

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

**AVIATION DEPARTMENT
SPACE RENTAL INCOME**

SEPTEMBER 2005

Alex J. McLaughlin, Comptroller

September 21, 2005

Barbara J. Fiala, County Executive:

The Department of Audit and Control has audited the space rental income for the Department of Aviation. The primary objective of our audit was to determine whether or not management has developed and implemented policies and procedures to properly manage income from space rental.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, and except for the instances noted herein, it is our opinion that the Department of Aviation properly manages income from space rental.

Sincerely,

Alex J. McLaughlin
Comptroller

cc: Daniel A Schofield, Chairman of the Legislature
Members of the Legislature
Louis P. Augostini, Clerk of the Legislature
Carl R. Beardsley, Commissioner of Aviation

Background:

The objective of our audit was to determine whether or not management has developed and implemented policies and procedures to properly manage income from space rental. We focused on income from sources described in the Aviation Department's budget as: Space Rental – Airlines, Rental – Other, and Hangar Rental.

For the years ended December 31, 2003 and December 31, 2004, annual revenue from these sources was \$1,212,816 and \$1,158,206 respectively. For this year, \$689,284 of revenue has been received through July.

The majority of the space rental revenue comes from the Airlines (U.S. Air, United Airlines, Northwest AirlinK and Delta Connection) and the car rental agencies (Avis, Hertz, and Vanguard).

**RECOMMENDATIONS AND RESPONSES
DEPARTMENT OF AVIATION**

FINDING 1: AIRLINE HAS NOT SIGNED OFF ON THE AIRPORT OPERATING AGREEMENT

During the course of our audit, we noted that an Airline (Piedmont) has not signed the Scheduled Airline Operating Agreement and Terminal Building Lease.

A contract is an agreement or promise which the courts are willing to enforce and this is what gives the contract its value. It allows the parties to form an agreement which they know has a reasonable chance of being honored. In other words, a written contract reduces the uncertainty (risk) experienced by either side in any business transaction.

Without a signed written agreement in place, Broome County's interests are not sufficiently protected.

RECOMMENDATION:

We recommend that the Department of Aviation secure a signed written agreement with Piedmont Airlines.

MANAGEMENT RESPONSE:

When the terms of the new agreement began, US Airways was in the preliminary stages of reorganization and, as a result, did not execute the agreement. However, except for pre-petition debts during two bankruptcy proceedings, U.S. Airways/Piedmont has been paying the new rental charges calculated by the terms of the new agreement without issue. Discussions and meetings have been ongoing with this airline regarding the signing of the agreement, but with their current and past status of being in Chapter 11 bankruptcy, they have been unable to execute it. Given the turmoil in the industry since 9/11, and with airline bankruptcy declarations becoming all too frequent, we feel it is in the best interest of Broome County, and specifically the travelers of our community to continue our working relationship even if the agreement has not been signed. US Airways is far too important of a component of our air service structure (nearly 50% of our commercial traffic) to risk losing.

FINDING 2: AIRLINE SIGNIFICANTLY LATE WITH PAYMENTS

During the course of our Audit, we reviewed the timeliness of space rental revenue receipts from the companies renting space at the Broome County Airport. We noted that Piedmont Airlines, as of July 31, 2005, owes Broome County in excess of \$41,000. These payments have been outstanding in excess of 120 days.

Management is responsible for ensuring amounts owed to the County are monitored and collected.

The significantly overdue amount exposes the County to financial loss.

RECOMMENDATION:

We recommend that the Department of Aviation take the actions necessary to collect the past due monies owed to Broome County.

MANAGEMENT RESPONSE:

Again, this involves US Airlines subsidiaries Piedmont Airlines and PSA Airlines. The amounts owed by Piedmont and PSA are for pre-petition invoices from their second bankruptcy. In regards to this issue, we have partnered with the Broome County Law Department to ensure proper procedures are followed for maximum return on the past due invoices. It is our understanding that the bankruptcy courts determine how and when this pre-petition liability is paid out, if it is paid at all. However, we recently received a fax from U.S. Airways confirming a "cure (as defined in Section 365 (b) of U.S. Bankruptcy code)" consisting of an agreement to pay 75% of this pre-petition debt. This 75% equals \$31,152.85 and will be payable in 12 equal installments with the first payment due on the first day of the calendar month falling more than sixty days after the occurrence of the effective date of US Airway's plan of reorganization. The 75% proposal is significantly higher than the standard 10% experienced in the past. The date of reorganization is scheduled for later this year.

FINDING 3: AVIATION DEPARTMENT IS NOT ADHERING TO THE PROVISIONS OF APPROVED CONTRACTS

During the course of our audit, we discovered that the Aviation Department is not calculating rental charges to airlines for terminal space in accordance with the methodology approved by the Legislature and stipulated in the applicable contracts. Terminal space rental rates per square foot have been held constant since 2002.

The methodology approved for calculating terminal space rental provided for annual increases to cover increased costs. Rather than increase rental income as provided for, the Aviation Department has shifted to recover these costs through increasing landing fee rates.

Although all costs are covered, the County is exposed to higher risk because rental revenue is fixed, stable, and predictable, while landing fees are more volatile and less predictable.

RECOMMENDATION:

We recommend that the Aviation Department adhere to the provisions of approved contracts. If a business case can be made to justify changing the rate setting methodology, then it should be presented to the Legislature for approval as soon as possible.

MANAGEMENT RESPONSE:

Due to the complexity of the cost factors involved , and the significance of the changes caused by minor cost and/or other revenue shifts to the landing fees (due to the limited annual landed weight at our small airport), and the major upheaval going on in the airline industry , management went with the selling point of freezing rates where possible. Rates were stabilized through a combination of budgetary controls and new revenue sources. Nonetheless, as stated, the rates do combine to cover operating costs.

FINDING 4: INTERNAL CONTROLS TO PROMPTLY DETECT ERRORS NEED TO BE DEVELOPED

During the course of our audit, we reviewed space rental receipts for three (3) months (November and December of 2004, and January of 2005). We noted that a monthly amount paid by the National Weather Service (\$313.30) and posted to the accounting system (FAMIS) was not the same as the amount agreed upon in the contract (\$336.13). The incorrect payment was received from June 2004 through March 2005. The variance was small and recovered. However, the length of time the erroneous amount went undetected indicates that the department needs to develop internal controls that detect errors in a timely manner.

Management is responsible for implementing internal controls that prevent, detect and correct errors within a timely period by employees in the normal course of performing their assigned duties.

Department staff informed us that final contract amounts are not always readily available to compare to revenue receipts.

These types of errors can result in lost revenue and also lead to disputes over past due amounts.

RECOMMENDATION:

We recommend that the Department of Aviation develop and implement controls to ensure that errors are detected within a timely period.

MANAGEMENT RESPONSE:

The particular matter discussed in this finding was an isolated occurrence that can be attributed to the inefficiencies of working with the National Weather Service headquarters. However, after internal discussions on ways to remedy this issue, we have instituted an additional layer of checks and balances to make sure this type of situation is not repeated. Although the value of this issue was extremely small, we have tightened up our procedures so this will not happen in the future.

FINDING 5: NOT ALL AVAILABLE RETAIL SPACE IS RENTED OUT

During the course of our audit, we noted that the Broome County Airport has available retail space (both counter and office space) that is not rented out.

Any revenue generated from the unused retail space, even at a reduced rate, would be an improvement.

The potential annual rental revenue from the empty retail space is in excess of \$36,000 at current rates.

RECOMMENDATION:

We recommend that the Aviation Department actively market the available retail space at the Broome County Airport.

MANAGEMENT RESPONSE:

Renting our leasable space is, and has been, a top priority for airport management. In fact, non-airline space rental in the terminal has increased from about \$78K in 2000 to \$159K in 2004 as a result of our efforts. The newly created revenue is a result of securing additional lease agreements and developing more lucrative renewals from past contracts. The efforts to fill vacant retail space will continue, as one of our top concerns, has been to obtain as much revenue from non-airline sources as possible. Although the type of businesses attracted to an airport environment is limited, and certain agreements contain provisions capping the amount of businesses of a similar nature, our department will continue to focus on addressing this issue.

FINDING 6: NOT ALL AVAILABLE HANGAR SPACE IS RENTED OUT

During the course of our audit, we noted that the Broome County Airport has available hangar space that is not rented.

Any revenue generated from the unused hangar space, even at a reduced rate, would be an improvement.

The estimated annual rental revenue of the hangar space is \$119,000 at current rates.

RECOMMENDATION:

We recommend that the Aviation Department actively market the available hangar space at the Broome County Airport.

MANAGEMENT RESPONSE:

Conventional hanger space consists of three hangers. Hangers 2 and 3 are currently being leased by our FBO (First Air/ Trajen). Hanger 1 is currently vacant.

Hanger 1 was leased from 1994 through mid-October 2003 by Allegany Commuter Airlines, dba US Airways. Due to the dire post 9-11 financial straits of the airlines, US Airways decided to pull its maintenance operations out of the hanger at the expiration of the lease. Since then, finding a new tenant for this building has been a high priority involving countless hours of phone calls, advertisements and meetings.

At this time, finding a tenant is a top priority of airport management. Local officials and economic development agencies are also involved in these efforts. The availability of the building is being aggressively marketed and preliminary discussions and negotiations are underway with potential tenants at this time.

