



Cutter Aviation Audit Report

Issued by the
Internal Audit Office
May 27, 2010

**City of El Paso
Internal Audit Office
Cutter Aviation Audit**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the *Fixed Based Operators Lease and Operating Agreement* between the City of El Paso and Cutter Aviation in effect as of November 1, 2003. Based on the results of the audit, four (4) findings were identified.

Listed below is a summary of the findings identified in this report:

1. Cutter Aviation has not submitted audited financial statements to the Airport for FY2006, FY2007, and FY2008 as required per the Fixed Based Operators Lease and Operating Agreement.
2. We could not determine if Cutter Aviation was using the correct maximum landing weights of an aircraft in order to correctly calculate the appropriate landing fees.
3. Cutter Aviation did not obtain the Airport's pre-approval before entering into five of nine subleases of the premises it leases from the Airport.
4. It appears Cutter Aviation either allowed insurance policies to lapse or did not furnish copies of insurance policies to the Airport at least 10 days prior to their effective date.

For a detailed explanation of the findings please refer to the body of this Audit Report.

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BACKGROUND

El Paso International Airport Management has instituted a process to review contract compliance of businesses operating as concessionaires or providing management services within Airport owned property. The Airport Director requested an audit of the *Fixed Based Operators Lease and Operating Agreement* between the City of El Paso and Cutter Aviation in effect as of November 1, 2003.

AUDIT OBJECTIVES

The objectives of this audit were to determine if Cutter Aviation is adhering to the lease and operating agreement terms and conditions as agreed to on the *Fixed Base Operators Lease and Operating Agreement* dated November 1, 2003.

AUDIT SCOPE

This is a limited scope audit and the time period covered is all transactions occurring during calendar year 2009. Cutter Aviation's fiscal year is based on a calendar year from January 1st through December 31st.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- conducted interviews with El Paso International Airport (EPIA) administration;
- conducted interviews with Cutter Aviation staff;
- conducted an analysis of the lease agreement and *Minimum Standards and Requirements for Commercial Aeronautical Service Providers at the El Paso International Airport*;
- reviewed monthly revenue reports;
- obtained a copy of audited financial statements for the year ended December 31, 2009;
- recalculated reported revenues;
- performed tests of selected transactions; and,
- reviewed other deliverables required to be submitted to the Airport by the lease agreement.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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FINDINGS

The findings, which follow, relate to compliance and adherence to the terms and conditions of the Fixed Based Operator (FBO) lease agreement in effect as of November 1, 2003.

Finding 1

Audited Financial Statements

Cutter Aviation has not submitted audited financial statements to the Airport for FY2006, FY2007, and FY2008 as required per the Fixed Based Operators Lease and Operating Agreement.

Section 5.06 - *Annual Accountants Report* states that the lessee shall furnish annually to the Airport, within 120 days following the close of each calendar year, a written statement by an independent certified public accountant that the gross receipts and fuel flowage fees paid by the Lessee during the previous year were made in accordance with the terms of the lease.

Recommendation

We recommend that Airport Management and appropriate Cutter Aviation personnel ensure that the Airport receives audited financial statements when due as required by the Fixed Based Operators Lease and Operating Agreement.

Management's Response

Properties data base will be utilized to run trace reports and monitor contract requirements. Cutter will be reminded, 120 days prior to the due date, via written documentation, that this is a requirement of their lease. The written reminder to Cutter will also clarify that a certified statement of gross receipts and fuel flowage fees is all that they are required to provide and that providing a full set of financials is not necessary.

Responsible Party

Espie Garcia, Administrative Analyst
Jeff Schultes, Assistant Director of Aviation, Administration

Implementation Date

July 15, 2010

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Finding 2

Landing Fees

We could not determine if Cutter Aviation was using the correct certified maximum landing weights of an aircraft in order to correctly calculate the appropriate landing fees. Twenty-four out of 24 invoices reviewed, did not capture the maximum landing weights (or any weight) of the aircraft.

Chapter 14.24.030 – *Landing Fees* of the El Paso Municipal Code states each commercial air carrier operating under F.A.R. Parts 121 and 135 with aircraft exceeding sixty thousand pounds maximum gross landed weight shall pay airport landing fees equal to the number of thousands of pounds of the maximum gross landed weight of aircraft arrivals multiplied by the cost recovery rate set forth in the budget resolution approved by city council for the fiscal year in which the landings occurred.

In tabulating weights, the weights of each aircraft shall be the certified maximum gross landing weight as computed by the manufacturer and the Federal Aviation Administration.

Recommendation

We recommend that Airport Management ensure that Cutter Aviation adheres to the FBO Lease Agreement and utilize the certified maximum landing weights as required by Municipal Code.

Management's Response

The form which is used by the FBOs to report their monthly activity will be revised to ensure sufficient detail is provided as per Title 14. The form will be in place by 9/1/2010. Cutter and Airport management have agreed to use the Burns & McDonnell's Aircraft Characteristics book as the standard for determining the manufacturer's gross landed weight.

Responsible Party

Espie Garcia, Administrative Analyst
Jeff Schultes, Assistant Director of Aviation, Administration

Implementation Date

September 1 , 2010

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Finding 3

Sublease Approval

Cutter Aviation did not obtain the Airport's pre-approval before entering into five of nine subleases of the premises it leases from the Airport during the review period of FY 2009.

The five subtenants that did not have prior approval from the Airport to sublease Cutter's premises during the FY 2009 review period were:

1. Midwest Aviation
2. Elite Medical Transport – lease approved by City Council on May 11, 2010
3. Med Flight Air Ambulance – lease approved by City Council on May 11, 2010
4. MacNaughtan Development
5. IFL Group

Section 10.06 – Subleasing of the Fixed Based Operators Lease and Operating Agreement states that the lessee (Cutter Aviation) shall not sublease any part of the premises without the prior written approval from the Airport. Any subleasing without the consent of the Airport would cause the lease to be void. Any approved subleasing would be for the same purposes permitted under the contract and subject to the same conditions set forth.

Recommendation

We recommend that Airport Management and appropriate Cutter Aviation personnel ensure that all of Cutter's sublessees have proper approval on file as required by the Fixed Based Operators Lease and Operating Agreement.

Management's Response

Airport Properties Administrative Analyst will request from Cutter a listing of all subleases to compare with the subleases on file, on a quarterly basis. Cutter management will be reminded via written correspondence that reporting of all subleases is part of the lease.

Responsible Party

Espie Garcia, Administrative Analyst
Jeff Schultes, Assistant Director of Aviation, Administration

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Finding 4

Insurance

It appears Cutter Aviation either allowed insurance policies to lapse or did not furnish copies of insurance policies to the Airport at least 10 days prior to their effective date.

In addition, it appears the insurance company providing coverage for worker's compensation does not have an A.M. Best financial rating of B+VII or better as required by the Fixed Based Operators Lease and Operating Agreement.

Section 6.04 of the FBO lease agreement requires that copies of insurance policies be delivered to the Airport at least 10 days prior to the effective date of the insurance policy. Section G of Chapter V within the *Minimum Standards and Requirements for Commercial Aeronautical Service Providers* states that the operator shall not cause or permit an insurance to lapse during the term of the agreement.

In addition, Section G of Chapter V within the *Minimum Standards and Requirements for Commercial Aeronautical Service Providers* states that the insurance companies providing insurance coverage have an A.M. Best rating of B+VII or better. We could not determine the financial strength of the insurance company providing worker's compensation coverage. The A.M. Best database could not locate a financial strength rating for the United States Aircraft Insurance Group which provides workers compensation coverage.

Recommendation

We recommend that Airport Management and appropriate Cutter Aviation personnel ensure that all the applicable insurance policies are provided to the Airport, are provided by the date required, and meet all the requirements on the lease agreement.

Management's Response

Properties data base will be utilized to run trace reports and monitor contract requirements. Cutter will be reminded 60 days prior to insurance expiration, via written correspondence, that current, valid insurance certificates are a contract requirement. Normally the insurance companies send out the certificate automatically and for those that are not received, the insurance company will be contacted to request that the airport receives the certificate automatically.

Responsible Party

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Jeff Schultes, Assistant Director of Aviation, Administration

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INHERENT LIMITATIONS

Because of the inherent limitations of Cutter Aviation's procedures and controls, subjective interpretation of the lease agreement, errors or irregularities may occur and not be detected. Also, projections of compliance with terms and conditions to future periods are subject to the risk that the FBO's procedures may become non-compliant due to changes in conditions or that the degree of compliance with the Fixed Based Operators Lease and Operating Agreement may deteriorate.

CONCLUSION

Based on the results of this audit, it appears there are several deficiencies in the adherence to the terms and conditions of the *Fixed Based Operators Lease and Operating Agreement* between the City of El Paso and Cutter Aviation in effect as of November 1, 2003. We recommend that appropriate Cutter Aviation personnel work in conjunction with Airport Management in order to address and correct the weaknesses and ensure future adherence to the lease terms and conditions.

We wish to thank Cutter Aviation management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP
Chief Internal Auditor

Signature on File
Miguel Montiel, CIA, CGAP
Auditor

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