



# **OFFICE OF THE AUDITOR**

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**DEPARTMENT OF AVIATION  
AMERICA WEST AIRLINES, INC.  
REVENUE AND CONTRACT COMPLIANCE AUDIT  
FEBRUARY 2005**

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*Dennis J. Gallagher  
Auditor*



# City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247  
www.denvergov.org/auditor

*Dennis J. Gallagher*  
Auditor

February 2, 2005

Ms. Vicki Braunagel, and  
Mr. Turner West, Co-Managers  
Department of Aviation  
City and County of Denver

Ms. Anita Diesen, Senior Manager  
Corporate Real Estate  
America West Airlines, Inc.  
4000 East Sky Harbor Blvd.  
Phoenix, AZ 85034

Dear Ms. Braunagel, Mr. West and Ms. Diesen:

Attached is the Auditor's Office Internal Audit Division's report of their revenue and contract compliance audit of the America West Airlines, Inc. Airport Use and Facilities Agreement dated July 12, 2000, and Air Cargo Facilities Lease Agreement dated July 25, 2001, for operations at Denver International Airport. The audit period was for the year ended December 31, 2002. The purpose of our audit was to determine whether America West Airlines, Inc. and the City and County of Denver complied with the terms of the contracts and whether internal controls in place were adequate under the circumstances.

We found an instance of non-compliance with certain sections of the contracts as described in the Internal Audit Division's report.

If you have any questions, please call Mike Clark, Director of Internal Audit at 720-913-5029.

Sincerely,

Dennis J. Gallagher  
Auditor

DJG/kh

cc: Honorable John W. Hickenlooper, Mayor  
Honorable Members of City Council  
Members of Audit Committee  
Cole Finegan, City Attorney  
John Bennett, City Council Staff Director  
Stan Koniz, Assistant Deputy Manager of Aviation/Finance  
Sharon Shannon, Audit Supervisor

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## TABLE OF CONTENTS

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Transmittal Letter	1
Table of Contents	2
Internal Auditor's Report	3
Executive Summary	5
Background, Scope, Objective, and Methodology	6
Finding, Recommendation, and Response	8
Schedule of Amounts Due and Paid and Related Notes	9



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Auditor

## INTERNAL AUDITOR'S REPORT

We have completed a revenue and contract compliance audit of the Airport Use and Facilities Lease Agreement (Agreement) dated July 12, 2000, and the Airline Cargo Facilities Lease Agreement (Agreement) dated July 25, 2001, between America West Airlines, Inc. and the City and County of Denver. The purpose of this audit was to determine whether the accompanying Schedule of Amounts Due and Paid for the year ended December 31, 2002 is fairly presented in accordance with the contracts. We also determined whether America West Airlines, Inc. and the Department of Aviation complied with various other terms and conditions of the contracts, City rules and regulations, and whether internal controls were adequate in the circumstances. This audit was included in the Auditor's Office Internal Audit Division's 2003 Annual Audit Plan, and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, §5.2.1, and the Agreements.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Amounts Due and Paid is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule.

As of the date of our report, America West Airlines, Inc. had not complied with Section 158.69 of the Code of Federal Regulations, which requires the air carrier to provide for an annual audit of its passenger facility charges (PFC) for the year 2002 by an accredited independent public accountant. The scope of our audit was limited because we were unable to review such report. Also, this audit of America West Airlines, Inc. was begun on August 22, 2003 and was substantially completed on October 27, 2003. However, issuance of this report was delayed due to changes in the work priorities of audit staff.

Our conclusion from the audit was that as a result of not being able to review the annual PFC report, as mentioned in the preceding paragraph, we were unable to determine if the independent auditor concluded that the report was fairly presented, and if the PFC amounts and compensation withheld were calculated properly. We did not identify any other significant reportable conditions.

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America West Airlines, Inc.

We extend our appreciation to all personnel who assisted and cooperated with us during the course of our examination.

Internal Audit Division

A handwritten signature in black ink that reads "Michael Clark". The signature is written in a cursive style.

Michael Clark, CPA  
Director of Internal Audit

Date: February 2, 2005

Staff: Dick Wibbens, CPA, Audit Manager  
Stan Wilmer, CPA, Audit Supervisor  
Andrew Martinez Jr., CPA, Lead Auditor

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**AMERICA WEST AIRLINES, INC.**  
**EXECUTIVE SUMMARY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

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This summary highlights the finding of the revenue and contract compliance audit, as described in the Finding, Recommendation, and Response section beginning on page 8. The Finding, Recommendation, and Response section also includes the response of the Department of Aviation. America West Airlines, Inc. chose not to respond.

**1. Passenger Facility Charges**

America West Airlines Inc. did not comply with Section 158.69 of the Code of Federal Regulations for the year ended December 31, 2002, which requires the air carrier to provide an annual audit of its passenger facility charges accounts by an accredited independent public accountant. These audits should be filed in a timely manner and should normally coincide with the carrier's fiscal year and annual corporate audit cycle.

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**AMERICA WEST AIRLINES, INC.**  
**BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

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**Background**

America West Airlines, Inc. (America West) is a major air carrier providing scheduled air transportation for passengers and airfreight over a network of routes throughout the United States and abroad. America West generates approximately 1.6% of the total passenger airline traffic and 0.3% of the total cargo market at Denver International Airport (DIA). Revenue paid by America West to the City is determined in accordance with the Airport Use and Facilities Lease Agreement dated July 12, 2000, Supplemental Baggage System Agreement Dated March 10, 1997, Airline Cargo Facilities Lease Agreement dated July 25, 2001, and the Denver Municipal Airport System Rules and Regulations (DMASR&R).

The Airport Use and Facilities Lease Agreement details the airfield area facilities and the space exclusively used by America West in the main terminal and Concourse C at DIA. The rental rate fees and other charges are established in accordance with the cost-accounting concepts and ratemaking procedures described in Exhibit F of the contract.

The Supplemental Baggage System Agreement provides for the operation and maintenance of the baggage system used by America West at DIA. America West pays a pro rata share of the operation and maintenance costs based on the number of originating and destination passengers America West handles at DIA.

The Airline Cargo Facilities Lease Agreement provides for the operation and use of DIA's cargo facilities and ramp by America West. The rental rates, fees and charges are established in accordance with the cost-accounting concepts and ratemaking procedures in the DMASR&R.

**Scope**

Our audit of America West at DIA (PeopleSoft fund 73800/org 6000000) was for the period January 1, 2002 through December 31, 2002. Procedures performed included determining compliance with the three contracts between the City and County of Denver (City) and America West as listed above and with the DMASR&R.

Additionally, because America West did not comply with Section 158.69 of the Code of Federal Regulations to provide for an annual audit of its Passenger Facility Charge (PFC), we were unable to review America West's independent auditor's 2002 report to determine if the independent auditor concluded that the report was fairly presented, and if the PFC amounts and compensation withheld were calculated properly. We reviewed the unaudited reports submitted by America West for the year ended December 31, 2002, and determined that they were calculated properly and traced remittances made to the cash receipts register of the Department of Aviation.

### **Objectives**

The objective of our audit was to determine whether America West paid the City the correct amounts for landing fees, space rent, automatic guideway transit system fees, baggage claim fees, air cargo usage, conventional baggage operational and maintenance fees, non-preferential gate and overnight charges, deicing charges, utilities, cargo shuttle bus fees, and interest in accordance with the contracts stated above and the DMASR&R. Additional objectives included determining whether America West and the Department of Aviation complied with other terms and conditions of the contracts, as well as other City rules and regulations as we considered necessary in the circumstances.

The objective of our review of America West audited PFC Report was to determine if the independent auditor concluded that the report was fairly presented and in the calculation of the PFC amounts and compensation withheld, used the correct formula.

### **Methodology**

To meet the audit objectives the following evidence gathering and analysis techniques were used including, but not limited to:

- Verification of landed weight
- Verification of rates charged
- Verification of evidence of receipts
- Confirmation of receipts
- Recalculation of financial transactions
- Discussions with management and staff
- Verification of evidence of insurance and performance bond
- Onsite physical inspections

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**AMERICA WEST AIRLINES, INC.  
FINDING, RECOMMENDATION, AND RESPONSE  
FOR THE YEAR ENDED DECEMBER 31, 2002**

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**1. Non Compliance With PFC Reporting Requirement**

America West Airlines, Inc. (America West) did not comply with Section 158.69 of the Code of Federal Regulations for the year ended December 31, 2002, which requires that an air carrier collecting PFCs from at least 50,000 passengers annually to provide for an annual audit of its PFC accounts by an accredited independent public accountant. As a matter of policy, the FAA expects these audits to be filed in a timely manner and should normally coincide with the carrier's fiscal year and annual corporate audit cycle. America West's failure to file the annual audited PFC report resulted in a scope limitation to our audit.

**Recommendation**

We recommend the Department of Aviation improve their follow-up procedures to insure that airlines are complying with the requirement to submit an annual audited PFC report in a timely manner as required by the FAA.

**Department of Aviation Response**

“Beginning in the month of June of each year, the Department of Aviation reviews the prior year audited PFC reports of signatory airlines located at Denver International Airport. If the airline has not submitted its annual audited PFC report by this time, the Department of Aviation contacts the airline's representative for the status of the PFC report, and continues to do so until the PFC report is received. Since this annual report is required to be audited and prepared by the airline's independent certified public accountant, the availability of this report depends upon the timeliness of the audit. As you have noted in your audit, the FAA expects the PFC reports to be filed in a timely manner – so does the Department of Aviation.

“During the past year, there has been a delay of receiving the audited PFC reports from most of the airlines, and this has been noted by other airports as well (correspondence from members of the Association of Airport Internal Auditors).

“The Department of Aviation will continue its efforts to obtain the required audited PFC reports in a timely manner.”

**America West Airlines, Inc. Response**

America West chose not to respond.

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**AMERICA WEST AIRLINES, INC.**  
**SCHEDULE OF AMOUNTS DUE AND PAID**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

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	<u>Amount Due</u> <u>(Note 1)</u>	<u>Amount Paid</u> <u>(Note 2)</u>	<u>Balance Due</u>
Landing fees	\$1,388,268	\$1,388,268	\$ -
Space rent	1,089,517	1,089,517	-
Baggage claim fees	874,304	874,304	-
Automatic guideway transit system	502,137	502,137	-
Air cargo	62,767	62,767	-
Conventional baggage system operation and maintenance	105,742	105,742	-
Overnight aircraft parking	50,250	50,250	-
Deicing charges	65,866	65,866	-
Passenger facility charge	1,310,268	1,310,268	-
Cargo electric	5,905	5,905	-
Cargo shuttle bus	1,053	1,053	-
Interest charges	<u>1,613</u>	<u>1,613</u>	<u>-</u>
Total	<u>\$5,457,690</u>	<u>\$5,457,690</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

**Note 1.**      **Amounts Due** – Landing fees, space rent, automatic guideway transit system, and baggage claim fee components are listed as revenue-producing cost centers in Exhibit F of the Airport Use and Facilities Lease Agreement. As required by Section 5.05 of the Airport Use and Facilities Lease Agreement, the City’s independent auditors annually prepare a final audit. Leigh Fisher Associates, an airport consultant company, use this audit to determine the actual fees for the revenue-producing cost centers at the airport due each year. This determination was done in Leigh Fisher Associate’s Year-End Settlement of Rentals, Fees, and Charges for 2002 (Final Report) dated August 26, 2003. We obtained the actual rates from this report to determine the amounts for landing fees, space rent, automatic guideway transit system, baggage claim fees and cargo fees in the accompanying schedule. Specific revenue components were as follows:

- **Landing Fees** – The actual annual landing fee for the year 2002, as listed in the 2002 Final Report, was \*\$3.09 per 1000 pounds of landed weight for signatory carriers. There were 449,280,960 pounds of landed weight for America West Airlines, Inc. (America West) in 2002. The number of reported landings by America West was verified through records maintained by the DIA Airport Noise and Operations Monitoring System, on a test basis.
- **Space Rent** – The revenue-producing cost centers of America West and the actual fees and applicable space as listed in the Final Report are as follows:

Terminal Complex	1,464 sq. feet	*\$68.25 per sq. foot
Terminal tenant finishes and equipment	1,464 sq. feet	*\$32.58 per sq. foot
Concourse C exclusive preferential	6,113 sq. feet	*\$68.25 per sq. foot
Concourse C tenant finishes and Equipment	6,113 sq. feet	*\$20.04 per sq. foot
Joint use allocation	6,113 sq. feet	*2.59% of joint use cost
(Joint use cost is \$5,021,639)		
Ramp area	175 sq. feet	*\$564.35 per sq. foot
Conventional baggage space	1,464 sq. feet	*2.01% of cost
(Conventional baggage system actual cost is \$8,430,747)		

- **Baggage Claim and Automatic Guideway Transit System Fees (AGTS)** – The revenue producing cost centers include baggage claim, the AGTS and tunnels, and the conventional baggage system. The number of passengers deplaned both Originating and Destination (O&D) were used in the calculation of fees as follows:

Baggage claim	Rate is *3.1% of baggage claim cost (Percent of Domestic Destination Passengers (DDP)).	Actual total baggage claim cost was \$13,737,992.
Conventional system	Allocation is based on carousels used. America West uses 1 of 12 available carousels.	Actual total cost baggage to allocate is \$5,403,628.
AGTS and tunnels	Rate is *3.06% of recoverable costs (Percent of ODP).	Actual recoverable cost is \$16,397,020.

\*These rates are rounded.

- Air Cargo – The revenue-producing cost centers of America West Airlines were as follows:

Cargo Building	4,326.4 sq. feet	*\$9.545 per sq. foot
Cargo Building Tenant Finish	4,326.4 sq. feet	*\$2.917 per sq. foot
Ground Rent	13,963.9 sq. feet	*\$0.669 per sq. foot
Joint Parking	Rate is *9.42% of recoverable costs.	Actual recoverable cost is \$11,926.
Cargo Shuttle Bus	Allocation is based on number of tenants. There were 19 tenants.	Actual total cost to be allocated is \$20,000

\*These rates are rounded

The remaining revenue components are based on contract requirements and/or the Denver Municipal Airport System Rules and Regulations. The specifics are as follows:

- Conventional Baggage System Operation and Maintenance – The actual costs for outbound and inbound conventional baggage system operation and maintenance allocated to America West for 2002 based on origination and destination passengers amounted to \$105,742. The Department of Aviation reconciles the actual budget versus the estimated budget at the end of every year.
- Overnight Aircraft Parking – According to Section 120.21 of the DMASR&R, the rate for overnight aircraft parking is \$150 per night. During 2002, there were 335 overnight aircraft parking occurrences.
- Deicing Charges – According to Sections 200.02 and 200.06 of the DMASR&R, America West is to pay monthly estimated deicing charges based on the estimated amount of glycol usage. The estimated deicing costs and glycol usage are reconciled with the actual deicing costs and glycol used within 90 days of the close of each fiscal year ending June 30. Deicing charges are stated at actual cost.
- Utility charges – America West pays for electricity used in accordance with the Airline Cargo Facilities Lease Agreement Section 2.01. The amount included in the accompanying schedule of amounts due and paid is actual utility usage for the year ended December 31, 2002.
- Interest Charges – Section 9.10 of the Airport Use and Facilities Lease Agreement, provides that any payment not made when due shall accrue interest at the rate of 18% per annum commencing five days after such due date.

**Note 2.** Amounts Paid – All amounts paid in the schedule of amounts due and paid were compiled from the Department of Aviation’s cash receipts records. Amounts paid include those billed and due during the audit period and collected in the ordinary course of business whether or not within the audit period.