
Office of Inspector General

***Management Advisory Memorandum
on City of Los Angeles' Department
of Airports Revenue Retention***

Report Number: R9-FA-7-005

Date Issued: March 7, 1997





**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

Subject: ACTION: Management Advisory Memorandum
on City of Los Angeles' Department of Airports
Revenue Retention
Report No. R9-FA-7-005

Date: March 7, 1997

From: Joyce N. Fleischman
Acting Inspector General

Reply to
Attn of: J-1

To: Acting Federal Aviation Administrator

I. INTRODUCTION

Pursuant to a request from the Federal Transit Administrator (FTA), dated December 20, 1996, we completed a limited-scope audit of the city of Los Angeles' (city) Department of Airports (airports) revenue retention. This request was based on the Fiscal Year (FY) 1997 Department of Transportation (DOT) Appropriations Act (Act) Conference Report (Report 104-785, Amendment No. 87). The Conference Report stated:

...[T]he conferees are troubled by reports that the City of Los Angeles may be considering the illegal diversion of airport revenues to the city's general fund. Accordingly, the conferees direct that the FTA may only award up to fifty percent of the funding provided for the Los Angeles MOS-3 project in this Act to the Los Angeles Metropolitan Transportation Authority prior to April 1, 1997, provided the department's inspector general (IG) certifies in writing that no revenue has been diverted illegally from the Los Angeles airports to the City of Los Angeles since the enactment of this Act [September 30, 1996]. Similarly, no additional funds may be apportioned after that date unless the IG certifies that no illegal airport revenues diversion has occurred during the fiscal year. It is the intent of the conferees that the IG

conduct an expeditious review of this matter so as to not unduly delay the award of funds to the project.

Our objective was to determine if prohibited revenue diversions from airports to the city have occurred since enactment of the Act, September 30, 1996. We conducted our audit at the city of Los Angeles offices including Department of Airports locations in Los Angeles, Ontario, and Van Nuys, California (state), in January and February 1997. Our scope was limited to payments from airports to the city from September 30, 1996 to January 31, 1997. We also followed up on the status of corrective actions regarding issues included in our prior report, Monitoring of Accountability and Use of Airport Revenues by City of Los Angeles, Department of Airports, Report Number R9-FA-6-001, dated October 30, 1995.

The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, and included such tests of records and transactions as considered necessary. We interviewed city officials, including airports officials, and reviewed financial documentation related to payments to the city and revenue received by airports, and the city's use of airport property. Our audit did not include a review of work performed by other auditors, including the annual single audit, or management controls.

II. RESULTS OF AUDIT

Discussion

We identified three areas where prohibited airport revenue diversions to the city occurred after enactment of the Act. In addition, several prohibited revenue diversions identified in our previous audit, occurring prior to the Act, continue to be unresolved.

Prohibited Diversions Since September 30, 1996

Prohibited revenue diversions since September 30, 1996, include (i) excessive sponsor support service charges, (ii) airport traffic and parking citation revenue retained by the city, and (iii) rent-free use of airport property by the city.

Sponsor Support Service Charges

Support service charges assessed airports by the city were excessive. The charges included items such as utilities, building maintenance, janitorial services, and use of space even though they were provided to the Fire Department, Police Department, and City Attorney's Office by airports, at no charge. The final FY 1995/1996 support service charges included \$445,700 in excessive costs. Airports paid the final FY 1995/1996 support service charges on October 7, 1996. In addition, some direct billings from the Public Works Department incorrectly applied city-developed overhead rates instead of Cost Allocation Plan (CAP) rates. Airports paid these excessive charges, totaling \$8,600, to the city after September 30, 1996.

Airport Traffic and Parking Citations

Airport revenues from traffic and parking citations issued by airport police on airport property were inappropriately diverted to the city. Approximately \$445,000 was transferred to the city's general fund from October 1, 1996 to January 31, 1997. The estimated dollar values identified are net proceeds from fines after deducting state, Los Angeles county, and city contractor administrative and court expenses. This issue is fully described and discussed in our Report Number R9-FA-6-001.

Airport Property

We identified six parcels where airports was not receiving revenue for the city's nonairport-related use of airport property (see exhibit). As a result, airport revenues, equivalent to reasonable rent totaling \$152,800, from October 1, 1996 to January 31, 1997, were effectively a prohibited revenue diversion.

Unresolved Prohibited Diversions Prior to September 30, 1996

Prohibited revenue diversions to the city prior to September 30, 1996, include (i) airport traffic and parking citation revenue retained by the city, (ii) nonairport-related city use of airport property rent-free, (iii) nonairport-related consultant and lobbying fees, and (iv) sponsor support service charges. These revenue diversions were identified in

our prior audit, Report Number R9-FA-6-001, dated October 30, 1995. FAA has not provided a reply to that report and the issues raised remain unresolved. Two additional potential prohibited diversions, documented subsequent to our prior audit report, are also unresolved. These potential prohibited diversions relate to a payment to the city of \$58.5 million for airport property sold in 1985 relating to the Century Freeway, and payment of over \$31 million for alleged unreimbursed capital and operating expenses from 1928 through 1971.

Airport Traffic and Parking Citations

The city has not refunded the \$2.4 million in airport parking and traffic citation revenues deposited in the city's general fund. Federal Aviation Administration (FAA) disagreed with our finding in its September 8, 1995, response to our draft report. In our final report, we asked FAA to reconsider its position. We have not received a response from FAA. Therefore, on August 30, 1996, we referred the issue to the DOT Assistant Secretary for Administration for resolution. This matter has not been resolved. The city continues to divert these airport revenues to the city's general fund.

Airport Property

We identified seven parcels in our prior report where airports was not receiving revenue (rent) for the city's use of airport property for nonairport-related purposes. As a result, for FYs 1992, 1993 and 1994, airport revenues totaling \$1,119,100 were effectively diverted. FAA agreed with our finding in its September 8, 1995, response to our draft report, stating:

We [FAA] view a sponsor's practice of leasing nonaeronautical facilities for less than market value to various component parts of the sponsor as unlawful revenue diversion. The FAA will seek to have the sponsor reimburse the airport account the difference between what was actually charged and the market value.

Notwithstanding FAA's concurrence, airports has not been reimbursed for the prior use, and the city continues to use property without paying rent.

Consultant and Lobbying Fees

In its reply to our draft of Report Number R9-FA-6-001, FAA agreed the city should reimburse airports for two prohibited diversions totaling \$834,300, related to inappropriate consultant and lobbying fees. As of January 31, 1997, the city had not reimbursed the airport.

Sponsor Support Service Charges

We identified two issues in our prior report regarding support service charges. In its reply to the draft of that report, FAA concurred with one issue. FAA agreed the city should ensure sponsor support service charges billed to airports were based on one rate; either the city-developed rate or CAP rate. On December 27, 1995, the city issued a memorandum which requires all billings to airports be based on the CAP. However, during our current audit, we determined that some billings from the Public Works Department submitted after October 1, 1996, applied the city-developed overhead rates instead of the CAP.

The second issue involved our prior audit recommendation that FAA require the sponsor to “determine actual airports support service charges in accordance with FAA criteria and GAAP, and refund any of the unsupported costs and lost interest involved in payments made to the sponsor from FY 1984 through 1994.” The second issue has not been resolved. In its response to our draft report, FAA stated “There is a pending Federal court case on this matter [airports rates and charges] and the resolution of this item should be deferred.” The suit is scheduled for a hearing before the U.S. District Court in March 1997.

Sale of Airport Property

On November 4, 1985, the State of California, through condemnation, took possession of a strip of land at the south end of Los Angeles International Airport for construction of the Century Freeway project. The proceeds from the transaction were deposited in airports’ account. On February 25, 1994, the city requested DOT’s concurrence to transfer the proceeds to the city’s general fund. On February 28, 1995, the FAA Associate Administrator for Airports concluded “. . . the FAA does not

at this time intend to initiate action regarding the transfer of the condemnation proceeds to the City's general fund....” On March 8, 1995, airports transferred \$58.5 million, all of the proceeds plus interest, to the city's general fund.

On March 21, 1995, and on May 4, 1995, the Air Transport Association and Aircraft Owners and Pilots Association, respectively, submitted formal complaints (combined as docket number 13-95-5) to FAA regarding the transfer. In our May 17, 1996, Management Advisory Memorandum, we advised FAA there was evidence that airports, not the city, actually paid for the land. In addition, the land had a value of only \$13.4 million. According to the appraisal, \$17.6 million related to air rights, easements, and severance damages. The remaining costs airports paid the city, \$27.5 million, related to interest. On December 24, 1996, FAA requested additional information from airports. As of February 19, 1997, airports had not responded to the FAA, and the city had not refunded any of the \$58.5 million.

Capital and Operating Expenses

On September 27, 1996, airports transferred \$31.1 million to the city's general fund for alleged unreimbursed past contributions of capital and operating expenses provided by the city between 1928 and 1971. On November 13, 1996, FAA advised the city the transfer was not justified and the city should return the funds to airports. On December 16, 1996, FAA issued a formal notice to the city that FAA is investigating the issue and if the matter is not resolved, sanctions may be imposed. On January 23, 1997, airports responded to FAA's questions concerning the transfer. At the time of our limited-scope audit, FAA had not yet completed its review of the information provided by the city.

Additional Information

On February 12, 1997, Mr. Breton K. Lobner, Senior Assistant City Attorney, Office of City Attorney, City of Los Angeles (Senior Counsel to the Executive Director of Airports), informed the Office of Inspector General's (OIG) Assistant Inspector General for Auditing that airports had approximately \$20 million of city billings that have not been paid.

He stated airports was withholding payment pending advice from FAA regarding OIG Report Number R9-FA-6-001.

Recommendations

We recommend the Acting FAA Administrator:

1. Expedite FAA's reply to Report Number R9-FA-6-001 so the issues can be resolved and the Department can provide the city, and airports, a unified position.
2. Advise the city of the Department's position on legitimate capital and operating costs chargeable to airports.

Management Response

FAA management did not provide a written response to our February 28, 1997, draft Management Advisory Memorandum.

Action Required

In accordance with DOT Order 8000.1C, please provide written comments to this Management Advisory Memorandum within 30 days. We ask that your reply include a statement of concurrence or nonconcurrence with our results and recommendations. For concurrence, we would like to know the actions taken and planned for each recommendation, and estimated completion dates. For nonconcurrence, we would appreciate an explanation of your position. Please feel free to propose alternative courses of action to correct the problems identified.

If you have any questions or need additional information, please call me on (202) 366-1959, or the Associate Deputy, Raymond J. DeCarli, on (202) 366-1964.

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cc: Federal Transit Administrator

**LOST RENTAL INCOME FROM
FREE USE OF AIRPORTS PROPERTY BY
CITY OF LOS ANGELES FOR THE PERIOD
October 1, 1996 to January 31, 1997**

Property Identification		Property Location	Land Size (Acres)	Building Size (Sq.Ft.)	Paving Area (Sq.Ft.)	Rent Free Property Used by City of LA
1.	Fire Station No. 51	10435 Sepulveda Blvd. Los Angeles, CA	0.4281	8,385	13,212	\$4,175.09
2.	Fire Station No. 95	10010 International Rd. Los Angeles, CA	0.5490	9,472	14,442	\$27,222.33
3.	Fire Station No. 90	7921 Woodley Ave. Van Nuys, CA	1.0070	11,037	-	\$11,723.57
4.	Police and Fire Department Helicopter Facility	8060 Balboa Ave. Van Nuys, CA	2.2705	-	-	\$10,595.67
5.	Los Angeles Police Department Training Unit	1923 Avion Street Ontario, CA	13.3692	6,450	-	\$71,146.00
6.	Motor Training Unit	Airport Southside Ontario, CA	4.7800	6,037	-	\$27,924.67
TOTALS						\$152,787.3

Note: Rental rates were obtained from the Property Department of the Department of Airports. The rental rates were then applied to the percentage of property actually used for nonairport purposes. In addition, fire station rental rates included a determination of purpose as well as usage.