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INTERNAL AUDIT REPORT

November 3, 2022

**Alliance Management
Services Contract**



**City of Fort Worth
Department of Internal Audit**

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Fort Worth, Texas 76102

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The Alliance Management Services Contract Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2022 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- determine whether the vendor complied with contract requirements; and,
- evaluate the City's process of monitoring the contract.

Audit Scope

Our audit included a review for the period October 1, 2019 through September 30, 2021.

Opportunities for Improvement

Revenue deposits to a City bank account

Contract compliance and oversight

Executive Summary

As part of the Fiscal Year 2022 Annual Audit Plan, the Department of Internal Audit conducted the Alliance Management Services Contract Audit. The City outsources Alliance Airport management, operations and maintenance to Alliance Air Services, Inc. (Alliance Air). Alliance Air provides tenant oversight, storage and parking, taxi and runway aircraft operations, public aircraft fueling, and other services on behalf of the City. The Aviation Department (Aviation) is responsible for overseeing airport operations, budget and grant administration, tenant leasing, and capital project planning.

Alliance Air was in compliance with multiple contract directives including insurance and bond requirements, grant administration, budget planning assistance and various Federal Aviation Administration (FAA) requirements.

We noted that Aviation and Alliance Air were not using a separate City account for banking daily deposits as prescribed by the management contract. As a result, revenues that were to be deposited daily into a City account were not and reconciliations of cash receipts could not be performed. We requested additional detailed support for all sources of revenues such as concessions, parking and miscellaneous revenues. As of the release of this audit, we have not received the records we requested from Alliance Air.

Our review of accounts receivable identified landing revenue that was significantly past due as of September 30, 2021, although payments made subsequently reduce the past due amounts. Since Alliance Air did not provide adequate support for all revenue sources, we were unable to determine if outstanding receivables from sources outside of landing fees were being appropriately managed.

The Aviation Department did not ensure compliance with critical contract directives, including reviewing billings in detail before authorizing payments to Alliance Air.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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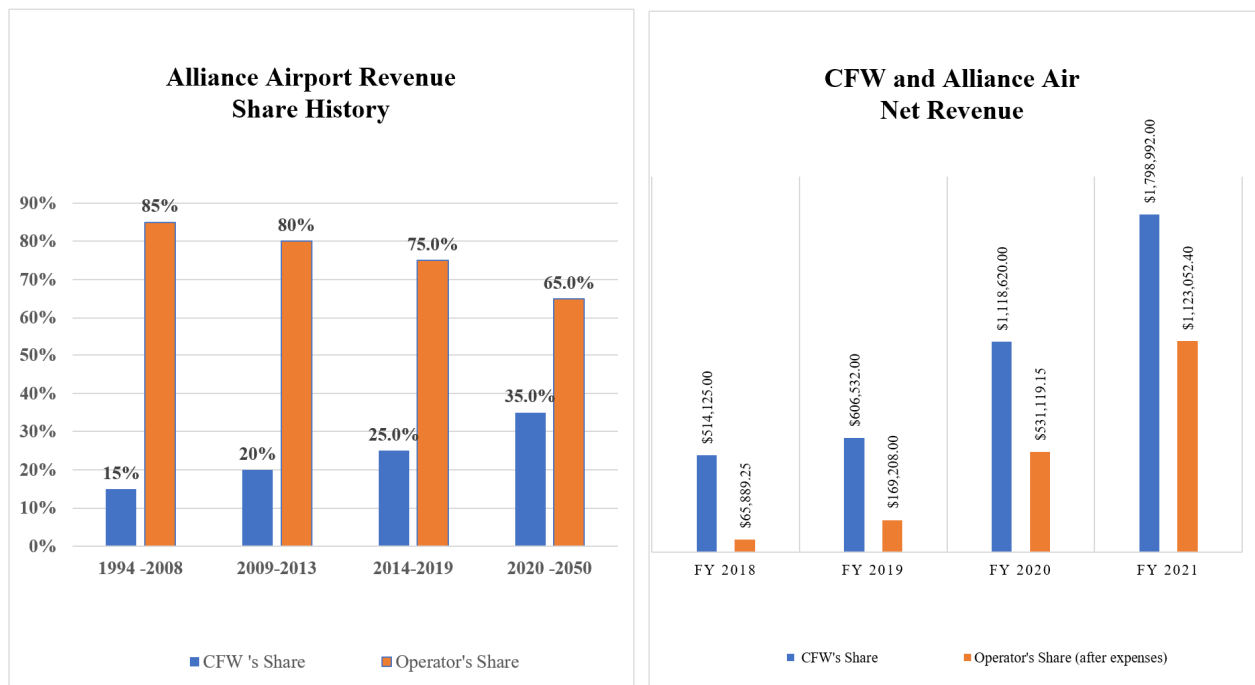
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Background

The contract with Alliance Air Services, Inc. (Alliance Air) for the management, operation and maintenance of Fort Worth Alliance Airport commenced on January 1, 1994. Since then, Alliance Air has been managing, operating and maintaining the Airport in accordance with Federal law, under the direction and supervision of the City. There have been six (6) amendments to the contract. The 6th amendment was effected on January 1, 2020, in order to, among others, effect the following change “A new term, justified by new consideration provided by the Alliance Air and identified in the below provisions of this Amendment, will begin on the Amendment Date of this Amendment and end on December 31, 2050.”

Alliance Air is currently paid 65% of total Alliance Airport revenue to fund all airport management, operation and maintenance activities at Alliance Airport. Additionally, 10% of the total airport revenue taken from the City’s 35% share is designated to a new “Alliance Airport Capital Fund” used for various types of capital maintenance. As reflected in the graphs below, Alliance Air’s sharing ratio has been progressively revised from as high as 85% to the current 65% of total Alliance Airport revenue. According to revenue reports provided by Alliance Air the net revenue after expenses has increased.



Source: Auditor Generated from the contract, amendments, and financials

Alliance Air provides tenant oversight, storage and parking, taxiway activities, fueling, and other services on behalf of the City of Fort Worth (CFW). The CFW Aviation Department is ultimately responsible for overseeing airport operations, budget and grant administration, leasing and capital project planning. On behalf of the City, Alliance Air collects all revenue associated with airport fees such as access fees, ground rent, parking, concession, fuel flowage, lease revenue (with the exception of FedEx leases) and landing fees. At its own expense, Alliance Air is responsible for maintenance and repair of grounds, buildings and structures, taxiways and runways, airport vehicles and equipment, airport operations, and certain emergency and weather-related services.



On a monthly basis Alliance Air prepares income and expense statements, and prepares and collects billing and accounts receivable. Monthly, Alliance Air wires funds to the City accompanied by an invoice and revenue report. The Aviation Administration Office receives, reviews, and posts each invoice in Peoplesoft for the Accounts Payable to process an ACH payment.

On an annual basis, Alliance Air provides the City with:

- a five (5) year Airport Capital Construction and Maintenance Implementation Schedule;
- five (5) year revenue and expense projection for airport operations;
- an annual operating plan maintenance and repair schedule including:
 - proposed airport fees;
 - a list of all aviation and aviation related concessionaires, contractors and tenants;
 - a schedule of all leases, concessions, contracts and agreements to be negotiated or renegotiated;
- an annual operating budget detailing anticipated annual revenues and operating expenses;
- identification of capital improvement projects that could benefit from the application and award of AIP (Airport Improvement Program) grants; and,
- contract management, procurement processes, grant management, requests for reimbursement, and project reporting.



Objectives

The objectives of this audit were to:

- determine whether the vendor complied with contract requirements; and,
- evaluate the City's process of monitoring the contract.

Scope

Our audit included a review of the Alliance Management Services Contract from October 1, 2019 through September 30, 2021. Activity beyond this period was reviewed as deemed necessary.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed CFW Aviation Department and Alliance Management Service's (Alliance Air's) staff;
- reviewed the bidding and contract award process for compliance with applicable law and City policy;
- verified compliance with Insurance, Performance and Fidelity Bond provisions;
- evaluated billing, receipt, banking and reconciliation of all authorized revenues;
- verified vendor involvement in grant administration;
- evaluated reasonableness and reliability of Alliance Airport's financial reports;
- determined compliance with capital development contribution requirements;
- reviewed the Aviation Department's processes for approving and monitoring the Airport's budgets and the related financial reports;
- analyzed and verified receipting, banking and payments to Alliance Air;
- reviewed the Aviation Department's process of monitoring and supervising the Alliance Air contract;
- performed site visit to assess size and current condition (state of repair) of the airport;
- confirmed compliance with prevailing FAA and CFW airport management standards;
- confirmed existence of Airport Emergency Contingency Plan; and,
- evaluated internal controls related to contract management.



We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results

Our review focused on contract provisions critical to the operational and financial success of Alliance Airport. We noted both Aviation and Alliance Air effectively managed:

- insurance and fidelity bond security requirements specified within the contract;
- facilitation and administration of the Alliance Airport FAA capital grants;
- recognition and allocation of landing fee revenue trends were generally consistent with the FAA reported landed Cargo flight activity at Alliance Airport;
- FAA requirements and standards, including having a current Airport Emergency Contingency Plan and FAA approved Risk Management Plans (BCP), and;
- the Alliance Airport grounds which were free from debris and defects, which included review of FAA inspection reports.

We identified key contractual requirements that were either partially complied with or were not complied with at all:

- deposits for all cash-based operations were not made into a City depository account daily as required by the contract;
- of the \$630,647.53 in accounts receivable as of September 30, 2021, \$280,635.86 (44%) was overdue;
- receivables for one vendor comprised \$164,556.96 (58.6%) of the overdue amount. The vendor paid the outstanding balance on November 19, 2021;
- there was no evidence Aviation reviewed and approved the revenue budgets and financial reports submitted by Alliance Air, and;
- Aviation did not ensure total earned revenues reported by Alliance Air are reconciled to remittances and accounts receivable.

On June 14, 2022, the Fort Worth City Council adopted resolution to rename Alliance Airport to Perot Field Fort Worth Alliance Airport.



Overall Risk Evaluation

High	Medium	Low
	Revenue deposits into a City bank account	
	Contract compliance and oversight	



Detailed Audit Findings

1. Revenue deposits were not deposited into a City account as prescribed in the contract.

City Secretary Contract #20060, Section 5.2 requires the City to establish a depository account for which Alliance Air is to make daily deposits of all airport revenue. The City is to in turn pay Alliance Air its portion of airport revenue from that account. Additionally, Section 5.3 of the contract requires the City to advance Alliance Air their payment for services no later than the 5th and 20th of each month.

We noted the depository account contract provision was not implemented by the Aviation Department, a City depository account was not established and daily deposits were never made into a City account. Rather, Alliance Air was holding all Alliance Airport revenue until it made a transfer to the City once per month. The City then made transfers back to Alliance Air for its portion of the contractual revenue.

This resulted in the potential loss of interest for the City for monies that should have been deposited into a City account. Additionally, this impacted our ability to verify any revenues earned on a cash basis during the normal course of airport operations.

Recommendation 1A: *The Aviation Director, in conjunction with the Financial Management Services Director, should either establish a depository account for the purpose of banking all daily Alliance Airport revenues by Alliance Air or amend the contract to follow the current process.*

Auditee's Response: Concur

As requested the week of October 3, 2022 by the City of Fort Worth (City) Aviation Department to Alliance Air Services, Alliance Air Services will create a dedicated bank account that will be utilized solely for Aviation Department revenue deposits. Alliance Air Services will provide back-up documentation for each deposit transaction. In addition, the Aviation Department will coordinate with the FMS Treasury Department in regards to implementing processes and procedures so that this new dedicated bank account will integrate with the City of Fort Worth payment processes so that the City can process Alliance Air Services payments and reimbursements due Alliance Air Services. Any amendment required in the Management Agreement to accommodate this revised process will be made accordingly.

Target Implementation Date: December 31, 2022

Responsibility: Ricardo Barcelo, (Senior Administrative Services Manager)

Applicable Department Head: Roger Venables, Aviation Director

Applicable Assistant City Manager: Dana Burghdoff, Assistant City Manager

Recommendation 1B: *The Aviation Director should identify and collect the CFW share of interest going forward earned in the Alliance Air's bank account.*

Auditee's Response: Concur



Upon origination of the dedicated bank account (as referenced in 1A above) and should this dedicated bank account be interest bearing, the Aviation Department will receive interest as earned that will be remitted to the Aviation Department by Alliance Air Services per the revenue sharing arrangement as stated in the current Management Agreement. Any amendment required in the Management Agreement to accommodate this revised process will be made accordingly.

Target Implementation Date: December 31, 2022

Responsibility: Ricardo Barcelo, (Senior Administrative Services Manager)

Applicable Department Head: Roger Venables, Aviation Director

Applicable Assistant City Manager: Dana Burghdoff, Assistant City Manager

2. Contract oversight was not adequate to ensure that all amounts due were collected.

City Secretary Contract #20060 requires Alliance Air to prepare and collect Airport billings and accounts receivable and prepare associated reports. Internal Audit determined that the oversight of accounts receivable was not adequate. Our observations include the following:

We noted as of September 30, 2021, accounts receivables were more than 30 days past due for approximately \$280,635.86 (44%) of the \$630,647.53 in total landing fees accounts receivable. There was no evidence of Aviation Department inquiries regarding collection activities for any of the delinquent accounts. Past Due receivables for one company comprised \$164,556.96 (58.6%) of the overdue amount. There was no evidence that accounts receivable schedules were prepared for Aviation’s review since none were submitted with any financial reports and accounts receivable details were not readily available when requested. Internal Audit confirmed that the outstanding amount owed from one vendor was paid by November 19, 2021.

Aged Landing Fee Receivables					
as of 09/30/2021					
	Total	0-30 days	31-60 days	61-90 days	Greater than 90 days
Total	\$630,647.53	\$350,011.67	\$107,868.59	\$45,667.71	\$127,099.56
	100%	56%	17%	7%	20%

Source: Alliance Air receivable data

Additionally, delinquency fees for past due balances were not billed and collected in accordance with Article 4.4.4 of the separate Cargo contracts between the City and air carriers. Consequently, airlines had landing fees unpaid over 90 days without being subject to penalties.

Article 4.6.1 of the standard Cargo Contract requires all airport carriers provide an Irrevocable Letter of Credit. Only two of the six (6) delinquent customers had the letters filed with the Aviation Department. Aviation ultimately obtained and provided copies of those Letters of Credit upon our request. The security deposit is required to enable the City to remedy Airline's defaults in the payment of landing fees and other fees and charges due under the cargo agreement or which otherwise arise as a result of Airline's operations at the Airport.



Each cargo customer prepares and submits a report of its fleet's number of landings for the month as a basis of being billed by Alliance Air. Alliance Air receives the reports and bills cargo customers based on each customer's report without independent verification of the reported fleet landings. During audit interviews both Alliance Air Services and Aviation indicated that they merely accepted those self-generated customer reports as correct because they had no means of verifying the flights. Audit compared overall landing information from the FAA to the landings being claimed by the cargo companies and, the amounts trended to each other were reasonable.

Audit did not complete the analysis of certain receivables because requested accounts receivable statements and vouchers for non-landing fee revenue transactions were not received by the time of this report.

Recommendation 2A: *The Aviation Director should ensure Alliance Air provides adequate support for all revenue reports and that a process to effectively manage accounts receivables is implemented.*

Auditee's Response: Concur

Revenue reports to the Aviation Department received from Alliance Air Services will be provided with appropriate documentation support and monthly cash remittances received will be reconciled to Alliance Air Services quarterly and monthly revenue reports received and any discrepancies elucidated. In addition, Aged Accounts Receivable report will be provided monthly to the Aviation Department by Alliance Air Services. Aged Accounts Receivable report will be reviewed by the Aviation Department to assure that 1) Any late fee issues are addressed promptly and 2) Revenue amounts outstanding are documented with explanations as to why (i.e. including but not limited to timing differences and or overdue payments, etc.). This data has been requested from Alliance Air Services on September 21, 2022.

Target Implementation Date: November 1, 2022

Responsibility: Ricardo Barcelo, (Senior Administrative Services Manager)

Applicable Department Head: Roger Venables, Aviation Director

Applicable Assistant City Manager: Dana Burghdoff, Assistant City Manager

Recommendation 2B: *The Aviation Director should determine whether a means of independently verifying landings and other sources of revenue be developed and reviewed on a regular basis.*

Auditee's Response: Concur

Appropriate means of independently verifying Landing Fee revenue and other sources of revenue will be performed as it becomes available through the FAA as well as through other sources available. Other revenue generated (i.e. Aviation Permits and Transient Aircraft Parking) documentation has been requested (request submitted to Alliance Air Services September 21, 2022) to confirm independent verification. Currently, revenue received for Fuel Flowage and Ground Rents are verified independently through the vendor backup documentation received from Alliance Air Services and filed in Aviation records.

Target Implementation Date: November 1, 2022

Responsibility: Ricardo Barcelo, (Senior Administrative Services Manager)



Applicable Department Head: Roger Venables, Aviation Director

Applicable Assistant City Manager: Dana Burghdoff, Assistant City Manager

Recommendation 2C: *The Aviation Director should require Alliance Air records provided be separated from any other organizations' transactions and be kept updated and available upon request by Aviation.*

Auditee's Response: Concur

The Aviation Department will require Alliance Air Services records that are related to Aviation Department business and financial transactions be separate from non-Aviation Department transactions. In addition, said records, business and financial transactions will be kept updated and available to the Aviation Department upon request. Request made to Alliance Air Services on September 21, 2022.

Target Implementation Date: December 31, 2022

Responsibility: Ricardo Barcelo, (Senior Administrative Services Manager)

Applicable Department Head: Roger Venables, Aviation Director

Applicable Assistant City Manager: Dana Burghdoff, Assistant City Manager



Acknowledgements

The Department of Internal Audit would like to thank Alliance Air Services, Inc. and the Aviation Department for their cooperation and assistance during this audit.