

**Performance Audit:
Hartsfield-Jackson Atlanta
International Airport
Landing Fee
Billing and Collections**

July 2007

City Auditor's Office

City of Atlanta



CITY OF ATLANTA

City Auditor's Office
Leslie Ward, City Auditor
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Why We Did This Audit

We did this audit of the airport's landing fee billing and collections process because carriers self-report their landings and applicable fees with limited verification by the Department of Aviation. This collection system may allow for inaccurate and incomplete reporting, which could reduce the department's landing fee revenue collections.

What We Recommended

To ensure that landing fee billing and collections are complete, accurate, and timely, and assessed in accordance with Atlanta City Code, the Department of Aviation should:

- Renegotiate the airport use agreements to:
 - charge signatory carriers based on actual rather than scheduled landings;
 - allow late payment fees;
 - increase the signatory basic landing fee rate to cover operational and maintenance costs; and
 - structure fees so they can vary based on changes in cost.
- Invest in technology to automate landing fee invoicing if the department negotiates payment of signatory landing fees on actual landings.
- Ensure the new contract for the fixed base operator (FBO) includes performance provisions and assesses a penalty for late payments. The department should also establish a mechanism for monitoring the FBO's compliance with contract provisions.
- Propose a change in city code to establish a penalty for late payment of non-signatory landing fees.

For more information regarding this report, please contact Amanda Noble at 404.330.6750 or anoble@atlantaga.gov.

Performance Audit:

Airport Landing Fee Billing and Collections

What We Found

City code requires the Department of Aviation to collect landing fees on all aircraft operations at the airport. The department invoices carriers that have signed airport use agreements or airport use license agreements, called "signatory carriers," based on submitted schedules. The department invoices all other carriers, called "non-signatory carriers," based on self-reported actual landings. However, over half of the non-signatory carrier landings for a two-month period were not invoiced, resulting in uncollected fees of about \$98,700. In addition, Aviation did not invoice six signatory carriers operating at the airport for those two months, resulting in additional uncollected fees of up to \$32,850.

Aviation relies on non-signatory carriers to report their landings and on the fixed base operator (FBO) to collect fees from the carriers it serves. However, few non-signatory carriers actually report landings, and the department does not monitor the FBO. Failure to invoice the six signatory carriers appears to have resulted from ineffective communication between Aviation divisions and unclear billing relationships among carriers.

Aviation does not have adequate procedures to ensure timely billing and collections. Several invoices were issued about two months late, and most were paid late – some up to seven months. The department has not established late payment provisions to encourage prompt payment.

Aviation is investigating implementation of software to automate landing fee billings. Such software would improve controls over completeness, accuracy, and timeliness of billing while reducing administrative burdens on the department and carriers. Revenue recovered through the system should more than cover its cost.

The airport's landing fees are significantly lower than those of comparable airports. The basic landing fee for signatory carriers was locked by the initial airport use agreements and has remained unchanged since 1967. Consequently, the basic landing fee does not allow full recovery of airfield operations and maintenance expenses. The agreements expire in 2010, providing the department an opportunity to renegotiate fees and methods for billing landing fees for signatory carriers.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation:	1. The Department of Aviation should renegotiate the airport use agreements to: <ul style="list-style-type: none"> • Charge signatory carriers based on actual landings rather than scheduled landings; • Provide for assessing a fee for late payments; • Increase the signatory landing fee rate to cover the cost of airfield operations and maintenance; and • Structure fees such that the basic landing fee can vary based on changes in cost. 	
Department:	Department of Aviation	Agree
Response & Proposed Action:	A team has been assembled to prepare for the negotiations with the carriers on an agreement to replace the current Airport use agreement, which expires September 2010. The carriers have no incentive to negotiate a new agreement that would increase their rates and charges prior to the expiration of the existing agreements.	
Timeframe:	The new agreement will take effect upon the expiration of the current agreements on Sept. 20, 2010.	
Recommendation:	2. The Department of Aviation should invest in technology, such as the PASSUR Pulse modules or a system with equivalent functionality, to automate landing fee invoicing if the department negotiates payment of signatory landing fees on actual landings when the current airport use agreements expire.	
Department:	Department of Aviation	Disagree
Response & Proposed Action:	The Department of Aviation already has a system in place called Propworks for billing purposes. The PASSUR system will be evaluated for landing fee tracking. If this system does not meet our needs, the Department will, at the appropriate time evaluate other software with landing fee tracking functionality.	
Timeframe:	No response	
Recommendation:	3. The Department of Aviation should ensure the new contract for the fixed base operator includes performance provisions and assesses a penalty for late payments. The Department should also establish a mechanism for monitoring the operator's performance and compliance with contract provisions.	
Department:	Department of Aviation	Agree
Response & Proposed Action:	The bid for the new fixed base operator (FBO) includes performance measures and late fee provisions.	
Timeframe:	October 2007	
Recommendation:	4. The Department of Aviation should propose a change in the City Code to establish a penalty for late payment of non-signatory landing fees.	
Department:	Department of Aviation	Agree:
Response & Proposed Action:	Currently the City Code requires non-signatory landing fees to be paid at the time of landing. However, in circumstances where the landing fee is to be invoiced rather than collected at the time of landing, the Department plans to draft and introduce legislation to the Atlanta City Council that amends Article 22-87 (b) of the Atlanta City Code to impose a 10% per annum late fee on payments not received thirty (30) days after the City issues its invoices.	
Timeframe:	September 30, 2007	



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July 30, 2007

Honorable Mayor and Members of the City Council:

We conducted this audit of the airport's landing fee billing and collections process because of potential revenue risks. Carriers report their landings and applicable fees with limited verification by the Department of Aviation. This collection system may allow for inaccurate and incomplete reporting, which could reduce the department's landing fee revenue.

City code requires the Department of Aviation to collect landing fees on all aircraft operations at the airport. However, over half of non-signatory carrier landings and some signatory carrier landings for a two-month period were not invoiced by the department – amounting to uncollected fees of about \$131,500. The department disagreed with our characterization of the uncollected amount as “revenue loss” because a large portion of the landing fee collected from non-signatory carriers is applied as a credit to the amount due from signatory carriers to pay for specific airport improvements. As a result, a significant amount of the uncollected fees due from non-signatory carriers is subsequently collected from signatory carriers (see Appendix). We revised our report accordingly but note that the department is responsible for accurate billing and collection.

We made recommendations intended to ensure that landing fee billing and collections are complete, accurate, and timely, and assessed in accordance with Atlanta City Code. The Department of Aviation agreed with three of the four recommendations. The department disagrees with our recommendation to invest in technology to automate billing, but states it will use technology to track landings for use as the basis for landing fee billings. The department's specific responses to the recommendations are included in the report on the previous page, and additional comments are appended.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city

staff throughout the audit. The team for this project was Jeremy Weber, Dawn Williams, Eric Palmer, and George Peoples.

A handwritten signature in black ink, appearing to read "Leslie Ward". The signature is fluid and cursive, with the first name being more prominent.

Leslie Ward
City Auditor

A handwritten signature in black ink, appearing to read "Donald Penovi". The signature is cursive and somewhat stylized, with a large initial "D".

Donald Penovi
Audit Committee Member

Landing Fee Billing and Collections

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Introduction

We conducted this performance audit of the Hartsfield-Jackson Atlanta International Airport landing fee billing and collections pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office, and outlines the City Auditor's Office primary duties.

A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.¹

We undertook this audit because carriers self-report their landings and applicable fees with limited verification by the Department of Aviation. This collection system may allow for the inaccurate and incomplete reporting of aircraft landings, which could reduce the department's landing fee revenue collections. We started to audit landing fee collections in 2002. However, we stopped working on the project due to staff turnover and reassignment of staff to higher risk and more time-sensitive audits. We resumed work on the audit and updated our scope and analysis in November 2006.

Background

Landing fees at the Hartsfield-Jackson Atlanta International Airport (HJAIA) are assessed on aircraft operations in order to pay for airfield operations, maintenance, and improvements. Fees are based on the number of aircraft landings and weights. In recent years, annual landing fee revenue has averaged \$26 million, about 10% of annual operating revenue.

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington, DC: U.S. Government Accountability Office, 2003, p. 21.

Aviation collects two types of landing fees: basic and airfield improvement program (AIP). Basic landing fees are used to pay the costs of operating and maintaining the airfield's runways, taxiways, and other facilities. AIP landing fees are used to pay debt service on airfield capital improvement projects.

All carriers pay basic and AIP landing fees, but fee calculations and rates differ depending on whether a carrier is signatory or non-signatory. Any passenger or cargo carrier that has signed an airport use or airport use license agreement is considered signatory. The first agreements were executed in 1967, but they all expire in 2010. Carriers that have signed the airport use agreement pay separate basic and AIP fees each month. The basic fee is calculated at a rate of \$0.16 per 1,000 pounds of maximum certified gross landing weight for all scheduled aircraft landings. The AIP landing fees for these carriers are fixed fees based on debt service requirements for each airfield improvement project and scheduled landings for the prior year. The AIP landing fees are adjusted each May and are in effect through the following April. As of May 2006, the total landing fee paid by signatory carriers was \$0.46539 per 1,000 pounds of the maximum certified gross landing weight (see Exhibit 1).

EXHIBIT 1
SIGNATORY CARRIERS LANDING FEES
(AS OF MAY 2006)

Landing Fee	Rate per 1000 lbs.
Basic Landing Fee	0.16000
AIP No. 1	Retired
AIP No. 2	0.15087
AIP No. 3	0.02188
AIP No. 4	0.00409
AIP No. 5	0.07553
AIP No. 6	0.00920
AIP No. 7	0.02905
AIP No. 8	0.00937
AIP No. 9	0.00461
AIP No. 10	0.00079
TOTAL	0.46539

Source: Accounts receivable's records.

Carriers that have signed the airport use license agreement pay a combined basic and AIP landing fee on all scheduled landings. Although the rates are the same for all signatory carriers, these carriers pay AIP landing fees on current scheduled landings rather than fixed amounts based on prior landings.

Non-signatory carriers pay a combined basic and AIP landing fee on all aircraft landings. The non-signatory landing fee rate is periodically adjusted through city legislation. The current rate is \$1.52 per 1,000 pounds of the maximum certified gross landing weight.

A portion of the non-signatory landing fees is collected by the airport's fixed base operator (FBO), Mercury Air Centers, Inc. Mercury Air Centers purchased the FBO lease from the previous incumbent in 1996. Per its contract, the FBO is required to collect landing fees from the aircraft they service. They retain 15 percent of the gross landing fees collected to defray expenses. The lease expired in March 2002. Since then, Mercury Air Centers has continued to operate the FBO on a month-to-month lease under the terms of the expired contract. The department is in the process of procuring fixed base operator services under a new contract.

Audit Objectives

The audit addresses whether the basic landing fees are paid in accordance with existing agreements and ordinances, and the reasonableness of the landing fee rates currently in effect. This report answers the following questions:

- Are aircraft operators accurately reporting their aircraft landings and weights to the department?
- Does the department have effective procedures to verify the accuracy and completeness of the information, and ensure the timely collection of applicable fees?
- How do the Hartsfield-Jackson Atlanta International Airport landing fees compare with those of the largest U.S. airports?

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards. The audit scope was from November 2005 through October 2006. We conducted our audit fieldwork from November 2006 through April 2007. Our audit methods included:

- interviewing responsible department personnel to obtain updated information on the applicable landing fees,
- reviewing department controls over landing fee billing and collections,
- comparing a random sample of scheduled signatory landings to actual landings recorded in the Operations Division's aircraft tracking system to assess how well scheduled landings reflect actual landings,
- comparing total invoiced landings to actual landings for signatory and non-signatory landings for a two-month period using data recorded in the Operations Division's aircraft tracking system,
- verifying carrier-reported aircraft weights for a random sample of signatory landing fee invoices and all non-signatory landing fee invoices,
- verifying carrier-reported aircraft landings for all non-signatory landing fee invoices, and
- comparing Atlanta's landing fees with five other U.S. airports.

Findings and Analysis

Aviation Lacks Procedures to Ensure That Landing Fee Collections are Complete, Accurate, and Timely

Aviation does not ensure that landing fee collections are complete, accurate, or timely. The department has no systematic processes for identifying all landings and carriers that should be billed. As a result, more than half of non-signatory landings and six signatory carriers in the two months we reviewed were not invoiced – amounting to about \$131,500 in uncollected fees.

The Department of Aviation relies on carrier-reported information to assess landing fees but does not verify the accuracy of the information reported. According to department personnel, they lack the resources and methods to verify what the carriers report. Carriers generally reported accurate weight and landing data on the sample invoices we were able to test. However, we could not test about a quarter of the sample because the department did not have supporting documentation on file.

The department does not have adequate procedures to ensure timely invoices and prompt payment. As a result, invoices are often issued late and almost always paid late, with some payments up to seven months late. The department has not established late payment provisions to encourage carriers to pay promptly.

Aviation is investigating the feasibility of implementing software to automate landing fee billings. Based on our analysis, the system would improve controls over completeness, accuracy, and timeliness of billing while reducing administrative burdens on Aviation and the carriers operating at the airport. The revenue recovered due to the system implementation should cover the cost of the software.

We recommend the Department of Aviation implement the software system, or one with similar capabilities, as it negotiates the new airport use agreements. We also recommend the department negotiate to charge signatory carriers based on actual landings rather than scheduled landings and to provide for assessing a fee for late payments. Similarly, the department should ensure that the new contract for the fixed base operator includes performance provisions,

assesses a penalty for late payments, and establishes a mechanism for monitoring the operator's performance and compliance with contract provisions. Finally, the department should propose a change in city code for council consideration that would assess a late fee on other non-signatory carriers that pay landing fees late.

Aviation Does Not Collect Landing Fees from All Aircraft Landing at the Airport

City code section 22-87(a) states:

Landing fees shall be assessed on all aircraft operations at the airport. The landing fees shall be payable to the city, or its duly authorized representative, immediately upon landing at the airport unless other arrangements have been made with the city in writing.

Although city code requires the department to collect landing fees for all aircraft landing at the airport, it does not have a process to collect landing fees from non-signatory carriers not serviced by the FBO. The department failed to invoice more than half of non-signatory landings in the two months we reviewed, resulting in uncollected fees of about \$98,700.

Under the airport use agreements, the department bills signatory carriers for scheduled landings. However, six signatory carriers with over 1,700 actual landings were not billed for any scheduled landings in the months we reviewed, resulting in uncollected fees of up to \$32,850.

Aviation is required to collect landing fees for all aircraft landing at the airport. The Atlanta city code requires the department to assess landing fees on all aircraft operations landing at Hartsfield-Jackson Atlanta International. Per city code, the airport collects all landing fees upon arrival unless other arrangements have been made with the carriers in writing.

Aviation does not have a process to collect landing fees from non-signatory carriers. The department does not have agreements with non-signatory carriers to establish reporting and payment processes and does not collect landing fees upon arrival. Moreover, the department does not provide accounts receivable with information on landings that could be used to invoice non-signatory carriers. In the absence of any agreements or landing information, the department relies on the individual carriers to report their landings to accounts receivable and the airport's FBO to collect landing fees from carriers it services. Non-signatory carriers that do not report their landings to the department, and are not serviced by the FBO – such as some charter flights – are not invoiced.

More than half of non-signatory aircraft landings were not invoiced. Aviation loses a substantial portion of non-signatory landing fee revenue because it lacks a process to collect landing fees from the non-signatory carriers that are not serviced by the FBO. We compared the number of billed aircraft landings to actual landings for August and September 2006 using data on actual landings obtained from the Operations Division. The department failed to bill approximately 56% of non-signatory landings for these two months, resulting in an estimated \$98,700 of uncollected fees (see Exhibit 2).

EXHIBIT 2
COMPARISON OF ACTUAL VS. BILLED NON-SIGNATORY LANDINGS
(AUGUST AND SEPTEMBER 2006)

Non-Signatory Carriers	Actual (A)	Billed (B)	Difference (A-B)	Percent Difference	Estimated Uncollected Fees
August Landings	2,126	929	1,197	56.3%	\$48,532
September Landings	2,083	917	1,166	56.0%	\$50,204
Total	4,209	1,846	2,363	56.1%	\$98,736

Source: Accounts receivable files; data archives from the Operations Division's aircraft tracking system.

Note: We estimated uncollected fees by multiplying the number of uninvoiced landings by an average landing fee based on the average landed weight recorded in the data source. We used the \$0.95 landing fee in effect during the audit period. However, because the department credits most of the landing fee paid by non-signatory carriers against the amount owed by signatory carriers, a significant portion of the uncollected amount is subsequently collected from signatory carriers.

City Code Section 2 –1268, Contact Administration states:

The Chief Procurement Officer, along with the assistance of the using agency and other appropriate city agencies, shall establish standards for a contract administration system design to ensure that a contractor is performing in accordance with the solicitation under which the contract is awarded and the terms and conditions of the contract.

Of the 1,846 billed landings, the department collected payments for 98, and the FBO collected payments for 1,748. More than 2,300 landings were not billed, suggesting that a significant number of non-signatory carriers not serviced by the FBO are not invoiced by the department, or that the FBO is not collecting and/or remitting landing fees from all carriers it services. According to aviation personnel in the Properties Division, the department does not monitor the FBO as required by city code. Without complete information about the identity of non-signatory carriers landing at the airport, the department cannot collect all the non-signatory landing fees.

To ensure that it receives all the revenue from the FBO to which it is entitled, the Department of Aviation should perform periodic reviews of the fixed base operator to ensure compliance with the existing provisions of the contract.

Aviation did not invoice all signatory carriers with aircraft landings. Signatory carriers are billed on scheduled landings under the airport use and airport use license agreements. However, a comparison of invoiced to actual landings for August and September 2006 showed the department did not invoice any landings for six signatory carriers operating at the airport. These six carriers landed 1,717 times. Assuming all 1,717 flights had been reported as scheduled landings, the department could have collected an additional \$32,850 for the two months.² The department's failure to invoice these carriers appears to be a result of:

- *Ineffective communication between divisions.* Accounts receivable updates its list of signatory and non-signatory carriers based on information it receives from Property Management. However, of the six signatory carriers not invoiced, three were not on accounts receivable's list of signatory carriers to be invoiced, two were believed by accounts receivable to be no longer flying to the airport, and one was invoiced for a subsidiary's landings but not its own.
- *Unclear billing relationships.* Some signatory carriers pay for their subsidiaries' or partners' landings. Accounts receivable is aware of some of these relationships, but may not be aware of others. For example, US Airways was invoiced for over 500 landings in both August and September 2006. However, according to actual landing flight data, the company landed zero times in August and 47 times in September. These figures imply that they may be paying for a subsidiary's or partner's landings, but accounts receivable personnel could not confirm this conclusion.

² We estimated revenue loss by multiplying the number of unbilled landings by an average landing fee based on the average landed weight recorded in the data source.

Aviation Relies on Unverified Information to Assess Landing Fees

The Department of Aviation calculates landing fees owed based on information carriers report to the Accounts Receivable Division. However, the division does not verify the accuracy of the information received. According to division personnel, they lack the resources and methods to independently verify what the carriers report. While carriers generally reported accurate weight and landing data on the sample invoices we were able to test, we were unable to test about a quarter of the sample because the department did not have supporting documentation on file.

Aviation relies on an honor system. Signatory and non-signatory carriers submit aircraft model, weight, and landing data on a monthly basis, which is used by the department to issue invoices. As required by the airport use agreement, signatory carriers submit data on scheduled landings for the current month. Although they are not bound by an agreement with the airport, some non-signatory carriers submit data on actual landings for the preceding month. Without this information, the department cannot invoice a carrier.

Aviation does not verify the accuracy of carrier-reported information. Accounts receivable staff members told us that they look for discrepancies in aircraft types and weights on a month-to-month basis, but do not verify the information submitted against independent data sources. Department personnel told us that the division does not have the resources available to verify the accuracy of air carrier-reported information.

Verifying the accuracy of carrier-reported data is not feasible with current resources. We agree that verifying carrier-reported data is not practical under the current billing and collection system. Obtaining reliable sources of weight data is difficult, because there does not appear to be a single comprehensive source of FAA-certified maximum landing weights. We used five different sources to verify the accuracy of reported weights during the scope of our audit. We identified some inconsistencies among the five sources, and in some cases the detail provided was not sufficient to confirm the weight of a particular type of aircraft.

Obtaining data on the number of actual landings is also difficult, because it is not readily accessible. Although the department's

Operations Division has been using a software system to track aircraft landings, the department does not have the full version of the software, which would enable the Accounts Receivable Division to verify both landings and weights. Operations provided us with access to the current software system to verify the accuracy of the landings reported during the scope of our audit.

Although our testing was limited by lack of documentation, carriers generally reported accurate weight and landing data in the invoices we could test. We requested a sample of 50 signatory and all 62 non-signatory invoices issued during our audit scope. Accounts receivable personnel were unable to provide any supporting documentation for 1 signatory invoice and 24 non-signatory invoices on file.

Accounts receivable personnel said that they did not have supporting documentation on file for the following reasons:

- carriers do not always submit the required documentation,
- landing fee information may be reported orally and not documented, and
- aviation may have misplaced or misfiled this information.

Of the invoices we could test, carriers generally reported accurate weight and landing data. We tested the signatory invoice sample to determine if they reported accurate weights. We also tested the non-signatory invoices to determine if they reported accurate weight and landing data. Some of the weights and landings were not supported by our data sources. However, these differences did not have a significant impact, less than 0.2%, on landing fee revenues.

Aviation Does Not Manage the Timeliness of Landing Fee Billing and Collections

Aviation does not have adequate procedures to ensure the timeliness of invoice issuance and payment collection. As a result, invoices are often issued late and almost always paid late. In addition, the airport use agreements and the fixed base operator contract do not include any provision to charge late fees for late payments. Consequently, Aviation loses potential revenue on invoices that would be subject to such provisions.

Aviation has ineffective procedures for billing carriers in a timely manner. Accounts receivable personnel said they typically issue invoices to carriers between the 5th and the 15th of the month. Signatory carriers are invoiced on scheduled landings for the current month, while non-signatory carriers are invoiced on actual landings for the preceding month. Seven of the 50 signatory invoices we reviewed were issued one to three months late, and 31 of the 62 non-signatory invoices we reviewed were issued about two months late, on average. Timely billing depends on receiving the carrier-reported landing data. However, there is no written requirement that carrier-reported information be submitted to the Department of Aviation by a certain time.

Aviation does not enforce prompt payment of landing fees billed by the department. The airport use agreements require signatory carriers to pay the city by the 15th day of the month or within 10 days of being invoiced, whichever may be later. Under its contract, the FBO must remit landing fee payments by the 15th day of each month, covering the operations of the preceding month. The department has no specific payment provisions for non-signatory carriers directly invoiced by the department. The majority of invoices we tested were paid late (see Exhibit 3).

EXHIBIT 3

LATE INVOICE PAYMENTS BY CARRIERS AND THE FBO

Invoice	Number of Invoices Tested	Number of Invoices Paid Late	Average No. of Days Late	Range of Days Late
Signatory	41	40	27	2 - 126
Non-Signatory	48	37	58	1 - 227
Fixed Base Operator	12	7	3.5	1 - 19

Source: Accounts receivable's invoice files, oracle reports, and applied receipts register.

Note: Lateness is measured by the number of days an invoice was paid after the due date. The due date for signatory carriers is the 15th day of each month or within 10 days of being invoiced. The due date for FBO remittances is the 15th day of each month following the period covered by the invoice. Since there is no established due date for non-signatory carriers, we used the 30th day of each month following the period covered by the invoice.

Aviation could improve payment timeliness by imposing late payment fees. Despite specific payment provisions in the airport use agreement and FBO contract, the department has not included penalties for late payments in either agreement. According to accounts receivable personnel, aviation has a general policy of charging 10% on late payments, based on the airport lease agreements with signatory carriers. However, department staff told us it is not enforceable until the city's new Oracle system goes live.

The Department of Aviation should include a late payment provision in both the airport use agreement when it is renegotiated in 2010 and the FBO contract when it is re-bid. The Department of Aviation should also propose a change in city code to establish a penalty for late payment of non-signatory landing fees. These provisions should ensure that all landing fee revenue is received in a timely manner and may increase revenue collected.

Technology Could Improve the Completeness and Accuracy of Billing Data

While city code requires Aviation to assess landing fees on all aircraft landing at the airport, the current process has not captured all landings. The department should use technology to automate collection of billing data. The additional revenue generated from investing in software should more than cover its cost, while reducing administrative burdens on Aviation and the carriers operating at the airport.

Billing all carriers on actual landings is feasible with tracking software. The department currently assesses fees on signatory carriers based on scheduled rather than actual landings. Presumably when the department negotiated the airport use agreement in 1967, it was easier to base billing on schedules rather than actual landings. With the aircraft tracking systems now available, it would not be difficult to bill carriers for their actual landings and would eliminate the need for carriers to submit schedules or other documentation. Department officials told us that most other major U.S. airports bill signatory carriers on actual landings and use aircraft tracking systems to capture billing data. We recommend the department negotiate to change the basis of landing fee billings from scheduled to actual landings when it negotiates the new airport use agreement.

Aviation is investigating use of software to collect billing data. The department's Operations Division currently uses a basic version of a software system called PASSUR Pulse to track aircraft operations at the airport. The department's Finance Division is researching the possibility of implementing the full version of this system to manage landing fee billing. The full version provides access to independent data on aircraft landings and automates invoicing. The system would compile real-time information on aircraft landing at the airport to ensure completeness, provide a source of data to verify aircraft weights to ensure accuracy, eliminate reliance on carrier-reported information, allow accounts receivable to focus on timeliness of collections, and reduce administrative burden on carriers.

Capture of lost revenue should cover the cost of an automated system. The additional revenue acquired from implementing such a system should cover its cost. A company representative gave us a ballpark estimate that implementing two additional modules (audit and billing) would cost a one time fee of about \$25,000 and approximately \$7,000 per month. These figures do not represent an actual offer. We estimate uncollected basic fees of about \$27,000 in the two months we reviewed, which should cover the probable costs of implementing a system.

We recommend the Department of Aviation negotiate with signatory carriers to start assessing landing fees on actual rather than scheduled landings when the current agreement expires in 2010. We also recommend the department implement PASSUR Pulse or a system with equivalent functionality to ensure that the benefits of this change are achieved.

Atlanta's Landing Fees are Significantly Lower Than Comparable U.S. Airports' Fees

Hartsfield-Jackson Atlanta International Airport's landing fees are significantly lower than those of comparable airports. The fees charged do not allow the airport to recover the cost of airfield operations and maintenance. As a result, the department must rely on other revenue sources to subsidize airfield costs.

Comparable airports charge higher fees. Atlanta's landing fees are significantly lower than those of five of the nation's busiest airports (see Exhibit 4). We compared Atlanta's landing fees with those charged by airports with comparable passenger enplanements. With the exception of Las Vegas McCarran, the other airports charge between \$2.38 and \$4.59 for signatory/permitted aircraft, and between \$2.98 and \$5.77 for non-signatory/non-permitted aircraft.

EXHIBIT 4
COMPARISON OF AIRPORT LANDING FEES
(RATE PER 1,000 LBS.)

Airport	2005 Passenger Enplanements	Signatory/ Permitted/ Permittee	Non-Signatory/ Non-Permitted/ Non-Signatory Non-Permittee	Non-Signatory Permittee
Atlanta (ATL)	42,402,653	0.465 ³	0.950	
Chicago O'Hare (ORD)	36,720,005	2.631	3.289	
Los Angeles international (LAX)	29,372,272	2.380/2.690 ⁴	2.980/3.370 ⁵	
Dallas Fort-Worth (DFW)	28,079,147	4.290/4.590 ⁶	5.770	5.110
Las Vegas-McCarran (LAS)	21,402,676	1.230/1.630 ⁷		
Denver International (DEN)	20,799,886	3.225	3.870	

Source: Federal Aviation Administration website; research from airport websites.

Signatory landing fees have not changed since 1967, while non signatory landing fees have almost doubled since 1995.

The airport use agreements have locked the basic landing fee at \$0.16 cents per 1,000 lbs. of a plane's maximum landing weight since 1967. This agreement will expire in 2010, at which time the department can renegotiate a higher landing fee rate.

Non-Signatory landing fees are established by city code. The department has gradually increased these fees through legislation with the largest increase in December 2006 (see Exhibit 5).

³ The ATL signatory rate includes the .160 base fee plus the fees for AIP #2 through AIP #10.

⁴ The LAX permitted rate is 2.380 for cargo aircraft and 2.690 for passenger aircraft.

⁵ The LAX non-permitted rate is 2.980 for cargo aircraft and 3.370 for passenger aircraft.

⁶ The DFW signatory rate is 4.290 from 10/1/06 to 3/31/07 and 4.590 from 4/1/07 to 9/30/07.

⁷ The LAS permittee rate is an additional .400 for cargo operations.

EXHIBIT 5

LEGISLATIVE HISTORY OF NON-SIGNATORY LANDING FEES

Legislation	Date Council Adopted	Date Mayor Approved	Rate Increased From	Rate Increased To
95-O-1348	10/02/95	10/07/95	0.80	0.82
00-O-1888	1/02/01	1/08/01	0.82	0.89
02-O-0710	6/03/02	6/10/02	0.89	0.93
03-O-1330	9/15/03	9/23/03	0.93	0.95
06-O-2393	12/04/06	12/13/06	0.95	1.52

Source: Atlanta City Ordinances.

The basic landing fee does not cover the cost of airfield operations and maintenance. The Federal Aviation Administration “requires that fees for the use of the airfield and public-use roadways be established on the basis of costs.” According to the airport consultant, Leigh Fisher Associates, the current landing fees do not allow the full recovery of airfield operations and maintenance expenses. Aviation intends to negotiate for an increase in the basic signatory landing fee to reflect actual expenses when it renegotiates agreements.

Fee structure should reflect changes in cost. The Department of Aviation should negotiate an increase the signatory landing fee rate to cover the cost of airfield operations and maintenance when the renegotiating the airport use agreements. The negotiated agreement should allow for incremental increases based on the increased cost of airfield operations and maintenance expenses.

Although the city recently raised the non-signatory landing fee rate in December 2006, it is still markedly below comparable U.S. airports. Therefore, the Department of Aviation should consider requesting an increase in the non-signatory rate to reflect actual costs of airfield operations and maintenance.

Recommendations

The following recommendations are aimed at ensuring that landing fee billing and collections are complete, accurate, and timely, and assessed in accordance with Atlanta City Code. The Department of Aviation should:

1. Renegotiate the airport use agreements to:
 - charge signatory carriers based on actual landings rather than scheduled landings;
 - provide for assessing a fee for late payments;
 - increase the signatory landing fee rate to cover the cost of airfield operations and maintenance; and
 - structure fees such that the basic landing fee can vary based on changes in cost.
2. Invest in technology, such as the PASSUR Pulse modules or a system with equivalent functionality, to automate landing fee invoicing if the department negotiates payment of signatory landing fees on actual landings when the current airport use agreements expire.
3. Ensure the new contract for the fixed base operator includes performance provisions and assesses a penalty for late payments. The department should also establish a mechanism for monitoring the operator's performance and compliance with contract provisions.
4. Propose a change in city code to establish a penalty for late payment of non-signatory landing fees.

Appendix: Department of Aviation Response

Management Response
Landing Fees Billing and Collections Audit
City of Atlanta, Department of Aviation
June 2007

INTRODUCTION

The City's internal auditors conducted a performance audit of the landing fees billing and collections at ATL. The auditors' primary findings are that the DOA does not collect landing fees from all carriers that land at ATL and that the DOA has no formal mechanism in place to verify that all carriers that use ATL's airfield pay for such use via a landing fee. There is also some concern that the scheduled data being reported by the signatory carriers⁸ is understated, which illustrates the need to either: (1) implement a mechanism to validate the accuracy of the data the carriers are reporting to the DOA or (2) implement a system that eliminates the need for carriers to report schedules for billing purposes to the DOA.

In this management response to the audit, we will a) discuss some proposed policies that the Department is in the process of implementing as a result of the audit and b) respond to the audit's specific findings by describing the current signatory airline agreements, the Department's billing procedures and the difficulties raised by the mainline carriers' frequent changes to their use of regional carriers.

PROPOSED POLICIES

Signatory Passenger Air Carriers

Currently, the signatory passenger carriers self report their scheduled number of landings and aircraft type to the DOA at the beginning of the month (or sometime thereafter) and then the DOA invoices them the variable portion of their landing fee accordingly. It has now been found that these self-reports can be understated in terms of number of landings or incomplete in that they do not include all affiliated regional carriers that schedule their flights under a mainline carriers' schedule. Some of these regional carriers report separately to the DOA, but others do not, meaning they report through the mainline or not at all. Therefore to address this issue of inconsistent reporting as well as the underreported passenger carriers' landings, we propose to obtain the Official Airline Guide (OAG) data to use as the basis for invoicing the mainline carriers for all ATL scheduled flight activity. All passenger carriers report their scheduled activity to OAG beginning six months from date of flight and continually update the data on a weekly basis. DOA proposes to extract the data on the first business day of the month so that the invoices for that month's scheduled activity can be sent out by the 5th of the month. The passenger air carriers would no longer be required to report their scheduled landings to the DOA.

In order to achieve an established procedure, we will provide the carriers the option to decide whether they would prefer for the Department to; 1) invoice every carrier for the flights that they operate or 2) invoice the mainline carriers for both their own flights and the flights operated by their regional

⁸ Refers to all ATL carriers that have a signed an AUA or AULA.

carriers. Software available from Back Aviation Solutions that interfaces with OAG data would enable the Department to quickly prepare the invoices either way.

Signatory Cargo Air Carriers

Currently, these carriers are also self reporting their scheduled landings each month. However, they do not report their schedules to a third party source such as OAG. Therefore, we propose to either; (1) continue to use the self report data for invoicing purposes, but verify the data on a periodic basis by comparing it to the data extracted from the PASSUR Pulse Operations report or (2) use the prior month's actual landings as obtained from the Pulse Operations report as the current month's schedule for invoicing purposes.

Non-Signatory Carriers

Per the City Code, these carriers are required to pay the non-signatory landing fee upon arrival. To ensure that the DOA is adhering to the code, we propose that the following parties collect the landing fee directly from the non-signatory carrier upon arrival:

- a) Non-signatory passenger landing fees are to be collected by TBI.
- b) Non-signatory cargo landing fees are to be collected by the DOA Airside Operations staff person who is equipped to accept credit cards.
- c) All other non-signatory landing fees (e.g., sports teams charters and corporate jets) are to be collected by the FBO—usually the handling agent for such operations.

RESPONSES TO FINDINGS

Finding: Aviation does not have a process to collect landing fees from non-signatory carriers. (pg 6)

Response: Albeit weak, the Department does have some procedures in place to collect landing fees from these carriers. The Airfield Operations Division records the cargo carriers' ramp parking activity for invoicing purposes for cargo carriers that do not have exclusive rights to use cargo apron space. These reports are also to be used for invoicing the non-signatory cargo carriers landing fees, however there was some confusion as to which carriers are signatory, but that situation has been rectified. The Department has already taken steps to enforce the collection of landing fees at the time of landing for non-signatory passenger carriers not serviced by the FBO. In addition, the Department will implement procedures to periodically verify the carriers' landing activities by using information from the PASSUR system.

Finding: **More than half of non-signatory aircraft landings were not invoiced... resulting in a revenue loss of \$98,700 (pg 7)**

Response: We disagree with the revenue loss amount stated above because the Department is only losing the basic landing fee of \$0.16 per thousand pound unit. Except for the basic landing fee, all of the non-signatory landing fees received by the DOA are credited against the AIP portion of the landing fee amount paid by the signatory carriers. Therefore, the actual revenue loss resulting from the under collection of non-signatory landing fees is approximately \$16,600 (\$.016 per thousand pounds) rather than \$98,700 (\$0.95 per thousand pounds). As noted above, the Department has already taken steps to ensure landing revenues are collected from the non-signatory airlines by requiring them to pay upon landing.

The chart below summarizes the components of the landing fees charged to the various types of ATL airfield users.

Landing Fee Type	Signatory Air Carriers		Non-signatory Air Carriers
	Treatment under AUA	Treatment under AULA	
AIP (capital costs)	<u>FIXED</u> amount based on Lease Year (LY) calculation except for a portion of AIP #2, which is based on a Calendar Year calculation. AUA carrier is invoiced the same amount for 12 months during the LY.	Represents a component in the singular landing fee charged to the AULA carrier. This landing fee amount is charged to each AULA carrier based on its <u>SCHEDULED</u> landed weight for the month.	A landing fee rate approved by City Council and charged based on the non-signatory carrier's <u>ACTUAL</u> landed weight at time of landing.
Basic (O&M costs) [\$0.16 per 1,000 pound unit]	Charged to each AUA based charged based on the carrier's <u>SCHEDULED</u> landed weight for the month.	Represents another component in the AULA landing fee rate. Again it is charged to each AULA carrier based on its <u>SCHEDULED</u> landed weight for the month.	

Finding: **Aviation did not invoice six signatory carriers in August and September 2006 with aircraft landings. (pg 7)**

Response: A review of our records shows that two of the carriers were billed through their mainline airline: Air Wisconsin was included with US Airways landing activity; Chautauqua was included with Continental. As previously stated, there are many inconsistencies in the reporting of regional jets landing by the mainline carriers which complicate the billing of landing fees between the mainline and regional jets. The Department is taking steps to improve the consistency in landing fee reporting between the mainline and the regional jets. As was previously discussed, the Department proposes to use the scheduled flight data submitted by the carriers to OAG to prepare invoices.

Finding: **Aviation Relies on Unverified Information to Assess Landing Fees (pg 8)**

Response: Neither the Airport Use Agreement or the Airport Use License Agreement requires verification of the landing data. However, the Department agrees with the auditors' recommendation and has taken steps to use the OAG data for invoicing passenger carriers and the PASSUR system for verification and/or invoicing cargo carriers.

Finding: **Although our testing was limited by lack of documentation, carriers generally reported accurate weight and landing data in the invoices we could test. (pg 9)**

Response: The Department concurs with the differences in reporting accurate weight and landing data the auditors findings were not material (0.2% of landing revenues). However, the Department will use independent data sources for validation as outlined above.

Finding: **Aviation Does Not Manage the Timeliness of Landing Fee Billing and Collections (pg 10)**

Response: The Department has begun to take steps to improve the timeliness of landing fee billings and collections by implementing the following procedures:

- a. Require non-signatory carriers to pay upon landing.
- b. Introduce legislation to impose late fee payment for non-signatory carriers in circumstances where the fee is invoiced.
- c. Use the OAG data as of the first day of the month to generate invoices rather than wait for carriers to self report.
- d. Enforce the City code by preparing invoices within the required deadline.

Finding: **Aviation could improve payment timeliness by imposing late payment fees. (pg 11)**

Response: The Department intends to include late payment provisions in both the airfield use agreement when it is renegotiated in 2010 and in the FBO contract when it is re-bid. Also the Department will implement late payment procedures as outlined above.

Finding: **Technology Could Improve the Completeness and Accuracy of Billing Data (pg 11)**

Response: Management supports the recommendation of investing in technology to enhance efficiency. However, management has no intention of using PASSUR or a billing system that is not compatible or does not integrate seamlessly with Oracle Financials. The Department already has software (Propworks) that integrates seamlessly with Oracle Financials. The Department will use the OAG data from Back Aviation Solutions software to generate the schedules upon which the passenger carriers' invoices will be based. The Department will use the PASSUR system to verify submitted cargo schedules, but not use it for billing purposes.