

### **AIRPORT COMMISSION:**

Concession Audit of  
China Airlines, Ltd.

**FINANCIAL AUDITS  
DIVISION**



*March 30, 2006  
05031*



**CITY AND COUNTY OF SAN FRANCISCO**

**OFFICE OF THE CONTROLLER  
FINANCIAL AUDITS DIVISION**

**Ed Harrington  
Controller**

**Monique Zmuda  
Deputy Controller**

March 30, 2006

Audit Number 05031

San Francisco Airport Commission  
P. O. Box 8097  
San Francisco International Airport  
San Francisco, CA. 94128-8097

President and Members:

The Office of the Controller presents its report concerning the audit of China Airlines, Ltd. China Airlines has a lease and use agreement with the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for its air transportation business. China Airlines operates both a passenger and a cargo business at SFO.

**Reporting Period:** July 1, 2002, through June 30, 2005

**Fees Paid:** \$4,417,385

Although China Airlines correctly paid most of its landing fees to the Airport Department (Airport), China Airlines understated the maximum landing weight for some of its aircraft starting in June 2004 and as a result, underpaid its landing fees by \$50,594 during the reporting period. After we informed China Airlines of this error, China Airlines began correctly reporting the maximum landing weight for its aircraft starting in December 2005.

China Airlines' response is attached to this report. The Controller's Financial Audits Division will be working with the Airport to follow up on the status of the recommendations made in this report.

Respectfully submitted,

*Original signed by:*  
Noriaki Hirasuna  
Director

# INTRODUCTION

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## BACKGROUND

China Airlines, Ltd. (China Airlines) has a lease and use agreement with the Airport Commission (commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for China Airline's passenger and cargo air transportation business. The agreement, dated July 1, 1981, requires China Airlines to submit to the Airport Department (Airport) a monthly report showing China Airline's revenue aircraft landings. According to the agreement, *revenue aircraft landings* are those aircraft arrivals for which the airline receives a monetary fee. The agreement also requires that China Airlines submit to the Airport monthly reports that categorize the revenue landings by type of aircraft and according to other data necessary to calculate the landing fees.

The Airport charges China Airlines a landing fee based on the maximum landing weight of aircraft making revenue landings at SFO. For every 1,000 pounds of aircraft landed, the commission sets a fee that it may change annually. For the period we reviewed, the commission set a fee of \$3.986 for fiscal year 2002-03, \$3.930 for fiscal year 2003-04, and \$3.214 for fiscal year 2004-05.

## SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether China Airlines complied from July 2002 through June 2005 with the reporting and payment provisions of its agreement with the commission.

To conduct the audit, we reviewed the applicable terms of the agreement and the adequacy of China Airlines' procedures for recording, summarizing, and reporting revenue aircraft landings. We tested a sample of China Airlines' landing records that occurred between July 2002 through June 2005, to determine whether China Airlines reported accurately the number of revenue landings and the aircrafts' maximum landing weights. Finally, we determined whether China Airlines owes any payments to the Airport for the three-year audit period.

# AUDIT RESULTS

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## CHINA AIRLINES CORRECTLY REPORTED ITS LANDINGS BUT MADE SOME ERRORS IN PAYING ITS LANDING FEES

From July 1, 2002, through June 30, 2005, China Airlines reported 1,887 revenue aircraft landings and paid \$4,417,385 in landing fees to the Airport. However, China Airlines' passenger business underpaid landing fees of \$50,594 because it began in June 2004 to understate some aircraft's maximum landing weights, which provide the bases for assessing landing fees. The table below shows China Airlines' reported total revenue aircraft landings, landing fees paid to the Airport, and additional landing fees due for its passenger business.

TABLE

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### Revenue Aircraft Landings and Fees Paid July 1, 2002, Through June 30, 2005

	Number of Landings	Landing Fees Paid	Additional Landing Fees Due
<b>China Airlines – Passenger</b>			
July 1, 2002, through June 30, 2003	347	\$871,381	0
July 1, 2003, through June 30, 2004	366	901,464	\$3,927 *
July 1, 2004, through June 30, 2005	365	692,362	46,667
Passenger Totals	1,078	\$2,465,207	\$50,594
<b>China Airlines – Cargo</b>			
July 1, 2002, through June 30, 2003	234	\$618,036	0
July 1, 2003, through June 30, 2004	258	656,637	0
July 1, 2004, through June 30, 2005	317	677,505	0
Cargo Totals	809	\$1,952,178	0
Grand Total	1,887	\$4,417,385	\$50,594

*\*The additional landing fees due for July 1, 2003, through June 30, 2004, are reported net of a \$789 credit due China Airlines for an overpayment from the prior period.*

### China Airlines Reported Incorrect Landing Weights for Some Aircraft

From June 2004 through July 2005, China Airlines reported 393 landings of its B747-400 aircraft as having maximum landing weights of 590,000 pounds, and paid its landing fees based on

those weights. However, the correct maximum landing weight for the aircraft is 630,000 pounds. China Airlines reported the lower weight because it had obtained the Federal Aviation Administration's authorization to use alternate weights as maximum landing weights for several aircraft and believed that the Airport had given consent for China Airlines to use the lower alternate maximum landing weights to pay its landing fees. However, these alternate weights do not meet the reporting requirements specified in China Airlines' agreement with the commission. The agreement (Section 403.B) specifies that monthly landing fees are to be calculated on the basis of the maximum landing weight for each revenue landing at SFO. The agreement (Section 101.O) defines *maximum landing weight* as the maximum weight that the Federal Aviation Administration authorizes for each aircraft operated by China Airlines that lands at SFO.

The China Airlines station manager stated that she had communicated China Airlines' intention to report an alternate maximum landing weight for its aircraft, and believes she had tacit approval for this practice from an Airport property manager. However, the Airport property manager informed us that she did not understand that China Airlines' request was for use of an alternate maximum landing weight. The Airport's assistant deputy director of aviation has confirmed that the Airport policy has not changed and that the use of an alternate maximum landing weight is not appropriate because there is only one maximum landing weight and that is the highest maximum landing weight.

After we informed China Airlines of this error, China Airlines began correctly reporting the maximum landing weight for its aircraft starting in December 2005.

### **China Airlines Must Pay Interest on The Landing Fees It Owes to the Airport**

Because China Airlines did not pay all its landing fees when due, China Airlines also owes the Airport \$7,607 in interest. China Airline's lease (Section 405) required China Airlines to pay monthly interest of 1.5 percent for any overdue landing fees. We identified the net amount of landing fees that China Airlines had not paid each month, and calculated the interest that China Airlines owes the Airport through December 31, 2005.

## RECOMMENDATIONS

The Airport Department should take the following actions:

- Bill and collect from China Airlines, \$50,594 in landing fees it did not pay during the audit period.
- Bill China Airlines for the underpaid landing fees from July through November 2005 because it incorrectly reported a lower, alternate maximum landing weight.
- Collect from China Airlines interest charges on the landing fees it did not pay on a timely basis. As of December 31, 2005, we calculated that China Airlines owes the Airport \$7,607 in interest charges for the fees it did not pay for the audit period. The Airport should also calculate the interest charges for the underpayment of fees outside our audit period, and continue assessing additional interest until China Airlines pays the outstanding rent due.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Ben Carlick, Audit Manager  
Houman Boussina

## CHINA AIRLINES (CARGO) RESPONSE TO THE AUDIT:

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CHINA AIRLINES

Cargo Sales & Services  
648 Westfield Road  
S.F.I.A.  
San Francisco, CA 94128  
Tel: (650) 877-3930 (Sales)  
(650) 877-3925 , 877-3926 (Exp.Svc)  
(650) 877-3927 (Imp.Svc)  
Fax: (650) 952-2930

**March 22, 2006**

**Mr. Noriaki Hirasuna  
Director  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, Ca. 94102**

**Dear Mr. Hirasuna:**

**This is to acknowledge your letter dated March 14, 2006.  
Under Audit Number 05031.**

**As far as your audit report to the Cargo Division of China Airlines, Ltd.,  
we agree with your report dated from July 01, 2002 through June 30,  
2005 with no additional landing fees due for China Airlines Cargo  
Division.**

**Sincerely yours,**

  
**Steven Wu  
Cargo Manager, San Francisco U.S.A.**

## CHINA AIRLINES (PASSENGER) RESPONSE TO THE AUDIT:

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1350 Old Bayshore Hwy., Suite 540  
Burlingame, California 94010  
Tel: (650) 931-8000 / Fax: (650) 931-8019  
Reservation: 1(800) 227-5118

March 22, 2006

Mr. Noriaki Hirasuna  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. Hirasuna,

We acknowledge receipt of your audit report regarding landing fees for the period from July 01, 2002 through June 30, 2005. After we reviewed your report, we regret that there was a discrepancy of underpayment caused by maximum landing weight data change. Actually, it was a misunderstanding between our Station Manager and the Airport Aviation Management. In the month of May 2004, our Station Manager did consult with the Airport Aviation Management and the Airport Accounting office concerning B747-400 maximum landing weight change from 630,000 lbs to 590,000 lbs which was authorized by FAA to use as alternate maximum landing weights. Therefore we filed the landing weight change form AWDF provided by the airport accounting office via e-mail. We assumed it's the official consent from the Airport so we started using lower weights to report it starting June 2004. We did not realize the alternate maximum landing weights do not meet the requirements specified in our agreement with the commission. After we were informed by the City about the mistake we corrected it immediately in December 2005.

We will pay the underpaid landing fees as soon as possible, however due to the discrepancy was caused by honest misunderstanding, we would like to request your kind approval to waive the interest charges accrued. Your favorable consideration would be much appreciated.

Sincerely yours  
CHINA AIRLINES,

Hsiao Hsing Tung  
General Manager, San Francisco Branch  
(Passenger Division)

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Public Library