



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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23-07 Colorado Springs Airport Contract Administration Review

March 2023

Purpose

The purpose of this audit was to review Airport revenue contract administration compliance, efficiency, and effectiveness. The audit included a review of internal controls to ensure revenue was billed accurately and timely and that roles and responsibilities were assigned in a manner that promoted efficient contract administration.

Highlights

We conclude that overall revenue was billed accurately and timely. Overall responsibilities were assigned to ensure effective contract administration.

We identified three recommendations and one opportunity for improvement to strengthen internal controls. We also noted a best practice that strengthens internal controls and contract administration. We commend the transfer of responsibility for creation of bill rules from the City Finance department to the Colorado Springs Airport (COS) Finance department, thereby moving the responsibility to the organization responsible for managing the related revenue contracts.

COS is a primary small hub commercial service airport and services southern Colorado, portions of western Kansas, and northern New Mexico, with approximately just over 2.0 million passengers in 2022. COS maintains active corporate, cargo and general aviation populations and there continues to be significant momentum within the 900 acre Peak Innovation Park. COS revenue includes airline landing fees, terminal rent, gate usage, parking fees, concessions, ground leases, and sales.

Airport revenue contracts were administered by COS departments with support from COS Finance and City Finance to ensure compliance and accuracy.

We would like to thank Airport and City Finance staff for their assistance and support during this review.

Management Response

Management agreed with our recommendations.

Recommendations

1. City Finance should conduct periodic reviews of access permissions for the Airport property and revenue management system.
2. Airport Finance should expand the quarterly revenue reconciliation to include leases, land sales, parking fees, and other miscellaneous charges.
3. Airport Management should clarify the definition and the treatment of expenses related to the sale or lease of property.

Opportunity for Improvement

1. Airport Management should assign a primary contract owner or administrator for all agreements.

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Observation 1

- Airport property and revenue management system user access was not regularly reviewed.
- There were employees with levels of access not required for their job responsibilities.

Although mitigating controls were in place, system user access should be updated as employees change roles or leave the organization.

Administrator access should be limited to assigned individuals that do not have revenue management responsibilities.

Management Response

City Finance agrees with the recommendation and will review system account access on an annual basis starting with the end of 2023.

Recommendation

City Finance Management should:

- Monitor user access on an ongoing basis and modify as required.
- Conduct annual user access reviews and develop related documentation.

Observation 2

- The quarterly revenue reconciliation of general ledger accounts to internal records, including the annual rates and charges model, completed by the COS Finance team included the following sources of revenue: airline landing fees, diversions, loading bridges rent, terminal building rent, gate usage, air cargo, and rental car sales.
- The reconciliation did not include leases, land sales, parking fees, and other miscellaneous charges.

Reconciliation of all revenue sources helps to ensure accurate invoicing and recording of revenue.

Management Response

The COS Finance team agrees with the recommendation. The timeframe and ability to reconcile the additional sources of revenue is dependent on resource availability.

Recommendation

COS Finance should:

- Expand the quarterly revenue reconciliation to include leases, land sales, parking fees, and other miscellaneous charges.
- Document the process used to complete the quarterly reconciliation.

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Observation 3

We noted that, per the contract between the City and the business park master developer, expenses for legal fees and commissions may be treated as demonstrable costs or as closing costs related to the sale of property.

We noted that support was not available for some legal fees included in closing documents.

Management Response

Airport Management agrees with the recommendations. The Airport will work with the City Attorney's Office to amend the agreement and provide clarification on the definition and treatment of expenses related to the sale and lease of property. The amendment will be completed by May 31, 2023. The Airport will request that title companies provide additional information related to legal fees and expenses reported on settlement statements moving forward. The Airport will finalize a reconciliation of settlement costs for all sales moving forward.

Recommendation

Airport Management should:

- Clarify the definition and the treatment of expenses related to the sale or lease of property. Amend the contract with the developer as required.
- Obtain support for all expenses, including legal fees.
- Complete a reconciliation of settlement costs for all sales and leases.

Opportunity for Improvement 1

We noted that COS Airport did not have primary contract owners assigned to agreements to ensure that all contract requirements were met.

Management Response

The Airport Properties Department initiated assigning contract administrators in August 2022. Full implementation had taken place and was effective as of December 1, 2022.

Recommendation

Airport Management should assign a primary contract owner or administrator for all agreements. Designated contract owners should:

- Ensure that contractual obligations of the contractor are met,
- Contract pricing and discounts are correctly reflected on invoices, and,
- For revenue contracts, that contract pricing is correctly reflected on invoices/sales orders before issuance.