



# County of Allegheny

## Office of the Controller

ATLANTIC AVIATION  
REPORT ON CONTRACT  
COMPLIANCE PROCEDURES  
FOR THE PERIOD FEBRUARY 1, 2008  
THROUGH JULY 31, 2010

December 17, 2010

**County of Allegheny**  
**Office of the Controller**  
**Mark Patrick Flaherty**  
**Controller**

**104 County Courthouse**  
**436 Grant Street**  
**Pittsburgh, PA 15219**  
**Phone: (412) 350-4660**  
**Fax: (412) 350-4770**  
**E-mail: [Controller@county.allegheny.pa.us](mailto:Controller@county.allegheny.pa.us)**

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MARK PATRICK FLAHERTY  
CONTROLLER

# COUNTY OF ALLEGHENY

## OFFICE OF THE CONTROLLER

104 COURTHOUSE • 436 GRANT STREET  
PITTSBURGH, PA 15219-2498  
PHONE (412) 350-4660 • FAX (412) 350-3006

GUY A. TUMOLO  
DEPUTY CONTROLLER

October 21, 2010

Mr. Bradley Penrod  
Executive Director  
Allegheny County Airport Authority  
Landside Terminal, 4<sup>th</sup> Floor Mezzanine  
P.O. Box 12370  
Pittsburgh, PA 15231-0370

**SUBJECT: Compliance Procedures Applied to License Agreement #38926-A  
Between Macquarie Aviation North America 2 Inc. d/b/a Atlantic  
Aviation and the Allegheny County Airport Authority  
for the Period February 1, 2008 through July 31, 2010**

Dear Mr. Penrod:

We have applied contract compliance procedures to License Agreement #38926-A (the "Agreement") between Allegheny County and Macquarie Aviation North America 2 Inc. d/b/a Atlantic Aviation (hereafter referred to as "Atlantic Aviation"). We performed these compliance procedures to ensure that Atlantic Aviation was in compliance with the scope and terms of the Agreement. Our compliance procedures covered the period from February 1, 2008 through July 31, 2010. Our engagement was performed as a non-audit service, and therefore was not conducted in accordance with *Government Auditing Standards*.

The application of our compliance procedures revealed that Atlantic Aviation does not have an effective monitoring system in place to ensure compliance with the Agreement. Consequently, we identified several instances of noncompliance related to the accuracy and completeness of the required monthly reports, the certification of the monthly reports, submission of annual audits, and the remittance of the amounts due attributable to the provision of other aviation-related services performed outside of the Business Aviation Center premises. Our findings reflect a net credit due Atlantic Aviation for the period from February 1, 2008 through July 31, 2010 of \$16,158.

Mr. Bradley Penrod  
October 21, 2010

Atlantic Aviation's management should implement a more effective compliance monitoring system to facilitate compliance with all significant contract requirements. Management should take steps to ensure that the data conveyed in the monthly reports it submits to the Airport Authority is complete, accurate, and supported by adequate documentation, which should involve an internal review of the monthly reports prior to their submission and a certification of the reports as required by the Agreement. Management should also ensure that it remits to the Airport Authority the entire 7% of its gross receipts related to the provision of other aviation-related services it provides outside of the Business Aviation Center premises, and refrain from labeling its customer charges as Airport concession fees. Finally, management should ensure that it obtains annual audits and submits them to the Airport Authority within 120 days of each year-end as required.

We believe that the implementation of our recommendations will improve Atlantic Aviation's compliance with the Agreement. The results of the application of our compliance procedures are provided in the attached report. We would like to thank the management and staff of Atlantic Aviation for their courtesy and cooperation during the performance of our procedures.

Very truly yours,



Lori A. Churilla  
Assistant Deputy Controller, Auditing



Mark Patrick Flaherty  
Controller

cc: Honorable Richard Fitzgerald, President, County Council  
Honorable William Russell Robinson, County Council  
Honorable Dan Onorato, Chief Executive  
Mr. James M. Flynn, Jr., County Manager  
Ms. Amy Griser, Budget Director  
Allegheny County Airport Authority Board  
Mr. Joseph Catanese, Director of Constituent Services  
Ms. Jennifer Liptak, Budget Director, County Council  
Mr. John Carlen, General Manager, Atlantic Aviation  
Mr. Guy A. Tumolo, Deputy Controller  
Mr. Robert J. Lentz, Assistant Deputy Controller, Accounting  
Ms. Pamela Goldsmith, Communications Director

## *EXECUTIVE SUMMARY*

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**Purpose of Procedures:**

We performed our compliance procedures to ensure that Atlantic Aviation is in compliance with the scope and terms of License Agreement #38926-A.

**Background:**

Allegheny County ("County") entered into License Agreement #38926 with American Port Services ("AMPORT") in January 1998 to have it operate the Business Aviation Center at the Pittsburgh International Airport. The Allegheny County Airport Authority ("Airport Authority") subsequently assumed the responsibility for compliance with and enforcement of License Agreement #38926. The Airport Authority authorized the assignment of AMPORT's rights, duties, and obligations under the agreement to Macquarie Aviation North America 2 Inc. d/b/a Atlantic Aviation (hereafter "Atlantic Aviation") in November 2002. License Agreement #38926-A dated December 2002 (the "Agreement") reflects the assignment and has an initial term of 10 years, but contains four separate 5-year renewal option periods.

Under the Agreement, the Airport Authority has granted Atlantic Aviation the exclusive license to conduct various activities at the Business Aviation Center, including the operation and maintenance of a fuel farm and related equipment, parking and storage of aircraft, operation and maintenance of a deicing facility and fluid collection system, and provision of aircraft maintenance. The Agreement also grants non-exclusive license to sell aircraft fuel and oil, provide into-plane fueling services, provide aircraft ground handling services, provide charter or scheduled ticketing and baggage services, and to provide corporate aircraft charter services.

In exchange for the granting of such licenses, the Agreement provides that Atlantic Aviation, as licensee and the operator of the Business Aviation Center, will act as agent for the Airport Authority and collect all landing, parking, and ramp usage fees imposed by the Airport Authority, except from signatory airlines. Atlantic Aviation must also remit fuel flowage fees based on the gallons of aviation fuel delivered to the Business Aviation Center, subject to a minimum annual guarantee. In addition, Atlantic Aviation must remit to the Airport Authority 7% of gross receipts attributable to services

## *EXECUTIVE SUMMARY*

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provided by Atlantic Aviation that are not performed on the Business Aviation Center premises.

### **Results in Brief:**

While performing our procedures, we noted that Atlantic Aviation did not effectively monitor compliance with the significant contract requirements contained in the Agreement. As a result, the monthly reports it submitted to the Airport Authority lacked some of the required information, contained inaccuracies, and reported amounts that could not be supported by the accounting records and supporting documents available. Other reporting requirements were also not complied with. In addition, because the Agreement was not carefully reviewed, Atlantic Aviation did not remit the entire amount due in connection with the provision of other aviation-related services.

Specifically, we found that:

#### **Finding #1:**

Atlantic Aviation does not have an effective contract compliance monitoring system in place to facilitate compliance with the Agreement.

#### **Finding #2:**

An information technology error that was not detected in a timely fashion resulted in a substantial overpayment of landing fees \$22,110 from February 2008 through February 2010.

A review process is not in place to ensure that accurate landing fee data is reported on a monthly basis.

Documentation to support the amount of landing fees reported and remitted to the Airport Authority for 3 of 3 selected months (100%) during 2009 was not retained and available for our review.

The monthly reports submitted to the Airport Authority during 2009 did not contain all of the landing information required to be reported by the Agreement, and some landing information was not being reported in a timely fashion.



## *EXECUTIVE SUMMARY*

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### Finding #3:

Five (5) of the 12 monthly reports submitted to the Airport Authority for 2009 contained inaccuracies in the gallons of aviation fuel reported as delivered to the Business Aviation Center. It appears that aviation fuel deliveries were underreported by approximately 73,305 gallons in 2009 in the aggregate.

### Finding #4:

In connection with its provision of other aviation-related services, Atlantic Aviation routinely remitted to the Airport Authority 7% of its regular customer charges, not 7% of its gross receipts as required by the Agreement. This resulted in an aggregate deficiency in remittances to the Airport Authority of \$5,952 for the period from January 1, 2007 through July 31, 2010.

Atlantic Aviation routinely includes an extra charge on its customer invoices equivalent to 7% of its charges for other aviation-related services it provides. The caption it uses on its invoices for the extra charge is "Airport Concession Fee 7%". This practice may be misleading consumers to believe the Airport Authority is imposing a charge on them for utilizing services, which is clearly not the case.

### Finding #5:

There is no process in place to review the data being reported in the monthly reports prior to the submission of the reports to the Airport Authority. In addition, the monthly reports are not certified by a representative of Atlantic Aviation as being complete and accurate based on their examination of the books and records as required by the Agreement.

Atlantic Aviation has not submitted an annual audit for 2009 or any annual audits for preceding years as required by the Agreement.

### **Recommendations:**

In addition to discussing with the Airport Authority the manner in which credit of \$16,158 will be applied to future payments, we also recommend that Atlantic Aviation management:

## *EXECUTIVE SUMMARY*

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### Recommendation #1:

- Implement a more effective contract compliance monitoring system by:
  - Periodically reviewing the agreement to retain familiarity with the significant compliance requirements,
  - Communicating the significant compliance requirements to those who are to be held accountable for compliance, and
  - Periodically monitoring for compliance with all significant requirements.

### Recommendation #2:

- Investigate the circumstances that permitted the information technology error that resulted in the misposting of credits to occur and not be detected in a timely fashion and modify its information technology policies and procedures if appropriate.
- Implement a review process to help ensure the accuracy of the landing fee data reported to the Airport Authority on a monthly basis.
- Establish procedures to ensure that documents that support the monthly reports submitted to the Airport Authority are retained.
- Take steps to ensure that all landing information that is required to be reported is reported in a timely fashion. (A written waiver of the requirement to report certain landing information may be obtained from the Airport Authority if reporting of certain information is mutually deemed to be impractical or unnecessary.)

### Recommendation #3

- Identify and remedy the condition that resulted in the significant underreporting of fuel deliveries in 2009.



## *EXECUTIVE SUMMARY*

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### Recommendation #4

- Revise the monthly reporting process to ensure that the amount remitted as 7% of gross receipts from the provision of other aviation-related services is calculated based on the entire amount of gross receipts.
- Discontinue the practice of labeling additional customer charges as airport concession fees.

### Recommendation #5

- Require that an officer review the data to be reported in the monthly reports and certify (sign) the reports prior to submitting the reports to the Airport Authority.
- Obtain annual audits and submit them to the Airport Authority within 120 days of each year-end as required by the Agreement.

## **I. Introduction**

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### **Background:**

Allegheny County (“County”) entered into License Agreement #38926 with American Port Services (“AMPORT”) in January 1998 to have it operate the Business Aviation Center at the Pittsburgh International Airport. The Allegheny County Airport Authority (“Airport Authority”) subsequently assumed the responsibility for compliance with and enforcement of License Agreement #38926. The Airport Authority authorized the assignment of AMPORT’s rights, duties, and obligations under the agreement to Macquarie Aviation North America 2 Inc. d/b/a Atlantic Aviation (hereafter “Atlantic Aviation”) in November 2002. License Agreement #38926-A dated December 2002 (the “Agreement”) reflects the assignment and has an initial term of 10 years, but contains four separate 5-year renewal option periods.

Under the Agreement, the Airport Authority has granted to Atlantic Aviation the exclusive license to conduct various activities at the Business Aviation Center, including the operation and maintenance of a fuel farm and related equipment, parking and storage of aircraft, operation and maintenance of a deicing facility and fluid collection system, and provision of aircraft maintenance. The Agreement also grants non-exclusive license to sell aircraft fuel and oil, provide into-plane fueling services, provide aircraft ground handling services, provide charter or scheduled ticketing and baggage services, and to provide corporate aircraft charter services.

In exchange for the granting of such licenses, the Agreement provides that Atlantic Aviation, as licensee and the operator of the Business Aviation Center, will act as agent for the County and collect all landing, parking, and ramp usage fees imposed by the County, except from signatory airlines. The rates used to determine landing, parking, and ramp usage fees due are published annually by the Airport Authority. Atlantic Aviation must also remit fuel flowage fees based on the gallons of aviation fuel delivered to the Business Aviation Center. The rate used to calculate fuel flowage fees is 8 cents per gallon, and has not changed since the inception of the agreement. However, if the calculated fuel flowage fees are less than the minimum annual guarantee, Atlantic Aviation is obligated to pay the minimum annual guarantee. In addition, Atlantic Aviation must remit to the County 7% of gross receipts attributable to services provided by the operator that are not performed on the Business Aviation Center premises.

Atlantic Aviation is required to submit monthly reports to the Airport Authority by the fifteenth day of the following month,

## **I. Introduction**

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along with all amounts due except for 8.5% of the landing fees collected which may be retained. The monthly reports are to be certified by an authorized representative of Atlantic Aviation as accurate and complete based on their examination of the books and records. Atlantic Aviation is also required to submit an annual audit within 120 days of the end of each lease year.

## **II. Scope and Methodology**

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We applied compliance procedures to License Agreement #38926-A between Allegheny County and Atlantic Aviation to ensure that Atlantic Aviation was in compliance with the scope and terms of the Agreement. Our compliance procedures covered the period from January 1, 2009 through December 31, 2009.

Specifically, we performed the following procedures:

- Interviewed Atlantic Aviation personnel to gain an understanding of the processes used to determine landing fees, ramp fees, parking fees, fuel and oil flowage fees, and off-ramp service fees, along with the processes used to account for them, to report them, and to remit them. We also attempted to identify any internal controls built into the processes.
- Examined records of the Atlantic Aviation and the Airport Authority that were relevant to the administration of the Agreement to determine compliance with the Agreement.
- Applied procedures to determine that Atlantic Aviation submitted all required reports to the Airport Authority.
- Applied procedures to determine whether required payments to the Airport Authority were made timely and in the proper amount.
- Traced information contained in the reports submitted by Atlantic Aviation to the underlying accounting records (test basis).

We performed these procedures during August through October of 2010. We provided a draft copy of this report to the General Manager of Atlantic Aviation for response (see page 20).

### **III. Findings and Recommendations**

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#### **Finding #1**

#### **Ineffective Contract Compliance Monitoring System**

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Implementing an effective contract compliance monitoring system assists contractors in ensuring compliance with all significant contract compliance requirements. For a contract compliance monitoring system to be deemed effective, it should include a process for identifying the significant contract compliance requirements, a process for communicating the significant compliance requirements, assigning responsibility for compliance with specific requirements to specific individuals, and periodic monitoring to ensure compliance.

Atlantic Aviation is not utilizing an effective contract compliance monitoring system. It appears that the Agreement had not been reviewed by management (prior to our visit) for quite some time, and the resultant lack of familiarity with certain significant contract compliance requirements contained therein hampered Atlantic Aviation's ability to ensure that it was complying with the requirements. Several of the conditions that we identified during the performance of our procedures (described in the findings which follow) are attributable to a failure to monitor compliance with certain significant contract compliance requirements. Not utilizing an effective contract compliance monitoring system increases the likelihood of noncompliance with significant contract compliance requirements, and therefore exposes a contractor to unnecessary business risk.

#### **Recommendation**

We recommend that management of Atlantic Aviation:

- Implement a more effective contract compliance monitoring system by:
  - Periodically reviewing the agreement to retain familiarity with the significant compliance requirements,
  - Communicating the significant compliance requirements to those who are to be held accountable for compliance, and
  - Periodically monitoring for compliance with all significant requirements.



### **III. Findings and Recommendations**

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#### **Finding #2**

#### **Reporting and Remittance of Landing Fees**

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Section 3.01 of the Agreement requires Atlantic Aviation to act as an agent for the Airport Authority and collect all landing fees for landings anywhere at the Pittsburgh International Airport, except from signatory airlines and other Airport users exempted by the Airport Authority in writing. Landing fees collected during each month are payable to the Airport Authority by the fifteenth day of the following month, except for 8.5% of the amount collected which may be retained by Atlantic Aviation. Such payments are required to be accompanied by a report on landings that include the (tail) number, aircraft type, weight, owner and operator of each aircraft together with the date and time of each landing.

We initially selected the month of December 2009 to test compliance with the established requirements for the reporting and remittance of landing fees. We observed that the total landing fees for December 2009 per the supporting documents (landing fee reports) provided to us did not agree with the total landing fees per the monthly report summary submitted to the Airport Authority (a difference of \$1,351). When we identified this condition, we elected to determine whether the total landing fees per the supporting documentation for the months of October and November of 2009 agreed to the landing fees reported in the monthly reports summaries submitted to the Airport Authority for those months, and observed that they did not (differences of \$5,058 and \$254, respectively). Management initially asserted that the differences for these three months were likely attributable to adjustments and credits that were posted subsequent to the submission of the monthly reports to the Airport Authority, and that the supporting documentation would have agreed to the reports had we examined copies of the supporting documents that were printed at the time the reports were prepared (management did not retain copies of those documents). Subsequent to our initial testing, we expanded the period of our procedures and determined that the landing fees per supporting documents submitted to the Airport Authority did not agree to the landing fees reported to the Airport Authority in the summary reports for eight months in 2008. Landing fees reported in the summary reports in 2008 were \$5,835 less in the aggregate than the landing fees per the supporting documents. We also determined that \$9,530 landing fees for May 2008 were reported twice to the Airport Authority, resulting in over reporting of fees. Since payments issued to the

### **III. Findings and Recommendations**

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Airport Authority were made based on the data reported in the summary reports, Atlantic Aviation underpaid the Airport Authority \$5,339 related to the 2008 landing fees (\$5,835 less \$496, or 8.5% of the landing fees Atlantic Aviation was permitted to retain per agreement) and overpaid \$8,720 (\$9,530 less \$810, or 8.5% of fees retained per agreement) related to May 2008 double reporting of the landing fees.

We initially expanded the period of our procedures to verify management's assertion that Atlantic Aviation was entitled to a credit attributable to an overpayment of landing fees on a monthly basis that occurred from February 2008 through February 2010. Management alleged that an information technology error resulted in landing fee credits being misposted as debits on the landing fee reports during that period, and that the error was corrected in March of 2010 by Atlantic Aviation's Information Technology Department. Our analysis of the supporting documentation corroborated management's assertion. Landing fees reported by Atlantic Aviation were \$52,835 higher than the amount that would have been reported had the information technology error not occurred. The overpayment associated with this condition was \$48,344 (\$52,835 less \$4,491, 8.5% of the landing fees Atlantic Aviation was permitted to retain per the Agreement). However, during our analysis, we also determined that the landing fee reports initially submitted to the Airport Authority for 11 months during 2008, 10 months during 2009, and all 6 months from January through June 2010 were apparently generated prematurely, as they did not include all of the landing fees that should have been reported for those months. Unreported landing fees attributable to this condition for 2008, 2009 and 2010 were \$32,366 in the aggregate. Atlantic Aviation underpaid the Airport Authority \$29,615 as a result of this condition (\$32,366 less \$2,751, which is 8.5% of the landing fees Atlantic Aviation was permitted to retain per the Agreement). Based on the procedures we performed, we computed the net amount due Atlantic Aviation for the period from February 2008 through February 2010 related to landing fees to be \$22,110 (\$48,344 plus \$8,720 overpaid less \$5,339 and \$29,615 underpaid).

We also observed that the landing fee reports that are submitted to the Airport Authority, which are intended to serve as the report on landings required by the Agreement, do not contain all of the required data. The reports omit the type of aircraft, weight, the landing time, and the owner of the aircraft if the owner is not the operator. In addition, a few of Atlantic Aviation's corporate customers are invoiced instead of being required to pay

### **III. Findings and Recommendations**

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immediately using cash or a credit card, the standard accepted forms of payment. Atlantic Aviation bills these customers monthly, and reports only the total landing fees for these customers (not all of the required landing information) in the monthly report that is issued one month subsequent to the monthly report in which the landing information is required to be reported. The Airport Authority has communicated to us that it is aware that all of the landing information required by the Agreement to be reported in Atlantic Aviation's monthly reports is not being reported. The Airport Authority does not require Atlantic Aviation to resubmit historical reports, but has expressed a desire for all of the landing information required by the Agreement to be reported to be included in Atlantic Aviation's monthly reports from this point forward.

It appears that these conditions occurred because Atlantic Aviation did not have an effective contract compliance monitoring system in place (see finding 1). It appears that there was a lack of familiarity with the reporting requirements combined with the lack of a review process to reconcile the landing fee data being reported (see finding 5) and lack of a requirement to retain the supporting documents used to prepare the monthly reports. The effects of these conditions are that Atlantic Aviation reported inaccurate landing fee data in its monthly reports submitted to the Airport Authority, and is unable to substantiate the data initially reported in the monthly reports with supporting documentation. Atlantic Aviation is therefore not in compliance with Section 3.01 of the Agreement.

#### **Recommendations**

We recommend that management of Atlantic Aviation:

- Investigate the circumstances that permitted the IT error that resulted in the misposting of credits to occur and not be detected in a timely fashion, and modify its IT policies and procedures if appropriate.
- Implement a review process to help ensure the accuracy of the landing fee data reported to the Airport Authority on a monthly basis.
- Establish procedures to ensure that documents that support the monthly reports submitted to the Airport Authority are retained.
- Take steps to ensure that all landing information that is required to be reported is reported in a timely fashion.

### III. Findings and Recommendations

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#### Finding #3

#### Inaccurate Reporting of Fuel Deliveries

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Section 4.05, paragraph D of the Agreement requires Atlantic Aviation to submit monthly reports that specify the exact quantities of aviation fuel delivered to the Business Aviation Center. We selected the month of May 2009 to verify that the reported gallons of aviation fuel delivered agreed to the gallons of fuel actually delivered. We determined per review of the summary bills of lading report that the amount reported did not agree with the actual fuel deliveries in that 1,090 gallons were delivered but not reported. We then selected two additional months for testing, February and December of 2009. We determined that reported fuel deliveries for December 2009 also did not agree to the actual fuel deliveries in that 16,176 gallons (2 truckloads of fuel) were delivered and not reported. When we discussed the inaccuracies in the reporting of fuel deliveries with Atlantic Aviation management, management informed us that it would check the accuracy of its reporting over the entire year of 2009. Management subsequently provided us with its results, which identified several errors including an underreporting of 56,245 gallons (7 truckloads of fuel) in November of 2009. It appears that aviation fuel deliveries were underreported by 73,305 gallons in 2009 in the aggregate. Management advised us that it intends to submit revised monthly reports for the months of November and December of 2009 (the months with the most significant misstatements).

It appears that this condition occurred because the monthly reports submitted by Atlantic Aviation are not reviewed by an individual other than the preparer prior to submission (we also noted that the reports are not certified by an officer as complete and accurate before they are submitted – see finding 5). The lack of an effective review and certification process appears to be attributable to the lack of an effective contract compliance monitoring system (see finding 1). Management has correctly claimed that the errors in the reporting of fuel deliveries that we (and it) identified had no impact on Atlantic Aviation's liability to the Airport Authority for 2009 under the Agreement. If the unreported fuel deliveries identified had been reported, the fuel flowage fees due for 2009 based on the actual fuel deliveries would still have been less than the 2009 minimum annual guaranteed payment (paid by Atlantic Aviation in 2009 in monthly installments). However, the fuel deliveries reported by Atlantic Aviation may be used by the Airport Authority for purposes other

### **III. Findings and Recommendations**

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than simply calculating the liability for fuel flowage fees (i.e. evaluating the reasonableness of a request to lower the minimum annual guarantee). Atlantic Aviation is required by the Agreement to report fuel deliveries accurately on a monthly basis as we stated above, and as a result of the noted condition Atlantic Aviation is not in compliance with the aforementioned reporting requirement.

#### **Recommendation**

We recommend that management of Atlantic Aviation identify and remedy the condition that caused the significant underreporting of fuel deliveries in 2009.



### **III. Findings and Recommendations**

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#### **Finding #4**

#### **Matters Related to the Provision of Other Services**

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Section 4.03 of the Agreement requires Atlantic Aviation to pay the Airport Authority 7% of gross receipts generated from the provision of other aviation-related services (those not specifically addressed in the Agreement) at the Airport that are not provided within the Business Aviation Center leased premises. (The Agreement does provide for certain receipts to be excluded from gross receipts for purposes of calculating the amount due to the Airport Authority, however, these exclusions are not relevant to the condition we identified.)

We observed that Atlantic Aviation includes an extra charge on its customer invoices equivalent to 7% of its charges for the other aviation-related services it provides that are subject to the aforementioned requirement. The caption it uses on its invoices for the extra charge is “Airport Concession Fee 7%”. (This practice was utilized throughout the period to which we applied our procedures, and is still being utilized.) Atlantic Aviation is entitled to set its own pricing, and therefore can increase its fees to offset amounts payable to the Airport Authority. However, we believe that presenting the extra charge it assesses as an airport concession fee is misleading to consumers and therefore improper. By presenting the additional charge in that fashion, an implication is being made that the Airport Authority is imposing an additional charge on the customer that Atlantic Aviation is merely collecting on the customer’s behalf, which is not the case.

In addition, the Agreement specifies that Atlantic Aviation is to remit 7% of gross receipts generated from the provision of other aviation-related services to the Airport Authority, not 7% of its regular charges. Since the extra charges being collected by Atlantic Aviation (“Airport Concession Fee 7%”) are not really fees assessed on Atlantic Aviation’s customers by the Airport Authority, the extra charges assessed by Atlantic Aviation are includible in gross receipts for purposes of calculating the payment due to the Airport Authority. Atlantic Aviation remits to the Airport Authority the amount of the extra charges billed each month as if it were the full amount due. As a result, Atlantic Aviation has routinely underpaid its monthly obligation to the Airport Authority with respect to the other aviation-related services it provides. The underpayments associated with the provision of other aviation-related services for 2007, 2008, 2009, and for 2010

### **III. Findings and Recommendations**

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through the month of July were \$365, \$446, \$4,898, and \$243, respectively, \$5,952 in the aggregate.

#### **Recommendations**

We recommend that management of Atlantic Aviation:

- Revise the monthly reporting process to ensure that the amount remitted as 7% of gross receipts from the provision of other aviation-related services is calculated based on the entire amount of gross receipts.
- Discontinue the practice of labeling additional customer charges as airport concession fees.

### **III. Findings and Recommendations**

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#### **Finding #5**

#### **Noncompliance with Other Reporting Requirements**

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Section 4.07 of the Agreement requires monthly reports submitted by Atlantic Aviation to be certified by an authorized representative as accurate and complete based on the representative's examination of the books and records. Section 10.01, paragraph E of the Agreement also requires Atlantic Aviation to submit an annual audit within 120 days of each year-end.

The monthly reports submitted by Atlantic Aviation are not reviewed by an individual other than the preparer, and are not certified (signed) by an officer as complete and accurate before they are submitted. In addition, annual audits are not submitted as required by the Agreement. It appears that these conditions occurred because an effective contract compliance monitoring system is not in place with respect to the Agreement (see Finding #1). As a result, Atlantic Aviation is not in compliance with the aforementioned reporting requirements. In addition, because a process to ensure review and certification of monthly reports prior to their submission to the Airport Authority is not in place, Atlantic Aviation was unable to identify and prevent inaccurate data from being reported to the Airport Authority. (We identified a number of instances in which both financial and non-financial data reported in monthly reports during 2009 could not be reconciled with the entity's accounting records or other supporting documents – see Findings 2 and 3).

#### **Recommendations**

We recommend that management of Atlantic Aviation:

- Require that an officer review the data to be reported in the monthly reports and certify (sign) the reports prior to submitting the reports to the Airport Authority.
- Obtain annual audits and submit them to the Airport Authority within 120 days of each year-end as required by the Agreement.



Mr. Mark Patrick Flaherty  
Controller  
Allegheny County Controller's Office, Room 104  
Pittsburgh, PA 15219

December 17, 2010

Dear Mr. Flaherty,

Enclosed please find Atlantic Aviation – Pit's responses to your findings in the *Report on Contract Compliance Procedures For the Period February 1, 2008 Through July 31, 2010*.

**Finding #1: Ineffective Contract Compliance Monitoring System**

Our reply to your recommendations:

- Atlantic Aviation is in compliance with the requirements set forth in the License excepting the Annual Report demonstrating Gross Revenues that was corrected in December and is in the hands of the ACAA and the auditing staff. Those revenues paid monthly to the ACAA have been overpaid and that shall be addressed in Finding #2.
- All communications of significant compliance requirements to those employees held accountable were made in accordance with the contract requiring collection and payment of monies to the ACAA.
- Compliance and payments were completed monthly. Due to a system change from Excel to Jetstream there were some errors in fuel deliveries and overpayment of landing fees due to a programming error in the Landing Fee report corrected in March of 2010. Those errors were revealed by Atlantic to the auditors in November of this year. The software has been corrected.
- Atlantic has discovered further that unpaid landings rolling over into the next month are not accounted for in the current month as Atlantic's system is only accounting for paid landings not unpaid landings. Subsequently when the landings are remitted over the next few days as aircraft leave and pay their invoices these payments do not show up in the following month due to the original invoice dating. They post to the previous month when they landed. In the future all previous month's paid invoices will be researched and listed on the landing fee report until Atlantic changes the software to accommodate unpaid landings.

## Finding #2: Reporting and Remittance of Landing Fees

Our reply to your recommendations:

This first section addresses the summary preceding your recommendations:

The monthly landing fee reports are submitted to the ACAA with the required information as delineated by the ACAA accounting Department. The reports do not contain the Model (Type) of Aircraft or the aircraft weight and the Accounting Department has been aware of that fact. In the future all categories will be used beginning on January 1, 2011 as agreed to in the meeting.

Now for the comments regarding the reporting of fees within the Atlantic System for Landing Fees: The second and third paragraphs are essentially correct in that the landing fees reported to the ACAA have been incorrect in that they were **overpaid by \$22,110** as supported by your spreadsheet and then revised by Atlantic.

Unfortunately, there was an error in reporting that was caused by a programming error in the original Landing Fee program created by Atlantic's IT personnel which took all credits entered into the Landing Fee program and listed them as debits which means credits and rebills created charges to a client three times in the report. Not invoices to the actual customers; just the Landing Fee Report . That report creates the check paid to the ACAA on a monthly basis for the Landing Fee remittances. Actually this error goes back, at least, through all of 2008 up through March of 2010. The 2010 errors will be addressed now in 2010 to correct the current overpayments. Atlantic-PIT audited the current printed Landing Fee report for the audit and the submitted report to the ACAA for September and October of 2009 crosschecking for credits on the Jetstream repaired spreadsheet with the original submission and proved the above statements concerning the overpayment.

The Landing fee Reports have not contained all of the data that is required by the contract. Atlantic Aviation is aware of the missing elements and will be supplying the missing data, as noted, in future reports beginning in January of 2011. Form of payment is expressly addressed within License #38926, Article III, Section 3.01, par. 3., which refers to cash, credit card and future billing. It is not possible to capture commercial size charters, cargo and some corporate aircraft using U.S. Customs gates at the main terminal with a credit card. Atlantic Aviation remits all landing revenues for these aircraft directly to the ACAA as required whether it is collected or not and bills the fees to the customer. Atlantic Aviation is familiar with the reporting requirements.

- Admittedly, we did not keep hard copies of submitted copies as they could be regenerated at any time from the computer. At that time we were unaware of the programming error in Landing Fees. However, hard copies are kept of all generated payments to the ACAA and those are all approved by the General Manager-PIT, the Regional Controller and signed by the CEO. Beginning in September of 2009 hard copies



will be retained of the Landing Fee Reports and other support documents for future audits.

- All Reports are reported in a timely fashion to the best of my knowledge.

### **Finding #3: Inaccurate Reporting of Fuel Deliveries**

- In reference to the statements, referring to the inaccuracies in fuel deliveries, the excel spread sheet being used developed an error in a formula. November and December of 2009 was corrected and sent to the ACAA as stated. The report was reviewed by the General Manager-PIT who signs off on the request for payment. In the future the support will be verified by the Jetstream inventory reports instead of excel and signed off by the General Manager and sent for payment.
- The condition has been identified and remedied by Atlantic Aviation and as stated by the audit had no effect due to the BAC being under the MAG.

### **Finding #4 Matters Related to the Provision of Other Services**

- Atlantic Aviation disagrees with the assumption by the audit that the ACAA is not charging fees to the consumer. Whether or not it is on the invoice seems inconsequential to the actual result wherein the customer pays the fee regardless. Nevertheless, Atlantic-PIT discussed the provision with the ACAA at the meeting and will change the item listed on the invoice to "Recovery of Concession Fee" as agreed. The 7% will then be charged on the invoice total including the Recovery of the Concession Fee. **The \$5,952 will be a part of the settlement fee for the audit and subtracted from the \$22,110 leaving a balance due to Atlantic of \$16,158** which shall be set off in the normal monthly payment of landing fees to the ACAA or as agreed to with the ACAA..

### **Finding #5 Non-compliance with Other Reporting Requirements**

- All monthly reports are reviewed by the General Manager-PIT. There is not assign-off procedure on the report, but there is on the payment, which means the report has been reviewed. In the future the General Manager-PIT will sign off on the reports individually in addition to the payments to the ACAA.

- Annual audits of Gross Revenues will be done on an annual basis in the future and is now contracted with Atlantic auditors. We have never been asked for this audit previously by the ACAA even though it is in the contract.

Signature: John L. Calmes Date: Dec. 17, 2010  
Title: General Manager, Atlantic Aviation-PIT