

July 13, 2004

Internal Audit Report 2004-10
Airport Management System
Merrill Field Airport

Introduction. In the early 1980's, Merrill Field Airport (Merrill Field) started to "computerize" their operations. Merrill Field had the usual combination of standard government reporting along with unique requirements specific to a municipal airport. As requirements increased, it was obvious that an integrated system needed to be developed to handle the majority of Merrill Field's specific requirements.

The present Airport Management System (AMS) was originally written in 1985-1986. The program was designed to replace all manual management and reporting methods, as well as those functions completed with the use of early word processors and spreadsheets. From 1987-1996 some modifications and refinements were added to fill gaps and to take advantage of the newer and more powerful personal computers. In 1996, Pentium personal computers and Windows 95 arrived at Merrill Field. Although the old AMS program kept working, there was no way to take advantage of the power of the new operating system and Pentium computers with an old DOS-based program. In addition, an Internal Audit report identified some deficiencies with regards to security and data accountability, and recommended that program changes be included when the next software updates were made.

In 1998, Merrill Field made the decision to have the AMS software packages rewritten to address all year 2000 issues, including those identified by Internal Audit. Since 1998, Merrill Field has spent about \$64,000 on software and consulting services to maintain and upgrade the AMS.

Objective and Scope. The objectives of the audit were to determine whether the AMS database was accurate and proper controls had been implemented to ensure integrity of the data. Specifically, we

judgementally selected and tested accounts receivable for completeness and accuracy, analyzed system processes and reviewed the adequacy of cash control procedures. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April 2004 through May 2004. The audit was requested by the Administration.

Overall Evaluation. Although our testing found that improvements have been made to the AMS, our testing did reveal some areas of concern. Specifically, we found that several processes in the AMS could be improved such as automatic calculation functions and the processing of prepaid revenue. In addition, the monthly fee for direct access to a runway or taxiway was not correct and Merrill Field staff did not utilize established AMS customer numbers when billing or collecting temporary fees. Moreover, Merrill Field staff had not performed a reconciliation of AMS revenues with PeopleSoft records since about April 2003. A reconciliation of the AMS is important because Merrill Field received nearly \$1.0 million in receipts in 2003. Finally, cash control procedures need improvement.

FINDINGS AND RECOMMENDATIONS

1. AMS Processes Could Be Improved.

- a. Finding.** Several processes in the AMS could be improved. Specifically, we found that Merrill Field personnel bypassed the automatic calculation functions within the AMS and were manually calculating refunds and invoices. For example, according to Merrill Field staff, the automatic calculation function for refunds inaccurately calculated refund amounts. Consequently, Merrill Field staff have been manually calculating refunds, resulting in errors in 5 of the 20 cash vouchers we sampled. Moreover, we found that revenues were not reduced when refunds were processed

through the AMS. Although Merrill Field does not utilize the AMS for financial reporting, the revenue in the AMS was overstated.

In addition, Merrill Field receives advance payment of fees. This “prepaid” revenue is placed into a temporary account when it is received. The current system does not link prepaid accounts to the revenue code table. Therefore, at year-end this revenue must be manually researched and coded to the proper revenue accounts.

b. Recommendation. Merrill Field personnel should use the automatic calculation functions within the AMS. In addition, the Merrill Field Airport Manager should consider revising the AMS to allow for a reduction in revenues when refunds are issued, as well as revise the prepayment conversion process to minimize manual efforts at year-end.

c. Management Comments. Management stated, “We concur, but would like to make the following notes regarding two of the specific findings:

- The automatic refund calculation function is bypassed because it has been found to yield incorrect results on the first and last days of the first and last months of each quarter. As a result, all refunds are calculated manually.
- When all cash vouchers are considered, the error rate of manually calculated refunds is less than 5%, compared to the 25% rate implied in the finding.

“We further concur with and acknowledge the shortcomings in AMS as currently written. The costs to re-write those portions of AMS are being investigated in an effort to weigh them against the benefits of the proposed revisions. Estimated completion date is December 31, 2004.”

d. Evaluation of Management Comments. Management comments were responsive to the audit finding and recommendation. However, our review analyzed the backup

documentation for the cash vouchers to come up with our 5 of 20 ratio, while Merrill Field personnel relied on the comments section alone to come up with their estimated 5% error rate.

2. Airport Access Fee Incorrect.

- a. **Finding.** The monthly fee for direct access to a runway or taxiway (access fee) was not correct. According to Anchorage Municipal Code 11.60.200, Fees and Charges, the access fee should be 33 1/3 percent of the current tail-end tiedown fee. However, when the tail-end tiedown fee was increased from \$40 to \$45 in January 2004, the access fee in the AMS was not manually revised to reflect the change in the new tail-end tiedown fee.
- b. **Recommendation.** The airport access fee in the AMS should be manually revised to reflect 33 1/3 percent of the current tail-end tiedown fee (\$45).
- c. **Management Comments.** Management stated, “We concur. The correction was made immediately to the one affected customer account.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation. Although, at the time of this audit, the airport access fee only affected one customer, if this incorrect fee had gone on undetected, it would have resulted in lost revenue to the Municipality given this fee is to be assessed on each aircraft wanting direct access to a Municipal runway or taxiway from land used in whole or in part for aviation activities.

3. Customer Numbers Not Utilized.

- a. **Finding.** We found that Merrill Field staff did not utilize established AMS customer numbers when billing or collecting temporary fees. For example, customers who

paid a security deposit for the use of a remote control to open locked gates were billed under a temporary account number instead of their actual customer numbers. As a result, when customers returned the remote controls for refunds, Merrill Field staff had to conduct a manual search of records to ensure a refund was due.

- b. **Recommendation.** Merrill Field staff should utilize established customer numbers when billing and collecting any Municipal fee.
- c. **Management Comments.** Management stated, “We will review the use of established customer numbers when receiving payments for gate access cards and change our process if it is found to be more advantageous. Estimated completion date is December 31, 2004.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation. If existing customer numbers were utilized, the manual process of researching records could be eliminated and the customer could be served faster.

4. **Deposits Not Reconciled.**

- a. **Finding.** Merrill Field staff had not performed a reconciliation of AMS revenues with PeopleSoft records since about April 2003. A reconciliation of the AMS is important because it identifies errors and differences between the two systems. A reconciliation also identifies any items that have been recorded but not received, and discloses items that should have been recorded but have not been. During our reconciliation of AMS revenues to Peoplesoft deposit records for 2003, we found six input errors and AMS issues which resulted in a net difference of nearly \$2,800. Although the net difference was small, not reconciling and identifying differences increases the risk of loss and misappropriation. In addition, delays in performing reconciliations could result in significant differences going undetected. A

reconciliation of the AMS is important because Merrill Field received nearly \$1.0 million in receipts in 2003.

- b. Recommendation.** Merrill Field personnel should reconcile revenue recorded in the AMS to Peoplesoft deposit reports on a quarterly basis to locate errors and account for differences between the two amounts. In addition, any discrepancies between AMS records and Peoplesoft deposit reports should be investigated and resolved timely.
- c. Management Comments.** Management stated, “We concur. However, alternate, less time-consuming means have been in place which analysis has shown to be effective in detecting errors. The bulk of the \$2,800 difference cited in the finding was attributable to AMS deficiencies as stated in Finding 1, of which we were aware. As recommended, we will begin quarterly reconciliation with the quarter ended June 30, 2004.”
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. Cash Controls Need Improvement.

- a. Finding.** Cash control procedures need improvement. Specifically, we found the following violations of Municipal Policy and Procedure (P&P) 24-1, Collecting, Securing, Depositing and Reporting Cash:

 - 1) The safe containing the previous day’s receipts and their petty cash fund was sometimes left open during the day.
 - 2) The combination to the safe was not changed when staff terminated.

- 3) The day's cash receipts were stored in an unlocked desk drawer.
 - 4) Employees performing cashier duties had not attended the mandatory annual cashier's training.
- b. Recommendation.** Merrill Field personnel should comply with P&P 24-1. Specifically, the safe should be locked at all times, the safe combination should be changed when employees terminate, and cash receipts should be stored in a locked cash box or cash register. In addition, employees should attend the annual cashier's training conducted by the Finance Department.
- c. Management Comments.** Management stated, "We concur. Estimated completion date is July 31, 2004."
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on May 25, 2004.

Audit Staff:
Ellen Luellen