

AIRPORT COMMISSION:

Concession Audit of
Astar Air Cargo, Inc.

FINANCIAL AUDITS



August 21, 2006
05032



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

August 21, 2006

Audit Number 05032

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 Astar Air Cargo, Inc. (Astar). Astar has an operating permit 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 cargo transportation business. Instead of reporting its own landings, Astar contracts with DHL Express (USA), Inc. (DHL) to report Astar's monthly landings and pay the associated landing fees.

Reporting Period: November 1, 2003, through June 30, 2005

Fees Paid: \$880,088

DHL made errors in reporting Astar's landings and paying its landing fees. Instead of reporting only Astar's landing data, DHL incorrectly included the landings of another airline company, Ameriflight, Inc., as part of Astar's landing data. Although DHL, in all material respects, correctly reported the 844 revenue aircraft landings made by Astar, and correctly paid the related landing fees of \$835,943, DHL incorrectly reported 405 landings by Ameriflight as landings made by Astar, and paid the related landing fees of \$44,145. Because DHL may have reported some Ameriflight landings on Astar's landing reports that Ameriflight had separately reported, DHL needs to determine if some landings were reported twice. Because Astar did not review the landing reports submitted on its behalf by DHL, Astar did not detect these errors.

Astar's response is attached to this report. The auditors will be working with the Airport Department to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Original signed by:

Noriaki Hirasuna

Director of Financial Audits

FINANCIAL AUDITS

INTRODUCTION

BACKGROUND

Astar Air Cargo, Inc. (Astar) has an operating permit 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 Astar's air cargo transportation business. Astar entered this permit on November 1, 2003. The permit requires Astar to submit to the Airport Department (Airport) a monthly report showing Astar's actual revenue aircraft landings by type of aircraft and other landing data necessary to calculate the landing fees.

The Airport charges Astar 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 \$3.930 for fiscal year 2003-04 and \$3.214 for fiscal year 2004-05.

According to Astar's operations controller, prior to June 2003, DHL Airways, Inc. operated the air cargo business in support of DHL Worldwide Express, Inc.'s package delivery business. DHL Airways, Inc. had an operating permit at SFO. On July 14, 2003, Astar purchased DHL Airways, Inc. and began reporting landings at SFO in November 2003. DHL Worldwide Express Inc. is now known as DHL Express (USA), Inc. (DHL). Under an agreement between Astar and DHL, DHL reports Astar's landings and pays Astar's landing fees to the Airport. All of Astar's landings at SFO were contracted with DHL during the audit period, according to Astar's director of operations.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine if Astar complied with the reporting and payment provisions of its permit with the commission. Our audit period was November 1, 2003, through June 30, 2005.

To conduct the audit, we reviewed the applicable terms of the permit and the adequacy of Astar's and DHL's procedures for recording, summarizing, and reporting revenue aircraft landings.

We tested on a sample basis whether DHL accurately reported Astar's revenue aircraft landings and the maximum landing weights of Astar's aircraft landed at SFO. We also determined whether Astar has any outstanding payments due to the Airport for the audit period.

AUDIT RESULTS

DHL MADE ERRORS IN REPORTING AND PAYING ASTAR'S AIRCRAFT LANDINGS FEES

From November 1, 2003, through June 30, 2005, DHL reported that Astar had 1,249 revenue aircraft landings and paid \$880,088 in landing fees to the Airport. Although DHL, in all material respects, correctly reported the 844 revenue aircraft landings made by Astar, and correctly paid the related landing fees of \$835,943, DHL incorrectly reported 405 landings by another airline, Ameriflight, Inc., as landings made by Astar. The table below shows Astar's total revenue aircraft landings reported by DHL, as well as Ameriflight landings, and the associated landing fees paid by DHL.

TABLE

**Astar Revenue Aircraft Landings and Fees Paid
November 1, 2003, Through June 30, 2005**

	Number of Landings	Landing Fees Paid
Astar		
November 1, 2003, through June 30, 2004	328	\$365,358
July 1, 2004, through June 30, 2005	516	470,585
Sub-total	844	\$835,943
Ameriflight *		
November 1, 2003, through June 30, 2004	166	\$18,094
July 1, 2004, through June 30, 2005	239	26,051
Sub-total	405	\$44,145
Total	1,249	\$880,088

* We did not audit the Ameriflight landings at SFO that DHL reported in Astar's landing reports.

Each airline that has a permit to operate at SFO is to submit a monthly landing report to the Airport that lists the number of aircraft landings at SFO. Since Astar and Ameriflight each have a permit to operate at SFO, each airline should report its landings at SFO on its own landing reports. Because DHL reported some of Ameriflight's landings on Astar's landing reports, the Airport is

unable to properly account for landings at SFO by each permitted air carrier, including Astar and Ameriflight.

DHL's director of hub/network accounting & finance informed us that DHL may have reported and paid for some landings that Ameriflight had also reported and paid to the Airport. However, DHL was not able to provide us the number of landings, if any, that Ameriflight separately reported.

Astar Did Not Review the Landing Reports That DHL Submitted to the Airport

Although Astar contracted with DHL to report Astar's aircraft landings at SFO, Astar did not verify that the reported landings were correct. Since Astar is the permitted carrier, Astar is responsible for ensuring that its aircraft landings are correctly reported. Astar's operations controller stated that Astar and DHL have monthly meetings and internal statistical checks that would minimize possible errors in DHL's reporting of aircraft landings on the behalf of Astar. However, had Astar reviewed the landing reports submitted by DHL, Astar could have detected the Ameriflight's aircraft landings that DHL reported on Astar's landing reports.

RECOMMENDATIONS

The Airport Department should take the following actions:

- Require Astar to inform DHL to not report in Astar's landing reports the aircraft landings of other air carriers that have permits to land at SFO. Also require Astar to review and sign the landing reports prepared by DHL to ensure that the reported landings are correct.
- Require Ameriflight and DHL to verify that they did not report in duplicate some Ameriflight landings. If they did, Ameriflight and DHL should submit to the Airport corrected landing reports for Ameriflight and Astar. Further, the Airport should require Ameriflight and DHL to submit adequate records that support their corrected landing reports.

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

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**ASTAR AIR CARGO, INC.
RESPONSE TO THE AUDIT:**



August 14, 2006

Noriaki Hirasuna
Director of Financial Audits
Office of the Controller City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Via facsimile: 415-554-7664

Dear Mr. Hirasuna:

I have reviewed the draft audit report provided by your staff on August 14th, 2006.

ASTAR has discontinued all scheduled flights to SFO at this time. However, we have informed DHL that if ASTAR again operates such flights to support DHL requirements, DHL should provide ASTAR with SFO departure reports for review prior to submittal to SFO authorities. Also, ASTAR has informed DHL of the requirement that B727 weights be reported in more detail.

Sincerely,

A handwritten signature in black ink that reads "Martin Godly". The signature is written in a cursive, flowing style.

Martin Godly
Director, Operations Finance and Controller

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cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
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