

Case Study: Performance Audit of San Bernardino International Airport Operations, Development, and Construction Activities



Project Results

- HMR found that the San Bernardino International Airport Authority (SBIAA) had not established effective internal controls over financial management activities.
- HMR found that SBIA management proceeded with the Terminal Development and Fixed Based Operation projects in a manner contrary to industry standards for large public infrastructure projects.
- HMR found that management expedited and substantially increased the scope of the Terminal Development Project based on assertions from the contractor with whom management intended to hire as the project developer through a sole source contract.
- HMR found that SBIA management did not conduct proper due diligence prior to purchasing major aviation equipment for the terminal building from, or agreeing to a \$1 million lawsuit settlement with, an airport contractor.
- HMR found that SBIAA had entered into multiple contracts with companies managed by a single individual, a convicted felon who served time for bankruptcy fraud in a federal penitentiary and who was banned from the aviation industry by the U.S. Department of Transportation.

Project Summary

In 2009, a complaint was submitted to the San Bernardino County Grand Jury alleging irregularities at the San Bernardino International Airport (SBIA). After some preliminary interviews of airport personnel by the Grand Jury, it became apparent that an extensive investigation was warranted, which was extended from the 2009-10 Grand Jury to the 2010-11 Grand Jury by the Presiding Judge. As more interviews were conducted and documents reviewed, the Grand Jury felt an independent performance audit was necessary and HMR was selected to conduct the audit.

The Grand Jury requested that HMR conduct a performance audit to evaluate the efficiency, effectiveness, and economy of SBIAA, focusing on governance and general management, as well as development, construction, contracting and related activities performed by SBIAA and their contractors. The Grand Jury specifically requested that HMR evaluate:

1. The SBIAA management structure and authorities;
2. Internal control mechanisms to determine whether appropriate monetary safeguards had been established and were being followed;
3. Construction management policies, procedures, and practices;
4. The leasing of hangar and terminal facilities and the process for awarding service contracts;
5. The contractual and financial relationships between SBIAA and their contractors; and,
6. The master lease agreement, including the responsibilities of the lessee and compliance with lease terms.

To conduct the performance audit, HMR utilized numerous methods, including:

- Conducting interviews with all members of SBIAA management as well as other individuals with knowledge about SBIAA operations;
- Reviewing countless documents provided by SBIAA through four formal information requests and by third parties, some of which required a subpoena to obtain;
- Reviewing investigative materials previously obtained by the Grand Jury, including depositions;
- Participating in two tours of the redevelopment area and airport property.

HMR summarized its findings in a report to the Grand Jury, which was made public on June 30, 2011. The report received local media coverage. Subsequent to the release of the report, SBIA was the subject of an FBI raid and investigation of potential criminal activity. The Executive Director resigned soon after. The developer who was studied extensively in the report no longer has ties to the airport and is currently facing criminal charges related to his activities at the airport.

Service and Topics Highlighted

Public Service Enterprises, Performance Audits