CITY OF SAN ANTONIO

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March 4, 2016

Ivy R. Taylor
Mayor

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Councilman, District 8

Joe Krier
Councilman, District 9

Mike Gallagher
Councilman, District 10

SUBJECT: Audit Report of Aviation Department Billings and Collections Process for Leases

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Aviation Department Billings and Collections Process for Leases. This audit began in August 2015 and concluded with an exit meeting with department management in February 2016. Management's verbatim response is included in Appendix B of the report. The Aviation Department management and staff should be commended for their 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,

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

Distribution:
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Tom Nichta, Audit Committee Member

CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Aviation Department

Billings and Collections Process for Leases

Project No. AU15-030

March 4, 2016

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Aviation Department's billings and collections process for non-concession leases. The audit objectives, conclusions, and recommendations follow:

Determine if the billings and collections process over Aviation leases is effective and in accordance with lease terms.

Yes, Aviation's billings and collections process over non-concession leases is effective and in accordance with lease terms.

We make no recommendations to the Aviation Department; consequently, no management responses are required. Management's acknowledgement of these results is in Appendix B on page 6.

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Background

The Aviation Department manages both the San Antonio International Airport and the Stinson Municipal Airport. The San Antonio International Airport provides commercial airline service. More than 8 million passengers fly into and out of San Antonio each year, traveling to and from more than 30 non-stop domestic and international destinations on 9 major airlines.

Stinson Municipal Airport is the second oldest general aviation airport in continuous operation in the United States. It is the primary reliever for general aviation traffic in San Antonio, and is used by operators of light aircraft, individuals, and private aviation companies. Stinson is also home to four flight schools and two fixed base operators.

Both airports lease space for aviation related and non-aviation related purposes. Examples of aviation related leases include hangar space, apron space, gate usage, and ticket counters. Examples of non-aviation space include offices, warehouses, cell towers, and spaces for non-profits such as the United Service Organizations (USO) and the Civil Air Patrol.

According to Aviation's report "Operating and Financial Summary" to the Federal Aviation Administration (FAA), in FY 2014 Aviation had the following operating revenues:

Passenger Airline Aeronautical Revenue		
	Passenger airline landing fees	$ 8,310,006
	Terminal arrival fees, rents, and utilities	$ 16,283,884
	Terminal area apron charges/tiedowns	$ 3,371,559
	Federal Inspection Fees	$ 1,830,730
	Other Passenger aeronautical fees	$ 1,224,651
	Total	**$ 31,020,830**
Non-Passenger Aeronautical Revenue		
	Landing fees from cargo	$ 1,219,699
	Landing fees from GA and military	$ 0
	FBO revenue; contract or sponsor-operated	$ 2,110,347
	Cargo and hangar rentals	$ 719,649
	Aviation fuel tax retained for airport use	$ 0
	Fuel sales net profit/loss or fuel flowage fees	$ 613,013
	Security reimbursement from Federal Government	$ 0
	Other non-passenger aeronautical revenue	$ 255,827
	Total	**$ 4,918,535**
Total Aeronautical Revenue		**$ 35,939,365**

Non-Aeronautical Revenue		
	Land and non-terminal facility leases and revenues	$ 4,049,953
	Terminal – food and beverage	$ 3,011,066
	Terminal – retail stores and duty free	$ 3,594,932
	Terminal – services and other	$ 1,818,078
	Rental cars – excludes customer facility charges	$ 10,464,717
	Parking and ground transportation	$ 23,485,592
	Hotel	$ 0
	Other	$ 11,810,480
	Total	**$ 58,234,818**
Total Operating Revenue		**$ 94,174,183**

Audit Scope and Methodology

The audit scope was from October 2013 through June 2015. It included all non-concession aviation leases and airline operating permits, and variable-use rents (such as City-owned gates). It excluded leases to City departments, airport-leased parking (e.g., employee parking), and fees and charges that are not related to space (e.g., Federal Inspection Services (FIS) charges (customs), badges, security fees, etc.).

We interviewed Aviation Department and Finance Department personnel, reviewed documents such as leases, tenant letters of credit, invoices, and dunning letters. We judgmentally selected a sample of leases to test for compliance with lease terms such as the amount of physical space occupied, insurance, and letters of credits/bonds. We physically measured occupied building space of sampled tenants to ensure they were occupying the space specified in their leases, and toured both airports to ensure that there were no tenants without leases. We judgmentally selected a sample of late payments to test whether Aviation sent late payment notices in accordance with policies and procedures (including pursuing claims against the tenant's bond/letter of credit), whether late payments were accurately calculated, and whether late payments were assessed. We tested the accuracy of bills. We also performed data analysis on the time tenants take to make payments to Aviation.

We relied on computer-processed data in the City's SAP accounting system to identify late payments and their associated arrearage amounts. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included calculating amounts due and comparing them to the amount recorded in SAP and in the contract, as well as reviewing late payment inquiries and notices. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

Audit Results

Aviation's billings and collections process over non-concession leases is effective and in accordance with lease terms. Aviation:

- Ensures that all non-concession tenants have valid leases.
- Ensures that all non-concession tenants keep up-to-date insurance and letters of credit or a bond on file in accordance with contract terms.
- Calculates rents and variable charges accurately.
- Bills tenants for variable charges in accordance with policies and procedures.
- Sends late payment notices to delinquent tenants.
- Uses other remedies as necessary, such as claims against the tenant's letter of credit or bond in cases of significant delinquency.

Additionally, Aviation collects 96 percent of its non-concession leasing revenue within 29 days of the due date. The majority of tenants pay their bills within five days of the due date.

There are no findings. Consequently, we make no recommendations to Aviation management.

Appendix A – Staff Acknowledgement

Mark Bigler, CPA-Utah, CISA, CFE, Audit Manager
Susan Van Hoozer, CIA, CISA, Auditor in Charge
Daniel Kuntzelman, Auditor
Michael Hurlbut, CISA, Auditor

Appendix B – Management Acknowledgement

CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

February 17, 2016

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

RE: Management's Acknowledgement of its Review of the Audit of Aviation Department Billings and Collections Process for Leases

The Aviation Department has reviewed the audit report and provides the following response:

Aviation:

☒ Fully Agrees

☐ Does Not Agree (provide detailed comments)

Sincerely,

Noel T. Jones
Aviation Director

2/23/2016
Date

Carlos J. Contreras III
Assistant City Manager

2/23/16
Date