor services are properly approved prior to services rendered on behalf of the Board and CVG unless a legitimate emergency situation exists. In the event of an emergency, the situation should be documented to explain the situation and a contract should be developed, reviewed, and approved as soon as possible.

Finding 4: The Board engaged a contractor for \$60,000 to provide public relations services without first consulting CVG staff, leading to potential duplication of services and wasteful spending.

In March 2013, the Board engaged a contractor at a monthly cost of \$5,000 to provide public relations (PR) services for a one-year period. This action was taken without first consulting CVG staff to determine whether internal resources were available to provide such services or considering whether another contractor had already performed certain services. This \$60,000 contract paid from airport marketing funds was initiated by the former Board Chairman and was quickly entered into despite concerns expressed by the CEO regarding the potential for duplication of services. Further, the contract was initiated without consulting the CVG Vice-President of External Affairs, whose employees provide marketing and public relation services. The expedited process followed by the Board to engage the services of this contractor may have led to duplication of services and wasteful spending of CVG funds.

According to an email dated March 15, 2013, the vendor was requested by the former Board Chair to provide a proposal to the CEO for PR services. The three-page proposal delivered by email to the CEO stated that the proposal to the Board was “for a communications plan that includes media and public relations consulting, development of media opportunities, business community engagement, media-crisis management, and the development and promotion of key messages, and other PR executions for the Cincinnati/Northern Kentucky International Airport (CVG).” In response to the contractor’s proposal, the CEO submitted an email to the former Board Chair on March 18, 2013, stating that if the Board decided to enter into a contract for PR services with this firm there were several issues she wanted to note for his consideration. The CEO noted in this correspondence to the former Board Chair that the services proposed appeared to be a duplication of services performed by another contractor the Board had just contracted with four months earlier. She also stated that some of the work product proposed already existed at CVG, such as a crisis communication plan.

According to the CEO, the concerns she expressed to the former Board Chair were discussed in summary with the Board’s Executive Committee that same night, though these discussions were not reflected in the Executive Committee meeting minutes. The CEO stated that the Board agreed that it would reduce the work to be included in the scope of services by the PR firm; however, the cost of services remained the same as initially proposed by the contractor, a new scope of services was not created, and the contract for these services was prepared prior to that evening’s Board and committee meetings. The CEO stated that she was asked to sign the contract that same night, which she felt was unusual as she did not recall a time, before this or since, when the Board attorney had a contract ready for her signature on the same night the Board initiated such a contract.

In discussing the PR contract with the former Board Chair, he believed the purpose of the contract with the PR firm was to cast a more positive light on the airport as a whole given the recent negative press CVG had received. Many of the Board members interviewed noted that the contractor selected had a good reputation in the area and they were looking for someone to send a positive message into the media. Regarding the CEO expressing concern for potential duplication of services, the former Board Chair initially could not recall receiving such concerns from the CEO. The former Board Chair later vaguely recalled some discussion regarding the services provided by both contractors but stated that he believed the services provided by the original contractor were a little different, as they related to advertising. In addition, the former Board Chair stated that CVG recently had turnover in its PR staff about the time the contract was initiated and it was not until sometime after the PR contract was signed that Board members became aware the CVG position had been filled.

In discussing the matter with other current and former Board members, some stated that while there may have been PR staff at CVG the Board did not feel there was anyone at CVG, or already on contract with CVG at that time, that could provide the same level of service provided by the PR firm selected for this purpose. However, it was stated by CVG staff interviewed that the PR services provided through this contract could have been provided by existing staff rather than contracting for those services. In fact, the resume for the newly hired Director of Communications documents that this employee had recently served as a Chief Communications Officer for a local northern Kentucky government, which included serving as a lead contact with media and formulating strategic communications on behalf of his employer. One CVG staff member suggested that while CVG personnel were capable perhaps of providing PR services to the Board, the turmoil between the Board and staff caused the Board to seek a contractor for these services.

The Vice-President of External Affairs, whose staff performs CVG marketing and public relations, had no knowledge of how this contract was initiated, although the funding for this contract was designated to come from the marketing and public affairs budget that he helps oversee. He stated the contract was handled strictly by the former Board Chair. During the first months of the contract, invoices document that the contractor met with a few CVG staff members on occasion; however, by September 2013, the CEO requested all invoices be approved by the Board Chair before paying the contractor's invoice, as staff could not attest to the work performed by the contractor for several months. By this point, contractor invoices indicated that all communication was with Board members, and multiple times specifically with the Board Chair. A CVG staff member stated that eventually the contractor was unable to communicate for the airport because the contractor was not talking to staff and this resulted in dual messages communicated to the press rather than a single united message from CVG and the Board.

While performing interviews, concerns were also expressed by some Advisory Committee members, CVG personnel, and a former Board member, regarding the contractor selected given that the contractor had a known affiliation with the Kenton County Judge/Executive's 2014 re-election campaign. Invoices document that the contractor met with the Kenton County Judge/Executive, the former Board Chair, and another former Board member on March 12, 2013 and again on March 13, 2013, days before the proposal was presented to the CEO and before the CEO was asked to sign the vendor's contract. While the contractor was affiliated with the Kenton County Judge/Executive's re-election campaign, the Kenton County Judge/Executive and the contractor both stated that the contractor did not begin working with the Judge/Executive's campaign until sometime in June 2013, several months after the contractor was awarded the contract with CVG.

Findings and Recommendations

The contractor informed auditors that the purpose of the meetings on March 12 and March 13, 2013, was to broadly discuss communication and PR strategies for CVG and the Board. Though the Judge/Executive and the Board Chair could not specifically recall these meetings with the contractor prior to a proposal for various services being submitted to the CEO, the Board Chair stated that he knew that the Judge/Executive was equally concerned about getting good press for the airport.

The discord between the Board and management, and the dysfunction of the Board as stated by current and former Executive Board and Advisory Committee members during interviews, do appear to have played a role in selecting a contractor that resulted in potentially duplicating services. Regardless of who initiated the contract or how the need for these services was identified, it is clear from the documentation and interviews with various parties affiliated with CVG that the Board did not thoroughly consider all options available to it before contracting for these services. Furthermore, once the contract was established, key CVG personnel were not sufficiently included in communications with the PR firm to be aware of services provided, ensure services were not duplicated, and make sure that a single cohesive message was delivered to the media.

Recommendations

We recommend the Board, or a committee of the Board, discuss any future potential service needs with the CEO and other key CVG airport management prior to initiating a contract with an outside vendor. The purpose of these discussions should be to identify whether comparable internal resources already exist to provide the services desired by the Board so funds are not wasted. If internal resources do not already exist and it is determined that an outside contractor is needed, we recommend the Board discuss this determination in an open meeting of the Board and sufficiently document its need for these contracted services in its meeting minutes.

Finding 5: The Board has not had a formal written contract with its Board attorneys' firm for decades.

The Board has not had a formal written contract with its Board attorneys' firm since it first began providing services in 1962, despite CVG spending millions for these legal services. Between July 2012 and December 2013 alone, CVG paid over \$511,000 to its Board attorneys' firm for services rendered. The CVG procurement policy excludes these legal services from the requirements of a contract.

Per the CVG procurement policy, "[o]utside general counsel fees are exempt from the purchase order or contract requirement." According to the Vice-President of Financial Operations, the relationship between the Board and its legal counsel has historically been handled without a written agreement. Further, he states that the procurement policy is established by staff and that the policy's exclusion was:

Findings and Recommendations

merely the recognition by staff that, other than items required by law, staff cannot establish or enforce policy for the Board. Therefore, the manner in which the Board's relationship with its General Counsel is procured and conducted would have to be set at the Board level. As staff did not have the authority to determine how General Counsel services would be procured. The options were to 1) not exempt the services from the contract requirement and then not be in compliance with the policy or 2) to exempt the services from the contract requirement so that the procurement policy could be issued and compliance could be achieved.

While the Board has used the same law firm since 1962 without a formal written contract, the Vice-President of Financial Operations noted that the Board had re-appointed the law firm as its attorney in May 21, 1990. Meeting minutes from the Board meeting held on May 21, 1990, state that the term for the appointment would be "for the current year ending May 31, 1991 and until such subsequent date as their successor might be appointed by the Board."

In discussing this matter with the CEO, she believed the rates charged by the attorneys' firm were reasonable compared to other firms and noted that any adjustments to the attorneys' fee structure would be communicated to the airport and approved by the Board Chair. When comparing the hourly rates charged by the Board attorneys' firm and another law firm performing legal services for CVG, the hourly rate charged by the Board attorneys' firm appeared reasonable. Based on a review of billings to CVG, it does not appear that rates charged by the Board attorneys' firm were adjusted during the examination period. A best practice would be for the terms and conditions, including the fee structure, to be clearly outlined in a formal written contract.

Though the fee structure appeared to be reasonable, a review of attorney billings, during the examination period, found approximately \$4,075 of total duplicate charges CVG paid to the Board attorneys' firm. Subsequent to auditors confirming this overpayment with CVG, the CVG's Vice-President of Financial Operations discussed this issue with the Board attorneys' firm. To resolve this issue, a credit to offset the total duplicate payments will be provided to CVG in future billings.

While a contract does not have to be in writing to be legally binding, a formal written contract allows for greater transparency and accountability by the parties to the agreement. Furthermore, given the potential for rotation among Board members and key executive management, a written contract would provide documentation of the exact terms of the agreement and be less subject to interpretation.

Findings and Recommendations

Recommendations We recommend the Board ensure any agreement it enters into is documented in a formal written contract. Contracts entered into should specify the services the contractor will perform and the terms of the contract including the amount to be paid by the Board in return for these services. The contract should include specific language requiring detailed invoices from a contractor to include a description of the work performed, the number of hours associated with each work step, and the rate at which services are being charged. If services are performed by individuals at various levels of responsibility or authority within the organization, the rates charged for those at these various levels should also be specified.

We further recommend CVG revise its procurement policy to eliminate the exception to the contract requirement for the services of a general counsel, so that contracting for a general counsel will follow the same procurement process established for other contract services.

Finding 6: The Board engaged the services of a contractor to perform duplicative work.

On November 18, 2013, the Board engaged the services of a contractor for approximately \$25,000 to perform services duplicative to those scheduled to be performed by the Kentucky Auditor of Public Accounts (APA). The Board then directed executive management to provide the contractor with all documentation requested by the APA throughout the examination process. The action of the Board to engage a contractor, upon initiation of the APA's examination, to perform essentially the same services of the APA appears questionable, wasteful, and fiscally irresponsible.

Per Board meeting minutes dated November 18, 2013, the motion was made and unanimously approved, as follows:

The Kenton County Airport Board ("Board") through its Chairman, Chief Executive Officer or her designee be authorized to enter into an agreement with an outside auditing firm as the Chairman considers necessary to provide assistance to the Board and its staff during the course of a special examination by the Kentucky Auditor of Public Accounts.

While the motion made by the Board indicates that the firm will be engaged to assist the Board and staff during the examination, the actual engagement letter signed by the Board Chair appeared similar to the work to be performed by the APA. Such similar services included the review of Board policies for travel and entertainment expenses, examination of Board and executive management travel expenses, examination of Board meeting expenses, and review of the Board governance structure. The services to be performed outlined in the engagement letter did not require the firm to provide a final written report in association with this engagement.

Findings and Recommendations

CVG executive management told auditors they were unsure whether a final written report from the contractor would be provided because they were not involved in the initiation of this contract. On April 29, 2014, the firm submitted an invoice for \$22,000 and the amount was paid on June 19, 2014.

Further, executive management have reported that communication with the contractor has been limited, noting that while the contractor has been onsite to review records examined by the APA, the contractor only contacted staff to ensure that it has received all items requested by the APA. Per CVG records, on December 30, 2013, a former Board member directed the Vice-President of Financial Operations to provide the contractor with the initial request for documentation from the APA and “ensure that the firm receives everything the State auditor receives.” Over the duration of this examination, executive management noted that the contractor has made no request for documentation or information to CVG personnel other than those items requested by the APA.

From interviews with various current and former Board and Advisory Committee members as well as the Board attorney, it was noted that the purpose of the contract engagement was for an independent review of the Board’s policies and financial activities so that the Board could respond to any findings in the APA report and that a written report of the contractor’s findings was not anticipated. One Advisory Committee member interviewed stated that from his perspective, the contractor was engaged to defend the Board. This indicates that the Board was anticipating defending its actions before auditors had initiated the examination. Some interviewed noted heightened concern by the Board given recent media reports relating to Board travel and meals and the desire to ensure that the expenses and events were properly reflected.

The Board’s immediate reaction in late 2013 to the anticipated APA examination appears premature. Rather than engage a third-party to perform identical services, the Board could have made better use of CVG funds and resources already available to it by requesting services from internal audit staff or discussing matters with its CPA who has performed its annual financial statement audits and would have already been familiar with the Board’s policies, procedures, and travel activities. Additionally, those services could have focused more on assisting the Board and CVG with implementing corrective action instead of duplicating work.

Recommendations

As recommended previously in recommendations to Finding 4, we recommend the Board, or a committee of the Board, discuss any future potential service needs with the CEO and other key CVG airport management prior to initiating a contract with an outside vendor. The purpose of these discussions should be to identify whether comparable internal resources already exist to provide the services desired by the Board so funds are not wasted. We further recommend the Board carefully evaluate the necessity and timing of services contracted and that these services and use of funds are based on a sound business decision in the best interests of CVG and not self-serving to the Board.

Findings and Recommendations

Finding 7: The cost for industry conferences associated with Board and Advisory Committee members' travel appears excessive.

CVG expended almost \$96,000 in association with four industry conferences attended by various Board and Advisory Committee members between July 1, 2012 and December 31, 2013. Of this cost, over \$86,400 was expended directly in association with various Board and Advisory Committee members. This cost excludes over \$7,000 for large Board group dinners held during these conferences, identified in Finding 9, and over \$2,900 in expenses directly related to the Kenton County Judge/Executive. The average attendance at these conferences by Board and Advisory members, excluding the international conference held in Bologna, Italy in the fall of 2013, comprised 10 percent to 20 percent of all conference attendees. The level of participation by Board and Advisory Committee members at each North America industry conference appears unnecessary and has led to excessive spending by the Board and Advisory Committee.

Each year, as part of its budget process, the Board must approve a list of meetings and conferences that may be attended by Board and Advisory Committee members at the expense of CVG. Historically, the Board has invited all Board and Advisory Committee members to attend two North America industry conferences each year and three individuals to attend an international industry conference each year. According to CVG records and interviews, dating back to at least 2011 those invited to the international conference were the Board Chair, Board Vice-Chair, and the Kenton County Judge/Executive.

In addition to conference fees, the budgets established by the Board for these conferences encompassed the anticipated costs associated with air travel, catering and food for Board meetings, and business meals. In 2012 and 2013, the Board approved budget amounts of \$240,000 and \$295,000, respectively for such expenses. According to the former Board Audit Committee Chair, who also served on the Executive and Finance Committees, the budget amounts were never exceeded noting that they were established for more people to travel than were anticipated to actually travel. Budgeting in this manner had the effect of allocating excess funds that could be used at the discretion of those attending the conference while not exceeding the budgeted amount. While several Board members would routinely attend the conferences, several of these members would routinely not attend conferences, such as the former Board Audit Committee Chair. The former Board Audit Committee Chair noted that he did not have time to attend such conferences and he never felt the conferences had much to offer him in his role as a Board member. While he could see the importance for the Board Chair and the CEO to attend select conferences as a means to network, he did not understand the need for other Board and Advisory Committee members or the Kenton County Judge/Executive to attend these conferences. Some other current and former Board and Advisory Committee members interviewed who had attended various industry conferences noted that conferences were helpful as they provided an opportunity to learn of changes in the industry and to network with other airports.

One example of an industry conference trip taken during the examination period was to Calgary, Canada in the fall of 2012. CVG expended approximately \$41,700 for this trip with approximately \$33,400 directly associated with the expenses of 11 Board and Advisory Committee members. In addition to Board and Advisory Committee members, CVG was also represented at this conference by the CEO, Board attorney, and the Kenton County Judge/Executive. The average per person costs for attending this North America industry conference was approximately \$3,000. Of the 54 attendees scheduled to attend this conference, CVG had 14 representatives or 26 percent of all attendees. Conference registration information documents the next highest number of representatives for an airport was five. While such conferences may be beneficial for networking purposes, the level of representation at this conference was excessive, clearly in excess of other airports' representation at this conference.

Another example of an industry trip and associated costs was to San Jose, California in the fall of 2013. CVG records show that nine Board and Advisory Committee members attended, along with the CEO and Board attorney to this North America industry conference at a cost of almost \$32,000. The average per person cost was nearly \$3,000. Of the 87 attendees scheduled to attend this conference, CVG had 11 representatives or 13 percent of all attendees. Conference registration information documents the next highest number of representatives for an airport at this conference was seven. Again, the level of representation by CVG and its Board to this conference was excessive.

According to the former Board Chair, Board and Advisory Committee travel and related expenses have been a topic of conversation over this last year at CVG. In late 2013, Executive Committee meeting minutes reflect the Board took action to reduce its travel budget, restrict the number of individuals covered by the Board travel policy who were invited to attend the two North America industry conferences in 2014 to 11 individuals, and discuss revising its travel policy and procedures either to eliminate, or to strengthen the restrictions for certain types of spending, including alcohol and first class air flights. These measures were taken in an attempt by the Executive Committee to control conference and travel expenses. The former Board Vice-Chair noted that during the Executive Committee's discussion of limiting the number of travelers invited to attend conferences, he stated that his company required those traveling to conferences to give a report on their trip upon return and he felt that was a good practice.

Findings and Recommendations

While the Board appears to have taken certain steps related to travel costs, auditors question whether the limitation on the number of individuals included in the Board travel policy and invited to attend industry conferences will greatly affect actual expenses associated with the trips. Given the number of Board and Advisory Committee members who traveled to each of the industry conferences during the examination period, it does not appear that the established limit of 11 is much different from the number of actual Board and Advisory Committee members attending these conferences each year. It also appears this continues to allow CVG to have a much higher number of representatives than other airports attending these conferences.

Recommendations

We recommend the Board develop a process by which Board members may travel to a limited number of conferences each year on rotating basis. The Board should limit the number of attendees to a minimum reasonable number, possibly no more than three or four attendees per conference. Once the process is developed and the limit is established, the Board should formalize its action in writing and include as part of the Board travel policy.

Further, we recommend the Board require conference attendees to provide a report of their trip to the Board upon their return and document the report in the Board meeting minutes.

We also recommend the Board seek different options for all Board members to obtain cost effective updates or training on current industry issues and trends, rather than solely relying on travel to industry conferences, to reduce its expenses and allow all members an opportunity to learn.

Finding 8: CVG incurred expenses on behalf of the Kenton County Judge/Executive and his spouse in conflict with existing Board policy.

CVG reimbursed over \$5,600 in expenses to the Kenton County Judge/Executive and incurred another \$3,200 in conference fees on behalf of the Judge/Executive and his spouse in conflict with existing Board policy. The majority of these expenses were associated with the Judge/Executive attending national and international airport industry conferences in 2011 and 2012. Additional expenses were also incurred by individual Board members on behalf of the Judge/Executive and reimbursed back to these Board members by CVG through expense reimbursement requests. The expenditures covered by Board members on behalf of the Judge/Executive during conferences attended during the examination period are included in Finding 7. At the time these expenses were incurred, the Board travel policy specified that it applied to Board and Advisory Committee members, and as such, did not include travel and meal expenses incurred on behalf of other parties such as the Board’s appointing authority.

Findings and Recommendations

The issue of CVG paying the travel expenses of the Kenton County Judge/Executive was raised by the CPA conducting the annual CVG financial statement audit for the period ending December 31, 2012. The CPA letter to management dated June 6, 2013, reported “instances in which Airport policy was not being followed.” These instances include reimbursement to individuals not serving as Board members or employees of CVG. The letter specifically identifies these individuals as outside legal counsel and an elected official. Expenses incurred on behalf of the outside legal counsel are included as part of total conference expenses addressed in Finding 7.

In response to the CPA finding, the Board revised its travel and expense policy during an Executive Committee meeting to include travel and payment of expenses for the Kenton County Judge/Executive. The minutes of the August 19, 2013 Executive Committee meeting document a motion was made and unanimously approved by the Board to amend the Board’s Travel and Expense policy and applicable procedures to “clarify and clearly state that the Kenton County Judge Executive is included under and subject to the restrictions of the Travel Policy and Procedures.”

Following this change to Board policy, on September 24, 2013, the Judge submitted a letter to the CEO stating that he was aware questions had arisen regarding his travel with the Board and he wished to address expenses associated with two trips his spouse attended. The Kenton County Judge/Executive then made the following request:

If there is a written policy to cover spouse expenses for events such as those my wife attended, please send it to me at your earliest convenience. Attaching the policy to an email would be suitable.

If no written policy exists, please send me an invoice for the events.

In response to the Judge/Executive’s request, the CEO submitted an invoice to the Kenton County Judge/Executive for \$355 for registration fees paid by CVG on behalf of the Judge/Executive’s spouse to attend two industry conferences. The industry conferences attended by the Judge’s spouse were World Conferences held in Marrakesh, Morocco in November 2011 and Calgary, Canada in September 2012. The CEO noted in her correspondence to the Judge/Executive “[p]rior to 2013, it had been the practice of the Board to register spouses along with Board members for ACI conferences, with the cost paid by the Board.” As noted by the CEO, spouse conference registration fees prior to 2013 was limited to spouses of Board members and would not extend to the spouse of an appointing authority.

Findings and Recommendations

On October 30, 2013, CVG records indicate that the Kenton County Judge/Executive delivered a personal check to reimburse CVG for these expenses which were incurred on behalf of his spouse. While it is appropriate for the Judge/Executive to have reimbursed these expenses to CVG, it is unclear as to why it took over a year to reimburse the expenses or why the Judge/Executive had not paid these expenses initially, just as he would be expected to pay for such personal expenses at the County he serves. The Judge/Executive stated to auditors that the expenses should have been reimbursed right away and it was never his intention for his wife to go along for free to anything.

Later in 2013, the Board acted to allow the Kenton Judge/Executive to continue travel with the Board at the expense of CVG. On December 16, 2013, during a meeting of the Executive Committee, the Board approved the following “invitation:”

11 persons are invited to attend the ACI Board Members/Commissioners Meeting in Whitefish, Montana in June 2014, with priority given to Board Voting Members, Kenton County Judge and Chairman of Board Committees. To the extent there are less than 11 persons of the named group attending, priority for the remaining slots will be available to members of the Kenton County Airport Board Advisory Committee who are not Committee Chairpersons on a rotating basis predicated upon years of service on the Advisory Committee.

An identical “invitation” was then also approved by the Executive Committee for the annual industry conference to be held in Atlanta, Georgia in the fall of 2014. Further, the invitation made travel restrictions to international travel limiting the number to three individuals authorized to attend, though this was not a change from past practice. While the three individuals were not identified specifically in the meeting minutes, those interviewed confirmed that international conference travel was restricted to the Board Chair, Vice-Chair, and Kenton County Judge/Executive.

Through contact with other airports identified as similar to CVG in Federal Aviation Administration rankings based on the number of enplanements per year and hub size, or located in the Kentucky and Southern Ohio region, auditors found most appointing authorities did not travel with the Boards they appointed. Though not only has the Kenton County Judge/Executive traveled with the Board prior to 2012, the Board also gave priority to the Kenton County Judge/Executive to travel before Advisory Committee members not holding a position as chair on Board committees.

Findings and Recommendations

The former Board Chair and Vice-Chair both noted the importance of the Kenton County Judge/Executive's role at CVG, stating that in their view the appointing authority of the Board should have an understanding of the airport industry and how it works. Still others interviewed did not see the necessity for the Judge/Executive to travel with the Board, noting that they felt it was wasteful and that the skill set needed to serve on the Board is similar to other boards appointed by the Judge/Executive. While the former Board Chair noted that it was important for the Judge/Executive to gain this understanding of the airport industry, he also acknowledged that he believed this understanding could be obtained from attending local meetings and airport functions.

According to the Kenton County Judge/Executive, his travel to airport industry conferences was originally initiated upon invitation from a former Board Chairman in 2011 shortly after taking office. The Judge/Executive felt his attendance at the industry conferences and other travel with Board members was beneficial to allow him to better understand what was occurring in the industry and the skill sets needed by his appointees to the Board. As a side note, the Judge/Executive noted that the conference hours were also accepted by the Kentucky Department of Local Government as continuing education hours he needed as part of the incentive program for County Officials. When asked if he attended conferences with other boards he appoints, the Judge/Executive stated that he did not.

Most current and former Board members interviewed believed that it was not unusual for the appointing authority to attend airport industry conferences and to travel with Board members at the expense of CVG. However, according to the CVG financial records dating back as far as 1998, there had only been one other appointing authority to travel at the expense of CVG. In 2003, a former Kenton County Judge/Executive traveled with the Board to attend an industry conference in Washington, D.C. Further, responses from our survey of airports similar to CVG that also had board members appointed by an outside authority found that for five of the six airport boards the appointing authority did not travel on behalf of the airport. One airport reported that the appointing authority only occasionally traveled in association with the airport. See survey results at Exhibit 1.

Recommendations We recommend the Board eliminate the practice of inviting its appointing authority to attend airport industry conferences and other travel at the expense of CVG, unless a specific circumstance exists that as determined by Board vote requires an appointing authority to travel on behalf of CVG. We recommend if the Board makes such a determination, the specific business purpose necessitating the travel and the vote of the Board authorizing it be documented in the Board meeting minutes. We further recommend if an appointing authority personally deems it necessary to attend such travels, the appointing authority pay the travel expenses with personal funds.

Findings and Recommendations

We recommend the Board revise its travel and expense policy to specifically state that spouse registration fees to industry conferences will not be covered by CVG funds.

Finding 9: CVG routinely incurred excessive costs for Board meals.

Between July 2012 and December 2013, CVG expended over \$32,586 in airport funds solely for Board group meals, including meals catered on-site after Board meetings, off-site locally, and off-site while traveling to airport industry conferences. While such meals have been a long-standing tradition at CVG among Board members, the cost of these meals reviewed during the examination period appeared excessive. Most of the meals examined exceeded the U.S. General Services Administration (GSA) guidelines for individual meal expenses and those participating included not only Board members but, at times, included executive management, the Board attorney, the Kenton County Judge/Executive, and spouses. While the Board has recently acted to reduce meal costs, additional action by the Board is required to ensure costs continue to be contained.

An examination of various vendor payments, procurement card expenditures, and CVG executive management travel reimbursements found CVG routinely expended an excessive amount of funds during the examination period on Board member meals. The practice of providing Board meeting meals has been a long-standing tradition at CVG as is documented in a local media article from August 22, 1998. The article discusses not only the meals for Board members but travel-related expenses as well. See media article at Exhibit 3.

Of more than \$32,586 expended on Board meals, nearly \$17,800 was expended for catered dinners and hors d'oeuvres provided on-site at the airport after monthly Board meetings. The purpose of these meals was often described by current and former Board and Advisory Committee members as social dinners, to get to know one another and on occasion to listen to a presentation related to the airport industry. Beginning in January 2013, these dinners were scaled back by the Board to heavy hors d'oeuvres in an attempt to reduce the cost. While the change from a full scale dinner to heavy hors d'oeuvres after Board meetings reduced the expense by nearly half, the per person expenses remained well above the GSA guideline for a dinner meal held locally. The GSA guideline dinner rate, including gratuity, for Boone County during the examination period was \$26 per person. The average cost of the onsite dinners for the examination period, including gratuity, was almost \$87 per person while the average cost of heavy hors d'oeuvres was approximately \$55 per person, exceeding the GSA dinner rate by \$61 to \$29 per person. While the specific names of individuals attending these after-meeting dinners and hors d'oeuvres were not formally recorded, auditors were informed during interviews that these meals included some but not all Executive Board and Advisory Committee members, certain executive management, and others that may attend Board meetings such as the Kenton County Judge/Executive and Board legal counsel.

In addition to local on-site meals after Board meetings, auditors also identified Board dinners held off-site from the airport at a local restaurant and social club. The first such meal during the examination period was a dinner held at a local social club in December 2012. The total cost of the meal, including gratuity, was \$4,335 with just over \$123 of this total for alcohol. There were 35 guests in attendance for this dinner for an average cost of almost \$124 per person. The per person average exceeded the GSA dinner rate by over \$94. The documented purpose of this meal was simply a Board group holiday dinner. Attendees to this dinner included Board members and their spouses, the legal counsel and spouses, as well as the Chief Financial Officer (CFO), CEO, Chief Operating Officer (COO), Kenton County Judge/Executive, and their spouses. According to CVG records, the Board group holiday dinner held the previous year in December 2011 was catered on-site at a cost of \$2,587.27, including gratuity, for 40 confirmed guests for an average per guest cost of \$65, which is almost half the cost in 2012.

The second off-site dinner was held at a local restaurant on May 20, 2013. The dinner, described in CVG records as a Board group dinner for 30 people, cost CVG approximately \$3,011, with gratuity and over \$400 in alcohol charges. The per person expense for this dinner was approximately \$100 and again exceeded the GSA dinner rate, on this occasion by \$71. The guest list for this dinner included 10 Board and Advisory members, the CEO, CFO, COO, legal counsel, Kenton County Judge/Executive, and spouses. As for the purpose of the dinner, the former Board Chair, who, according to CVG email correspondence, requested the meal, informed auditors that the meal was just for camaraderie to get the Board together, similar to a holiday meal. The former Board Chair stated in hindsight they should have probably held the dinner during the holidays. According to the CEO's Senior Executive Assistant, plans for another Board holiday dinner were arranged at a local country club to be held on December 16, 2013; however, the former Board chair cancelled the event on November 6, 2013. The planned December 16, 2013 dinner was cancelled at a time of public scrutiny of Board activities and expenditures.

Many of the Board and Advisory Committee members traveled to industry conferences in the spring and fall of each year. During the conferences, Board group dinners were often pre-arranged and always paid directly by CVG for those attending the conference, including the spouses of those attendees. During the examination period, there were three such Board group conference dinners identified. When asked the purpose of these meals and reason for including spouses and others during these meals, some Board members noted that it was to bring everyone together, help them bond, and build better working relationships.

The first two conference Board group dinners identified were held in September 2012 in Calgary, Canada. The cost of the first group meal on September 9, 2012 was just over \$1,889. While this first group meal was not pre-arranged by the airport staff, the cost of this meal was placed on a CVG procurement card. Based on the documentation maintained, auditors are not certain of the number attending this meal and therefore cannot determine the per person cost. CVG records document the next Board group dinner for 24 attendees on September 10, 2012 totaled approximately \$3,481, including \$875 in alcohol and gratuity, averaging \$145 per person. The GSA dinner rate for this location was \$51 per person. The second conference Board group dinner was held in April 2013 in Biloxi, Mississippi. This meal included 15 guests and cost approximately \$1,990, which included \$400 in alcohol, with a per person average of \$133. The GSA dinner rate for Biloxi was \$29 per person. It should be noted that another pre-arranged Board group meal was initially planned for September 2013 to take place during another fall industry conference; however, that meal was cancelled and instead Board members were asked by the Board Chair to pay for their own meals and request reimbursement for their individual dinners through the normal expense reimbursement process.

During its meeting on February 17, 2014, the Board Executive Committee discussed the Board travel and expense policy. It was noted during this discussion that the travel and expense policy was being revised and while the revisions were still being considered the Executive Committee was to approve interim changes. The former Board Chair noted these changes, along with other policy revisions including restrictions on airfare and alcohol, were being made to assist in reducing costs.

Of the seven airports responding to our survey, five stated that alcohol purchases were not allowed. Two airports responded that alcohol could only be purchased based on certain circumstances, including when entertaining a guest who orders alcohol.

In addition to the Executive Committee discussion, the former Chairman of the Board reported “that for the foreseeable future, while these practices are being examined, a Board dinner or Board reception immediately following the Board meetings will be suspended indefinitely and these functions will not be held.” The minutes then reflect that the former Chairman stated “his desire to have an annual holiday dinner each year for the Board.” To date, the Board has not taken final action to formally revise its travel and expense policy to ensure these changes remain permanent rather than temporary.

Findings and Recommendations

Based on interviews with current and former Board and Advisory Committee members, as well as CVG personnel, the purposes of the Board group meals, regardless of location, appear to be for Board members, and often their spouses and others, to gather in social settings, and not necessarily for purposes directly related to Board governance. While it appears the Board has taken some action to reduce costs associated with Board group dinners over the examination period by temporarily suspending some of the activity noted within this finding, further action by the current Board is necessary to ensure these practices are not continued. While the funds of the Board-managed CVG are not collected as taxes from the public, such funds are public funds generated by a local air board established as a governmental body, and the use of these funds should be focused on the operations of CVG to maximize service to the public.

Recommendations We recommend the Board take action to finalize revisions to its travel and expense policy. We recommend CVG evaluate the need to provide meals in conjunction with regularly scheduled Board meetings, we recommend the Board adopt guidelines with its travel and expense policy, such as GSA reimbursement rates, to assist with controlling the costs of these meals. These guidelines should also be used when arranging for any special airport event in which a meal will be provided to Board members or CVG staff.

Further, we recommend CVG funds not be used for the purchase of alcohol at Board functions. Alcohol, if allowable during Board business meals, should be considered a personal expense.

Finally, we recommend each Board member attending an industry conference personally incur meal or other necessary expenses and individually seek reimbursement, if appropriate, through the normal travel and expense reimbursement process.

Finding 10: Several exceptions to Board travel and expense policies were approved by the former Board Chair.

Auditors examined all Board, Advisory Committee, and CVG executive management travel and expense reimbursements paid to individuals between January 1, 2012 and December 31, 2013, which totaled over \$101,000. As a result of this review, auditors identified several instances in which exceptions to Board policies were approved by the former Board Chair. These exceptions included 40 instances in which either insufficient or no supporting documentation existed for an expense over \$25, three instances in which reimbursement requests were submitted more than 45 days after the completion of travel, and over 30 instances when requests were made for a portion of an expense without identifying the specific charges for which reimbursement was being requested. Consistent approval of such Board policy exceptions circumvents the intent of an established policy and encourages continued disregard of the policy.

While examining expense reimbursement requests submitted by Board members, Advisory Committee members, and CVG executive management between January 1, 2012 and December 31, 2013, auditors focused on certain criteria set forth in Board and CVG Travel and Expense policies, such as:

- proper approval applied to reimbursement requests;
- sufficient detailed support submitted for individual expenditure of \$25 or more;
- allowable and unallowable reimbursable items per policy;
- requests submitted no later than 45 days after completion of travel or the date of the expense; and
- clearly stated business purpose.

Several exceptions to policy were identified when examining reimbursement requests, the majority of these exceptions were found within Board and Advisory Committee member reimbursement requests. One common exception identified among Board and Advisory Committee member reimbursement requests was insufficient or no supporting documentation submitted to support an expense over \$25. According to the Senior Executive Assistant to the CEO, who is responsible for the initial review of Board and Advisory Committee member expense reimbursement requests, she would often contact Board and Advisory Committee members requesting additional information but ultimately she did not always receive the information and would have to present the matters to the former Board Chair, who would then approve the reimbursement, though exceptions to policy were specifically identified. In the case of receipts over \$25, the Senior Executive Assistant noted that during part of the time period examined by auditors, she had not realized that the dollar threshold for submitting a receipt to support an expense had been reduced from \$75 to \$25; the change to reduce this threshold predated January 1, 2012. While most of the 40 exceptions identified were below \$75, auditors identified six exceptions over \$75 and as high as \$142 when a detailed invoice was not submitted. In those six instances, while a receipt was provided as support for the expense, the receipt did not have sufficient detail for a reviewer to determine what had actually been purchased and to ensure the expense was allowable per Board policy.

A total of three instances were also found where a Board member's and an Advisory Committee member's expense reimbursement requests were not submitted within 45 days of travel being completed. In each instance, the members waited almost two months before submitting the reimbursement request. Timely submission of reimbursement requests is important to ensure that the expenditures are accounted for in the proper accounting period, and to reduce the risk of losing original detailed receipts supporting expenses to be claimed. Furthermore, the Board and Advisory Committee members often have meals together and claim meal reimbursement associated for more than just one Board or Advisory Committee member on a reimbursement request. Therefore, timely submission also assists those reviewing and approving the requests to ensure claims are consistent with other reimbursement requests and that duplication of charges has not occurred.

Finally, over 30 instances were found when requests were made for a portion of an expense without identifying the specific charges for which reimbursement was being claimed. While the Board policy does not clearly state that those items for which travelers are requesting reimbursement be specifically identified, the policy does contain a list of items that are considered unallowable or should be restricted, such as meals for spouses, and alcohol. Given that reimbursements are for actual cost and not based on per diem, without clearly identifying what is being claimed for reimbursement, the reviewer cannot determine whether the reimbursement is in compliance with the Board policy. Again, this exception to policy only occurred within requests submitted by Board and Advisory Committee members, not CVG executive management.

The most egregious example of this occurring was for a dinner meal expense incurred on September 11, 2012, during an industry conference in Calgary, Canada. The meal expense, totaling \$950, was split evenly four ways between three Board members including the Board Chair, and an Advisory Committee member. Each individual Board and Advisory Committee member handled their reimbursement requests differently in association with this one meal. The Advisory Committee member claimed a total amount of \$75, while the Board Chair claimed \$63 plus the exchange rate difference for a total of \$65.40. Another Board member provided a detailed itemization of their \$71 reimbursement request, while yet another Board member claimed the full 25 percent of the cost of the meal plus the exchange rate difference for an amount of \$247.

Further, only one Board member noted the purpose of the meal stating that it was for “Board Discussions” and stating that attendees included the following five individuals in addition to four spouses: the Board member making the reimbursement request, the Board Chair, another Board member, an Advisory Committee member, and the Kenton County Judge/Executive. This Board member requested reimbursement for \$247 and clearly identified on the reimbursement request the other four individuals attending the meal, which indicated the reimbursement request also included the cost of the other individuals’ meals. However, each of these individuals had already requested and received reimbursements for that particular meal. All amounts were paid to the individual Board and Advisory Committee members as requested, despite the discrepancies in how the claims were handled. Given that reimbursements were made in varying amounts to all members identified as affiliated with this meal, auditors question the amount reimbursed to all parties and identified the possibility that CVG may have overpaid individuals associated with this meal.

Exceptions similar to those identified while performing this examination were also reported by the external CPA while conducting the financial statement audits of CVG for fiscal years 2011 and 2012. A former Board Audit Committee Chair recalled that the issue of exceptions to Board policies being consistently approved was first noted by the CPA during the audit process. The former Board Audit Committee Chair, who left the Board in December 2013, noted that while the Board travel and expense policy allows for exceptions to be approved by the Board Chair, every exception to the policy that was presented was approved and that the reasons for the exceptions to policy were not documented. The former Board Audit Committee Chair noted that he had offered to take on the responsibility of reviewing and considering any exceptions to the Board policy, but that he had left the Board before the process could be altered. If exceptions to policy are routinely approved, then the policy becomes meaningless and the internal control to prevent inappropriate payments is ineffective.

The former Board Chair acknowledged discussing a change to the review and approval process for expense reimbursements with the former Board Audit Committee Chair. The former Board Chair noted that they had discussed sending the reimbursement requests to the Finance Committee for review and approval rather than to the Board Chair. However, after the former Board Audit Committee Chair left the Board, no changes were made to the process. Further, the former Board Chair noted that he and the former Board Audit Committee Chair had discussed potentially placing a cap on per meal expenses. The former Board Chair was also not opposed to establishing a per diem amount for meals similar to what other organizations have established, eliminating the need for detailed receipts and simplifying the reimburse request process.

The former Board Chair and many other Board and Advisory Committee members appeared to be in favor of establishing a per diem reimbursement over an actual expense. However, the current Vice-Chair of the Board noted that per diem is fine for the state but not necessary for people at the board level. Given the Board's history of excessive meal expenses, as noted in Finding 9, and the continued non-compliance with its own policy as it pertains to reimbursement requests, it appears that an established per diem would greatly assist the Board in reducing excessive meal expenses and streamlining its review and reimbursement process, which in turn would eliminate many of the non-compliances identified through this finding.

Recommendations

We recommend the Board establish a reasonable per diem rate based on GSA guidelines established for federal employees. Given the various destinations associated with Board member travel, the per diem rate should allow for high and low rate areas.

Findings and Recommendations

We also recommend the Board revise its policy to state that exceptions to the Board travel and expense policy may be approved by a committee of the Board, such as the Finance Committee or the Audit Committee. Further, we recommend that the Board Chair not serve as the chair of the committee assigned the responsibility to review exceptions to allow for independence and strong segregation of duties. Once a committee is designated to review and approve exceptions, the policy should require any exception to the policy be documented along with the reason for the exception. Documentation of the exception and the reason for the exception should be maintained with the original expense reimbursement request in CVG records to support the payment of the exceptional expense. We recommend exceptions to the travel policy only be authorized in unique circumstances when compliance with policy is unreasonable; otherwise, exceptions to the travel policy should not be authorized, which would result in the individual being responsible for the expense incurred.

Finding 11: CVG did not follow its required employment process when hiring a relative of the Board’s appointing authority.

Human resource records document CVG did not follow its required employment process when it hired the Kenton County Judge/Executive’s daughter in August 2012. The Judge/Executive’s daughter was hired to fill a position in the Field Maintenance Department, even though the position had not been posted, she had not applied for the position, and no other candidates were considered for the position.

After requesting and reviewing the job posting file associated with the Field Maintenance position in which the Kenton County Judge/Executive’s daughter was employed, auditors found only a set of interview notes dated August 2, 2012, to document the daughter’s interview. According to the former Director of Organizational Development and Strategy, who was normally involved in overseeing the hiring process at CVG, the employment of the Judge/Executive’s daughter was unique and she could not recall if the position had actually been posted noting that she understood from the CEO that the Judge/Executive’s daughter was the preferred candidate for the position.

The former Director of Organizational Development and Strategy stated that all documentation related to a position hiring would be contained within the job posting file, including evidence of the position posting, applications, and interview notes. In examining the job posting file, auditors found no position description, no documentation showing approval to fill the position, no documentation indicating how and when the position was posted or awarded, no employment applications, and no additional candidate interview notes. Typically, each of these items would be included in the job posting file.

In discussing the matter with the CEO, she acknowledges that a full robust hiring process was not followed in filling the Field Maintenance position. The CEO explained that the Judge/Executive's daughter had recently applied for another position in the Finance Department and was deemed not qualified for the position by CVG executive management. The CEO stated that she felt the need to hire the Judge/Executive's daughter, but had no documentation that pressure was applied to employ her. In fact, the Kenton County Judge/Executive submitted an email to the CEO on August 13, 2012, two weeks before his daughter's hire date, stating "please do not consider hiring her as a special favor just for me. I would not want to place you or the staff at CVG, nor myself in a awkward position unnecessarily. Please consider hiring her on her qualifications only." The CEO stated that she would not have hired the Judge/Executive's daughter if she had not been qualified for the position and capable of doing the job.

Regardless of the subsequent job performance by the Judge/Executive's daughter while in the Field Maintenance position, the process followed to fill the position was compromised and personal preference, as well as a work environment where the CEO felt the need to hire the daughter of the Board's appointing authority, was allowed to circumvent the normal employment process.

Recommendations We recommend CVG ensure its employment hiring policies are consistently followed. This includes documenting and maintaining in the job posting file the posting of positions to be filled and the date of the position posting. We also recommend CVG maintain within the job posting file a position description, documentation showing approval by management to fill the position, all employment applications and inquiries relating to the position, all candidate interview notes, and documentation of the recommended candidate for the position and management approval for the hiring of the selected candidate.

We further recommend CVG personnel not circumvent its established hiring process. To ensure the best qualified candidate is selected, CVG should refrain from limiting its candidate pool and should select the appropriate candidate for the position from a full pool of applicants when possible. Further, we recommend before the hiring process is finalized, the Director responsible for personnel review the documentation to ensure the employment policies were followed. If policy was not appropriately followed, the Director should address the issue and be required by policy to notify the Human Resources Committee of the Board.

Findings and Recommendations

Finding 12: The Board’s independent process designed to receive, analyze, investigate, and resolve concerns is not openly shared with the public, limiting its effectiveness.

The Board’s independent process designed to receive, analyze, investigate, and resolve concerns is not openly shared with the public, limiting the effectiveness of this control. While the process for employees to report a concern is outlined within the Board’s Code of Conduct policy for CVG personnel, which is posted online through the CVG website, the contact information for reporting potential violations of policy or law is buried in the employee policy. Further, no information is disclosed to the public, vendors, or others regarding how concerns from these groups may be shared through an independent process.

The CVG Code of Conduct policy provides the guidelines by which employees are expected to conduct business. Section 20 of this policy, *Reporting and Resolving Suspected Irregularities*, outlines the process by which employees may relay concerns to the administration regarding a number of different issues including concerns related to benefits, wages, potential discriminatory employment practices, as well as concerns relating to illegal or dishonest activities violating federal, state or local laws. The contact information provided in this policy includes the names of the CEO, COO, and CFO along with their direct phone number and email address, as well as a mailing address for the Board and a hotline number, referred in the policy as the “Advice Line.” The “Advice Line” is maintained by the Board attorneys’ firm who receives the information and reports activity from the hotline periodically to the Board’s Audit Committee. Audit Committee meeting minutes for the examination period documented that the Board’s attorney reported being contacted by four individuals through the “Advice Line” between January 1, 2011 and December 31, 2013. Of the four individuals, two were specifically identified as CVG employees, while no information was recorded for the two others.

According to the policy, calls to the “Advice Line” can be made 24 hours a day, 7 days a week and with anonymity. Additionally, the policy further states “[t]his number is also posted on the KCAB website so that vendors and tenants also have the opportunity to report potential violations.” While auditors, with the assistance of the CVG Internal Audit Director, found a link to the policy posted on the CVG website under the “Business Opportunities” tab, a direct posting of the “Advice Line” number or reference to the “Advice Line” was not found on the CVG webpage. It appears the Board has developed a multifaceted process for receiving and addressing employee and public concerns; however, the location and the failure to openly communicate this information undermined an otherwise strong policy. This resulted in an ineffective process to enable vendors, tenants, or others in the general public to report such concerns. For the public to use this resource, all “Advice Line” contact information, including the phone number, must be prominently displayed on the webpage. Further, the name given to the hotline does not sufficiently describe the purpose of this hotline and minimizes the process to effectively report various concerns involving CVG.

Recommendations

We recommend CVG update its website to ensure the hotline is more accessible for employees and the public by making the hotline available from the homepage of the CVG website.

We also recommend CVG change the name of the hotline currently referred to as the “Advice Line” as this does not properly communicate the purpose of this service. The current name may indicate this is a general information service and not a means to report concerns and could discourage individuals from using this resource. We recommend CVG clearly communicate to employees and the public, beyond the Code of Conduct policy, that a hotline service is available to report concerns involving various issues.

EXHIBITS

Cincinnati/Northern Kentucky Airport (CVG) Analysis of Peer Airports Surveyed by APA

Exhibit 1

Airport	2012 FAA Ranking by Enplanements	Enplanements in 2012	Enplanements in 2011	Percent of Change	Hub Size	Type of Governance	Number of Board Members
CVG	52	2,937,850	3,422,466	-14.16%	Medium	Airport Board	7 Board members 11 Advisory Committee members
DAY	79	1,289,758	1,247,333	3.40%	Small	Municipal Owned	N/A
CMH	51	3,095,575	3,134,379	-1.24%	Medium	Airport Authority	9 voting members
CLE	40	4,346,941	4,401,033	-1.23%	Medium	Municipal Owned	N/A
SDF	68	1,642,790	1,650,707	-0.48%	Small	Airport Authority	11 voting members
LEX	115	535,541	533,952	0.30%	Small	Airport Board	10 voting members
PIT	46	3,892,338	4,070,614	-4.38%	Medium	Airport Authority	9 voting members
RDU	37	4,490,374	4,462,508	0.62%	Medium	Airport Authority	8 voting members
MEM	50	3,359,668	4,344,213	-22.66%	Medium	Airport Authority	7 voting members
IND	49	3,586,422	3,670,396	-2.29%	Medium	Airport Authority	10 members (9 voting, 1 non-voting)

Airport	Appointments	Appointing authority travel
CVG	All seven Board members appointed by Kenton County Judge/Executive. Six Advisory Committee members appointed by Kenton County Judge/Executive with one of the five remaining Advisory Committee members appointed by each of the following: KY Governor, Hamilton County, OH Board of Commissioners, Mayor of Cincinnati, OH, Campbell County, and Boone County.	Appointing authority to the Board is invited to travel on behalf of the airport. Appointing authorities to the Advisory Committee are not invited to travel on behalf of the airport.
DAY	N/A	N/A
CMH	Four appointed by Mayor with advice and consent of City Council, four appointed by County Commissioners, one appointed jointly by Mayor and County Commissioners.	Appointing authorities do not travel on behalf of the airport.
CLE	N/A	N/A
SDF	Seven by Mayor; three by KY Governor. Mayor sits on board as ex-officio member.	Appointing authorities do not travel on behalf of the airport.
LEX	All appointed by Mayor and confirmed by the Urban County Council.	Appointing authority does not travel on behalf of the airport.
PIT	All appointed by Allegheny County Chief Executive.	Appointing authority occasionally travels on behalf of the airport.
RDU	Cities of Durham and Raleigh and the counties of Durham and Wake appoint two members each. Due to the lack of additional information, the airport's website was used as the source of this information.	Airport did not respond to inquiries made by APA.
MEM	Five appointed by Mayor and two of the seven are nominated by a County Mayor. All seven appointments are confirmed by the City Council.	Appointing authority does not travel on behalf of the airport.
IND	Five members appointed by the Mayor, one member appointed by City Council, and one member appointed from each of the following counties: Hamilton, Hendricks, Hancock, and Morgan. The Morgan County appointee is the non-voting member.	Appointing authorities do not travel on behalf of the airport.

Airport	Board travel	Policy on alcohol
CVG	Until recent restrictions were temporarily implemented, all Board members and Advisory Committee members were invited to attend industry conference twice a year. In addition, the Board Chair and Vice-Chair have been approved to travel internationally once a year. Around December 2013, restrictions were implemented to restrict travel to 11 Board and Advisory members.	Until recent action by Board to temporarily suspend reimbursement for alcohol there was a two glass maximum established per Board policy.
DAY	N/A	Alcohol purchases are not allowed.
CMH	Board Chair and Vice-Chair are invited on an industry trip once a year; however, they do not always choose to go.	Alcohol purchases are not allowed.
CLE	N/A	Airport did not respond to inquiries made by APA.
SDF	There are no limits placed on board member travel; however, it is dependent upon the money that is available at the time and varies from year to year.	Alcohol is an allowable reimbursement based upon the circumstances.
LEX	There are two industry conferences annually which the Executive Director feels are worthwhile and any board member is welcome to attend; however, normally there are no board members that attend.	Alcohol is not allowable for employee reimbursement; however, if they are entertaining and the person they are entertaining orders alcohol it will be reimbursed.
PIT	There are no restrictions on the number of conferences attended by board members. There is one annual conference focused on board members; however, board members may go to any conference they feel is important to fulfill their duties. Normally only one or two board members attend this conference each year and no board members have attended the conference in the last couple of years.	Alcohol is not an allowable reimbursement under any circumstance.
RDU	Airport did not respond to inquiries made by APA.	Airport did not respond to inquiries made by APA.
MEM	There are no guidelines set for the number of trips board members may attend but they do not travel often.	Under no circumstances is alcohol an allowable expense for reimbursement.
IND	There are no set guidelines as to how often board members can travel although the board does not generally travel.	Absolutely no alcoholic beverages will be reimbursed.

Ideal Board Members

- Extensive knowledge and experience in owning, operating and/or managing a major corporation with global operations that thoroughly understands the dynamics of a global economy and its impact on our region. The ideal Board member will also have the potential to significantly impact CVG through his/her business relationships with other similarly structured corporations throughout the world **AND/OR**
- Extensive knowledge and experience in owning, operating and/or managing a national chain or large regional corporation with multiple operations at a minimum within North America
- Preferred highest level possible from major local corporations; Owner, CEO, COO, CFO or similar position of significant authority
- Frequent user of CVG or the airline industry as a whole with significant air traffic needs **AND/OR**
- Major provider of services to CVG or the airline industry in a large scale capacity
- Preferred resident of Kenton County
- Current supporter or future supporter of my campaign

Ideal Advisory Board Members

- Business Owner / CEO / or similar position of authority from local company located in our region **AND/OR**
- Civic Leader in Northern Kentucky highly recognized for his/her leadership qualities who also possesses the necessary skills to open doors at local corporations on either side of the Ohio River
- Preferred resident of Kenton County
- Current supporter or future supporter of my campaign

The Board makeup should consist of two (2) or three (3) voting board members from the major corporation network. Of these, at least one (1) should be a resident of the City of Cincinnati for engaging support from the Ohio side of the river.

Kenton County residents will always maintain the majority membership to the board.

The hottest board in town - Airport oversight rich in perks

The Kentucky Post - Saturday, August 22, 1998

Author: Monica Dias, Post staff reporter

They dine on beef Wellington, sip cabernet sauvignon, jet to Brussels and Paris and receive pricey porcelain figurines at Christmas - all for free.

Such are the privileges of membership on the Kenton County Airport Board.

The 17 members of the most sought-after political appointment in Northern Kentucky aren't paid, but they receive free meals, fly free to conferences and to inaugurate transatlantic flights and park free at Cincinnati/Northern Kentucky International Airport. Members say the board's status stems not from freebies but from running the region's greatest economic asset.

"I didn't go on the board for the perks," said board chairwoman Bert Huff, who has served on the airport board since 1992.

"It's very time-consuming . . . and everybody that is on there is on there because they feel they can give something good back to the community through the airport."

Though board members have been receiving these perks for years, there have been few if any challenges about their propriety or necessity.

Kenton County Interim Judge-Executive Rodney "Biz" Cain called attention to them earlier this month when he made some board appointments.

Cain said he wants to appoint members more interested in policy than in perks or personal prestige. But he gave no further indication that he would like to see the perks discarded or scaled back.

The county judge-executive appoints the seven voting members and recommends appointments for the 10 nonvoting members to the governor, who makes those appointments.

The terms of six advisory members expire on Sept. 28, so Cain will have another opportunity to reshape the board before he leaves office in November.

Several airport board members described the perks as minimal when compared with the hours spent attending meetings and representing the airport on committees of Airports Council International, the Washington-based trade group for airport owners and operators.

"It sure is a working board, and it's definitely not just taking trips and having nice meals," said board member John Domaschko.

The perks over an 18-month period cost \$151,672, a sum that barely dents the airport's annual operating budget of more than \$31 million.

Several airlines have the right to approve the operating budget because some of the revenue comes from fees they pay to land airplanes at Cincinnati/Northern Kentucky International. Landing fees range from \$1.024 to \$1.124 per 1,000 pounds, or about \$160 for a Boeing 727 fully loaded.

The amount spent on perks for the airport board wouldn't be enough to raise the landing-fee rate by one penny, said airport finance director Sheila Hammons.

Ralph Drees, the board member who is most outspokenly critical of airport spending, argues that every expense to the airlines becomes part of the cost of an airplane ticket.

Although the impact of board expenses on airline landing fees is infinitesimal, Drees said, "if every airport would do that, then it starts adding up . . .

"If all the airports around the country would be conservative, you would have cheaper fares."

The Kentucky Post reviewed meal invoices, travel expense reports and other airport board expenses from January 1997 through June 1998. The freebies included: \$33,709 for meals. Most committee and board meetings occur at breakfast, lunch or dinner. Airport managers consider it polite to feed board members who attend.

The meal tabs have ranged from \$47.76 for lunch for four people who attended a noise-mitigation committee meeting in August 1997 to \$1,386 for a buffet dinner for 21 people after the board meeting in March 1998.

Board members usually eat meals catered by CA One Services Inc., which operates at the airport.

The three-member legislative-affairs committee dines most months at the Metropolitan Club in Covington, ringing up lunch bills of as much as \$108.

The lunch bills include the meal of one airport manager and an airport attorney.

Drees doesn't see anything wrong with the free meals, but he objects to the leftovers from the monthly buffet dinner.

"They always have twice the amount of food they need," Drees said, adding that the menu should be trimmed.

The buffet usually includes shrimp cocktail and other appetizers, salad, at least one vegetable, chicken or fish, beef and dessert. Wine and liquor are free, too. \$116,433 for travel. Most of the free trips were to attend meetings of Airports Council International, the airport trade group. Board members frequently fly first-class.

The most expensive trip cost \$21,562 to fly 10 board members to Brussels, Belgium, in May 1997 to inaugurate a nonstop flight aboard Sabena, the airport's only foreign carrier. Board members stayed five to 10 days in Europe.

Board member Michael Gibbons had the highest travel expenses - \$35,050 - in the 18-month period. He was board chairman for part of that time. He also serves on the board of directors and some committees of Airports Council International. Those duties require more travel.

Mrs. Huff, the chairwoman, said board members who attend conferences bring back ideas.

At one convention, she said, they learned that staff at other airports meet regularly with travel agents to learn how to improve passenger service. Now those meetings are part of the routine at Cincinnati/Northern Kentucky International.

Two board members, Jack Steinman and Joseph Allen, took no airport board trips in the 18 months. Both said they don't have the time.

Among members who travel, Drees had the lowest tab - \$909.68. He says the board should send fewer members to conferences, with those members reporting what they learned to the members who stayed home.

"After a while it becomes kind of routine," he said. "There's some knowledge there, but it's like anything else - you can overdo it."

The board recently established tighter controls over travel by its members. Board members no longer receive cash advances, a change that was made because some members were slow to turn in their expense reports.

The board's finance committee will decide which meetings and conferences board members will attend and whether board members will fly on intercontinental inaugural flights.

Previously, board members who needed to travel to attend an airport-related function

made travel plans without seeking approval from the rest of the board, Mrs. Huff said.

She wanted a new travel policy because the board had no written rules, she said, not because the board had abused its previous system. "Since there wasn't a policy in place, I chose to put a policy in place so that it would be more controlled," she said. \$1,530 for Christmas gifts. Each of the 17 board members received a \$90 Lladro porcelain dove last year. Records aren't kept on the use of free parking. The airport receives a percentage of the revenue from parking lots. When boardmembers don't pay, that reduces the revenue received. The airport is not alone in rewarding its board members. Other public agencies in Northern Kentucky are generous to their boards. The Sanitation District No. 1 pays each of its seven board members anrbeen phenomenal . . . and it's a high-recognition board," he said. "How many people would care less if you were on a board for dogs?"

FAX Trips by board members The five most expensive trips made by members of the Kenton County Airport Board between January 1997 and June 1998 included a trip to Brussels to inaugurate the Belgian airline Sabena's international flight there. Other trips were for conferences of the Airports Council International, a trade group for airport owners and operators. Brussels, May 1997 (10 board members went): \$21,562.58 Detroit, September 1997 (13 members): \$15,173.15 Washington, D.C., March 1997 Shrimp cocktail with horseradish cocktail sauce, broccoli-cheese poppers, shrimp eggrolls with honey-mustard sauce. Dinner: Caesar salad, orange-rosemary chicken with spring vegetables, chef-carved beef Wellington, duchess potatoes, rice pilaf, green beans with almonds, rolls with herb butter. Dessert: Strawberry shortcake with individual chocolate-dipped strawberries. Drinks: Eight bottles of beer, four bottles of merlot, three bottles of cabernet sauvignon, 14 mixed drinks, coffee, tea, soda. Total cost: \$1,386 for 21 people - \$55 a head plus a tip.

KENTON COUNTY AIRPORT BOARD RESPONSE



P.O. Box 752000
Cincinnati, OH 45275-2000
Phone: 859-767-3151
Fax: 859-767-3080
cvgairport.com

August 18, 2014

Honorable Adam H. Edelen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601-1817

Re: Draft Report of Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Cincinnati/Northern Kentucky International Airport

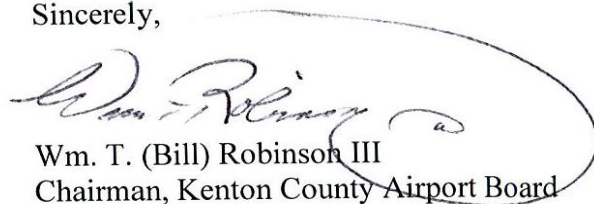
Dear Mr. Edelen,

On behalf of the Kenton County Airport Board ("Board"), operator of the Cincinnati/Northern Kentucky International Airport ("CVG"), please accept this letter in response to your draft report of the Examination of Certain Policies, Procedures, Controls, and Financial Activity of the Cincinnati/Northern Kentucky International Airport. The draft report was received Wednesday, August 13, 2014, and our response is due by 8:00 a.m. Monday, August 18, 2014.

Your draft report sets forth various findings and recommendations for improvement, all of which will be carefully reviewed and discussed by the Members and staff of the Board at such time as your report is made public and can be circulated to all parties involved in the supervision, management and operation of CVG. Some of the matters discussed in the report have already been addressed by the Board and some of the policies and procedures of the Board referenced in your draft report have been in the process of revision pending receipt of your final recommendations. Our detailed response to your final report will be provided within sixty (60) days of the issuance of the final report.

In closing, I wish to express our appreciation on the very professional and thorough manner in which your staff conducted this examination.

Sincerely,

A handwritten signature in black ink, which appears to read "Wm. T. Robinson III". The signature is enclosed within a large, hand-drawn oval in black ink.

Wm. T. (Bill) Robinson III
Chairman, Kenton County Airport Board

