

Lunken Fuel Flowage Fees Follow-Up Audit

May 2005

Introduction

The Internal Audit Division conducted a follow-up audit of the Lunken Fuel Flowage Fees Audit in May of 2005. The original audit was performed at the request of the Department of Transportation and Engineering of the fuel flowage fees paid by tenants of Lunken Airport to the City to ensure that all fees are properly accounted for and remitted. Airport tenants pay the City \$0.12/gallon on fuel they use or purchase. The airport's two Fixed Base Operators (FBOs), which sell fuel to transient aircraft as well as other Lunken tenants, collect \$0.12/gallon but remit \$0.06/gallon to the City. This policy is regulated by Municipal Code Article 402-23, which states, "every person, firm or corporation receiving or storing gasoline or jet engine fuel at Lunken Airport or Blue Ash Airport shall...pay to the City at the time the statement is rendered the fee of 12 cents per gallon on gasoline or jet engine fuel sold or used; ...retailers to the public of fuel under permit of the City (fixed base operators)... shall be permitted to retain a minimum of 6 cents and up to a maximum of 8 cents per gallon of the fee imposed above on gasoline or jet engine fuel sold or used." The fuel fees are a surrogate measure for airport use. These fuel flowage fees generated more than \$500,000 in revenue in 2003.

Audit Recommendations

The following recommendations were intended to strengthen the controls on fuel usage reporting and fee payment as well as to ensure correct payment for past fuel usage.

1. Stop the practice of FBOs collecting flowage fees on fuel that does not pass through their tanks. All tenants with their own fuel farms should be instructed to pay their full fuel flowage fees directly to the City, as required by the Municipal Code. This would not require changes to any formal written policies. The average amount retained by the FBO decreased significantly in March 2001 when Procter and Gamble began paying the City directly. Nonetheless, based on 2002 and 2003 averages, ending this practice would generate approximately \$20,000 additional annual revenue.

The Solicitor's Office should determine if there is a legal basis to recoup the \$288,142.05 in fees that were paid to the FBO rather than the City between April 1998 and April 2004.

Department's Response to the Audit

- a. We have notified Midwest Jet Center, Cin-Air, and Jet Resource to cease this practice.
- b. Regarding the fuel flowage fees collected, this matter has been referred to the City Solicitor's Office. The fees retained by Midwest Jet

Center are a complicated issue and will require thoughtful consideration. The Solicitor's Office will be working closely with the Department of Transportation and Engineering to resolve this matter.

Audit Follow-up Status of Recommendation

- a. Official notification was sent to Midwest Jet Center, Cin-Air, and Jet Resource on July 20, 2004. The practice has stopped.
 - b. This legal matter is still in the Law Department. The most recent communication was sent by J. Rita McNeil, City Solicitor on April 28, 2005 attempting to negotiate payment of fuel flowage fees.
2. Recover payments from Cin-Air for unreported deliveries. These deliveries have been documented by the supplier but not reported to the City or paid for by the tenant.

Department Response

The City Solicitor's Office feels there is an adequate basis for recovery from Cin-Air. We will send a letter requesting payment for the unreported deliveries.

Audit Follow-up Status of Recommendation

Cin-Air is disputing the fuel supplier's delivery records. A final determination will be made by Lunken management once records are retrieved. Airport management is confident that the funds are due the City.

3. Remind tenants of their responsibility for flowage fees. The Municipal Code indicates that tenants are responsible for the timely payment of flowage fees for all fuel delivered to their tanks. Tenants should be reminded of this obligation.

Department Response

Once the Cincinnati Municipal Code (CMC) is changed to respond to recommendation #4 (see below), tenants will be notified regarding the change to the CMC. In the future, at the end of each calendar year, tenants will be sent a notice reminding them of their obligation along with a Fuel Flowage Report Form for the upcoming year.

Audit Follow-up Status of Recommendation

Airport management sent out letters reminding all tenants of the responsibility for timely payment of flowage fees.

4. Require flowage to be calculated on a delivery basis. Reconciliation for Lunken is difficult in part because of the difference between supplier delivery records and tenant usage reports. The easiest way for Lunken to guarantee that it can independently verify fuel usage would be for it to require all tenants to calculate their flowage based on the amount of fuel delivered. This would require a change to the Municipal Code,

which currently allows tenants to calculate fees based on what is sold or used. A Lunken staff member would check the amount reported by the tenant against the fuel supplier's record. All suppliers indicated a willingness to provide monthly records to the airport for this purpose.

Department Response

The Aviation Division supports this recommendation and has requested the City Solicitor's Office to make a change to the Cincinnati Municipal Code, Airport Section 402, to reflect this practice.

Audit Follow-up Status of Recommendation

The Cincinnati Municipal Code, Airport Section 402, is undergoing revision. Revised code language is anticipated to be complete for City Council vote within six months. Due to the continued delay, the Lunken Airport Manager agreed to issue a letter to all tenants that informs them of the pending code change. The letter will state that fuel flowage fees shall be calculated on a delivery basis.

5. Conduct monthly or annual flowage reconciliations. A Lunken staff member should receive and reconcile fuel delivery reports from suppliers and tenants every month. Such reconciliation would allow the staff to identify any deliveries that were unreported or underreported. To ensure that Lunken has records from all fuel suppliers servicing the airport, it should send a letter each year to all local aviation fuel suppliers requiring them to submit monthly records if they make deliveries to the airport.

Department Response

Lunken staff will reconcile fuel reports from suppliers and tenants every month. Area aviation fuel suppliers will be sent a letter informing them of the requirement to submit monthly records of deliveries to Lunken annually.

Audit Follow-up Status of Recommendation

Monthly and annual flowage reconciliations are performed by two separate individuals for final review by the Airport Manager.

6. Review security measures for fuel delivery and storage. In light of the general security climate and concerns about airport safety, Lunken should review policies and practices at the airport to ensure that fuel sites are adequately protected.

Department Response

Lunken staff has instituted some improvements to security by changes such as the installation of the perimeter fence and gate project, reducing

access by the public. The individual tenants control access to their fuel farms. Staff monitors compliance with daily checks of all gates to ensure closure. The fuel farms also have locking mechanisms that must be in place when the farm is unattended. Compliance is ensured through spot checks by Airport staff, the Fire Department, and the BUSTR compliance officer. Lunken staff will continue to monitor security and institute improvements as needed.

Audit Follow-up Status of Recommendation

Lunken Airport has had two separate inspections conducted. The FAA concluded an annual field inspection in May 2005. The inspection found no security or safety issues. A BUSTR inspection conducted late 2004 yielded changes to all of the fuel farms located at Lunken Airport.