



OFFICE OF THE AUDITOR

**DEPARTMENT OF AVIATION
KEY LIME AIR CORPORATION
REVENUE AND OPERATING PERMIT COMPLIANCE AUDIT
MARCH 2006**

*Dennis J. Gallagher
Auditor*



City and County of Denver

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Dennis J. Gallagher
Auditor

March 15, 2006

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

Mr. Cliff Honeycutt
President and CEO
Key Lime Air Corporation
13252 E. Control Tower Rd.
Englewood, CO 80112

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

Attached is the Auditor's Office Internal Audit Division's report on their revenue and operating permit compliance audit of Key Lime Air Corporation for operations at Denver International Airport for the year ended December 31, 2004. The purpose of the audit was to determine whether Key Lime Air Corporation and the City and County of Denver complied with the terms of the Denver Municipal Airport System Rules and Regulations and whether internal controls in place were adequate under the circumstances.

Some instances of non-compliance were found and are described in the Internal Auditor's Report.

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

Sincerely,

A handwritten signature in cursive script that reads "Dennis J. Gallagher".

Dennis J. Gallagher
Auditor

DJG/kh

cc: Honorable John Hickenlooper, Mayor
Honorable Members of City Council
Members of Audit Committee
Cole Finegan, City Attorney and Acting Chief of Staff
Lauri Dannemiller, Executive Staff Director, City Council
Beth Machann, Controller
Stan Koniz, Deputy Manager of Aviation for Business and Technologies
Pete Gingras, Assistant Deputy Manager of Aviation/Properties
Laura Trujillo, Co-Assistant Deputy Manager of Aviation/Finance
Steve Cremer, CFO, Key Lime Air Corporation

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TABLE OF CONTENTS

Transmittal Letter	1
Table of Contents	2
Internal Auditor's Report	3
Executive Summary	4
Background, Scope, Objective, and Methodology	5
Findings, Recommendations, and Responses	6
Schedule of Amounts Due and Paid and Related Notes	9



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INTERNAL AUDITOR'S REPORT

We have completed a revenue and operating permit compliance audit of Key Lime Air Corporation's operations at Denver International Airport. The purpose of this audit was to determine whether the accompanying Schedule of Amounts Due and Paid for the year ended December 31, 2004, is fairly presented in accordance with Denver Municipal Airport System Rules and Regulations, and that the City and County of Denver and Key Lime Air Corporation complied with other terms and conditions as applicable. This audit was included in the Auditor's Office Internal Audit Division's 2005 Annual Audit Plan, and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, §5.2.1.

We conducted our audit in accordance with generally accepted government auditing standards. An audit includes examining, on a test basis, evidence supporting revenue amounts and disclosures in the accompanying schedule.

Our conclusions from the audit and review are that Key Lime Air Corporation owes the City \$2,284 in interest for various late payments made to the City. The City allowed an amount due to remain outstanding for 18 months without providing notice or statement of account to Key Lime. Additionally, Key Lime has been utilizing reports generated by the Department of Aviation, to prepare its monthly landing fee reports. The Department of Aviation and Key Lime have also been improperly using landing fee data. We did not identify any other significant reportable conditions.

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

Internal Audit Division

Michael Clark

Mike Clark, CPA

Director of Internal Audit

Date: March 15, 2006

Staff: Dick Wibbens, CPA, Audit Manager
Marcus Richardson, Audit Supervisor
Traci Napue, Senior Auditor

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**KEY LIME AIR CORPORATION
EXECUTIVE SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2004**

This summary highlights the findings of the revenue and contract compliance audit, which are more fully described in the Findings, Recommendations, and Responses section beginning on page 6. The Findings, Recommendations, and Responses section includes responses from the Department of Aviation. Key Lime Air Corporation did not respond.

1. Interest Due the City

There is interest due the City in the amount of \$2,284, assessed on late payments to the City.

2. Billing Oversight

On August 12, 2005, the Department of Aviation invoiced Key Lime for additional landing fees that should have been billed in February 2004.

3. Improper Use of Data

The Department of Aviation and Key Lime Air Corporation have been utilizing pulse reports generated by the Mega Data Pulse System to prepare, report, and pay monthly landing fees. The data obtained from the pulse reports has not been tested by the airport, thus has not been proven to be reliable, accurate or complete.

Background

Key Lime Air Corporation is a Cargo Feeder airline for United Parcel Service (UPS) at Denver International Airport. They perform services required by UPS in its transportation of cargo by air, providing support for UPS' daily operations of distributing cargo to various cities/locations. Key Lime is required to pay landing fees, and various other fees and charges to the City. Key Lime is a non-signatory air carrier at DIA and has not entered into a contract agreement with the City. Amounts due and payable to the City by Key Lime are as provided by Denver Municipal Airport System Rules and Regulations (DMASR&R) and detailed in the accompanying Schedule of Fees and Charges.

Scope

Our audit of Key Lime Air Corporation at Denver International Airport (PeopleSoft fund 73800/org 6000000) was for the year ended December 31, 2004. The scope of our work included determining compliance with airport rules and regulations as stated above.

Objective

The objective of our audit was to determine whether Key Lime paid the City the correct amounts for landing fees in accordance with the monthly billing invoices as prepared by the Department of Aviation. Additional objectives included determining whether Key Lime and the Department of Aviation complied with other rules and regulations as we considered necessary in the circumstances.

Methodology

To meet our audit objectives, we relied on computer processed data as obtained from the Mega Data Pulse System. Our review of system controls and the results of data tests showed an error rate (approximately 18 %) that casts doubt on the data's reliability. However, when these data are viewed in context with other available evidence, we believe the opinions, conclusions, recommendations, and due and paid schedule in this report are reasonable and materially reliable. Additionally, the following evidence gathering and analysis techniques were used to meet our objectives including but not limited to:

- Review of airport rules and regulations
- Review and scheduling landing fee reports and invoiced amounts
- Interviews and discussions with the management and staff of Key Lime and the Department of Aviation
- Confirmation of receipts
- Verification and recalculation of rates, fees, and charges
- Review and verification of audit source documents
- Verification of evidence of insurance and bonding

**KEY LIME AIR CORPORATION
FINDINGS, RECOMMENDATIONS, AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Interest Due the City

There is interest due the City in the amount of \$2,284. Monthly payments for landing fees were not paid to the City by the designated due date. During the audit period we calculated \$6,405 in interest charges due the City for late payments. The Department of Aviation (DIA) invoiced and collected \$4,121 from Key Lime for 2004 interest charges. This has resulted in the net balance due the City of \$2,284.

According to Section 120.16.1 of the Denver Municipal Airport System Rules and Regulations, Schedule of Fees and Charges, any payments not made when due shall accrue interest at the rate of 18% per annum, commencing 5 days after the due date.

Recommendation

We recommend that the Department of Aviation invoice Key Lime \$2,284 for interest charges assessed on amounts paid late in 2004. We also recommend that DIA enhance their accounting system to compute all interest in accordance with the airport rules. Additionally, Key Lime should be reminded to enhance their payment process in order to make all their payments on time.

Department of Aviation Response

“Because of the airport’s oversight noted in Finding #2, the Department of Aviation will not bill or collect interest charges of \$877 from Key Lime that would have been calculated on the February 2004 landing fee amount due for the period March 20, 2004 through August 12, 2005.

“The Department of Aviation will invoice Key Lime for the remaining \$1,407 interest due.”

Key Lime Response

Key Lime Air Corporation did not respond.

2. Billing Oversight

DIA allowed an amount that should have been invoiced in February 2004 to remain unbilled until August 2005, approximately 18 months later.

In February 2004, there was a variance between the number of landings reported by Key Lime on their monthly landing report and the number of landings recorded by the Mega Data Pulse System. Therefore, DIA calculated an additional amount due of \$3,361 for February 2004

landing fees, and should have invoiced Key Lime for the additional amount at that time. Due to an oversight, the amount was not invoiced until August 2005. DIA did not realize they had not billed Key Lime until the error was detected and brought to their attention during the course of our audit. Key Lime paid the invoiced amount of \$3,361 on September 27, 2005.

All amounts due the City should be assessed, invoiced, and collected in a timely manner. It is not good business practice for DIA to allow amounts to remain outstanding for such a lengthy time.

Recommendation

We recommend that the Department of Aviation implement a review process as well as follow-up procedures to ensure amounts due are invoiced and collected in a timely manner.

Department of Aviation Response

“The oversight of unpaid landing fees for February 2004 was an isolated incident. The Department of Aviation does not use Mega Data for the billing of landing fees, but uses the procedure of billing landing fees based on the airline’s self reported amounts. Based on discussions between Key Lime and the airport, it was agreed upon that the Mega Data landings were correct for the month of February 2004.”

Key Lime Response

Key Lime Air Corporation did not respond.

3. Improper Use of Data

The Department of Aviation has been utilizing the pulse reports provided by the Mega Data Pulse System to bill and collect monthly landing fees from Key Lime Air since November 2003. Key Lime has also been utilizing the pulse report data (provided to them by the DIA) to report and pay monthly landings. DIA began using the Mega Data Pulse Reports in 2003 – on a test basis – to record landings at the airport. The data reported by the system, varied from the data being reported by Key Lime Air, thus DIA began to bill the airline for the additional landings recorded by the Mega Data Pulse System. In March 2004, both DIA and Key Lime Air began to rely solely on the data obtained from the pulse reports and they are currently being used to report, invoice, and pay monthly landing fees. We found no sufficient evidence to prove that the data obtained from the pulse reports is reliable, accurate, or complete.

By not providing reports based on their own records such as flight logs, Key Lime could be incorrectly reporting and paying landing fees. Additionally, DIA is invoicing and collecting landing fees improperly. Since neither party ever reconciled the differences to determine the cause of the variances, no one is certain which report contains the most accurate and reliable data (the pulse reports generated by the airport or the flight logs generated by Key Lime).

It is not a good business practice for the airport to invoice a customer, and allow them to pay landing fees based on unreliable data from a system that is in the testing phase. The airport should not be utilizing the pulse reports to invoice and collect landing fees for Key Lime. Since the variances between the pulse reports and the flight logs were substantial, the airport should have immediately performed a reconciliation of the differences when they first occurred, in order to determine the cause of the variance as well as determine if the system was in fact reliable. Additionally, Key Lime should be relying on their own data (flight logs) to report monthly landings to the City.

Recommendation

The Department of Aviation should discontinue the practice of utilizing the pulse reports to invoice Key Lime for monthly landing fees. It is our understanding that the system was implemented to be used to verify information submitted by the airlines, not as an invoicing device. Regardless of the systems' intended use, Aviation should promptly complete its testing of the Mega Data Pulse System and determine the level of accuracy of the data collected by the system. We also recommend that DIA perform reconciliations of the records to determine why there are variances between the reports being utilized to report landing fees. A reconciliation of data would allow DIA to pinpoint anomalies or glitches in the system, if any, and allow them to be corrected so the system can be utilized as intended. If DIA decides to implement the Mega Data Pulse System permanently, before doing so, all aspects of the system and the information it provides, should be reviewed for reliability and accuracy and written procedures should be developed explaining how the system operates and how it is to be properly utilized.

Department of Aviation Response

“The Mega Data is used to monitor the airline’s monthly self reported landing fee reports. The Mega Data system reports is shared with the airlines (on request) as a customer service provided by the airport. As noted above, the airport has always billed landing fees based on the airline’s self reported amounts. Currently, the Department of Aviation is analyzing the accuracy, usefulness and cost benefit of using the Mega Data System for monitoring the airline’s self reported landing fees. If it is determined that the airport will continue to use this system, then procedures that are currently being written will be reviewed and approved by management.”

Key Lime Response

Key Lime Air Corporation did not respond.

KEY LIME AIR CORPORATION
SCHEDULE OF AMOUNTS DUE AND PAID
FOR THE YEAR ENDED DECEMBER 31, 2004

	Amounts Due <u>(Note 1)</u>	Amounts Paid <u>(Note 2)</u>	<u>Balance Due</u>
Landing Fees	\$255,118	\$255,118	\$ -
Interest Charges	<u>6,405</u>	<u>4,121</u>	<u>2,284</u>
Balance Due the City	<u>\$261,523</u>	<u>\$259,239</u>	<u>\$2,284</u>

The accompanying notes are an integral part of this schedule.

Note 1. **Amounts Due** – According to Section 120.02 of the Denver Municipal Airport System Rules and Regulations, Schedule of Fees and Charges, all scheduled air carriers, and cargo, charter and commuter carriers using DIA shall pay a fee on all arrivals equal to \$4.046, non-signatory per 1,000 pounds of gross allowable landing weight for January – June 2004 and \$3.744, non-signatory per 1,000 pounds of gross allowable landing weight for July – December 2004. The number of landings and the landing fee amounts due were obtained from the Department of Aviation/Finance billing invoices. The Department of Aviation utilized the data supplied by the Mega Data Pulse Reports to calculate and invoice, landing fee amounts due from Key Lime Air.

Interest Charges – According to Section 120.16 of the Denver Municipal Airport System Rules and Regulations, Schedule of Fees and Charges, any payment not made to the City when due shall accrue interest at the rate of 18% per annum commencing 5 days after the 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.