



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

May 4, 2011

Julián Castro
Mayor

Mary Alice P. Cisneros
Councilwoman, District 1

Ivy R. Taylor
Councilwoman, District 2

Jennifer V. Ramos
Councilwoman, District 3

Philip A. Cortez
Councilman, District 4

David Medina, Jr.
Councilman, District 5

Ray Lopez
Councilman, District 6

Justin Rodriguez
Councilman, District 7

W. Reed Williams
Councilman, District 8

Elisa Chan
Councilwoman, District 9

John G. Clamp
Councilman, District 10

Mayor and Council Members:

SUBJECT: Department of Aviation Follow-Up Audit Report

We are pleased to send you the follow-up audit report of Aviation's Billing and Collections Process for Leases. This audit began in February 2011 and concluded with an exit meeting with department management in April 2011. Management's verbatim response is included in Appendix C of the report. The Department of Aviation should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read 'Kevin W. Barthold'.

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor
City of San Antonio

Distribution:

Sheryl L. Sculley, City Manager
Pat DiGiovanni, Deputy City Manager
Frank R. Miller, Aviation Director
Ellen Erenbaum, Assistant Aviation Director
Michael D. Bernard, City Attorney
Leticia M. Vacek, City Clerk
Robbie Greenblum, Chief of Staff, Office of the Mayor
Jaime Castillo, Communications Director, Office of the Mayor
Frances A. Gonzalez, Assistant to the Mayor, Office of the Mayor
Edward Benavides, Chief of Staff, City Manager's Office
Stanley Blend, Audit Committee Member

CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Follow-up Audit of the Department of Aviation

Billing and Collections Process for Leases

Project No. AU11-014F02

May 4, 2011

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Department of Aviation’s Billing and Collection Process for Leases audit report dated August 19, 2009. Our audit objective for this follow-up audit follows:

Has Aviation management implemented recommendations made in the audit report?

We determined that Aviation management and staff have implemented or are working towards implementing all six recommendations in the report mentioned above. The audit team reviewed management actions for all six audit recommendations made in the original report with results noted in **Table 1** below (see **Appendix B** on page 5 for a detailed summary):

Table 1: Recommendation Status Summary

Recommendation Status	Number of Recommendations
Implemented	5
In-Process	1
Not Implemented	0
Total Recommendations Reviewed	6

Aviation is in the process of implementing the recommendation to charge tenants late fees in accordance with the terms of the respective lease agreements. According to Aviation Management, the responsibility of assessing late penalty charges is in transition to another division of Aviation, the Fiscal Operations Unit.

Aviation management’s verbatim response is in **Appendix C** on page 6.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	1
Prior Recommendations and Audit Results	2
1. Lease Agreement.....	2
2. Errors in Calculating the Signatory Airline Refund	2
3. Net Revenue Recognized in Certain Situations	2
4. Write-offs of Uncollectible Balances.....	3
5. Collection Efforts on Delinquent Accounts	3
6. Late fees on Delinquent Balances.....	3
Appendix A – Staff Acknowledgement	4
Appendix B – Recommendation Status Summary	5
Appendix C – Management Response	6

Background

In August 2009, the Office of the City Auditor completed an audit of the billing and collections process for leases in the Aviation Department (hereafter referred to as "Aviation"). The objectives of that audit were as follows:

- 1) Are rents received consistent with lease terms?**
- 2) Is the collection process effective for delinquent accounts?**

The Office of the City Auditor issued a report that identified a number of operational and accounting practices requiring improvement. Additionally, the report noted an error in the Signatory Airline¹ refund calculation resulting in an underpayment to various airlines.

Aviation has 78 lease agreements with commercial airlines, corporations and related businesses at the International Airport. Aviation has an additional 36 lease agreements with retail and food concessionaires. For fiscal year 2010, Aviation recognized approximately \$68 million in operating revenue. Of this amount, rental revenue was approximately \$40.0 million from Airport terminal, building, concessions, and property leases.

Audit Scope and Methodology

The audit scope is limited to recommendations made in the original report. The audit methodology consisted of reviewing Aviation policies and procedures related to the collection of accounts receivables and write-off of uncollectible receivable balances. Additionally, the audit team observed processes, conducted interviews with appropriate management and employees, and performed test work regarding tenant lease agreements and payment activity.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. Our testing covered the period August 2009 to January 2011.

¹ A Signatory Airline is a scheduled air carrier that has an agreement with the City for exclusive use of airport space and gate(s).

Prior Recommendations and Audit Results

1. Lease Agreement

The Aviation Director should execute a written lease agreement with all tenants.

Status: Implemented

Aviation has implemented the recommendation to execute a written lease agreement with all tenants. We ensured that tenants/concessionaires on airport properties were included on Aviation's list as having lease agreements with the City.

2. Errors in Calculating the Signatory Airline Refund

The Aviation Director should pay Signatory Airlines the \$57,000 due for the fiscal year 2008 airline refund.

Status: Implemented

Aviation has implemented the recommendation to refund Signatory Airlines their pro-rata portion of the 2008 airline refund. We verified that the credit was properly applied to Signatory Airline accounts in the City's SAP financial accounting system.

3. Net Revenue Recognized in Certain Situations

The Aviation Director should record lease revenue at gross amounts. Record credits provided to tenants for property improvements and economic development in the appropriate expenditure accounts.

Status: Implemented

Aviation has implemented the recommendation to record lease revenue at gross amounts and to record revenue credits in the appropriate general ledger accounts. We reviewed a sample of three airport tenants that had received revenue credits in FY 2010 and determined that Aviation had properly recorded gross revenues and associated credits in the appropriate SAP general ledger accounts for all three tenants.

4. Write-offs of Uncollectible Balances

The Aviation Director should write-off uncollectible receivable balances.

Status: Implemented

Aviation has implemented the recommendation to write-off uncollectible receivable balances. We determined that Aviation wrote off a total of \$554,502 in FY 2009, and \$24,292 in FY 2010.

5. Collection Efforts on Delinquent Accounts

The Aviation Director should develop detailed procedures for collection of delinquent accounts. The procedures should address staff responsibilities, the frequency and type of active collection attempts, and monitoring the aging of accounts receivable.

Status: Implemented

Aviation has developed and implemented detailed procedures for the collection of delinquent accounts. Collection efforts include phone calls and/or dunning letters at 30, 60, and 90 days past due. Procedures require complete documentation, such as phone logs and copies of correspondence, be maintained to show a good faith effort was made to collect owed amounts.

6. Late fees on Delinquent Balances

The Aviation Director should charge tenants late fees in accordance with the terms of the respective lease agreements. In addition, include specific late fee rates in new lease agreements.

Status: In Process

Aviation is in the process of implementing the recommendation to charge tenants late fees in accordance with the terms of the respective lease agreements. According to Aviation Management, the responsibility of assessing late penalty charges is in transition to another division of Aviation, the Fiscal Operations Unit.

We reviewed a judgmental sample of four airport tenants and determined that none of them were making timely payments and that three of them were not assessed late penalty charges in accordance with their lease agreements.

Appendix A – Staff Acknowledgement

Mark Bigler, CPA-Utah, CISA, CFE, Audit Manager
Celia Gaona, CIA, CFE, CISA, Auditor in Charge

Appendix B – Recommendation Status Summary

No.	Original Report Recommendation	Current Status
1	A.1 The Aviation Director should execute a written lease agreement with all tenants.	Implemented
2	A.2 The Aviation Director should pay Signatory Airlines the \$57,000 due for the fiscal year 2008 airline refund.	Implemented
3	A.3 The Aviation Director should record lease revenue at gross amounts. Record credits provided to tenants for property improvements and economic development in the appropriate expenditure accounts.	Implemented
4	A.4 The Aviation Director should write-off uncollectible receivable balances.	Implemented
5	B.1 The Aviation Director should develop detailed procedures for collection of delinquent accounts. The procedures should address staff responsibilities, the frequency and type of active collection attempts, and monitoring the aging of accounts receivable.	Implemented
6	B.2 The Aviation Director should charge tenants late fees in accordance with the terms of the respective lease agreements. In addition, include specific late fee rates in new lease agreements.	In-Process

Appendix C – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

April 4, 2011

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Department of Aviation Billing and Collections Process for Leases Follow-Up Audit

The Department of Aviation has reviewed the follow-up audit report and has developed the Corrective Action Plans below for the one "in-process" recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
6	<p>Late Fees on Delinquent Balances</p> <p>Recommendation: The Aviation Director should charge tenants late fees in accordance with the terms of the respective lease agreements.</p>	3	Accept	Ellen Erenbaum, Assistant Aviation Director, Finance & Administration	Completed.
<p>Action plan:</p> <p style="text-align: center;">See Comments below</p>					

For the remaining five "implemented" plans from the original audit, our comments are as follows.

- Fully Agree (provide detailed comments)
- Agree Except For (provide detailed comments)
- Do Not Agree (provide detailed comments)

Although the Aviation Department has been charging late fees, we agree that improvements to the process were required. As a result, the department has updated its policies and procedures to include the following:

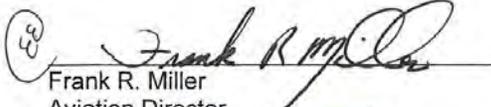
- Transfer responsibility for collections from the Airport's Property Management Division to the Airport's Fiscal Operations Division. This will improve the process of identifying when a tenant needs to be charged late fees.

Department of Aviation
Follow-up Audit of the Billing and Collections Process for Leases

- Continue Monthly Accounts Receivable Status Meetings with all applicable staff and the Assistant Aviation Director for Finance & Administration to ensure late fees are charged to tenants.
- Include account statements as part of the monthly billing process for all past due invoices.
- Invoice late fees to tenants at the close of each fiscal period through a thorough review of all Airport account receivables.

In addition, Aviation is currently working with ITSD to institute automatic late fee invoices as is being done in other City Departments. This project is currently in the requirements gathering stage and the expected completion date is Spring 2012. At that time, Aviation will no longer need to perform manual calculations to create late fee invoices to the affected tenants.

Sincerely,

33 

Frank R. Miller
Aviation Director
Department of Aviation

04/27/11
Date



Pat DiGiovanni
Deputy City Manager
City Manager's Office

4/28/11
Date