



County of Allegheny

Office of the Controller

PERFORMANCE AUDIT REPORT
ON CONTRACT COMPLIANCE
WITH LICENSE AGREEMENT #2152
AND HANGAR FACILITY LEASE
AGREEMENTS #2154 AND #2969
BETWEEN ALLEGHENY COUNTY
AIRPORT AUTHORITY AND
CAM INVESTMENTS, INC.
FOR THE PERIOD JANUARY 1, 2016
THROUGH DECEMBER 31, 2016

February 5, 2018

Chelsa Wagner
Controller

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CHELSA WAGNER
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

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November 28, 2017

Ms. Christina Cassotis
Executive Director
Allegheny County Airport Authority
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

**PERFORMANCE AUDIT REPORT ON CONTRACT COMPLIANCE
WITH LICENSE AGREEMENT #2152 AND HANGAR FACILITY LEASE
AGREEMENTS #2154 AND #2969 BETWEEN ALLEGHENY COUNTY
AIRPORT AUTHORITY AND CAM INVESTMENTS, INC.
FOR THE PERIOD JANUARY 1, 2016 THROUGH DECEMBER 31, 2016**

Dear Ms. Cassotis:

We have conducted a performance audit to evaluate the compliance of CAM Investments, Inc. ("CAM Investments") with the terms of License Agreement #2152, Hangar Facility Lease Agreement #2154, and Hangar Facility Lease Agreement #2969. Our performance audit covers the period from January 1, 2016 through December 31, 2016, and was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The results of our performance audit revealed that CAM Investments does not have an effective process in place to remit payments to the Allegheny County Airport Authority in a timely fashion. We identified many instances of noncompliance attributable to untimely remittances of rent and fuel flowage fees during 2016. The detailed results of our performance audit are included in the attached report.



Ms. Christina Cassotis
November 28, 2017

CAM Investments' management should improve its payment process to help ensure that all amounts due to the Airport Authority are paid in a timely fashion as required by Hangar Agreements #2154 and #2969.

We believe that the implementation of our recommendations will improve CAM Investments' compliance with these Agreements. We would like to thank the management and staff of CAM Investments and the Airport Authority for their courtesy and cooperation during the performance of our procedures.

Kind regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, County Executive, Allegheny County
Mr. William D. McKain, County Manager, Allegheny County
Ms. Jennifer M. Liptak, Chief of Staff, County Executive
Ms. Sarah Roka, Budget Manager, County Council
Mr. Kenneth J. Varhola, Chief of Staff, County Council
Ms. Mary C. Soroka, Director, Budget and Finance, Allegheny County
Mr. David Minotte, Chairman, Allegheny County Airport Authority
Ms. Jan Rea, Chair, Audit Committee, Allegheny County Airport Authority
Mr. Dale Cottrill, Chief Financial Officer, Airport Authority
Ms. Kristy Jenkins, Controller, Airport Authority
Mr. Philip Ehrman, Vice President, Corporate Air and CAM Investments

I. Introduction

CAM Investments, Inc. is a holding company that has an 80% ownership interest in Corporate Air, LLC. Corporate Air, LLC is licensed by the Airport Authority to operate a Fixed Based Operation (“FBO”) at the Allegheny County Airport in West Mifflin, PA.

CAM Investments is a party to several agreements with the Airport Authority that govern its operations at the Allegheny County Airport and Pittsburgh International Airport (“PIT”). License Agreement #2152, effective September 2009, permits CAM Investments to operate a fixed base operation at the Allegheny County Airport, including fuel service, commercial air operations, aircraft maintenance, aircraft management, office and conference facilities and other related operations. The License Agreement is effective as long as CAM Investments continues to operate an FBO at the Allegheny County Airport.

Hangar Facility Lease Agreement #2154, effective January 2009, addresses the leasing of a number of aircraft hangars by CAM Investments which may be used for the operation of the FBO as well as maintenance and storage of its own aircraft. Hangar Facility Lease Agreement #2154 has an initial term of 20 years, but there is a provision for the term of the Agreement to be automatically extended for a period of nine years and eleven months if certain conditions are met.

Hangar Facility Lease Agreement #2969, effective August 2013, specifically addresses the leasing of aircraft hangar #25 by CAM Investments which may be used for the operation of the FBO as well as maintenance and storage of its own aircraft. Hangar Facility Lease Agreement #2969 has an initial term of five years, but there is a provision for the term of the Agreement to be extended for a period of one year if certain conditions are met. The Agreements require CAM Investments to pay the Airport Authority rent and fuel flowage fees as compensation for the license to operate an FBO at the Allegheny County Airport and use of the aircraft hangars.

Rent (and a business surcharge included as additional rent) is based on the square footage of the leased space, and is payable in equal monthly installments on or before the first day of each calendar month. Fuel flowage fees are based on the gallons of fuel delivered to the Allegheny County Airport (AGC) and Pittsburgh International Airport (PIT), and are payable monthly on or before the 20th day of the following month. The rates used to determine fuel flowage fees are published annually by the Airport Authority. The published 2016 fuel flowage rate is \$0.08 per gallon for each gallon of aviation fuel delivered. The fuel flowage fee payments are to be accompanied by a detailed statement setting forth the exact quantities of fuel products delivered.

II. Objectives, Scope, and Methodology

Objectives

Our objectives were to:

1. Determine (on a test basis) whether CAM Investments has maintained adequate accounting records to support the amounts reported and remitted to the Airport Authority under the agreements.
2. Determine (on a test basis) whether rent, landing and parking fees, and fuel flowage fees have been properly calculated and remitted to the Airport Authority.
3. Determine if CAM Investments monitors its compliance with the agreements.
4. Determine whether CAM Investments complied with other significant provisions of the agreements.

Scope

We applied procedures to License Agreement #2152 and Hangar Facility Lease Agreements #2154 and #2969 between CAM Investments and the Airport Authority to ensure that CAM Investments was in compliance with the scope and terms of the Agreements. Our audit procedures covered the period January 1, 2016 through December 31, 2016. We conducted our performance audit in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Methodologies used to accomplish our objectives included, but were not limited to the following:

- Interviewed personnel to gain an understanding of the processes used to determine fuel flowage fees and the processes used to report and remit them.
- Examined records of CAM Investments that were relevant to the administration of the Agreements to evaluate compliance with the Agreements.
- Applied procedures to determine that CAM Investments 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 amounts.

II. Objectives, Scope, and Methodology

- Traced information contained in the reports submitted by CAM Investments to the underlying accounting records (test basis).
- Applied other procedures as deemed necessary.

Our audit also included an assessment of internal controls that are significant within the context of our objectives. Any significant findings related to internal control are included in the findings and recommendations.

We performed these procedures during November 2017. We provided a draft copy of this report to the Vice President of CAM Investments for response. His response begins on page 9.

III. Findings and Recommendations

Finding #1

Untimely Rent and Fuel Flowage Fee Payments

Criteria:

Section 4.02 of Hangar Lease Agreements #2154 and #2969 requires monthly rent payments to be paid “in advance on or before the first business day of each calendar month”.

With respect to fuel flowage fees, section 4.04 of Hangar Lease Agreement #2154 requires CAM Investments to submit payment “without invoicing, without demand or set off, on or before the 20th day of each month for the preceding month.”

Section 4.03 of Hangar Lease Agreement #2154 stipulates that “in the event rent or any other amounts payable by the lessee hereunder shall not be paid by the due date thereof, the lessee shall pay to the Authority as additional rent, an interest charge of two percent (2%) of the amount due for each full calendar month of delinquency, computed as simple interest. No interest shall be charged until payment is 30 days overdue, but any such interest assessed thereafter shall be computed from the due date.”

Section 4.03 of Hangar Lease Agreement #2969 similarly stipulates that “in the event rent due... or any other amounts payable by the lessee hereunder shall not be paid by the lessee on the due date thereof, the lessee shall pay to the Authority as additional rent, an interest charge of two percent (2%) of the amount.”

Condition:

CAM Investments made 12 of 12 monthly rent payments (100%) under Hangar Lease Agreement #2154 for 2016 untimely. The average days late for these rent payments was 27 days, ranging from 11 to 54 days past due. Of the 12 monthly rent payments that were made untimely, 5 (42%) were 30 days or more past due. We computed the additional rent due for 2016 associated with these delinquent rent payments to be \$4,427. CAM Investments did not pay any of this additional rent due in 2016.

CAM Investments also made 12 of 12 monthly rent payments (100%) under Hangar Lease Agreement #2969 for 2016 untimely. The average days late for these rent payments was 17 days, ranging from 3 to 37 days past due. Of the 12 monthly rent payments that were made untimely, 1 (8%) was more than 30 days past due. We computed the additional rent due for 2016 associated with this delinquent rent payment to be \$212. CAM Investments did not pay any of this additional rent due in 2016.

In addition, CAM Investments made 11 of 12 monthly fuel flowage fee payments (92%) for 2016 untimely. The average days late for fuel flowage fee payments was 11 days, ranging from 6 to 41 days past due. Of the 11 monthly fuel flowage fee payments that were made untimely, 1

III. Findings and Recommendations

(8%) was 30 days or more past due. We computed the additional rent due for 2016 associated with these delinquent fuel flowage fee payments to be \$432. CAM Investments did not pay any of this additional rent due in 2016.

Based on our computations, CAM Investments still has a total liability to the Airport Authority for 2016 of \$5,071 in additional rent.

Cause: CAM Investments' monthly rent payments are predetermined (unless the square footage being utilized changes). We also determined that CAM Investments had calculated its liability to the Airport Authority for fuel flowage fees and submitted a report on monthly fuel deliveries by the 15th day of the following month for each month during 2016. Based on these factors, this condition is attributable to a deficient payment process. Untimely payments were reported as a finding in our two most recent reports issued May 31, 2011 and March 30, 2015, and appropriate corrective action to address this issue has not been taken.

Effect: The effect of this condition is that CAM Investments is not in compliance with sections 4.02, 4.03, and 4.04 of Hangar Lease Agreement #2154 and sections 4.02 and 4.03 of Hangar Lease Agreement #2969.

Recommendations: We recommend that management of CAM Investments:

- Immediately pay to the Airport Authority \$5,071, the additional rent that remains due for 2016.
- Revise its payment process to help ensure that rent and fuel flowage fee payments are remitted to the Airport Authority in a timely fashion.

**Management of
CAM Investment's**

Response: See page 9 for management's response.

IV. Conclusion

As indicated in our current year finding, untimely payments were reported as a finding in our two most recent reports issued May 31, 2011 and March 30, 2015, and appropriate corrective action to address this issue has not been taken. We understand that the late fees of 2%, applied only to each full month of delinquent payments, are far less expensive than financing available from local financial institutions. However, it is our understanding that the Airport Authority never intended to routinely finance the operations of CAM Investments under License Agreement #2152 and Hangar Facility Lease Agreements #2154 and #2969. The management of CAM Investments needs to re-evaluate its approach to corporate finance. The finance function should be ensuring that sufficient financial resources are available to fund current obligations before resources are allocated to other business ventures.

CAM Investments, Inc.

February 1, 2018

Ms. Chelsa Wagner, County Controller
Allegheny County Controllers Office
219 County Courthouse
436 Grant St.
Pittsburgh, PA 15219

In Re: CAM Investments, Inc.

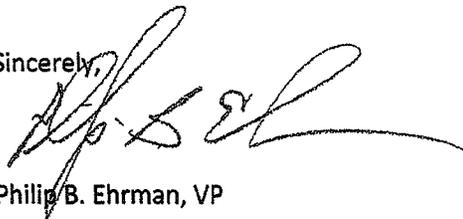
Dear Ms. Wagner,

The purpose of this letter is to respond to the recent audit conducted by your office in regard to several contracts between CAM Investments, Inc. and the Allegheny County Airport Authority. CAM Investments has entered into two leases with the Authority (#2154 & #2969) and a fuel license agreement (#2152).

As your audit report indicates the amount due to the Airport Authority as a result of the late payments is \$5,071.00. In conjunction with this response I am remitting a check in the amount of \$5,071.00 to the Authority as a good faith payment to resolve this audit. On an ongoing basis, CAM will make a good faith effort to make our payments in a more timely basis. We plan to meet with the Authority in the near future in order to address the issues raised in your audit report.

We appreciate the work that your office has completed and will address the issue raised as requested. If you have any questions please do not hesitate to contact me.

Sincerely,



Philip B. Ehrman, VP