CITY OF SAN ANTONIO

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February 19, 2004

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Re: Audit of Airport Parking Operations, Landing and Fuel Flowage Fees

At the Governance Committee Meeting held on February 12, 2004, issues and findings in the report for this audit were reviewed. The formal distribution was going to occur later that day after completing a review of material provided to Internal Audit by Aviation Department staff earlier in the week. It was not anticipated that the Department would bring to the Governance Committee extensive correspondence in response to the audit. Prior to releasing the final report, staff has reviewed the materials made available by the Aviation Department Management on Thursday, February 12, 2004. We wanted to ensure that the final report included all of their responses, especially those that were not incorporated into the report itself. Follow-up inquiries have occurred concerning some of the data provided last week. At this time, we have received and evaluated most of this information.

The draft audit report submitted to the City Manager, which was after a thorough review by the Department, was believed to have forty-seven recommendations. In the material distributed to Governance, Aviation felt that two of these were duplicates or very similar. Department Management viewed two items as observations/statements and not recommendations. Considering their views, the audit work and subsequent analysis have still resulted in greater than forty recommendations related to the parking operations, and the landing/fueling fees. The Aviation Department's summary from last week indicated that they did concur with sixteen of these. They further responded that the Department considered that it was performing nine of the recommendations, with one being an alternative that was implemented. Aviation disagreed with three recommendations while offering alternative responses for these. Fourteen recommendations were not accepted by the Department as of the release of the report. One recommendation appeared unresolved as of this date until we can exchange more information with them.

Audit work performed spanned several years, beginning in 2000, and was really three or four projects that have been consolidated for report purposes. It was determined that there were common issues and findings between the various projects; therefore, the discussion of these and the related recommendations could be streamlined. The City of San Antonio reports aviation activities as an enterprise fund because its revenue and expenditures are separated from other operations. However, some of this segregation stems from the acceptance of federal funds and/or Federal Aviation Administration requirements. Recommendations as to ways of

enhancing revenue from the audit areas have been responded to as "revenue neutral." Rates for these services are based upon revenue required to cover appropriate costs/expenses. Thus when new revenue is earned, it would lower the per unit rate charged the customers. For this reason, the audit report refers to certain recommendations that require expenditures for capital items, or in some cases operating costs, as "revenue neutral." Whether debt is incurred or cash reserves are spent for these items, the Aviation Department should be able to recover these costs through the revenue requirements rate computation procedures.

It should be noted and emphasized that the length of elapsed time from initiating to completing these projects was very irregular. Likewise, the approach to the audits was rather unusual. Both of these can be attributed to transition issues from the prior Internal Review beginning in 2001 to the new Internal Audit function in the spring of 2003. At that time, we concluded that the efforts expended to date and the issues and findings identified warranted completion of the work and issuance of a report on these audits. Once the transition and start up processes are completed for this office, audit projects will be better planned, scheduled, and performed.

Auditing standards are developed on the premise that "it is management's responsibility to design and implement programs and controls to prevent, deter, and detect fraud." The audit processes and procedures were developed to obtain reasonable but not absolute assurance that the Aviation Department has adequate internal controls systems in place. Based upon the limited procedures used, instances of noncompliance or additional risks may not have been identified. The Director of the Department had contacted the former Internal Review Staff about assisting him with a review of parking operation changes and systems issues. Some of this requested assistance was about the time of the Charter Referendum, November 2001, concerning the organizational realignment of the internal audit function under the City Council. As a result, the City's internal auditors could not substantially comply with his requests due to independence requirements. The Director of Internal Review did communicate the audit scope to the Aviation Department Director.

In evaluating these outstanding audits during the spring of 2003, it was clear that more analysis was needed to support and/or to verify the issues identified during the projects. This more in depth analytical work involved tracing, where possible, the conditions encountered to the budgets, accounting records, financial statements and reports for these aviation activities. In addition, various strategic planning studies and documents were utilized; excerpts of these are referenced in the audit report. For your convenience, selected reproduced pages are accompanying this report, and we would be glad to provide complete copies to you if desired.

Major areas of interest highlighted by these audits generally included:

- Cash handling
- Accounts receivable processes
- Asset utilization
- Revenue recognition and reporting
- Computerized systems controls
- Contracting processes
- Management and performance analysis and reporting

The level of risk associated with these areas of interest appeared greater due to operating characteristics, such as the 24 hour per day/ 7 days per week; the significant number of personnel required for these activities; the substantial amounts of cash handled and the environment for doing so; the technical difficulties with tracking the use of services by various clients; the inherent problems with the older mainframe computer systems used for these activities; and the unusual complications and delays encountered with the Facility Management System purchased in 2001. The level of risk was also heightened by the importance of formal operating procedures for the staff, and the processes used for training the staff about them.

Audit objectives included evaluating the tone of control consciousness (concern) being demonstrated and promoted by Aviation Management, and the cultural attitudes of the staff toward honesty and ethics. The audits were also to assess the appropriateness of management and internal controls developed and implemented by the Department.

Summary information on the background, issues and conclusions of these audits can be located in pages one through seven of the attached forty-three page report. For your information and convenience, the material provided by the Aviation Department at the Governance Committee Meeting last Thursday is also attached. For further clarification, explanation, and disclosure, Internal Auditing has included additional material from follow up procedures performed in October 2003 and February 2004. While this is a great deal of material, we believe that it may assist in your understanding and evaluation of the audit issues and recommendations. It may also be beneficial in assessing the responses from the City staff to the audits.

Without trying to overly simplify the issues, it may be worth prioritizing and broadly addressing them in this conveyance. Based upon audit work and subsequent procedures, there is significant concern about the cash handling procedures and controls for the public parking operations. The amount involved appears to be in the range of $5 million annually, which is about fifty percent of the annual revenue. The main concerns stem from having adequate procedures and processes to reconcile or compare daily the incoming parking transactions with the exiting parking transactions. Current practices do not appear to satisfactorily demonstrate that this is done. The consequences of not performing such comparisons could be theft of cash and under recording and reporting of revenue. The automated revenue system installed in 2001 could be programmed and used to capture and track the required transaction data. Reports could be created to provide exception and comparison of the transactions daily and cumulatively. It was recommended that greater emphasis be given the cash transaction controls by the Aviation Department.

The verification, authorization, recording and reporting of credit card payments for public parking, accounts receivable for employee parking, and for landing and fueling charges had high importance. Credit card payments using the "express pay" system should be reconciled at least monthly to ensure accuracy and to effectively follow up on variances. While testing was not performed of this process, Aviation and Finance Department staff indicated in the spring of 2003 that there were and had been reconciliation problems for a number of months. Employee parking revenue did not appear to compare favorably with the revenue forecast nor with the parking spaces available. It was recommended that invoicing of these customers should be evaluated. Data provided in December 2003 and February 2004 indicated that substantial amounts for employee parking revenue had been billed in arrears, or after the quarter of use. It appeared from the records and staff statements that this has been a recurring practice. Published Aviation Department information stated that employee parking by individuals and by firms for their personnel should be paid in advance and without presentment of an invoice by the City. For example, the fiscal revenue for employee parking in 2003 was over $286,000, $120,000 of this amount was recorded in September 2003. Some of the September receivable recorded was for prior fiscal years.

An additional observation from reviewing the accounts receivable data was that greater than sixty percent, over $1 million, of the amounts owed by customers was more than 120 days past due. The receivable balance included various transactions from prior years, which raises concern with the internal and management controls for recording, reporting, and collecting the invoiced revenue. Sales taxes previously booked for these transactions may have been paid even though the City had not received the funds from customers.

The audit addressed potential revenue that should have been invoiced for landing fees in 2000, 2001 and 2002. The Aviation Department does not concur with much of the data about this. Additional efforts will be made to work with them to clarify this matter to determine if the City can and should pursue billing and collection. Beyond the $175,000 of revenue in question, a greater concern in this finding were the procedures and processes that should be formally in place to monitor signatory and nonsignatory aircraft in conjunction

with available data from fixed base operators about fueling, and from maintenance/repair operations. Identifying them is critical to determining when landing fees should be reported by the airlines and paid, or when the Aviation Department should invoice those without formal contracts with the City. If landing fees are not due then other fees and charges should be collected based upon the applicable contract terms. Performing such monitoring and verification is difficult for this industry based upon research, including peer airport surveys performed by the Department and the auditors. Equipment has been identified, such as the noise monitoring system already purchased, or AirScene another vendor, which could employ technology to facilitate in this revenue verification process. It would also require additional analytical procedures by Aviation staff, and the development of in-house databases, or the subscription to proprietary database services, such as AirportIQ. This information could also be used to satisfy FAA requirements regarding verification and validation of Passenger Facility Charges (PFC) that the external auditors have discussed with the City in the 2002 annual audit engagement.

The audit recommended improvements in operating and monitoring procedures. Some of the documentation provided was updated; however, it was determined that much more was required for the staff to effectively and efficiently perform their duties. In carrying out the Department's functions, additional segregation of responsibilities was also identified for improvement in revenue controls. Once the procedures are updated, Management should routinely provide training and orientation for the staff to ensure that all employees have adequate understanding and working knowledge of the procedures for their respective positions.

In general, it was recommended that Aviation Management should have better performance measures and balanced scorecard analysis and reporting. The Department has volumes of data in electronic and hard copy form. The processes and methods for reviewing, summarizing and reporting on this each month were not documented or clear. A collection of this material was provided in response to the audit recommendations; however, it was not easily correlated to the balance scorecard or performance measures as stated in the current and prior years' budget documents. There was not a summary or overview for the Department Manager or for transmittal to others such as the City Manager, Assistant Manager, or Budget Department.

Contract monitoring was another area with audit recommendations, especially with regard to the Facility Management System (FMS) purchased in 2001 for $1.5 million. This system took substantially longer to install and implement than the contract specified; instead of six months, it required over twenty months. As of March 2003, the vendor had been paid about ninety-five percent of the contract price despite the system performance problems. After the audit exit conference with Aviation Management in June 2003, substantial efforts were made which resulted in acceptance of the system and warranty commencement by August 2003. From November 2001 until August 2003, the reliability of data from this system was questionable and created opportunities for unaccounted for revenue. For example in May 2002, three days of transaction data was lost and not recoverable for cash and credit card receipts.

It was also important to understand and recognize during the audits that the results of various test work and analysis would reflect the impact of the September 11, 2001 terrorist attacks and the subsequent economic effects. The Aviation Department strongly believes that the revenue variances from forecast and the related asset utilization issues addressed in the audit report are almost entirely attributable to these. Audit analysis could not differentiate the causes or magnitude of these variances. While we concur that these events have had a substantial impact, the audit recommendations continue to highlight the need for greater Department Management attention to the control issues and problems identified that they can influence. Common ground in a number of areas was achieved and action has been taken as indicated in the report and their subsequent responses. As auditors, we remain concerned about other internal and management controls where the Department demonstrated substantial reluctance to consider making further changes and improvements. At this time, the future course of action for the internal audit function is to perform limited follow up monitoring and inquiry procedures. The annual audit plan will present areas of potential audit opportunities, which may include more in depth audit activity of the areas included in this report.

This Office is available to discuss with you or your staff any of the material provided about the Aviation Department audits being reported.

Sincerely,

Patricia M. Major CPA, CTP, CGFM
City Internal Auditor

cc: J. Rolando Bono, Deputy City Manager
Kevin Dolliole, Director of Aviation
Yolanda Ledesma, Acting City Clerk

Attachments:

Audit of Airport Parking Operations, Landing and Fuel Flowage Fees Final Report Documents	
1.	New Handouts Presented on February 19, 2004 - Photo Survey Conducted February 15, 2004 - Municipal Integrity Report dated August 18, 2000 on Public Works theft of Parking Fees - Aggressive Marketing of Parking Space By Off-Airport Operator (Budget)
2.	Aviation Parking Operations and Landing and Fuel Flowage Fees Audit Report Presentation - 2/12/2004
3.	Aviation Revenue Summary per FAMIS as of February 11, 2004 for Index Codes: - 030809: Airport Parking Fees - 052977: Airport Employee Parking Fees - 060731: Off Airport Parking - 031922: Unapplied Cash
4.	The Philadelphia Daily News Article dated September 21, 1995 regarding Airport Scam
5.	Aviation's Adopted Budget from the City of San Antonio's Adopted Annual Operating Budget for the Fiscal Years: 2000 – 2001; 2001 – 2002; 2002 –2003; 2003 – 2004
6.	Audit of Airport Parking Operations, Landing and Fuel Flowage Fees Report Dated May 21, 2003 (Includes: Table of Contents; Executive Summary; Report with Results, Recommendations and Aviation Responses Dated June 10, 2003; Aviation Responses dated December 23, 2003 and February 10, 2004)
	Additional Information
7.	Correspondence between Directors of Aviation and Office of Internal Review: - January 14, 2002: Aviation's request for Internal Review assistance regarding development of appropriate control measures to adequately safeguard City funds. - April 3, 2002: Internal Review's response to the request, which informed Aviation that an audit of the Airport Parking Division would begin on April 15, 2002.
8.	Documents provided by Aviation at Governance Committee Meeting on Thursday, February 12, 2004.
9.	Correspondence from City Auditor's Office to City Staff on October 2, 2003: - Benchmark Study (Infrastructure Management Group, Inc.) Documents - Landing Fees Not Collected Schedule - Detail documents of FAMIS Budget and Actual Revenue Data from Airport Employee Parking Fees
10.	Excerpts From Airport Studies Referenced in the Audit Report: - Infrastructure Management Group, Inc. – Aviation Benchmarking Project, March, 4, 1999 - HDR Engineering, Inc. – Re-engineering Report, December 9, 1999 - AGA Consulting – Parking Expansion and Financial Feasibility Study, August 2001 - Unison Maximus Consulting Solutions – Financial Feasibility Report to Support Intent to Sell Bonds, March 5, 2002
11.	City Auditor's Office Airport Survey and Comparison Conducted October 14 – 20, 2003
12.	City Auditor's Office Aviation Parking Vehicle Reconciliation for May 2003 Schedule

OFFICE OF THE CITY INTERNAL AUDITOR

AUDIT OF AIRPORT PARKING OPERATIONS, LANDING AND FUEL FLOWAGE FEES

Report Dated May 21, 2003

EXECUTIVE SUMMARY
AUDIT OF AIRPORT PARKING OPERATIONS, LANDING AND FUEL FLOWAGE FEES
May 21, 2003

The Office of the City Internal Auditor has completed audits of the Aviation Department's Parking Operations, Landing and Fuel Flowage Fees at the request of the Aviation Director. Issues were identified regarding internal controls common to both audits; therefore, they were combined into one report. The scope of the audits focused on parking and aircraft landing activity occurring in fiscal years 2000, 2001 and 2002.

Airport operating revenue for fiscal year 2002 was $40.1 million. Parking revenue was the single largest category of revenue accounting for $10.4 million or 26 percent of the Airport's operating revenue. Landing fees accounted for $5.4 million or 13 percent, while fuel flowage fees were $359,202.

The risk in these areas is the potential loss of revenue rather than the expenditures from these operations. Parking revenue is comprised entirely of cash and cash equivalents and is extremely high risk due to the 24-hour/7 day operation. With respect to the landing and fuel flowage fees, vendors provide their determination of monthly activity and revenue due the City. The risk is that they might under report activity and under pay fees. Additional risk exists that some Airport operators are not under contract and are not paying any fees to the City.

The objectives of these audits were to determine whether the Aviation Department:

- Implemented appropriate control measures to adequately safeguard and account for City funds.

- Developed sufficient procedures to ensure that landing fees and fuel flowage fees were accurately invoiced, collected, recorded, and reported in accordance with various contract provisions and accounting policies.

Within the internal control environment, these areas were evaluated:

- Segregation of duties,
- Verification, authorization, and recording of transactions,
- Supervision and monitoring, and
- Policies and procedures.

Aviation Management must establish an improved control environment to provide reasonable assurance that revenue and operating goals and objectives will be met.

- Consider organizational or functional realignments to provide adequate segregation of key duties related to revenue controls.

- Evaluate expanded and new uses of technology as part of the control environment enhancements.

- Develop or update procedures, other than contract related. Revisions should incorporate changes due to the revenue system installed in late 2001. Ensure that Supervision thoroughly explains these to staff and that they routinely review them with Aviation Personnel.

- Improve procedures to monitor compliance with revenue contract provisions.

- Internal controls reflect various opportunities for improvement that should increase the reliability of automated and manual data.

- Performance measures and balance scorecard criteria should be consistent over time for comparison purposes. Results should be evaluated and reported to Aviation and City Management in a routine and timely manner, such as monthly.

- The Facility Management System (FMS) contract and implementation have not been adequately managed and monitored.

In spite of the 9-11 Event, revenue enhancements are possible if substantial and timely improvements are made to the control environment in these areas and potentially in other areas of the Aviation Department. Issues addressed in the report that require management action have been supported by the audit conclusions.

As issues were noted during fieldwork, Aviation Parking and Accounting staff were notified. The City Internal Auditor met with the Aviation Director and key management staff to discuss the issues identified in this report in May and June 2003.

The process and procedures were designed to provide reasonable, but not absolute, assurance that the Aviation Department has adequate internal control systems in place. Audit methodologies and sampling techniques were utilized that meet generally accepted government auditing standards; however, there could be instances of non-compliance or of additional risks that may not have been identified.

This report reflects City Management and Aviation Department responses to the audit findings and issues. Any items not addressed or corrected at the time of final report issuance will be followed-up monthly until corrective action has been taken.

AUDIT OF AIRPORT PARKING OPERATIONS, LANDING AND FUEL FLOWAGE FEES
May 21, 2003

The Office of the City Internal Auditor has completed audits of the Aviation Department's parking receipts and landing and fueling fees received by the City. Issues were identified regarding internal controls common to both audits; therefore, they were combined into one report. These audits were conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

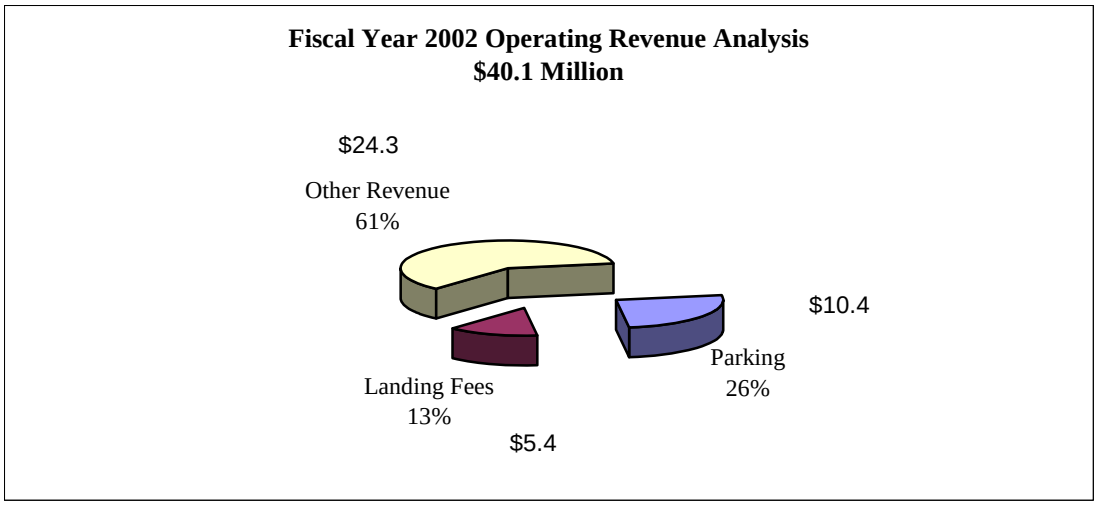
BACKGROUND

San Antonio's aviation facilities include the Stinson Municipal Airport and the International Airport. General and commercial aviation services are provided through an enterprise fund. The department reports to the Assistant City Manager for Economic Development. Total funding from all sources for fiscal year 2003 was projected to be $165.7 million, which includes over 400 full-time staff positions.

Since 1996, the City of San Antonio has contracted with various external consultants to address the financial feasibility of continuing to operate the Airport or to consider a managed competition process. In the spring of 1998, City Council directed staff to solicit proposals to hire a consultant to develop a managed competition process. In response to this request, City staff provided benchmark information in July 1998 to Council that rated Airport operations as above average in financial performance. Infrastructure Management Group (IMG), a consultant hired by City Council, validated the department's benchmarking data for 1996 and 1997.

In the spring of 1999, Council engaged a consultant, HDR, Inc., to perform a re-engineering study of International and Stinson operations. Based on recommendations from the re-engineering study, the City implemented a three-year plan that included facility improvements and revenue enhancements. A study by Unison-Maximus, Inc. issued in 2002 confirmed the Airport's ability to generate revenue sufficient to repay debt that will be issued in 2003 to finance other parking related improvements totaling $50 million over the next two years.

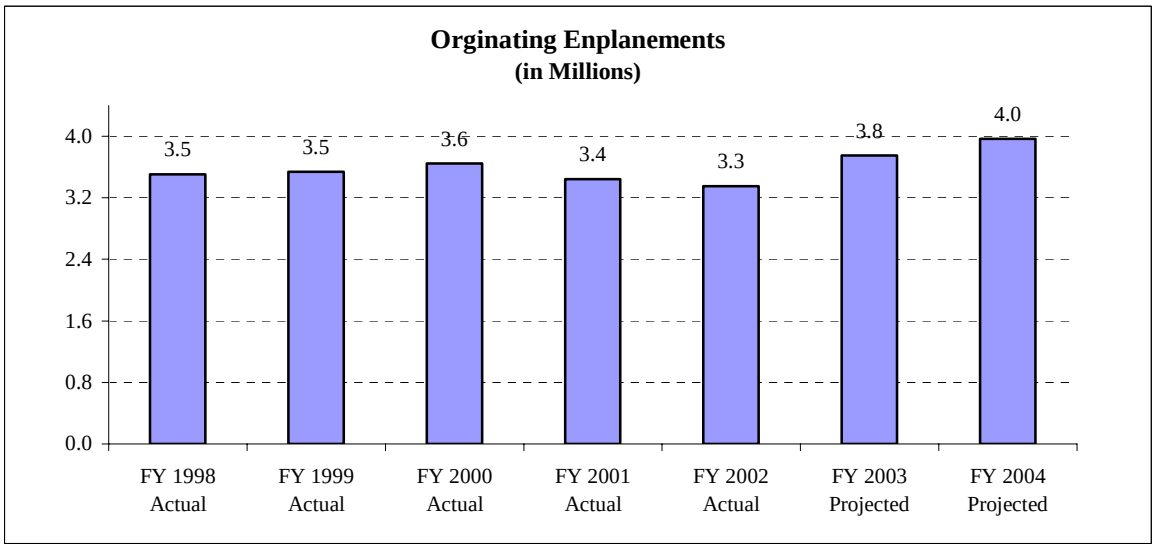
City Council has not pursued further outsourcing management of the Airport. Instead, it has approved continued expansion of Aviation facilities under City Management. All of the studies since 1996 have been generally complimentary of the Airport under City control. Several do address specific corrective actions to make it a more efficient and effective enterprise. Further details are presented later in the report as they relate to audit findings and issues.



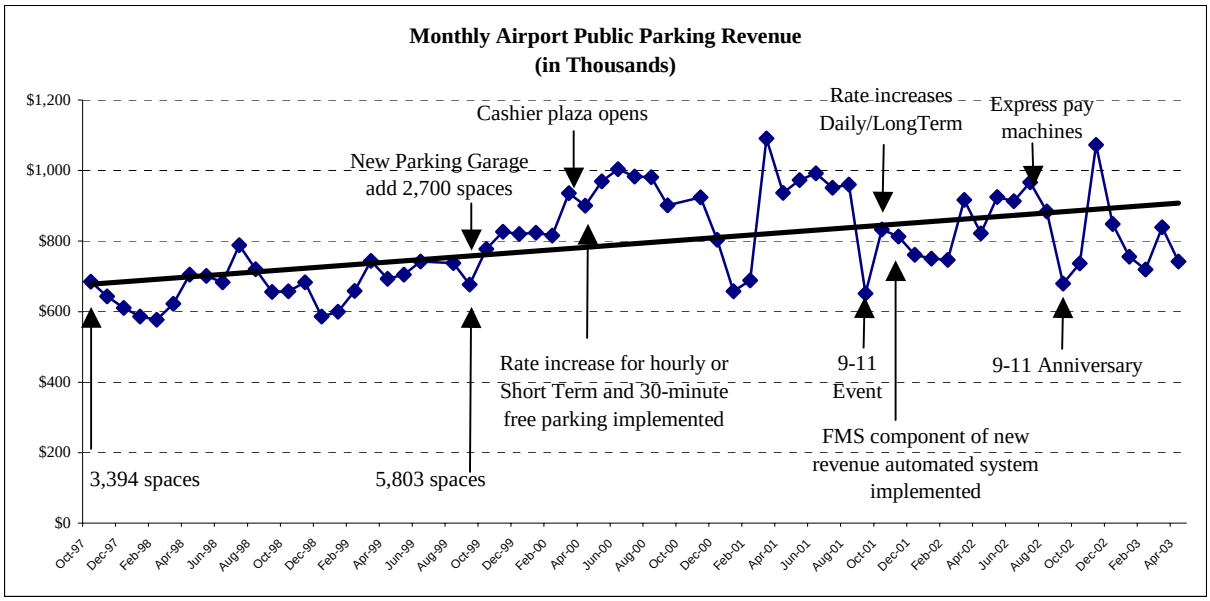
As shown above, parking represents the single largest category of Airport operating revenue accounting for 26 percent, while landing fees amounted to 13 percent. Fuel flowage fees were $359,202 for 2002, and were part of other revenue.

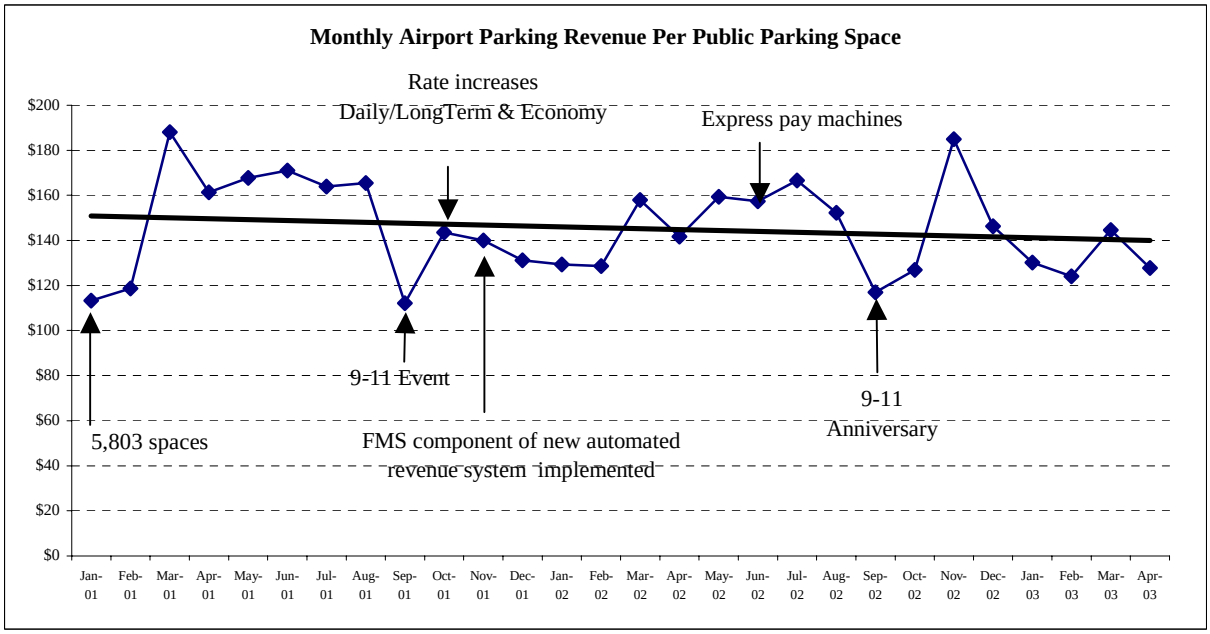
Fiscal year 2002 reflects the first operating cycle decline after the September 11th Event. Actual data shown in the next five comparative charts and graphs also reflects the impact of the September 11, 2001 Event. However, not all projected information used by the Aviation Department has been fully adjusted.

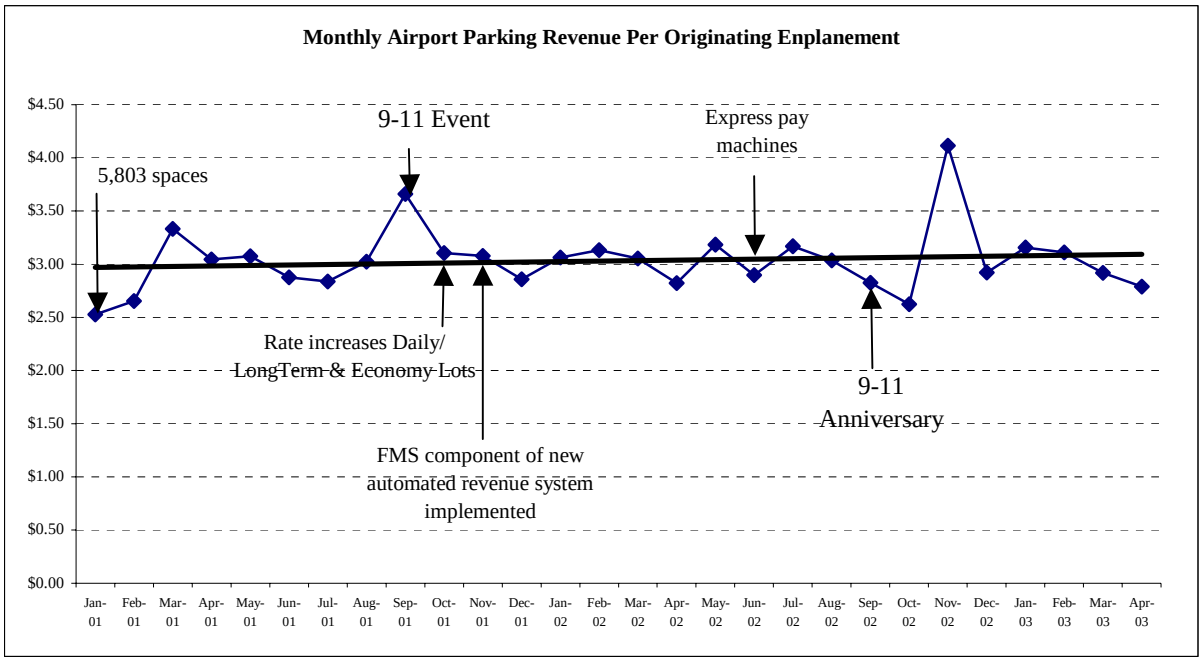
There is a correlation between the number of originating enplanements from International and the amount of parking revenue and landing fees generated. The following graph shows the actual and projected originating enplanements for a seven-year period.



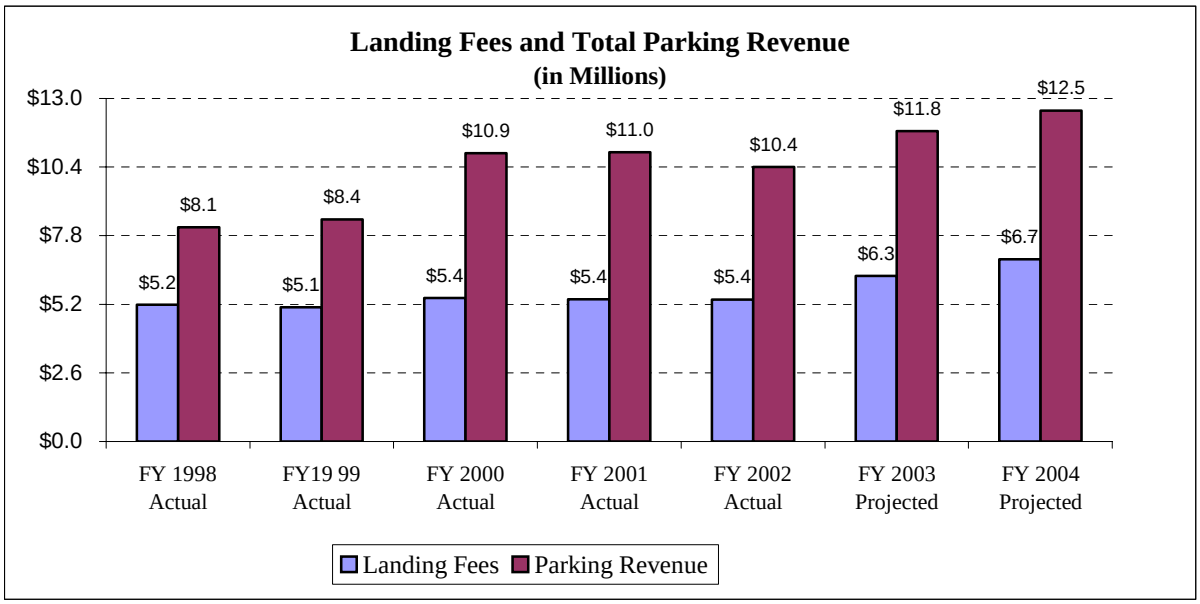
Monthly Airport parking revenue for fiscal years 1998 to 2002 and through April 2003, as well as monthly revenue per parking space and monthly revenue per originating enplanements is depicted in the charts that follow. The monthly data shows the trends based upon holiday and vacation peak travel as compared with the other times.







The actual and projected parking revenue and landing fees for fiscal years 1998 through 2004 are shown below. This information reflects the impact of additional public parking in October 1999 of fiscal year 2000.



SUMMARY OF ISSUES

Aviation Management must establish an improved control environment to provide reasonable assurance that revenue and operating goals and objectives will be met.

- Consider organizational or functional realignments to provide adequate segregation of key duties related to revenue controls.
- Evaluate expanded and new uses of technology as part of the control environment enhancements.
- Develop or update procedures, other than contract related. Revisions should incorporate changes due to the revenue system installed in late 2001. Ensure that Supervision thoroughly explains these to staff and that they routinely review them with Aviation Personnel.
- Improve procedures to monitor compliance with revenue contract provisions.
- Internal controls reflect various opportunities for improvement that should increase the reliability of automated and manual data.
- Performance measures and balance scorecard criteria should be consistent over time. Results should be evaluated and reported to Aviation and City Management in a routine and timely manner, such as monthly.
- The Facility Management System (FMS) contract and implementation have not been adequately managed and monitored.

CONCLUSION

Audits of the Airport parking operations, fuel flowage and landing fees were completed. Findings and issues related to management reporting and internal controls suggest similar problems in all three areas. As issues were identified during fieldwork, Aviation Managers of Accounting and Parking were made aware of them. Findings developed subsequent to fieldwork were reviewed with Aviation Management during an exit conference in May 2003. Based upon the audit work performed, recommendations are being proposed that should assist City Council, City Management, and Aviation Management in making improvements in these areas.

The audit process and procedures were designed to provide reasonable, but not absolute assurance, that the Aviation Department has adequate internal control systems in place. Audit methodologies and sampling techniques that meet generally accepted government auditing standards were applied. Based upon these limited procedures, instances of non-compliance or of additional risks may not have been identified.

This report reflects City Management and Aviation Department responses to the audit findings and issues. Any items not addressed or corrected at the time of final report issuance will be followed-up monthly until corrective action has been taken.

PARKING OPERATIONS

Risk Assessment

The parking operation represents significant risks for the Aviation Department and the City. It has and is expected to continue generating substantial revenue, in excess of $10 million per year. Of this amount more than forty-five percent of the annual revenue has been cash, while the remainder has been cash equivalents. Operating as a 24-hour/7 day facility with three lots requires 10 to 15 cashiers for the various shifts and multiple locations. The City made a substantial investment in parking facilities within the last five years, and plans are to spend $40 plus million to further expand infrastructure by 2006.

These represent the risk areas that must be addressed by the City and Aviation Management when developing appropriate controls. Without effective and properly working controls, greater opportunities are created for mishandling of cash and/or misuse of the facilities. Also, the ability to detect thefts of cash is obscured. Likewise, effects for revenue growth are diminished. These conditions mandate the proper segregation of duties; the cost effective use of automation and technology; and a strong monitoring function to minimize revenue losses.

Background

Prior to 1999, the City had seven parking locations with 3,394 spaces. These lots were consolidated into three areas in 1999. The revised structure resulted in hourly/short-term parking, daily/long-term parking, and economy/remote parking. Parking facilities were expanded in 1999 to include a new five-story garage with 2,700 spaces. The consolidation and expansion brought the total public parking spaces available to 6,094.

Subsequently, 291 spaces were eliminated to accommodate construction at the Airport and to implement security measures after the 9-11 Event. This reduced the public parking spaces available to 5,803. The Airport sold revenue bonds in spring of 2003 to finance the construction of another facility that will add 2,400 spaces in 2005.

Parking revenue is derived from public, employee, and off-airport parking. The most significant revenue comes from the three public parking lots. In April 2000, two initiatives recommended by the 1999 re-engineering study were implemented that impacted public parking. There was a rate increase for hourly or short-term public parking. A program targeting “meeters/greeters” was initiated that gave everyone free parking for the first 30 minutes. Rate increase proceeds were expected to cover the $250,000 estimated annual revenue reduction from the 30-minute free program.

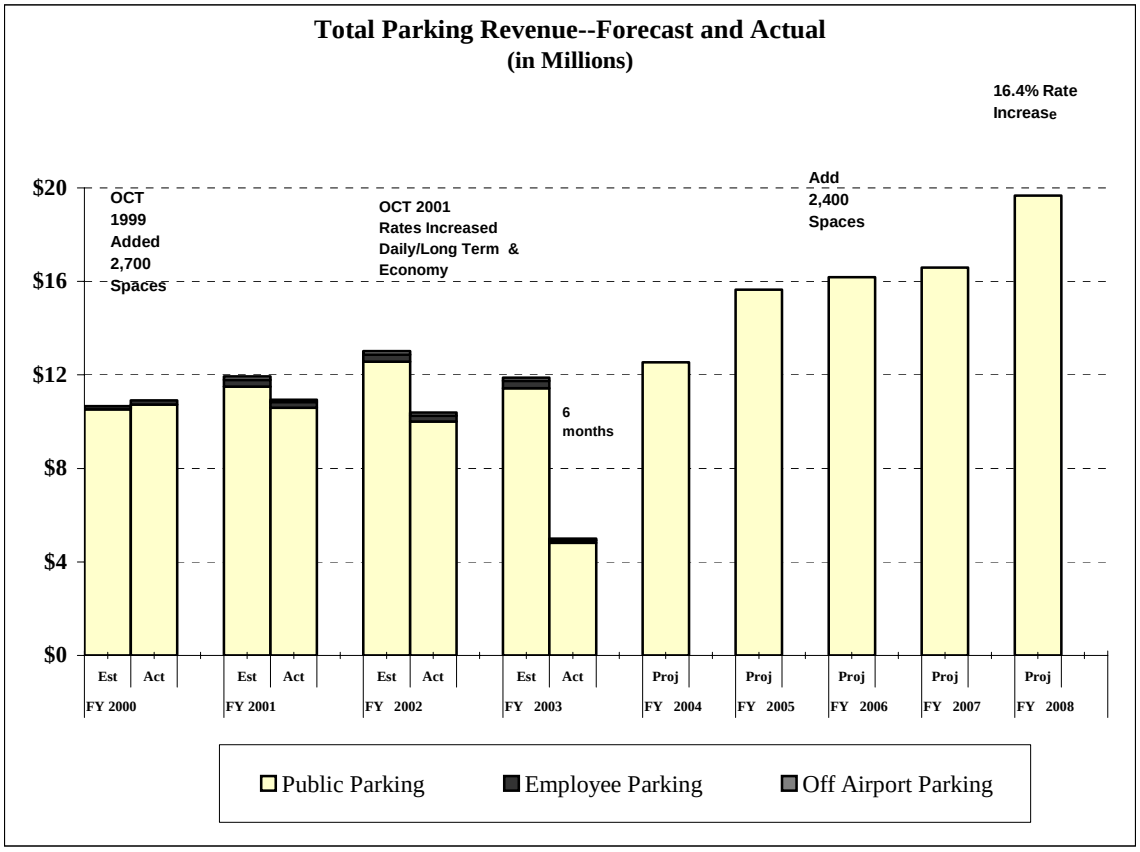
Approximately 7,675 private sector jobs, 385 federal government workers, and 400 Aviation Department staff are located at the Airport in fiscal year 2002. To accommodate these individuals, 900 parking spaces have been designated. Most federal employees have parking available as part of their organization's lease. City personnel working at the airport now park for free; however, there is no written policy for this practice.

Employee parking revenue was evaluated in the 1999 study, and determined to be insufficient to cover the cost of operating and maintaining the lot. A rate increase plan was approved in 2001 that would eventually double the fees charged to private sector employees from $5 per month to $10 for base airline staff and from $10 per month to $20 for commuter personnel. This was expected to generate $275,000 in revenue annually or an increase of about $139,000.

In 1999, there were two off-airport parking facilities with 1,800 and 250 spaces, respectively, where the public could park. The 1999 re-engineering study proposed assessing the off-airport parking operators a "privilege fee" between four and ten percent of their monthly parking revenue. This was projected to generate between $60,000 and $150,000 annually in additional City parking revenue.

In Aviation's goals and objectives for 1999, the department included automation of parking facilities and equipment to improve convenience and efficiency for the airport passenger. The acquisition of the Facility Management System (FMS) was bid in December 2000, and it was approved by City Council in May 2001 to automate parking facilities and streamline operations. Implementation of the revenue control system component of FMS was completed in November 2001 with subsystems for express payment machines and automated vehicle identification systems scheduled for implementation soon thereafter.

Revenue from parking operations exceeded $10 million in both fiscal years 2001 and 2002. The financial feasibility study of March 2002 indicated that parking revenue from 1997 through 2001 had grown at an annual rate of about 6.2 percent. It was projected to grow from 2002 through 2011 at an average annual rate of 9.2 percent. The increased growth rate projected was due to the new facilities in 2005, and to a rate change anticipated in 2008. The following graph depicts forecast and actual revenue for fiscal years 2000 through 2003. It also shows the projected revenue for fiscal years 2004 through 2008 from the March 2002 Unison-Maximus Report.



OBJECTIVES

The Aviation Department requested assistance from Internal Review during January 2002 in developing appropriate control measures to adequately safeguard and record City funds. The request came about one month after the Facility Management System (FMS) partial implementation. The Director of Internal Review at the time decided to conduct an independent assessment of International Airport parking operation controls and to evaluate third party contracting opportunities in lieu of providing the requested assistance. The Department Director was notified of the change in assistance in a memo dated April 3, 2002. Fieldwork began in May 2002 to evaluate the parking control environment related to safeguarding assets, segregation of duties, monitoring and systems evaluation. During fieldwork, audit staff communicated the revised project objectives to the Parking Manager.

SCOPE AND METHODOLOGY

The scope of the audit focused on internal controls after implementation of the FMS system and after the 9-11 Event. The fieldwork used transactions during the week of May 6 through May 12, 2002. This one-week period was considered representative of activity performed throughout the year, excluding peak holiday travel.

Data was collected and analyzed for the test period. In addition, subsequent reviews of City Budgets, Official Statements, Comprehensive Annual Financial Reports (CAFR), and various financial/feasibility studies were conducted.

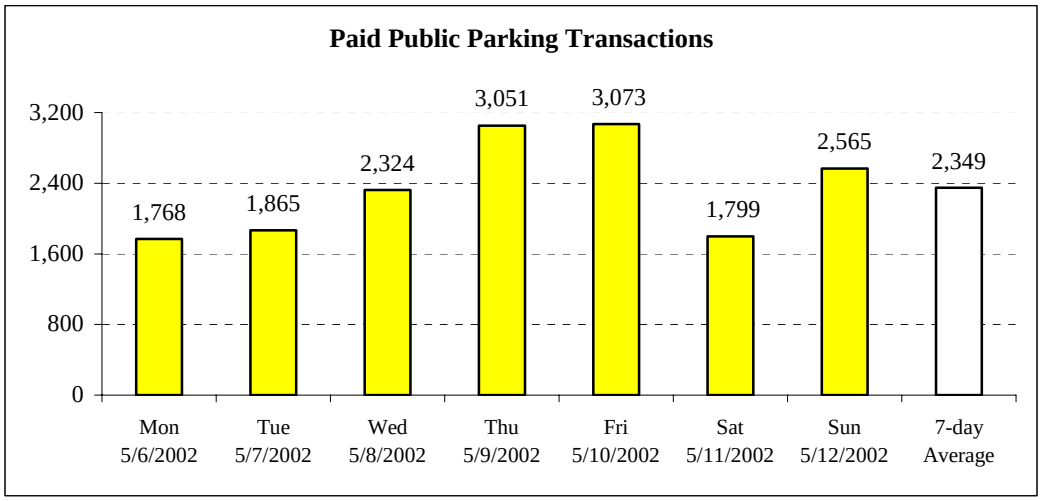
Observations and Walk-through

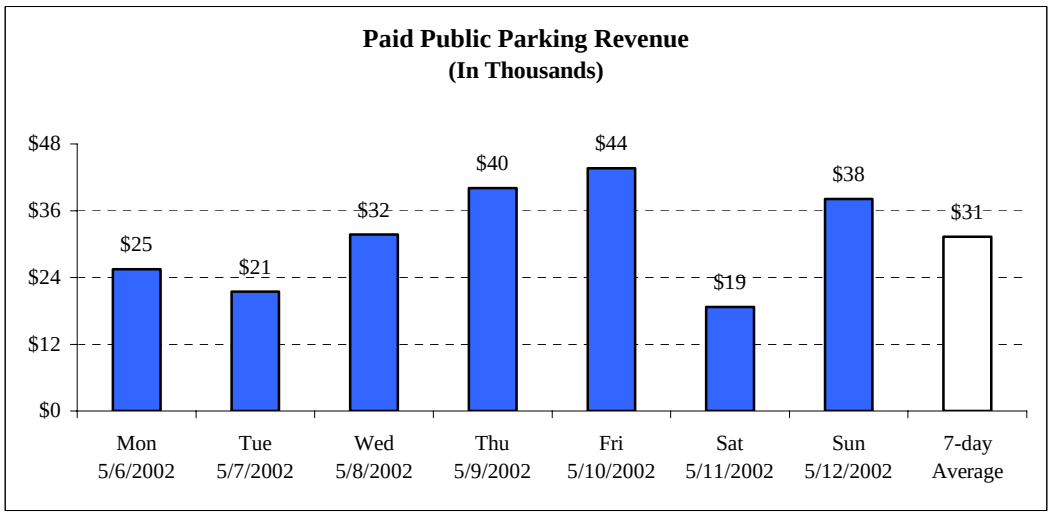
Observations were performed of cashiering operations to determine whether staff was following approved policies and procedures. Discussions with Aviation Parking and Accounting staff were conducted to identify and gain an understanding of the revenue cycle and the FMS processing. Parking activity reports were reviewed to determine how these reports were used. The walk-throughs were to evaluate segregation of duties, physical custody of cash, and parking ticket inventory controls.

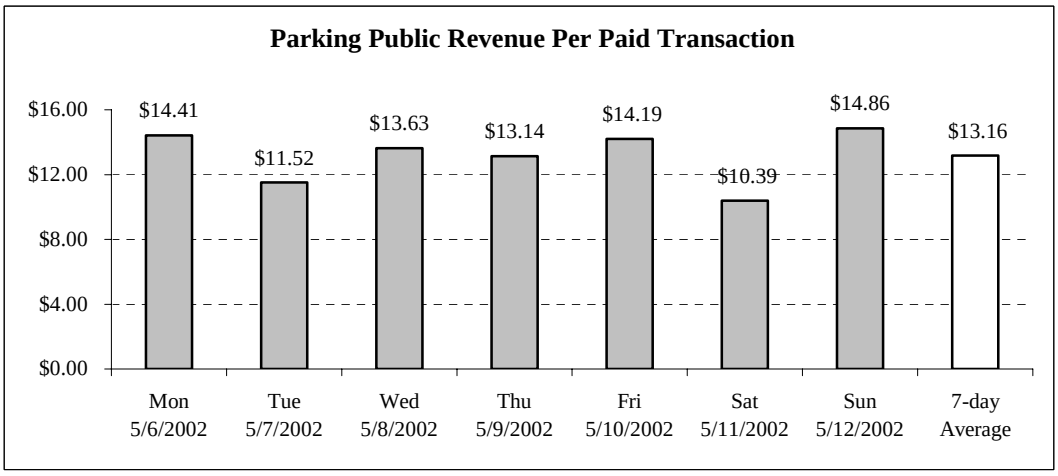
Sampling

Transactions were looked at during a seven-day period to identify the activity cycle. Audit work focus was primarily on exits and related revenue. While in the field, testing of entrances to the public or employee parking facilities was not compared or reconciled to daily exits. In addition, detailed testing of free parking tickets was not performed.

For the audit sample, the number of paid public parking transactions and revenue was calculated. The results of these calculations are presented in the charts on the following page.


Paid Public Parking Transactions
3,200
2,400
1,600
800
0
1,768
1,865
2,324
3,051
3,073
1,799
2,565
2,349
Mon 5/6/2002
Tue 5/7/2002
Wed 5/8/2002
Thu 5/9/2002
Fri 5/10/2002
Sat 5/11/2002
Sun 5/12/2002
7-day Average


Paid Public Parking Revenue
(In Thousands)
$48
$36
$24
$12
$0
$25
$21
$32
$40
$44
$19
$38
$31
Mon 5/6/2002
Tue 5/7/2002
Wed 5/8/2002
Thu 5/9/2002
Fri 5/10/2002
Sat 5/11/2002
Sun 5/12/2002
7-day Average


Parking Public Revenue Per Paid Transaction
$16.00
$12.00
$8.00
$4.00
$0.00
$14.41
$11.52
$13.63
$13.14
$14.19
$10.39
$14.86
$13.16
Mon 5/6/2002
Tue 5/7/2002
Wed 5/8/2002
Thu 5/9/2002
Fri 5/10/2002
Sat 5/11/2002
Sun 5/12/2002
7-day Average

Data Analysis

External benchmark information and performance measures were used to evaluate City parking operations. Financial data from the City's current accounting system FAMIS Reports was compared to the external studies mentioned earlier for fiscal years 1998 through 2003. A selected sample of contract documents, and the manual for the FMS revenue system were reviewed.

RESULTS, RECOMMENDATIONS, AND RESPONSES

Based on the review of internal controls within the Aviation parking operations, the Department and the City are subject to more than normal risk exposure due to the nature and occurrences of exceptions noted.

INTERNAL CONTROL SYSTEMS

Finding 1: Aviation Management must substantially improve the control environment for parking operations. Internal controls issues identified bring into question the reliability of data recorded and reported for operations. Of particular concern are the areas of:

- **Segregation of duties**
- **Authorization and recording of transactions**
- **Supervision and monitoring**
- **Policies and procedures**

Issue 1(a): Segregation of Duties

Adequate segregation of duties means that no one individual, or unit, manages too many of the key duties related to an activity. Parking operations currently has major responsibilities such as cash handling; cash deposits; and revenue reconciliation, recording, and reporting.

The Parking Manager has absolute authority and control of the automated revenue system known as FMS. Aviation Accounting does not have access to create reports from the parking system to provide an independent review of operations data. Accounting has access to the reports produced by the Parking Manager.

In addition, personnel routinely alternate between functioning as cashiers and in supervisor roles. As an acting supervisor, an assignment that varies in duration depending on need, the cashier has access and authority to the automated system, to keys, to change funds, and to ticket inventory. This consolidation of duties and responsibilities under the parking operations area creates greater opportunities for mishandling funds, for misuse of ticket stock inventory, and for under-reporting revenue.

Recommendations for Issue 1(a)

Adequate segregation of duties is required. This can be achieved by:

- Organizational re-alignment of key duties within the Aviation Department. Specific job duties should be identified so that all critical responsibilities are assigned. Accountability for performance must be clearly associated with individual employees and supervisors.

- Accounting should perform reconciling, recording, and reporting of the results of operations. They should also be required to review the various "free" parking and void tickets for reasonableness and appropriateness.

- A Systems Administrator should be selected to handle FMS. This person should have the appropriate technical skill set to fully function in their role. The position should not report to Accounting or Operations. Their job duties should also include security planning, disaster recovery, and system backup.

- Cashiers should prepare their deposits using the daily register tapes. All tapes, used/canceled tickets, and receipts should then be submitted with their deposit to the fiscal or accounting area for reconciliation.

- Cashiers should be prohibited from performing supervisory duties.

Aviation Department's Response dated June 10, 2003:

Aviation concurs with the recommendation to assign responsibility for the FMS to an administrator who does not report to Accounting or Operations.

Responsibilities and job duties are identified in job descriptions for Parking Attendant and Parking Supervisor. The responsibilities of the acting Supervisor are also defined in Chapter 7 of the Parking Division Policies and Procedures Manual.

The recording and reporting of the results of parking operations has been in place for many years, and is currently being achieved under the new FMS system in the following manner: each day, the third shift Parking Supervisor prints FMS reports (on Credit Card and Pay-on-Foot transactions) to help with reconciling and forwards them to Accounting with the Cashiers turn-in/reports/tapes. This is now accomplished per the procedure titled, Third Shift Procedures. A set of these daily reports that have been forwarded by Parking to Accounting since the inception of the pay-on-foot (June 2002) is provided for your review.

Although the FMS didn't initially enable Accounting to produce ad-hoc detailed reports, the Aviation IT Section developed the appropriate reports (as the system was designed to do once fully implemented) by capturing FMS data and comparing it to the Cashiers turn-in as counted by Accounting. Any difference identified is passed on to Parking for investigation. An example of the Accounting Cashier Summary Report is provided for your review.

The Department's IT Manager and staff will provide administration of the FMS. This section will be responsible for all programming functions, system support, system access, disaster recovery and system back-up. Neither Operations, nor Accounting will have authority to perform these functions as recommended.

It has been a longstanding practice for cashiers (Parking Attendants) to use the "daily register tapes" to prepare their deposits. The Parking Attendants submit their closeout tape, Credit Card (CC) receipts, worksheet, exception (validation) tickets, and Promissory Notes to Accounting. Excepting the CC receipts, these are returned to Parking some four to five months later and stored for five years. A sample of the cashier reconciliation that illustrates the way it used to be done, and a revised sample illustrates the way it is currently done. Parking maintains the normal tickets and journal tapes, storing them for five years.

Cashiers (Parking Attendants) function well in dual roles. The alternative is to create 1 additional Supervisory Position (one previously eliminated to cut costs, post-reengineering); this still leaves one shift uncovered (2 days per each Supervisor required coverage). Staffing levels will be reviewed to determine cost feasibility of increasing staffing levels or other alternatives.

Auditors' Comment on Aviation's Response:

With their responses, Aviation Management provided audit staff a procedure with instructions on how to print out a ScanNet report. Sample reports provided were dated November 2, 2002, and the two separate reports did not reconcile. The sample cashier reconciliation provided to audit staff reconciles to the tapes from the machine but not to tickets. This general process does not indicate any change in procedure from when fieldwork was performed. The cashier also signed as supervisor ("A/S"). The response partially addresses issues in the recommendation.

Operations management needs to establish duties and responsibilities that are distinct and appropriate for Accounting, Information Technology (IT), and Parking to ensure an adequate segregation of duties. Reconciling and investigating discrepancies are most appropriately within the purview of the Accounting Section. Similarly, cashiers and supervisors duties and responsibilities should not overlap because it provides opportunities for collusion and potential for revenue loss. As an enterprise fund, Parking Operations should generate revenue sufficient to support necessary controls.

Issue 1(b): Authorization and Recording of Transactions

The Aviation record-keeping system should be independent of operations to provide effective revenue controls. Three areas where independence is not maintained are the Facility Management System (FMS), the "express pay" machines, and the preprinted parking ticket inventory.

Controls for FMS should ensure that an individual who uses the system to process transactions cannot have access to impair the integrity of that data. In this case, the parking division controls FMS with no independent review or access by Aviation Accounting. The Parking Manager and Superintendent share master level access, which allows them to program changes and to assign access levels for parking operations personnel. The Parking Manager maintains FMS and oversees backup of system data.

An initiative designed to ease congestion in the exit lanes of the public parking lot, the “express pay” or “pay-on-foot” machines, became operational June 5, 2002. It too is serviced and maintained by the parking division. These machines accept only debit or credit card payments, which allows patrons to expedite their payments and exit. Parking division staff controls all aspects of this activity from servicing the machines to clearing the system totals, and to the daily recording of activity. No independent review of this activity is performed at present. During the audit, airport staff commented that they were unable to reconcile these payments to the cash deposited into the bank. Subsequent inquiries have indicated that this problem has not been resolved as of April 2003.

Parking operations did not establish controls over preprinted ticket inventory, and accordingly does not account for all tickets each day or each shift. Parking staff do not track or maintain logs of tickets removed from inventory to use in the ticket spitter machines at the lot entrances, or account for the exception tickets used in manual transaction processing. No reconciliation of tickets is performed to account for all tickets used or in inventory.

Early each morning, parked vehicles are inventoried by Parking Operations. These daily inventories have not been used in reconciling transaction activity or performance reports.

Recommendations for Issue 1(b)

Aviation Department Management should realign or reassign responsibilities for the automated operating/reporting system FMS, and for the preprinted ticket inventory that is used for entering the public parking lots.

- System Administrator duties for FMS should be performed by someone independent of Aviation Parking and Accounting. The Parking Manager may designate access levels for his staff, but should not be able to make the changes within FMS.

- Accounting should collect deposit information and reset machine totals at end of the shift or day for the "express pay" machines to ensure proper segregation of duties. They should be more accountable for reconciling the debit and credit payments made each day to bank records.

- Prenumbered ticket stock should be loaded into the "spitter" machines and be managed by an area other than Parking Operations. They should ensure that it is accounted for and reconciled daily.

- Someone other than a cashier should perform the daily inventory of parked vehicles. They should provide the results to Accounting to be used in the revised daily/shift transaction reconciliation procedures.

Aviation Department's Response dated June 10, 2003:

Aviation Department concurs with the recommendation for a System Administrator.

These machines are credit/debit card only and utilize a separate credit card service provider, accessible from Accounting. Accounting can get any batch of transactions faxed to them by Paymentech. Therefore, the need for Accounting personnel to "clear" the pay-on-foot machines is unnecessary since all data is carried through the FMS and viewable by Accounting at any time. In addition, the machines are "reset" automatically by macro programs that run in the middle of the night, beginning at 2:15 a.m. The only information within the Exit Express (EE) machines is the journal tape, which is a backup to the daily reports issued on EE activity per machine. These are collected by Parking and forwarded to Accounting twice a week for reconciling.

The reengineering plan eliminated the Parking Technician positions that formerly accomplished this task. The Shift Supervisors now perform this task. However, it is important to note that no tampering is possible because of the system encoding.

The Paper media tickets are pre-numbered and loaded sequentially by the Supervisor. These tickets are stored in a secure area accessible by Supervisors only. After being loaded, the Supervisor logs the tickets numbers.

Upon being dispensed at the entrance, the System encodes a System-based number that is then tracked through the process. Owing to these technology changes over the years, the external ticket number has no real value in the process, just the System ticket number.

The Airport issues over 2,800 tickets per day. The reconciliation of "normal" tickets, while sometimes featured at some moderate-sized City or University parking facilities, is not conducted at Airports given the daily volumes and the labor resource that would have to be committed exclusively toward executing that purpose. Aviation Management conducted a survey of eight airports about their procedures for conducting vehicle inventories and performing ticket reconciliations and provided the results for the City Auditor staff to review.

However, the Parking Division has begun doing random ticket audits on Parking Attendants to determine accuracy and track trends, both positive and negative.

The parking inventory is accomplished at SAT in the same way that at most airports, because it is the most cost efficient way. This process doesn't add any risk to the parking operations. Aviation Staff doesn't understand why this is felt to be an issue.

Auditors' Comment on Aviation Department's Response:

As a high volume credit card operation, it is important to reconcile daily so discrepancies and errors can be corrected and do not become unmanageable. The Aviation Accounting Manager indicated that the credit card balances have not been accurately reconciled for a number of years. The situation becomes more critical in light of incidents where system data could not be recovered such as occurred in May 2002 when three days of data was permanently lost.

During fieldwork, audit staff was informed that the system number printed on the issued ticket could be duplicated and that the system accepts the exception ticket that does not have a system imprinted number. The pre-printed number is necessary for internal tracking of ticket inventory, especially in monitoring the use of exception tickets. In May 2002 when the system was down, pre-numbered tickets could have enabled tracking ticket usage. Pre-numbered tickets also can be used effectively to control the inappropriate use of cancelled tickets that are returned to parking for storage. A cancelled pre-numbered ticket that is tracked in inventory cannot be easily recycled and used inappropriately.

The department response indicated greater than 2,800 tickets were issued per day representing forty-eight percent of the space available. The average for May 2002 was 3,292 and for May 2003 was 3,491. The data provided by the department understated parking activity.

A reconciliation of ticket inventory is necessary to identify unaccounted for tickets, and a reconciliation of tickets to vehicles is vital to ensuring that all revenue is completely and accurately accounted for. The survey conducted by Aviation Management indicated that six of eight airports polled do perform a reconciliation of entries, inventory changes and exits. This procedure is necessary to identify unaccounted for transactions that could result in potential losses.

Issue 1(c): Supervision and Monitoring

Supervisors are an integral component of an effective internal control system. By monitoring the cashier's performance, the supervisor ensures that approved procedures are followed and operating as intended. During field observations, they were not present when cashiers reconciled their drawer. Also, they did not adequately review cashier exception transactions to look for missing or unsupported validations. Validations represent fee waivers given to disabled, handicapped, and certain categories of veterans. They should be monitored to guard against misuse or inappropriate waivers by cashiers.

All cashier booths, except one location, have video camera equipment installed. The current camera system is focused on the drawer and the customer window. Information provided by parking operations indicated that the recording capability is limited which makes such equipment a less effective control. Use of video devices and recordings can be useful to deter or detect improper actions by customers and/or employees. However, when staff are aware of the limited applications for the installed devices then the control benefits are significantly less. Additionally, many cashier operations at other facilities use the video process to capture the license numbers of exiting vehicles for comparison with the vehicle inventory process. That does not appear to be possible with the current setup.

In fact, operations did not see this equipment as a management control to be used in supervising the cashier staff.

<u>Recommendations for Issue 1(c)</u>

- Supervisors should perform unannounced visits to cashier booths to review and verify shift transactions and verify cashier deposits.

- They should verify that validations or exception transactions are properly supported and hold cashiers accountable when the support is insufficient or missing.

- Aviation should upgrade the video/camera system to include expanded recording, viewing, and monitoring capabilities so that it can become an effective tool in supervising cashiers.

- Video/camera equipment should be used to record incoming and exiting vehicle license plate numbers.

- Review and retention policies and procedures should be developed to support maintaining data for investigation and/or audit purposes.

- Aviation Management should implement a program where cashiers are required to give every patron a receipt for the parking fee paid. Signs posted at each parking booth should direct a patron to call Aviation Administration or Municipal Integrity to report when they are not given a receipt or they detect an error in their fee. Many businesses have adopted this inexpensive process as another internal control in their operation.

Aviation Department's Response dated June 10, 2003:

Aviation Staff concurs with the recommendation that supervisors perform unannounced visits to cashier booths.

The procedure for processing a validation was revised on May 5, 2003. In addition, the Parking Manager tracks all transactions and validations/free parking on a daily basis on a spreadsheet. This spreadsheet is also forwarded on a daily basis to the Assistant Director, Operations and Maintenance.

Aviation Staff will consider improving the remote monitoring capabilities through technological advances as soon as funding becomes available.

Such a fully automated system is a License Plate Recognition (LPR) system, implementation of which would cost between $700,000 and $1.1 million. This comment is duly noted, but is costly, and will require time and funding to secure.

Auditors' Comment on Aviation Department's Response:

As a high volume daily cash operation (about forty-five percent of daily deposits), the parking facilities warrant greater levels of supervision and monitoring. Any reasonable and cost effective means to prevent, deter, and eliminate employee and/or customer theft or abuse should be taken. As an enterprise fund, the audit recommendation could and should be self-funded or covered by existing revenue sources.

Parking Management has been revising and updating its policies and procedures as indicated in the schedule of updates to the policy manual provided to audit staff with Aviation's response. The procedure for validation (free parking for disabled or handicapped patrons) processing was updated on May 5, 2003, and provides more detail in handling the various categories of validations than the previous procedure. The procedure needs to address the specific and documented reviews that supervisors and the parking manager will perform of the validations to include the issue of holding the cashier accountable when the support is not sufficient or missing.

Parking Management needs to utilize the FMS system reports that provide the transaction detail on vehicle activity and revenue for performance monitoring in lieu of preparing a separate excel spreadsheet as this requires data entry be verified for accuracy. An excel spreadsheet provided to audit staff with Aviation's response contained inaccuracies in the calculation of daily vehicle entrances and inventory averages and columns did not foot to the totals. The spreadsheet lacked vehicle activity from the previous month necessary to reconcile vehicle entrances and vehicle inventory to vehicle exits.

Aviation Management should develop plans for implementing enhanced monitoring video capabilities as soon as possible to minimize opportunities for employees and/or patrons to misappropriate funds. This should also be revenue funded.

Issue 1(d): Policies and Procedures

Critical to the internal control environment are complete and documented policies and procedures. They describe the duties and responsibilities for each activity to be performed by staff. Documentation provided by Aviation personnel was insufficient to identify reporting and controls subsequent to implementation of FMS.

Prior to installing the automated system in late 2001, Aviation Management should have ensured that this documentation was revised to address the changing control environment. They should have also required that all staff be properly trained on the changes initiated, especially the updated job procedures. The Director of Aviation did request assistance from Internal Review about six weeks after the system was implemented. However, new independence requirements for Auditing Staff meant that direct assistance in developing the procedure changes and control enhancements could no longer be provided.

<u>Recommendations for Issue 1(d)</u>

- Revisions to policies and procedures for cashiers, supervisors, accounting, and all other staff based on the recommended re-determination of appropriate control responsibilities should be accomplished as soon as possible.

- Training of all staff on the updated policies and procedures should be scheduled and completed in a timely manner.

- Management should have follow-up monitoring and additional training until assurance of compliance with the control process changes and revised procedures is achieved.

Aviation Department's Response dated June 10, 2003:

Aviation Management concurs with the recommendations.

This process has been aggressively pursued since Fall 2002 as per the request to IR (Internal Review). Staff continues to adjust, document and prepare procedures/policies to ensure RCS (Revenue Control System) reliability. A list of recently updated chapters from the Parking Policies and Procedures Manual is provided for audit staff to review

Training is provided and sign-offs are required on all policy and procedure changes, immediately before implementation. This process is ongoing. A sample of employee sign-off on an updated procedure is provided for audit staff to review.

Training and re-training processes are being presently examined. Future changes are to include random policy and procedure testing to ensure knowledge is retained.

Auditors' Comment on Aviation Department's Response:

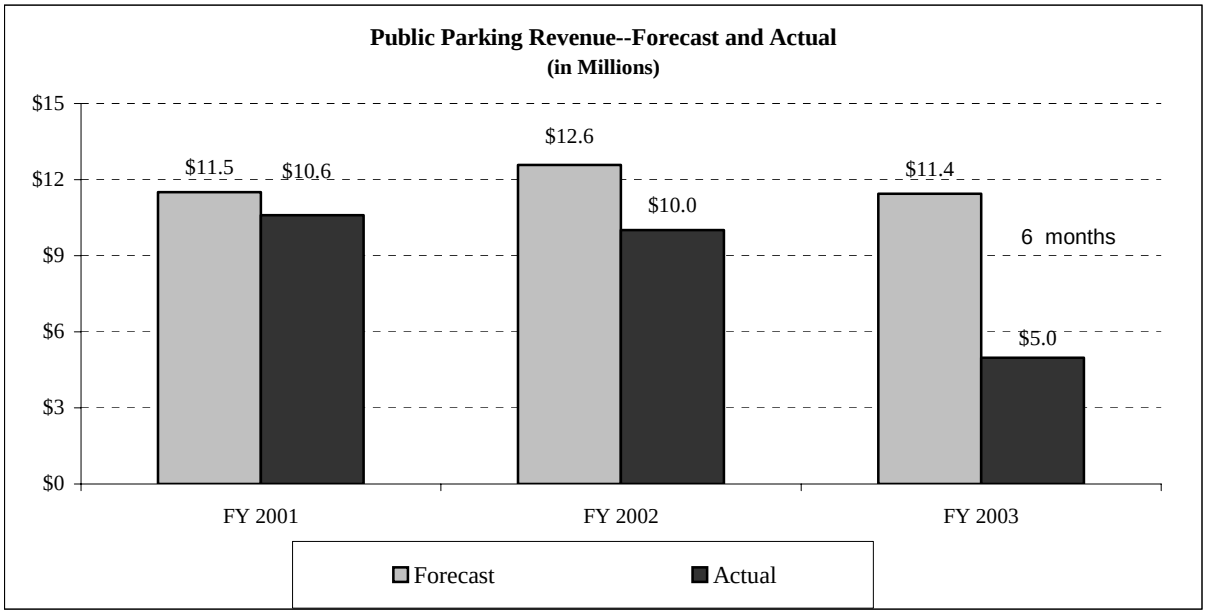
Aviation Management provided audit staff with their responses, a list of Parking policies and procedures that have been revised or updated since June 2002. Auditors maintained contact with Parking staff subsequent to the fieldwork performed and were not advised of policy and procedure revisions as of October 21, 2002 for cashiers. Procedures for validations (free parking for disabled or handicapped patrons) were revised on May 5, 2003, and provided more detail in handling the various categories of validations than the procedure reviewed during fieldwork. Parking should ensure that cashiers have access to a comprehensive manual of policies and procedures.

Aviation Management needs to develop policies and procedures that reflect the distinct and separate functions of Accounting, Information Technology (IT), and Parking. Plans should be developed for training staff and testing for competency.

PERFORMANCE MEASURES

Finding 2: Performance measures and balance scorecard results are not evaluated and reported in a timely manner.

Parking revenue was less than the forecast by $986,215 and $2,623,894 in fiscal years 2001 and 2002, respectively. Parking revenue fell short of projections in fiscal years 2001 and 2002 by eight and twenty percent, respectively, and it appears that revenue will fall short of the projected revenue in fiscal year 2003.



Aviation Management should be investigating reasons for parking revenue under performing. The various studies referenced show that parking operations should have produced revenue levels greater than the actual for fiscal years 2001 and 2002.

The fiscal and operational impact of the public parking rate increases, the off-airport parking availability, the "meeters/greeters" program, and the employee parking rate increases have not been evaluated by Parking Supervision or Aviation Management.

- The re-engineering study recommended charging off-airport parking operators a ten percent "privilege fee." Demand for public parking space was expected to exceed capacity; therefore, allowing off-airport parking operators to fill the excess demand and collecting a fee for shuttling airport passengers to the terminal area would be a winning initiative for the Airport. The "privilege fee" was expected to generate $60,000 to $150,000 in additional revenue each year.

  The City received revenue within the expected range of $99,199 and $143,296 in fiscal years 2001 and 2002, respectively, from this initiative. The study indicated a positive impact on parking revenue. However, in evaluating this activity, it was determined that off-airport operators had grown from two to three vendors increasing off-airport parking availability from 2,050 to 2,120 spaces. A fourth vendor does not have an agreement with the Airport.

The increases represent a 3.4 percent growth in parking spaces. Further, a telephone survey of the parking rates for these locations indicated that they all are lower than the City's parking rates.

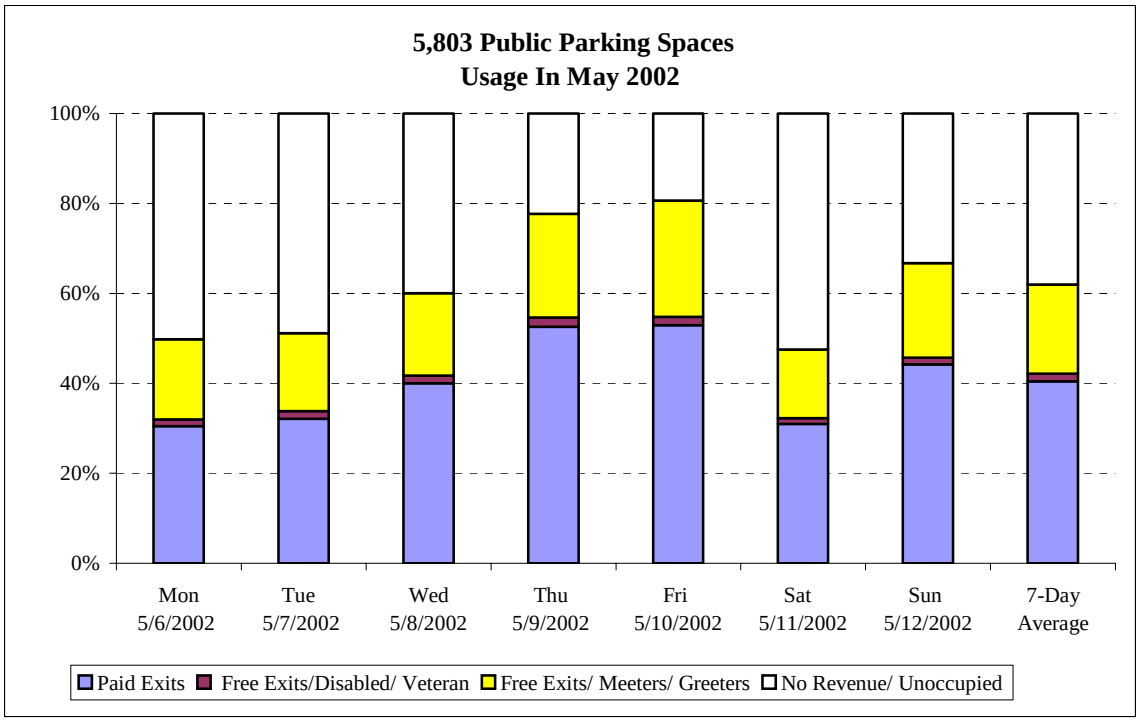
Since the City of San Antonio has received "privilege fees" based upon eight percent of their parking revenue plus an exemption of the first $25,000, it would indicate that these lots are grossing between $1,264,991 and $1,816,200 per year. The lower rates of these operators has somewhat contributed to the under performance of aviation parking revenue since inception of this program.

- A program targeting "meeters/greeters" gave every customer 30 minutes free parking. This was intended to relieve congestion in front of the terminal areas, and was expected to result in $250,000 less revenue. While the congestion has been reduced, the impact of this program on operating revenue has not been re-evaluated. Parking operations does not report on the impact of free parking on revenue and performance measures. The re-engineering study anticipated that revenue resulting from increases in public parking fees would offset the annual program cost.

  Audit testwork showed that 32 percent, or 8,037, free parking exits occurred for the week in May 2002. This would account for over 418,000 free exits on an annual basis. At a rate of $1 per exit not collected, Aviation would forego $418,000 in revenue, which is substantially more than the study projected. In addition, there has not been an on going monitoring of the "free" parking transactions to determine if they are all valid.

- Parking occupancy is considered at full capacity if the average number of parkers is at 90 percent according to the parking expansion study of 2001. To achieve this level of occupancy with a capacity of 5,803 spaces, the average daily number of parkers should be approximately 5,222.

  Using the test week data from May 2002, an approximate daily occupancy average of 3,857 in public parking lots, or a rate of 66 percent was calculated. When the new garage with 2,400 spaces is completed in 2005, the average number of parkers required to achieve 90 percent parking occupancy will be 7,382. Aviation Management has not addressed the parking under utilization exceptions identified.



- According to the expansion study of 2001, growth cited in revenue for the previous five years, and projected in the next ten years includes targeted increases in parking rates. These increases are required to maintain a certain level of debt service coverage, and are planned at regular intervals throughout the forecast period. The expectation of increasing revenue assumes that the level of occupancy will be maintained or increased throughout the future periods. As performance has indicated, the rate increases did not result in increased revenue as projected. In fact, they appeared to have negatively impacted the parking utilization as cited above.

The following table compares the history of originating enplanements and parking revenue for San Antonio International (SAT); provides a comparison to other airports at a point in time; and a comparison of parking rates. The table indicates an unusual trend between parking revenue and originating enplanements in revenue per space and revenue per originating enplanements. Annual parking revenue per space at SAT has been declining since fiscal year 1999.

Comparison of Revenue Per Space and Originating Enplanements

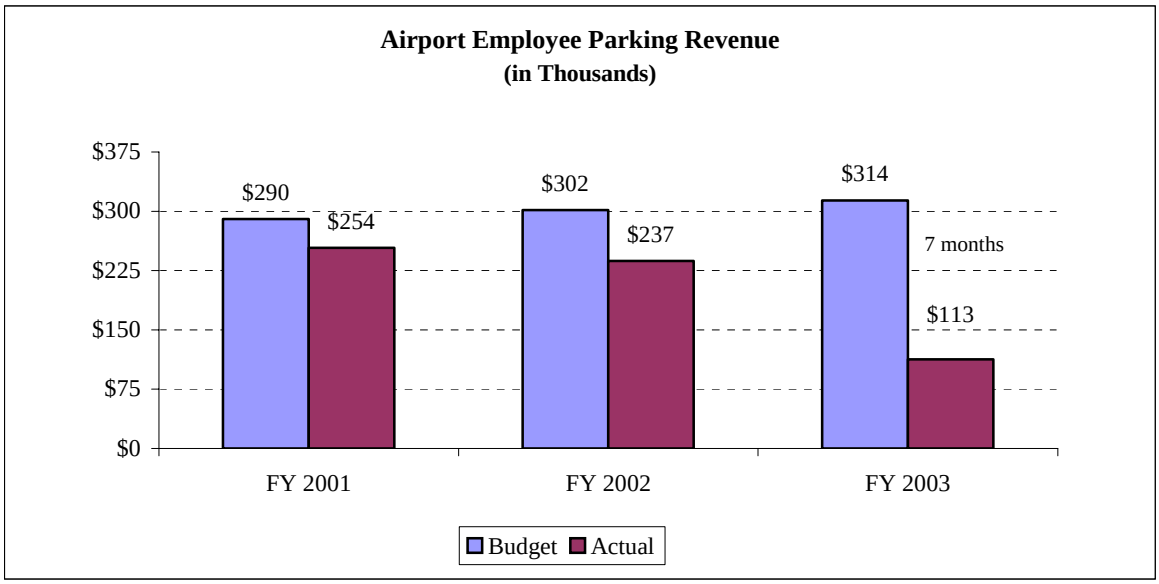
	Month Fiscal Year	Originating Enplanements	% Change	Public Parking Spaces Available	Annual Public Parking Revenue	% Change	Revenue Per Originating Enplanement	% Change	**Revenue Per Space**	% Change
San Antonio International Airport	Sep-98	3,503,526	n/a	3,394	$7,978,858	n/a	$2.28	n/a	**$2,351**	n/a
	Sep-99	3,507,958	0.13%	3,394	$8,208,904	2.88%	$2.34	2.63%	**$2,419**	2.89%
	Sep-00	3,638,859	3.73%	5,803	$10,737,465	30.80%	$2.95	26.07%	**$1,850**	-23.52%
	Sep-01	3,556,001	-2.28%	5,803	$10,591,444	-1.36%	$2.98	1.02%	**$1,825**	-1.35%
	Sep-02	3,315,745	-6.76%	5,803	$10,011,526	-5.48%	$3.02	1.34%	**$1,725**	-5.48%
Off-Airport Operators (average)	Sep-02	3,315,745		2,120	$1,816,200		$0.55		**$857**	
Austin-Bergstrom Airport	Dec-02	3,402,479		10,152	$21,414,000		$6.29		**$2,109**	
Kansas City International Airport	Apr-02	5,593,039		17,000	$29,791,619		$5.33		**$1,752**	
Houston Airport System	Jun-02	15,889,000		23,000	$46,955,000		$2.96		**$2,042**	
Washington DC-National	Dec-02	6,465,387		7,500	$16,847,300		$2.61		**$2,246**	
Washington DC-Dulles	Dec-02	8,595,966		25,000	$24,903,600		$2.90		**$996**	

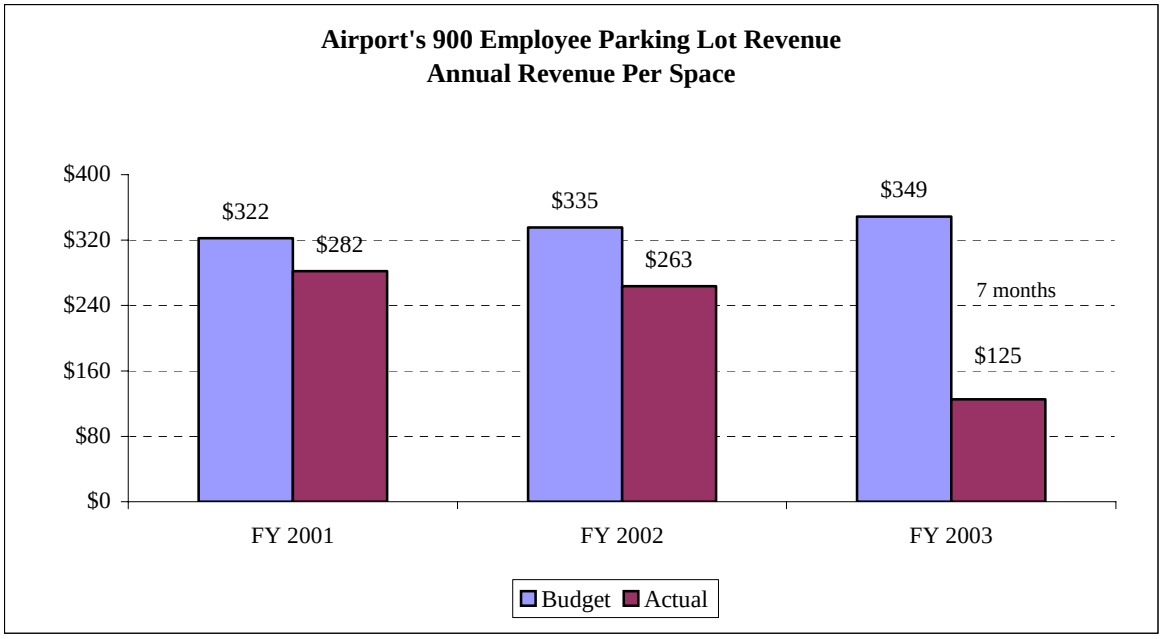
Parking rates at SAT in the following chart were compared to the rates at other airports and to rates charged by off-airport operators. While these rates appear in line with other airports, they may not be in line with the local economy. Tactics by off-airport operators such as Airport Security Parking and Budget who market aggressively by issuing coupons by mail and offering free parking incentives are impacting parking revenue.

Comparison of Parking Rates

	Hourly	Daily	Economy	Average Daily Revenue Per Space
San Antonio International Airport	$1 - $18	$1 - $8	$1 - $4.50	$4.73
Off-Airport Operators				$2.35
Budget	$3.53 or $5.88	$3.53 or $5.88	$3.53 or $5.88	
Airport Security Parking	$5.93 or $7.01	$5.93 or $7.01	$5.93 or $7.01	
Advantage	$7.00	$7.00	$7.00	
Thrifty Rent-A-Car	$3.50	$3.50	$3.50	
Austin-Bergstrom Airport	$2 - $18	$9	$6	$5.78
Kansas City International Airport	$18	$10	$5	$4.80
Houston Airport System	$1 - $30	$3 - $12	$2 - $6	$5.59
Washington DC-National	$2 - $28	$5 - $15	$3 - $9	$6.15
Washington DC-Dulles	$4 - $36	$5 - $15	$3 - $8	$2.73

Data for employee parking is presented below. Aviation projected revenue higher than the performance target recommended by the re-engineering study for fiscal years 2001 to 2003 for employee parking. After implementation of the rate increases that doubled rates for base and commuter employees of private sector firms, the Airport has reported less than the $275,000 annual revenue anticipated by the study and projected in the City's annual budget. This was the case for fiscal years 2001 and 2002, and would appear to be the trend as well for 2003.





Recommendations for Finding 2

Aviation Management needs to proactively address performance issues that will improve parking revenue.

- Aviation needs to routinely evaluate its performance measures, such as monthly or quarterly.

- The results of performance analysis must be reported to the Aviation Director and City Management to ensure that appropriate and timely actions can be developed for negative trends.

- Identify off-airport parking operators who are not currently paying the "privilege fee," and require them to sign an agreement with the City. Evaluate alternatives to the "privilege fee" such as charging a "ground transportation access fee" as recommended in the 1999 re-engineering study. Determine which of the two initiatives would be the most profitable for the Airport.

- Aviation needs to develop strategies to increase parking utilization in public parking lots. This may require more competitive rates than those currently charged. Other strategic plans could also be devised such as using the facility for a north-central park and ride location for downtown students and workers. Entering into parking lease arrangements with area new car dealerships might be another opportunity to enhance revenue in the near term. It could be used as a complementary facility for Alamodome, Convention, and SBC Center events.

- Investigate the causes of low employee parking occupancy and revenue for the past three years. Determine if employers and/or parkers have been properly invoiced each month. Evaluate the need for a rate reduction to be more competitive with the off-airport parking facilities. Consider other possible uses for the 500 or more vacant spaces each day that would generate some incremental revenue for parking operations.

- Develop a procedure for tracking and monitoring free parking exits to ensure that this program is used as approved. Also, the rate structure to support this program must be appropriately addressed to avoid a greater than forecast financial impact.

Aviation Department's Response dated June 10, 2003:

The Aviation Departments does not concur with the findings and recommendations.

Performance measures are reviewed and updated during the year. Revenues are reviewed monthly as indicated by the key performance measures listed in documents provided for audit staff to review.

Aviation Department's Response Continued:

Monitoring results are reported to the Aviation Director on a regular basis as indicated by the reports provided to audit staff for review.

To our knowledge all off-airport parking operators are paying the fee in accordance with the ordinance. The Internal Review Office conducted an audit at the request of the Aviation Department a little over a year ago that indicated that fees were properly remitted. There is one new operator, which offers off-airport parking that has not signed a permit agreement. However, its revenues are under the $25,000 threshold and no funds are owed to the City. A report provided to audit staff shows Thrifty's off-airport parking revenues for 2002. The permit documents have been forwarded to the company. City Council approved a ground transportation fee for other providers (e.g., hotel shuttles, charters, etc.), which is in the process of implementation.

The Aviation Department has developed a strategy to increase the utilization of its parking facilities. This includes developing the bulk of the parking within walking distance of the terminals, and providing a variety of customer service enhancement such as different payment options (e.g., self-pay), upgrading cashier equipment to expedite exiting, etc. Also under development is AVI (automated vehicle identification) parking which will be a ticket-less system, which virtually eliminates any waiting time. Valet parking is also being investigated.

The reductions in tenant employment and the decline of enplaned passengers are near term problems, which are likely to be corrected with an improvement to the economy.

There is very little excess capacity in the employee lot. In the near future, TX DOT (Texas Department of Transportation) will require a portion of the lot for it expressway expansion. The site across the street from the employee lot will be utilized for an existing tenant expansion and a new cargo facility.

Free parking exits are monitored as indicated in reports provided to audit staff. The program has been very successful. It was implemented as a customer service feature, which has received significant community support. It is also an integral element of the airport's traffic management program. Due to the new security measures, no waiting is permitted at the terminals. If vehicle operators did not have an alternative (parking garage), the terminal roadways would be grid locked by individuals trying to circle around.

Auditor Comments' on Aviation Department's Response:

Aviation provided several reports of work performed monthly to monitor performance of Airport operations. Performance measures are reported to Aviation Management for key indicators of Airport operations at the department level on an annual basis and do not address the specific, monthly performance of parking revenue components: public parking lots, employee parking, and off-airport parking. The report prepared by the fiscal office tracks monthly public parking revenue and compares it to the previous year, however, the revenue includes the sales tax and will be higher if compared to revenue data compiled by the Finance manager.

Having implemented programs to enhance revenue, Aviation Management has not followed through to monitor and evaluate each program's performance. The FMS system accumulates data on parking utilization that has not been used effectively to identify trends and support for parking expansion initiatives. The program enhancements cited by Aviation Management will also need to be monitored once implemented to ensure that the program is still providing the benefit or revenue expected.

Employee parking occupancy does not appear to be tracked by Aviation Management and should be. Aviation Management needs to investigate the factors for the low occupancy as it looks for options to increase usage and revenue.

Free parking exits are shown on the reports Aviation Management has provided. On the Daily Statistics Duration Report dated June 6, 2003, free parking exits from Lane 4 accounted for twenty-five percent of the daily vehicle exits. Analysis of the data from Aviation Management that evaluated the impact of the free parking exits on revenue was not provided. The program has achieved the desired benefit of reducing congestion in the terminal area, but the revenue foregone has not been offset by the increase in hourly or short-term rates.

The performance of parking revenue and utilization of parking spaces at the airport has been impacted by the 9-11 Event, which was the most obvious, contributing factor. Aviation Management needs to investigate other factors that may be adversely contributing to reduced performance and underutilization issues cited. Aviation needs to be proactive and implement change and not wait for a turnaround in the economy.

CONTRACT PROCESSES AND IMPROVEMENTS

Finding 3: Aviation did not adequately monitor the Facility Management System (FMS) contract and implementation. The contractor has not complied with the terms of the contract. Aviation has not taken action to require the contractor to comply or to enforce the contract remedies available.

Contract processes and improvements identified during audit fieldwork include:

- System was not completely installed within the contract term, June to December 2001.
  - Components for "express pay" or "pay-on-foot" and automatic vehicle identification were only partially installed in December 2001.
  - Twelve system problems and other contract issues have not been resolved as of April 2003. Seven of the twelve problems relate to credit card and revenue controls.
  - Final acceptance has not been given to date because of the unresolved issues.

- The contractor has been paid $1.46 million, or 95 percent, of the contract as of March 31, 2003. Seventy-one percent of the $1.5 million contract amount was billed through December 2001 and paid by January 2002.

- The system did not pass testing during a 30-day operational test period that began on March 3, 2003. Testing was extended two additional weeks to continue to resolve system problems.

- Aviation has not exercised Section VIII, Contract Remedies that provides penalties for failure to meet the contract completion date. Damages of $700 per day can be assessed for each day implementation was delayed.

The amount of time elapsed for implementation has created opportunities for loss of revenue and inaccurate financial and transaction data. During testwork, reports obtained of parking activity indicated that data had been permanently lost for the period May 1 to May 3, 2002. Numerous problems related to accounting for and reconciling credit card transactions have existed. The credit card problems continue to be unresolved for Aviation Accounting. The "express pay" machines have been operational since June 5, 2002; however, as of April 2003, they are still experiencing problems.

Recommendation for Finding 3

If the contractor is at fault, Aviation should seek appropriate legal remedies as soon as possible.

If the Aviation staff is responsible for the issues, then Management should identify personnel or procedural changes that would get the parking system properly operating. Aviation Management needs to intervene and assign someone responsibility and accountability for making the system fully operational.

Aviation Department's Response dated June 10, 2003:

It is recognized that the implementation of the FMS has exceeded the specified installation timeline of the contract. In part due to the request of the department for issues of security and clarification specified functions of components of the FMS. There have been several legal issues, which required closure prior to proceeding with some component installs, and lastly, lack of performance by the contractor. A chronology of events is provided as per a meeting held June 2, 2003, to enact contract remedies. Following that meeting, the Aviation Department received the action plan by e-mail.

Auditors' Comment on Aviation Department's Response:

Aviation did not provide a specific commitment to resolve these issues or an action plan to hold the vendor or staff accountable for system implementation problems.

LANDING AND FUEL FLOWAGE FEES

Risk Assessment

The numerous contracts with airlines and fixed base operators for these types of fees specify that the vendors determine the compensation due the City each month. These entities are required to submit detailed reports explaining their remittances each month to the Aviation Department. There are some airlines that are not under specific contracts with the City. The Aviation Department must track and invoice these firms for landing fees. Airline operations and contracts are very complex. The landing and fuel flowage fees represent only two components of the overall processes.

Accordingly, the risk exposure to the Aviation Department and the City is greater due to the nature of the business and the complexity of the processes. For the City to ensure that revenue is equitably paid and collected, the internal control systems must be extremely efficient and effectively working. In addition, a great deal of coordination between Aviation Department staff is required to appropriately manage and monitor the large number of contracts and the related activities. Since an extraordinary amount of data must be tracked and analyzed, the proper control environment should use automation and technology as productively as possible.

Background

Landing Fees

Signatory airlines enter into a multi-year Airline-Airport Use and Lease Agreement. Non-signatory airlines enter into a month-to-month non-leasehold Airline Operating Agreement. Both pay landing fees to the City under the terms of their agreements.

Airline landing fees are determined as the product of the landing fee rate for the period during which the landings occur and the aircraft operator's total landed weight. The formula for this calculation can be represented as:

Landing Fee Rate X Airline's Total Landed Weight/1000 = Landing Fees

An airline's total landed weight for each month is determined to be the gross landing weight for each type of aircraft multiplied by the number of revenue landings.

The landing fee rate is determined annually by Aviation based on operating costs and established by City Ordinance. The landing fee rates per 1,000 pounds of weight for six years have been as follows:

FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
$.92	$.91	$.91	$.96	$.99	$.95

Payment of landing fees from operators of transient aircraft (airlines that do not have operating permits with the Airport) is contingent upon the procedures established by Aviation to identify and bill them. There are aircraft landing at the Airport that are neither signatory nor non-signatory. These aircraft should be reporting and paying landing fees to the City. Several of these aircraft represent at least fifty landings per month at the San Antonio Airport. There are also aircraft that land for purposes of repair that are exempt from landing fees.

Fuel Flowage Fees

The fuel flowage fee is charged to general aviation aircraft operators for use of the Airport's infrastructure facilities. General aviation is defined as those operations conducted by private versus commercial aircraft. Pursuant to the terms of their agreement with the City, all Fixed Base Operators (FBO) are required to report monthly the gallons of fuel delivered to them.

OBJECTIVES

The audit processes were to determine whether the Aviation Department has established adequate procedures to ensure that landing fees and fuel flowage fees were accurately invoiced, collected, recorded, and reported in accordance with the various contract provisions and accounting policies.

In response to a request from Internal Review for potential audit issues for fiscal year 1999, the Aviation Department listed landing and fuel flowage fees as two high priority areas. These fees are considered to be field use charges and are required in offsetting the annual expenses. The fuel flowage fee is charged to general aviation aircraft operators. Landing fees are charged to commercial aircraft operators that have revenue-generating activity at the Airport.

In April 2000, the newly hired Aviation Director notified the Internal Review that landing fees and fuel flowage fees remained top audit priorities. He identified 16 Fixed Base Operators responsible for payment of fuel flowage fees, and 29 commercial airlines responsible for payment of landing fees. Due to the large number of contractors, Internal Audit decided to limit the scope to Fixed Base Operators and airlines generating over $100,000 per year in revenue to the City.

During calendar year 1999, FBO paid fuel flowage fees totaling $371,582. Raytheon Aircraft Services paid fuel flowage fees totaling $136,506 or 37 percent of the total. During May 2000, Internal Review (now Office of the City Internal Auditor) initiated an audit of fuel flowage fees paid by Raytheon during the period January 1999 through December 1999.

Airlines that pay landing fees to the City are exempt from paying fuel flowage fees. FBO are allowed to exempt the fuel provided to airlines that pay landing fees from payment of fuel flowage fees. FBO are required to submit copies of airline landing reports to Aviation to support the fuel exempted from the fuel flowage fee. During this review, FBOs were not providing landing reports to Aviation and this limited the ability to verify the accuracy of the fuel flowage fees paid to the City. Instead of issuing a report on the result of the fuel flowage fee audit, it was decided to perform a review of landing fees as well. This was to determine whether findings identified in the audit of landing fees were related to those identified in the fuel flowage audit. In July 2000, Internal Review notified Aviation Management that the results of fuel flowage fees would be held pending the audit of landing fees.

In August 2000, Internal Review initiated additional audit procedures of landing fees from January 1, 2000, through July 30, 2000. Landing fees paid to the City during this period totaled $3.1 million. Landing fees were paid by 31 airlines. The audit was limited to eleven airlines that had exceeded or were projected to exceed the $100,000 annual revenue criteria established earlier, included were Federal Express, United Parcel Service, Delta Air Lines, Northwest Airlines, Southwest Airlines, United Airlines, America West, American Airlines, Continental, Trans-World, and Express One International. These airlines paid landing fees totaling $2.8 million, which represented 92 percent of the total landing fees for the seven-month test period.

SCOPE AND METHODOLOGY

To assess whether Aviation had developed adequate procedures to bill transient airlines landing at the Airport, a list of landings for these airlines for the period January 1, 2001, through June 30, 2002, except for December 2001, was obtained from the Federal Aviation Administration (FAA) Office. This information is not generally available to the public; however, audit staff was given one-time permission from a representative of the FAA.

The research included review of the various Aviation financial and operating records and reports for landing and fuel flowage fees:

- Samples of agreements with Signatory and Non-signatory airlines and Fixed Base Operators (FBO) currently in force.
- Records and reports provided by the Aviation Department.
- Adopted City Budgets for fiscal years 2001, 2002 and 2003.
- FAMIS Reports information for landing and fuel flowage fee revenue.
- Official Statement for Airport System Revenue Refunding Bonds dated March 20, 2003.

This audit was re-initiated during August 2001 and audit procedures were conducted at the Airport through December 2002. Research and analysis of actual revenue reported by the Aviation Department for fiscal years 1997 through fiscal year 2002 was conducted.

The results discussed in this report also include assessments based on the audit procedures performed during the May 2000 review of fuel flowage fees and the August 2000 evaluation of landing fees.

RESULTS, RECOMMENDATIONS, AND RESPONSES

Fiscal and monitoring procedures utilized by the Aviation Department for landing and fuel flowage fees must be improved to provide reasonable assurance that Aviation is invoicing, collecting, and reporting appropriate revenue.

INTERNAL CONTROL SYSTEMS

Finding 4: Aviation does not have formally documented policies and procedures to monitor the invoicing, collection, recording and reporting of fuel flowage or landing fees. As a result, the following are areas of greater concern that have been surfaced by this audit:

- **Segregation of duties**
- **Authorization/verification of transactions**
- **Supervision and monitoring**

Issue 4(a): Segregation of Duties

Airport Operations does not get involved with the monthly checking of revenue reports from airlines or Fixed Base Operators (FBO). Operations should be providing information to Aviation Accounting for verifying receipts of landing and fuel flowage fees. FBO calculate and remit fuel flowage fees to Aviation in connection with monthly activity reports. Aviation Accounting processes the proceeds without reviewing activity reports and verifying that fuel flowage fees are based on the actual number of gallons of fuels delivered.

Aviation Accounting does not reconcile the number of landings or the total landed weight airline reports to confirm the accuracy of landing fees received. For the period January to June 2000, variances were identified between the number of landings reported by the airlines and the landings recorded by the FAA. This may have resulted in under-reported activity by as much as 283 landings, and of landing fees totaling approximately $34,665.

Recommendation for Issue 4(a)

Aviation Management should develop and implement specific procedures to verify fees received for both landing and fuel flowage fees. The total number of gallons used to calculate fuel flowage fees should be supported by documentation in the monthly activity reports submitted by FBO. The total monthly landed weight used by airlines to calculate landing fees should be reconciled to information provided in the airlines monthly activity reports submitted with the payment of landing fees. This information should be used by Aviation staff on a recurring basis to verify the accuracy of fees remitted to the City.

Aviation Department's Response dated June 10, 2003:

The procedures currently used to verify landing and fuel flowage fees were already in effect at the time of the audit. Reports titled, "Air Carrier Monthly Statistical and Landed Weight Fees" and the "Fuel Flowage Report" from the ARMS Procedural Manual were provided for audit staff to review.

As a result of the audit, we have developed a form letter that will be sent to the FBOs stating that they are required to report fuel delivered to the airport along with a certified statement from the fuel vendor as to the amount of fuel delivered to the tenant leasehold.

The Aviation Accounting Division does not review FAA reports. However, Aviation Accounting does reconcile total landing weights that the airline reports on the monthly Landed Weight/Fee Report to the Monthly Statistical Report submitted by each airline.

Auditors' Comment on Aviation Department's Response:

Aviation staff should make all reasonable attempts to independently verify information self-reported by airlines for landing and fuel flowage fees to fulfill contract requirements. It is not appropriate for Aviation to merely compare both reports from the airlines.

As an Enterprise Fund, they can support processes and equipment necessary to expediently implement changes to assure the City recovers the appropriate amount of revenue. In addition, they have completely overlooked the non-signatory airlines. Tests indicate non-signatory airlines that land represents enough revenue to justify implementing manual or automated processes to capture information as a good management and financial control. This could result in more equitable treatment of signatory airlines. Landing data could also be used in conjunction with verifying Passenger Facility Charges collected and remitted by the airlines to the City.

Issue 4 (b): Authorization/Verification of Transactions

Aviation Accounting receives logged landings and fuel flowage data directly from the vendors. This process follows the contract requirements; however, it is not reliable enough to ensure that the City collects all landing and fuel flowage fees.

Aviation staff stated that the Department has not been able to develop procedures for identifying transient airlines for the purpose of billing for landing fees. During the review of landing fees for the period of January through June 2000, audit staff found that some commercial airlines were logging revenue landings at the airport without paying landing fees. A subsequent review for the period January 2001 through June 2002 confirmed that this was still occurring for transient airlines.

Audit testing was limited to a sample of airlines for which the operators and type of services provided could be identified. Although limited, the testing identified landing fee revenue totaling approximately $175,432 for 7,307 landings that Aviation has not collected from commercial airlines.

Landing Fees Not Collected from Commercial Airlines

Period	Landings	Uncollected Fees	Description
January 2000 to June 2000	283	$34,665	Under contract
Subtotal for Under contract	283	$34,665	
January 2000 to June 2000	2,734	$78,834	Not under contract
January 2001 to June 2002	4,290	$61,933	Not under contract
Subtotal for Not under contract	7,024	$140,767	
Totals	7,307	$175,432	
Daily Average (calculated)	20		

Recommendations for Issue 4(b)

Aviation Management should develop a system to track and monitor aircraft landings. The system should identify transient airlines; the volume of landings; and total landed weight. This information should be provided to Aviation Accounting for billing, or verification, of landing fees as appropriate.

Research determined that other large airports staff positions to identify, track, and monitor transient airlines for the purpose of collecting more landing fee revenue. Additionally, technology is currently available to accomplish identification of aircraft for purposes of billing potential landing fee customers.

A tracking device called AirScene, an airport management and aircraft tracking system, is available through Rannoch Corporation. This system is considered the leading state of the art solution for airport and airline management. Since airports generally derive a substantial amount of revenue from landing fees, it is essential that airport operators have complete and accurate information for billing purposes. The use of such a system is superior to relying on tower logs or fuel receipts as some airports do and certainly superior to relying on airlines voluntarily reporting as does San Antonio Airport.

AirScene technology offers a reporting capability that provides identification of all aircraft using the airport. The system operates by decoding and tracking all radar and other signals emanating from each aircraft arriving or departing the airport. This information is then detected, decoded and correlated with an aircraft database for providing useable information for purposes of identifying and billing potential landing fee customers.

Aviation Department's Response dated June 10, 2003:

The Aviation Department has already taken steps toward researching such a system. The proposal for an airport Noise and Operations Monitoring System (NOMS) is going out to bid this month. It is scheduled for implementation by March 2004. The Technical Specifications for this system specifically require an Aircraft Operations and Identification Monitoring capability. The Aviation Department will also utilize the database to confirm the billing for landing fees.

Auditors' Comment on Aviation Department's Response:

The forward thinking of Aviation Management to utilize the database for the NOMS system for identifying and billing landing fees is commendable. However, Aviation Management should implement a system much sooner than 2004 because each month without such a system in place results in additional revenue loss. As an Enterprise Fund, the system could certainly pay for itself from recovery of additional revenue for the City. There should not be delays in addressing this issue or other reasonable interim methods.

Issue 4(c): Supervision and Monitoring

Aviation Management does not assess overall performance and take necessary corrective actions to achieve the goals and objectives outlined in the Department's performance measures. Aviation goals were compared to reported performance results for current and previous years. Landing fees collected in two of the three previous fiscal years did not meet the forecast amount. For fiscal year 2002 projected revenue was $5,879,785 while actual landing fee revenue totaled $5,375,191. For fiscal year 2000 expected landing fee revenue was $5,670,987 as compared with actual landing fee revenue of $5,433,787.

There was no indication that Aviation Management monitored landing fee revenue during the fiscal year. Aviation has stated that their future depends on increasing revenue. This objective makes monitoring of performance measures and benchmarks all the more critical.

Internal controls, no matter how well designed and operated, provide only reasonable assurance of adherence to objectives, reliability of reporting, and compliance with contracts. A critical component to an effective internal control system is the awareness and understanding by staff. Aviation Management does not have procedures designed to ensure that landing and fuel flowage fees are properly invoiced, collected, recorded and reported. As a result, staff does not feel responsible and accountable for the revenue controls.

Recommendations for Issue 4(c)

To provide greater assurance that the City's revenue losses are minimized, Aviation Management should:

- Assign someone responsibility for verifying fuel flowage fees remitted by Fixed Base Operators. Ensure that proper procedures are developed and documented to monitor this monthly.

- Assign someone the responsibility for verifying landing fees remitted, and have them develop a system to identify and bill transient airlines. This should also be done as a monthly process.

- Have assigned staff verify volume of landings and total landed weight reported by airlines, and develop procedures to perform a reconciliation to remittances from airlines each month.

Aviation Department's Response dated June 10, 2003:

Aviation Department does not concur with the finding and recommendations.

To verify (field audit) fuel delivered and landings at the tenant leasehold would require additional staff. Alternatively, the Aviation Department will request certified fuel delivery reports from the fuel vendors.

Airport staff currently does verify for corrections of fuel flowage reports and landing reports and statistics reports submitted by the tenants.

Auditors' Comment of Aviation Department's Response:

This verification is a critical management and financial control. Aviation Management can do this in a cost effective manner that can be self-funded through the Enterprise Fund to ensure the City collects the appropriate revenue.

CONTRACT PROCESSES AND IMPROVEMENTS

Finding 5: Aviation has no formally documented methodology for monitoring contracting processes. This has resulted in non-receipt of fees for landing and fuel flowage fees and in noncompliance with required contract terms.

- **Certified fuel delivery reports**
- **Landing reports for fuel flowage fee exemptions**

Issue 5 (a): Certified Fuel Delivery Reports

The Aviation Department does not obtain certified statements that support the fuel received by Fixed Base Operators (FBO). According to the provisions of the Airport's lease agreements with them, FBOs are required to provide statements from the various fuel suppliers attesting to the total number of gallons of fuel delivered to them. These certified statements provide assurance that fuel providers accurately report fuel received and on which fuel flowage fees are calculated. Instead, Aviation assumes that fuel flowage fees received are accurate, and it does not verify gallons received or the calculation of the fuel flowage fees.

Recommendations for Issue 5 (a)

Aviation should obtain certified statements from fuel suppliers to support total gallons of fuel received by monthly by FBO. Aviation Operations and Accounting should use the statements to verify the accuracy of fuel flowage fees received.

Aviation Department's Response dated June 10, 2003:

Aviation staff will send a letter to FBOs requesting that certified statements from fuel suppliers showing total gallons of fuel delivered to the FBO be provided with fuel reports. A sample of the letter was provided to audit staff.

Issue 5 (b): Landing Reports for Fuel Flowage Fee Exemption

Aviation does not obtain documentation from FBO to support gallons of fuel exempted from fuel flowage fees. FBO are permitted to exempt fuel provided to commercial airlines from payment of fuel flowage fees since commercial airlines are required to pay landing fees. To support this exemption, FBO are required to provide landing reports to the Aviation Department for exempt commercial airlines. These landing reports support the number of gallons of fuel for which fuel flowage fees were not paid. Aviation Department must obtain these landing reports as required by the contract.

Recommendation for Issue 5(b)

Aviation Management should require operations to obtain these reports. Accounting should use the landing reports for commercial airlines to support/reconcile the number of gallons of fuel exempted from fees each month.

Aviation Department's Response dated June 10, 2003:

We believe that fuel reports that exclude fuel sold to commercial carriers should be reconciled by Airport Properties Staff. Aviation staff will send a letter to ask for tenants to comply with this provision.