



County of Allegheny

Office of the Controller

PERFORMANCE AUDIT REPORT
ON CONTRACT COMPLIANCE
WITH LICENSE AGREEMENT #2098
BETWEEN ALLEGHENY COUNTY
AIRPORT AUTHORITY AND
CORPORATE AIR, LLC
FOR THE PERIOD JANUARY 1, 2016
THROUGH DECEMBER 31, 2016

February 5, 2018

Chelsa Wagner
Controller

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November 17, 2017

Ms. Christina Cassotis
Executive Director
Allegheny County Airport Authority
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**PERFORMANCE AUDIT REPORT ON CONTRACT COMPLIANCE
WITH LICENSE AGREEMENT #2098 BETWEEN ALLEGHENY COUNTY
AIRPORT AUTHORITY AND CORPORATE AIR, LLC
FOR THE PERIOD JANUARY 1, 2016 THROUGH DECEMBER 31, 2016**

Dear Ms. Cassotis:

We have conducted a performance audit to evaluate the compliance of License Agreement #2098 (the "Agreement") between the Allegheny County Airport Authority ("Airport Authority") and Corporate Air, LLC ("Corporate Air"). 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.

As we conducted our engagement, we identified several weaknesses. The application of our compliance procedures revealed that Corporate Air did not adequately track 2016 landings and did not assess some landing fees properly, that the company did not remit landing and parking fees timely, that there are several deficiencies in the company's collection process, and that the company did not fully comply with its reporting requirements during 2016. We noted similar noncompliance with the requirements

Ms. Christina Cassotis
November 17, 2017

contained in License Agreement #2098 in our most recent report issued March 30, 2015. The detailed results of our performance audit are included in the attached report.

We believe that the implementation of our recommendations will improve Corporate Air's compliance with these Agreements. We would like to thank the management and staff of Corporate Air 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, Allegheny County Executive
Mr. William D. McKain, County Manager, Allegheny County
Ms. Jennifer 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, Office of Budget and Finance
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

The Allegheny County Airport Authority (“Airport Authority”) entered into License Agreement #2098 (the “Agreement”) with Corporate Air, LLC (“Corporate Air”) in September 2008. The Agreement provides that Corporate Air, as licensee, will act as an agent of the Airport Authority and collect all landing and parking fees imposed by the Airport Authority at the Allegheny County Airport. In consideration for the tracking and collection of landing and parking fees at the Allegheny County Airport, Corporate Air is entitled to compensation in the form of fixed monthly payments at \$3,500 per month during the first license year. The monthly payments for the service increase by \$100 in the first month of each license year (such that the monthly payments for each month of the fifth license year would be \$3,900). The Agreement has a five year term ending August 2013, but will continue thereafter on a month-to-month basis until terminated by either party.

The landing fees Corporate Air is to collect include those attributable to landings of aircraft owned or managed by Corporate Air and landings of aircraft with blocked tail numbers. These tail numbers must be visually verified upon landing. The landing and parking rates used to determine the fees are published annually by the Airport Authority.

For 2016, helicopters were to be charged a flat rate of \$7.00 per landing. A landing rate of \$1.40 per thousand pounds of landed weight applied to all other aircraft with a gross weight in excess of 5,000 pounds. Other aircraft with a gross weight less than 5,000 pounds were not to be charged a landing fee. Government aircraft and aircraft used for emergency medical transportation (with a patient on board) were also exempt from landing fees.

For 2016, parking rates were to be determined by weight and length of time parked. The first hour of parking was to be free. Thereafter, a rate per day was to be applied. The rate per day for aircraft from 0 to 9,999 pounds was to be \$4.00, the rate per day for aircraft from 10,000 to 24,999 pounds was to be \$5.00, and the rate per day for aircraft in excess of 25,000 pounds was to be \$8.00.

Corporate Air is to deliver to the Airport Authority no later than 15 days after the end of each calendar month all fees collected for the prior month with a report of the total landing fees collected less credit card transaction fees and Corporate Air’s monthly fee. Each monthly report must contain the number, type, weight, owner and operator of each aircraft that landed anywhere at the Allegheny County Airport, and the date and time of each landing. Each monthly report must also be certified by an authorized representative of Corporate Air as being accurate and complete based on the representative’s examination of the books and records. Corporate Air is also required to submit an annual report within 60 days of the end of each lease year. The annual report is to be certified by an officer as described above.

For calendar year 2016, Corporate Air remitted to the Airport Authority gross landing and parking fees of \$224,353 less credit card fees of \$1,925 and Corporate Air compensation of \$50,800 (8 months at \$4,200/month and 4 months at \$4,300/month), a net remittance of \$171,628.

II. Objectives, Scope, and Methodology

Objectives

Our objectives were to:

1. Determine (on a test basis) whether Corporate Air 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 Corporate Air monitors its compliance with the agreements.
4. Determine whether Corporate Air complied with other significant provisions of the agreements.

Scope

We applied procedures to License Agreement #2098 between Corporate Air and the Airport Authority to ensure that Corporate Air was in compliance with the scope and terms of the Agreements. Our audit procedures covered the period from January 1, 2016 through December 31, 2016. We conducted the performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Corporate Air personnel to gain an understanding of the processes used to identify and record landings and parking, and collect all applicable landing and parking fees and remit them to the Airport Authority.
- Examined records of Corporate Air that were relevant to the administration of the Agreements to evaluate compliance with the Agreements.
- Recomputed landing and parking fees to determine whether the fees had been properly calculated.
- Applied procedures to determine whether required payments to the Airport Authority were made timely and in the proper amounts.

II. Objectives, Scope, and Methodology

- Analyzed the 12/31/2016 receivable aging report to evaluate the composition of landing and parking fee receivables.
- Traced information contained in the reports submitted by Corporate Air 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 Corporate Air for response. His response begins on page 15.

III. Findings and Recommendations

Finding #1

Untimely Landing and Parking Fee Payments

- Criteria:** Section 3.02 of License Agreement #2098 requires monthly reports prepared by the licensee (Corporate Air) to be submitted, with remittance of all fees collected for the prior month, by the 15th of the following month. Section 3.01 of License Agreement #2098 further requires that “the Licensee shall pay to the Authority as additional payments, an interest charge of 2% of the amount due for each full calendar month of delinquency, computed as simple interest.” Because Corporate Air only remits landing and parking fees that have actually been collected, there is no reason that remittances of landing and parking fees by Corporate Air should not ordinarily be timely.
- Condition:** Corporate Air made 12 of 12 monthly landing and parking fee payments (100%) under License Agreement #2098 for 2016 untimely. The average days late for these payments was 8 days, ranging from 2 to 16 days past due.
- Cause:** 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. Section 3.01 of License Agreement #2098 provides for Corporate Air to be compensated for collection of the landing and parking fees on behalf of the Airport Authority. During 2016, Corporate Air was entitled to retain and did retain compensation of \$50,800 for performing the service.
- Effect:** The effect of this condition is that Corporate Air is not in compliance with section 3.02 of License Agreement #2098.
- Recommendations:** We recommend that Corporate Air’s management take steps to ensure monthly landing and parking fee payments are made to the Airport Authority in a timely fashion going forward. Utilizing a separate bank account for deposit of the parking and landing fees due to the Airport Authority would prevent the commingling of those funds with Corporate Air’s own financial resources, and facilitate timely remittance of the fees.

III. Findings and Recommendations

Finding #2

Inadequate Collection Process

Criteria: Section 2.02 A(3) of License Agreement #2098 requires Corporate Air to “collect all landing fees and parking fees and submit them (monthly) to the Airport Authority with a detailed report...”. Section 3.01 of License Agreement #2098 provides for Corporate Air to be compensated for collection of the landing and parking fees on behalf of the Airport Authority. Based on these provisions of the License Agreement, the Airport Authority has an expectation that Corporate Air will exert appropriate collection efforts to help ensure that landing and parking fees due to the Airport Authority are collected in a timely fashion.

Condition: When we reviewed Corporate Air’s process in place for collection of landing and parking fees at the Allegheny County Airport during 2016, we identified several deficiencies that require remediation:

Inadequate Measures to Gather Needed Billing Information

Corporate Air personnel advised us that Corporate Air sometimes does not obtain adequate billing information to assess landing and parking fees for aircraft that land and park at the Allegheny County Airport but do not utilize the services of a Fixed Base Operator (FBO). Since under License Agreement #2098 Corporate Air is responsible for tracking all landings at the Allegheny County Airport and collecting all landing fees thereon, Corporate Air needs to ensure that appropriate measures are taken to obtain adequate billing information for those aircraft. Of the \$49,533 in landing fees receivable at December 31, 2016, \$24,637 were outstanding for over 90 days. Corporate Air personnel indicated that some of the landing fee receivables that have not been collected and are over 90 days past due are landing fees pertaining to aircraft for which inadequate billing information was obtained.

Inadequate Collection Procedures

For landing and parking fees not collected the same day from Corporate Air customers, the only collection procedure routinely utilized is the mailing of invoices on a monthly basis. There is no process in place to routinely apply additional collection procedures (such as collection calls or letters) for receivable balances that have been outstanding longer than 60 or 90 days, including larger balances.

III. Findings and Recommendations

No Supervisory Review of the Collection Process

Management does not perform a detailed review of the collection procedures performed by the Corporate Air staff assigned responsibility for collection efforts on a routine basis. As a result, management does not have a sufficient basis for evaluating the sufficiency of the collection efforts applied.

No Communication Process for Fees Deemed Uncollectible

We noted that there is no process in place for communication with the Airport Authority regarding landing and parking fee receivable balances that are deemed by Corporate Air to be uncollectible. Although Corporate Air personnel have asserted that an initial discussion with the Airport Authority regarding the handling of landing and parking fee receivables that are deemed to be uncollectible occurred, a regular communication process was not an outcome of the discussion. Timely communication with the Airport Authority regarding the landing and parking fees deemed uncollectible, such as those fees pertaining to aircraft for which adequate billing information was not obtained, could improve the probability of collection as the Airport Authority may be able to exert its influence and provide assistance with collection.

Three of these deficiencies, specifically, the inadequate collection procedures, lack of supervisory review of the collection process, and the lack of a communication process regarding landing and parking fees deemed uncollectible, were reported as part of a finding in our report dated May 31, 2011. All of these deficiencies were reported in our report dated March 30, 2015.

- Cause: It appears that the aforementioned conditions were attributable to a lack of management's focus on the collection process in 2016 and a corresponding lack of adequate personnel resources applied to the collection process.
- Effect: The aforementioned conditions adversely impact Corporate Air's ability to comply with section 2.02 A(3) of the License Agreement. The deficiencies in the collection process have also likely impacted the ability to collect certain landing and parking fees due to the Airport Authority as the collection of outstanding balances typically becomes more difficult with the passage of time.

III. Findings and Recommendations

Recommendations: We recommend that Corporate Air's management:

- Ensure that appropriate measures are taken to obtain adequate billing information for planes that land at the Allegheny County Airport but do not utilize the services of an FBO.
- Develop and implement more vigorous collection procedures to address receivables outstanding over 60 or 90 days. These procedures should include collection calls and/or letters, with greater collection efforts applied to larger outstanding balances.
- Establish and implement a supervisory review process to help ensure that the collection process is performed properly.
- Establish a routine communication process with the Airport Authority to address landing and parking fee receivable balances that are deemed to be uncollectible.

III. Findings and Recommendations

Finding #3

Reporting Requirements Not Met

- Criteria:** Section 3.02 of License Agreement #2098, “Monthly Reports”, requires that “licensee shall prepare and deliver to [Airport] Authority no later than fifteen (15) days of the end of each calendar month all fees collected for the prior month together with a schedule of the total landing fees, penalties and interest collected minus the credit card transaction fees and monthly fee due to Corporate Air.” Section 3.03(B) of License Agreement #2098, “Annual Report”, requires that the annual report provided by licensee shall be signed by an officer of the company.”
- Condition:** Three (25%) of the 12 monthly reports submitted to the Airport Authority by Corporate Air for 2016 were not submitted within 15 days of the end of the calendar month as required. Two of the late monthly reports were submitted one day late, the other late monthly report was submitted two days late. The annual report for 2016 was also not signed by an officer of Corporate Air.
- Cause:** Corporate Air’s management advised us after conferring with its accounting staff that for all three instances in 2016 in which the monthly reports were submitted late, the due dates fell on Saturdays or Sundays (not business days). We verified this claim to be accurate. Management was not aware that the agreement indicated that the submission requirement was 15 days, not 15 business days. Management thought that 15 business days was acceptable because Saturdays and Sundays are also not business days for the Airport Authority. Regarding the requirement for an officer of Corporate Air to sign the annual report, Corporate Air’s management had not reviewed the contract requirement prior to submission of the annual report, and therefore was not attentive to the requirement.
- Effect:** The effect of this condition is that Corporate Air did not comply with Section 3.03(B) of the License Agreement and did not fully comply with Section 3.02 of the License Agreement for 2016.
- Recommendation:** We recommend that Corporate Air’s management ensure that monthly reports are routinely submitted to the Airport Authority timely and that the annual report submitted to the Airport Authority is signed by an officer of the company as required by License Agreement #2098.

III. Findings and Recommendations

Finding #4

Landings Not Adequately Tracked and Fees Not Properly Assessed

Criteria: Section 2.02A of License Agreement #2098 stipulates that the “licensee (Corporate Air) is responsible for tracking all landings at the [Allegheny County] Airport, including aircraft with blocked tail numbers. The *Allegheny County Airport Rates and Charges* published by the Airport Authority indicate that aircraft landing fees are based on landed gross weight of aircraft. For 2016, landing fees should have been assessed at \$1.40 per thousand pounds of landed weight, except for aircraft below 5,000 pounds for which fees should not have been assessed.

Condition: We randomly selected the month of May 2016 to test the completeness of the monthly landing report submitted to the Airport Authority. We determined that 103 (13%) of 782 landings recorded on the daily landing logs maintained by Corporate Air operations personnel were not included in the monthly landing report submitted to the Airport Authority. Since the landing report submitted to the Airport Authority on a monthly basis is actually a billing report from Corporate Air’s accounting system, we initially assumed that Corporate Air did not assess landing fees for the 103 landings noted above. However, we subsequently determined that a client utilizing a hangar at AGC was actually billed for and paid for 15 of the 103 landings, and the payments were actually remitted to the Airport Authority, even though the total billed to the hangar client was not included in the billing total reported to the Airport Authority for the month of May. In addition, of the 103 landings not reported, it appears that 60 of the aircraft may have had landed weights less than 5,000 pounds and would not have been subject to a landing fee. Based on this, approximately 3.5% of the landing fees due for the month (28 of 782 landings) were not assessed. We were unable to determine the amount of the landing fees that were not assessed during May 2016 because the landing logs did not always contain accurate information about the type of each aircraft.

We randomly selected a sample of 40 landings in May 2016 and applied procedures to determine whether the landing fees assessed by Corporate Air conformed to the requirements of the *Allegheny County Airport Rates and Charges* published by the Airport Authority. We determined that the weights used in the computation of 17 of the 40 landing fees in our sample (43%) exceeded the gross maximum landed weights we identified for the aircraft. Based on this, the landing fees assessed by Corporate Air

III. Findings and Recommendations

for 16 of these aircraft during May 2016 (one medical aircraft was exempt) were higher than they should have been by \$138 in total.

Cause:

We were advised that when line service personnel are busy, the landings of aircraft that are believed to weigh less than 5,000 pounds are not recorded. This was the cause of 60 of the 103 landings (58%) that were not reported in May of 2016. Corporate Air personnel were unable to explain why the 15 of the 103 landings (15%) that pertain to the hangar client were not reported. Of the remaining 28 of the 103 landings that were not reported in May 2016, we determined that for 22 (21% of the 103), Corporate Air line service personnel did not record a tail number for the aircraft or did not record the proper tail number on the daily landing logs. We were unable to determine why the remaining 6 of the unreported landings (6% of the 103) were not included in the monthly landing report.

It appears that the use of incorrect weights may be attributable to a number of different causes. We noted that Corporate Air personnel had told us in the past that they intended to use the takeoff weights of the aircraft in the landing fee computations. We advised them that this is not consistent with the requirements of the published *Allegheny County Airport Rates and Charges* document. We are also aware that over time Corporate Air personnel have also used a data source other than the manufacturers' websites to obtain the landed gross weights to be used in the landing fee computations. Finally, we determined that once the landed gross weights of each new aircraft model are entered into Corporate Air's accounting software, those same weights are used in the computation each time a new aircraft of the same model lands at the Allegheny County Airport. Consequently, if the landed gross weight of an aircraft model is not entered into the accounting software correctly, all of the landing fees assessed in the future for that model of aircraft will not be assessed properly.

Effect:

The effect of this condition is that the Airport Authority will not receive landing fees which it is due to the extent that landings have not been properly tracked by Corporate Air. In addition, some landing fees have not been properly assessed, which means there has also been a lack of uniformity in the assessment of landing fees at the Allegheny County Airport.

Recommendation:

We recommend that Corporate Air's management improve the tracking of landings at the Allegheny County Airport and ensure that landing fees are computed based on the landed gross weight of

III. Findings and Recommendations

aircraft. This should involve comparing the weights for each aircraft model in the accounting software to the landed gross weights per the manufacturers' websites.

IV. Conclusion

During the audit, as in prior years, we identified noncompliance across many significant contractual compliance requirements. For 2016, we found landings that were not tracked and fees that were not properly assessed, the utilization of an inadequate collections process, untimely landing and parking fee payments, and noncompliance with reporting requirements. The management of Corporate Air has not taken appropriate measures to remedy its compliance deficiencies, and needs to do so.



February 1, 2018

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

In Re: Corporate Air, LLC

Dear Ms. Wagner,

The purpose of this letter is to respond to the recent audit conducted by your office in regard to a contract between Corporate Air, LLC and the Allegheny County Airport Authority. Corporate Air has entered into an agreement to collect landing and parking fees on behalf of the Airport Authority at the Allegheny County Airport (License Agreement #2098).

As your 2016 audit report indicates there were a number of findings and recommendations provided to Corporate Air concerning the collection and payment process. On an ongoing basis Corporate Air will make a good faith effort to better comply with these recommendations. We understand that the Authority is currently reviewing the status of the contract for the collection of landing and parking fees. We agree that a fresh approach may be warranted and will cooperate with the Authority as a decision is made for the future process.

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. We plan to meet with the Airport Authority in the near future to discuss the findings and recommendations related to your 2016 audit.

Sincerely,

Philip B. Ehrman, VP