



County of Allegheny

Office of the Controller

CAM INVESTMENTS, INC.
REPORT ON CONTRACT
COMPLIANCE PROCEDURES
FOR THE PERIOD JANUARY 1, 2010
THROUGH DECEMBER 31, 2010

MAY 31, 2011

County of Allegheny
Office of the Controller
Mark Patrick Flaherty
Controller

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MARK PATRICK FLAHERTY
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

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GUY A. TUMOLO
DEPUTY CONTROLLER

April 26, 2011

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

**SUBJECT: Compliance Procedures Applied to License Agreement #2152
and Hangar Facility Lease Agreement #2154 Between
CAM Investments, Inc. and the Allegheny County Airport Authority
for the Period January 1, 2010 through December 31, 2010**

Dear Mr. Penrod:

We have applied contract compliance procedures to License Agreement #2152 and Hangar Facility Lease Agreement #2154 (the "Hangar Agreement") between CAM Investments, Inc. ("CAM Investments") and Allegheny County Airport Authority ("Airport Authority"). We performed these compliance procedures to ensure that CAM Investments was in compliance with the scope and terms of the Agreements. Our compliance procedures covered the period from January 1, 2010 through December 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 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 several instances of noncompliance attributable to untimely remittances of rent and fuel flowage fees due.

Mr. Bradley Penrod
April 26, 2011

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 Agreement #2154.

We believe that the implementation of our recommendations will improve CAM Investments' compliance with Hangar Agreement #2154. 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 CAM Investments 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: Mr. Glenn R. Mahone, Chairman, Allegheny County Airport Authority Board
Mr. Richard Shaw, Chair, Audit Committee, Airport Authority Board
Mr. James Gill, CFO and CAO, Airport Authority
Mr. Steve Robinson, Controller, Airport Authority
Mr. Eric Ruprecht, Director – Bus. Adm. & Prop., Airport Authority
Mr. Phil Ehrman, Vice President, CAM Investments
Mr. Guy A. Tumolo, Deputy Controller
Mr. Robert J. Lentz, Assistant Deputy Controller, Accounting

EXECUTIVE SUMMARY

Purpose of Procedures: We performed our compliance procedures to ensure that CAM Investments, Inc. ("CAM Investments") was in compliance with the scope and terms of License Agreement #2152 and Hangar Facility Lease Agreement #2154 for the period January 1, 2009 through December 31, 2010.

Background: 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 9 years and 11 months 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.

Results in Brief: While performing our procedures, we noted that CAM Investments did not remit rent and fuel flowage fees to the Airport Authority in a timely fashion.

Specifically, we found that:

Finding #1:

CAM Investments made 12 of 12 (100%) monthly rent payments for 2010 untimely. The average days late for rent

EXECUTIVE SUMMARY

payments was 47 days in 2010 (ranging from 18 to 69 days past due). CAM Investments also made 12 of 12 (100%) monthly fuel flowage fee payments during 2010 untimely. The average days late for fuel flowage payments was 32 days in 2010 (ranging from 6 to 48 days past due).

Recommendations:

We recommend that CAM Investments management:

Recommendation #1:

- Revise its payment process to help ensure that rent and fuel flowage fee payments are remitted to the Airport Authority in a timely fashion.

I. Introduction

Background:

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 an 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 9 years and 11 months 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 and 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 2010 fuel flowage rates are \$0.08 per gallon for each gallon of fuel delivered (the intent was aviation fuel) and \$0.30 per gallon for each gallon of other petroleum products delivered. The fuel flowage fee payments are to be accompanied by a detailed statement setting forth the exact quantities of fuel products delivered.

II. Scope and Methodology

We applied contract compliance procedures to License Agreement #2152 and Hangar Facility Lease Agreement #2154 between CAM Investments and the Airport Authority to ensure that CAM Investments was in compliance with the scope and terms of the Agreements. Our compliance procedures covered the period from January 1, 2010 through December 31, 2010.

Specifically, we performed the following procedures:

- Interviewed personnel to gain an understanding of the processes used to determine fuel flowage fees and the processes used to report and remit them. We also attempted to identify any internal controls built into the processes.
- Examined records of CAM Investments that were relevant to the administration of the Agreements to determine 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.
- Traced information contained in the reports submitted by CAM Investments to the underlying accounting records (test basis).

We performed these procedures during March through April of 2011. We provided a draft copy of this report to CAM Investments, Inc. for its response (see page 8). The Airport Authority has also provided a response (see page 10).

III. Findings and Recommendations

Finding #1
Untimely Rent and Fuel Flowage Fee Payments

CAM Investments made 12 of 12 (100%) monthly rent payments for 2010 untimely. The average days late for rent payments was 47 days in 2010 (ranging from 18 to 69 days past due). CAM Investments also made 12 of 12 (100%) monthly fuel flowage fee payments during 2010 untimely. The average days late for fuel flowage payments was 32 days in 2010 (ranging from 6 to 48 days past due). Section 4.02 of Hangar Agreement #2154 requires monthly payments relating to rent 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 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”.

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 10th day of the following month for each month during 2010. Based on these factors, it appears that this condition was attributable to a deficient payment process. The effect of this condition is that CAM Investments is not in compliance with Section 4.02 and 4.03 of the Hangar Agreement #2154.

Recommendation

We recommend that management of CAM Investments:

- Revise its payment process to help ensure that rent and fuel flowage fee payments are remitted to the Airport Authority in a timely fashion.

**CAM INVESTMENTS, INC.
15 ALLEGHENY COUNTY AIRPORT
PITTSBURGH, PA 15122-2673**

PHONE: 412-469-6800

FAX: 412-469-1799

May 24, 2011

Mr. Mark P. Flaherty
Allegheny County Controller
436 Grant Street
Room 104
Pittsburgh, PA 15219

RE: Response to Compliance Report

Dear Mr. Flaherty:

The purpose of this letter is to provide a response to the Draft of the Compliance Report dated May 19, 2011. Please be advised of the following information as to the findings included in the report.

The report indicates that CAM Investments made both rental payments and fuel flowage payments on an untimely basis. I agree with this conclusion; however, I believe there is a valid explanation for these late payments. Per our rental agreement with the Authority, rents are due on or about the first of each calendar month. Many of the aircraft that we hangar are managed customers that are charged a monthly rental fee. We include this charge on an aircraft management statement that is prepared at the end of each month. Once delivered to the aircraft owner, payment is due within 30 days. As a result, we do not receive income for the hangar rent until approximately 30 to 40 days after the end of the applicable calendar month. Once we receive these payments, we have generally made the rental payment to the Authority. This period of delay in collecting our rental income is consistent with the average of 47 days of delay in payment to the Authority that is referenced in the Compliance Report.

In regard to the fuel flowage, there is a similar billing procedure. All fuel that is sold to managed aircraft is included on a monthly management statement. This statement is delivered to the customer after the end of the month, and on average is generally received within 30 days after receipt. Based on the fuel sales in 2010, approximately 65 percent of our total gallons sold consist of fuel purchased by managed aircraft. As a result, this billing process delays our cash receipts attributable to fuel sales. Again, the delay in this collection process is the reason for the delay in payment to the Authority, which was an average of 32 days according to the Compliance Report.

Mr. Mark P. Flaherty
May 24, 2011
Page 2.

In regard to both of these items, although payment is late based on the specific terms of the Agreement, the payments are being made on a basis which is consistent with our business model. In addition, these payments have been made consistently over the term of our Agreement with the Authority.

If you have any questions concerning this letter or the information in this letter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Philip B. Ehrman", with a long horizontal flourish extending to the right.

Philip B. Ehrman
Vice President

RECEIVED
COUNTY CONTROLLER
2011 MAY 25 AM 11:06



PITTSBURGH INTERNATIONAL AIRPORT

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[www - FlyPittsburgh - com](http://www.FlyPittsburgh.com)

May 31, 2011

Mr. Mark Patrick Flaherty, Controller
Allegheny County Controller's Office
436 Grant Street
Room 219 Courthouse
Pittsburgh, PA 15219

**SUBJECT: Compliance Procedures Applied to License Agreement #2152
and Hangar Facility Lease Agreement #2154 Between CAM
Investments, Inc. and the Allegheny County Airport Authority for the
Period January 1, 2010 through December 31, 2010**

Dear Mr. Flaherty:

ACAA Management has reviewed the subject compliance audit report and concurs with the one Finding and Recommendation of the audit.

Please finalize and release this audit report.

Sincerely,

A handwritten signature in cursive script that reads "Stephen W. Robinson".

Stephen W. Robinson
Controller

Cc: James R. Gill, CFO & CAO