

# Memorandum



**CITY OF DALLAS**

Report No. A08-017

**Date:** August 8, 2008

**To:** Honorable Mayor and Members of the City Council

**Subject:** Final Report – Follow-Up of Audit Recommendations, Department of Aviation  
Fiscal Year 2005-2006

The Department of Aviation is commended for implementing effective corrective actions to recommendations resulting from audits of concession operations, lease and rental agreements, and other financial issues. The actions taken will improve contract oversight and should create rates and fees necessary to support airport operations. *Attachment A* provides detailed information for the 18 recommendations included in this audit<sup>1</sup> report.

## Summary of Follow-up Audit Results

Fiscal Year Audit Report Issued	Number of Report Recommendations	Recommendations Implemented	Recommendations Not Implemented
<b>2005</b>	4	3	1
<b>2006</b>	14	10	4
<b>Totals</b>	18	13	5

Management implemented thirteen (72%) recommendations. The five (28%) recommendations that were not implemented pertain to processing a loan from the Aviation Construction Fund to 9-1-1 Emergency Services in 2004, limiting the number of month-to-month leases at the city airports and using audited financial data when reporting prior year fiscal information.

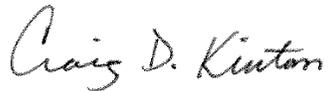
Management has accepted the risks associated with not implementing these recommendations. The City Auditor's Office will not conduct any further follow-up on these recommendations, but will consider the risks in determining future audit coverage as part of the annual audit plan.

<sup>1</sup> This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards. The audit objective was to verify that management has taken corrective action(s), the corrective action(s) are achieving the desired results or management has assumed the risk of not taking corrective action(s). We interviewed Aviation department personnel, reviewed Council and Committee presentations, read lease agreements, reviewed policies and procedures, verified accounting entries and reviewed budget and Comprehensive Annual Financial Reports for 2005 and 2006.

We appreciate the Aviation Department's cooperation. This report was discussed with Aviation management, but a written response was not requested.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Audit Manager, at 214-670-5347.

Sincerely,



Craig D. Kinton  
City Auditor

Attachment A

C: Mary K. Suhm, City Manager  
Ramon F. Miguez, P.E., Assistant City Manager  
Dave K. Cook, Chief Financial Officer  
Daniel T. Webber, Director of Aviation

**ATTACHMENT A**

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
<p><b>Aviation Lease and Rental Agreements (January 14, 2005)</b></p>	<p><b>Month-to-month leases are allowed to be indefinite in length of term and are not standardized.</b></p>	<p>- Limit month-to-month leases to no more than 12 months. Current month-to-month leases should be converted to longer term leases.</p>	<p><b>Not Implemented.</b> The total number of leases and percentage of total lease revenue for month-to-month leases remains virtually unchanged from the prior audit. Month-to-month leases at Love Field represent 39 percent of the total leases (30 of 77) and 7 percent of the total dollar amount (\$728,783 of \$10,052,905). Month-to-month leases at Dallas Executive represent 7 percent of the total leases (2 of 29) and 1 percent of the total dollar amount (\$6,319 of \$511,332). There is a clause in the month-to-month tenancy leases that automatically increases the rent beginning with the thirteenth month based on the average increase in the Consumer Price Index for the preceding twelve month period, or one percent annually, whichever is greater. The Director of Aviation may execute month-to-month leases under the authority of City Code, Section 5-3(c).</p>
	<p><b>Aviation Department's property records do not account for all leasehold improvements.</b></p>	<p>- Track and account for all leasehold improvements.</p>	<p><b>Implemented.</b> A system is in place as the accountant and the property manager work together to identify and track from Council approval of the lease, ongoing construction, physical inventory of progress and certificate of occupancy, if applicable.</p>
	<p><b>Rental rates should be set to sustain airport operations.</b></p>	<p>- Make the airport self-sustaining by developing rates and fees based on market conditions and based on its financial position and obligations.</p> <p>- Disclose its rates and fees to the City Council, at least annually.</p>	<p><b>Implemented.</b> Council approved contract for Unison-Maximus to conduct Rate Study June 13, 2007. Unison-Maximus completed Rate Study on August 28, 2007. Rate Study results and findings presented to Transportation and Environment Committee, October 22, 2007.</p> <p><b>Implemented.</b> Council Finance, Audit &amp; Accountability Committee was briefed January 8, 2007 on current rates/fees at the airport. Staff also presented scope of work for Rates and Charges Study and expected deliverables.</p>

Audit Report	Audit Issues	Audit Recommendations	Audit Follow-Up Results
<b>Follow-Up Audit of Aviation Concession Operations (December 23, 2005)</b>	<b>Contract oversight needs to be improved.</b>	<ul style="list-style-type: none"> <li>- Develop written procedures that, at a minimum, address inspecting, monitoring, and evaluating the required capital improvements.</li> <li>- Confirm that concessionaires meet their initial capital investment improvement obligations.</li> </ul>	<p><b>Implemented.</b> Written procedures are in place. Concession contracts, if applicable, include capital investment which falls under the contract compliance methodology.</p> <p><b>Implemented.</b> Written procedures are in place. Concession contracts, if applicable, include capital investment which falls under the contract compliance methodology.</p>
<b>Follow-up Audit of the Aviation Lease and Rental Agreements and Other Financial Issues (June 30, 2006)</b>	<b>Aviation Department did not increase landing fees in a timely manner and new proposed fees have not been implemented.</b>	<ul style="list-style-type: none"> <li>- Address and establish rates and fees to support airport operations in a timely manner.</li> <li>- Minimize the use of cash reserves to subsidize airport operations.</li> <li>- Pursue immediate implementation of the proposed fees and the Commercial Vehicle Fee includes an increase in the taxicab loading fee.</li> <li>- Brief the City Council annually on estimated revenues, operating expenses, capital projects to be undertaken and required rates and fees.</li> <li>- Conduct a rate and fee study to determine the alternatives available to meet operational and capital financing requirements.</li> </ul>	<p><b>Implemented.</b> The Council's Transportation and Environment Committee was briefed by the Department of Aviation on October 22, 2007, and the Finance, Audit &amp; Accountability Committee was briefed on February 11, 2008.</p> <p><b>Implemented.</b> Cash Reserves have not been used since FY 2005 to balance the Operating Fund.</p> <p><b>Implemented.</b> Aviation presented benchmark analysis and Findings of Rates and Charges Study to Council Transportation and Environment Committee on October 22, 2007.</p> <p><b>Implemented.</b> Council receives proposed expenses and projected revenues as part of the annual budget process.</p> <p><b>Implemented.</b> Council approved contract for Unison-Maximus to conduct Rate Study on June 13, 2007. Rate Study results and findings presented to Transportation and Environment Committee, October 22, 2007.</p>
	<b>Downgrade of bond rating was not disclosed and bond ratings reported were inaccurate.</b>	<ul style="list-style-type: none"> <li>- Ensure year-end financial reporting reflects the correct bond ratings as assigned by the bond rating agencies.</li> </ul>	<p><b>Implemented.</b> Bond ratings have been verified for FY 2006.</p>

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	<p><b>Financial data should be properly represented.</b></p>	<ul style="list-style-type: none"> <li>- Disclose in future budgets how beginning fund balances are computed and that data reported as actual for prior fiscal years be based on the prior years' audited financial data.</li>   <li>- Use audited financial data when reporting financial activity for prior fiscal years.</li> </ul>	<p><b>Not Implemented.</b> Management stated "Presenting fund balance information with budgeted expense and revenue information presents a challenge. The numbers are recorded on different basis. For example, budget information is cash." In the FY 2007-08 Budget, Statement of Revenues and Expenditures, the FY 2005 Actual and FY 2006 Actual (unaudited) do not equal the revenues and expenditures from the respective Comprehensive Annual Financial Reports (CAFR). Revenues were understated by \$300,000 to \$400,000 and expenditures were understated by \$4 million to \$8 million. The primary difference in the expenditure amount is the treatment of depreciation costs, which is not included in the budget prior year "actual" amounts. There are also variances attributable to the treatment of costs as either cash or accrual.</p> <p><b>Not Implemented.</b> Management stated, "Requiring the use of audited financial data for all historical financial reporting to the City Council may not always be the best use of the information." Audited financial data was used in a presentation to the Council Transportation and Environment Committee on January 9, 2006. This financial data was for the fiscal years 2000-2004.</p>
	<p><b>Loan from the Aviation Department is still outstanding and has not been approved by the City Council.</b></p>	<ul style="list-style-type: none"> <li>- Seek ratification of the loan from the City Council.</li>   <li>- Disclose and communicate the purpose of the loan and loan payment arrangements to the City Council.</li> </ul>	<p><b>Not Implemented.</b> The loan was briefed to City Council Finance, Audit &amp; Accountability Committee, April 9, 2004.</p> <p><b>Not Implemented.</b> The loan was briefed to City Council Finance, Audit &amp; Accountability Committee, April 9, 2004, and was disclosed in the City of Dallas 2005 CAFR, Notes to the Basic Financial Statements.</p>

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		- Ensure repayment of the loan.	<b>Implemented.</b> The third and final payment of the loan was made September 29, 2006.
	<b>There are no policies and procedures for the funding and use of reserve/contingency fund.</b>	- Develop policy and procedures that address the funding and use of reserve/contingency funds.	<b>Implemented.</b> Received Reserve Fund information from Unison-Maximus.