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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK CITY ECONOMIC
DEVELOPMENT
CORPORATION**

EAST 34th STREET HELIPORT

REVENUE OPERATIONS

Report 2007-N-7

AUDIT OBJECTIVES

Our objectives were to determine whether the East 34th Street Heliport records and reports revenue collections accurately and remitted the appropriate rental fees to the New York City Economic Development Corporation.

AUDIT RESULTS - SUMMARY

The East 34th Street Heliport (Metroport), located in Manhattan at 34th Street and the East River, is one of three public heliports in New York City. The Metroport is managed by Macquarie Aviation North America, Inc. (Atlantic), pursuant to an operating agreement (agreement) with the New York City Economic Development Corporation (EDC).

Metroport revenues are derived primarily from helicopter landing, parking, and fuel activities. Under the agreement, Atlantic is required to remit a percentage of its total revenue collections to EDC as a rental fee. For the period January 1, 2004 through March 31, 2006, Atlantic reported \$4,645,148 in revenue collection and remitted \$468,728 to EDC.

Our audit found that Atlantic did not always bill helicopter operators (carriers) the correct charges based on actual heliport activity, and certain Metroport revenues were under reported resulting in underpayments to EDC.

We found that the daily activity logs used to record helicopter activity were altered for

some carriers, resulting in reduced billings and associated rental fees that were not consistent with an established carrier agreement. [Pages 3-4]

We also found discrepancies between the revenue amounts Atlantic reported to EDC and the monthly totals on its daily cash receipt records for 9 of the 27 months in our audit period. We determined that Atlantic under-reported revenue to EDC by \$84,381. Based on this amount, Atlantic owes EDC an additional \$8,438 in rental fees. [Pages 4-5]

Atlantic had a charter flight agreement with one of the carriers using the Metroport. We reviewed the log detailing charter flight activity and determined there were 27 charter flights recorded between January 1, 2005 and March 31, 2006. However, for 15 of the 27 recorded flights we did not see any evidence that the associated revenue was included in the revenue totals reported to EDC. [Page 5]

During our audit period, Atlantic issued 45 credits (reductions) to carrier accounts, totaling \$6,440, for what they claimed to be billing errors. For 17 (\$1,850) of the 45 instances, Atlantic did not document the reasons for the credit. [Page 5]

According to an accounts receivable aging schedule we received from Atlantic, there was \$425,000 in outstanding receivables, \$370,000 of which had been outstanding for over 90 days, and a few for several years. Atlantic officials did not show us any attempts to collect these monies. By allowing these accounts to remain delinquent, EDC loses its proportionate share of Metroport revenues. [Pages 5-6]

Our audit report contains six recommendations to enhance Metroport revenue collection and reporting operations, and EDC's Metroport monitoring activities. EDC officials concurred with several of our recommendations.

This report, dated December 21, 2007 is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The East 34th Street Heliport (also known as the Metroport), located in Manhattan at 34th Street and the East River, is one of three public heliports in New York City. It is managed by Macquarie Aviation North America, Inc. (Atlantic), pursuant to an operating agreement (agreement) with the New York City Economic Development Corporation (EDC).

The Metroport hosts thousands of landings and take-offs each year. Most of the helicopter operators (carriers) using this facility provide corporate or charter flights. Metroport revenues are derived primarily from fees charged to carriers for landing, parking, and fuel activities. Atlantic does not charge carriers a parking fee for the first 15 minutes of parking, or a landing fee if a helicopter lands only to purchase fuel. Atlantic also collected revenues during the audit period for booking charter flights for one of Metroport's carriers.

Under its agreement, Atlantic is required to remit a percentage of its total revenue collections to EDC as a rental fee. For the

period January 1, 2004 through March 31, 2006, Atlantic reported \$4,645,148 in revenue collections and remitted \$468,728 in rental fees to EDC.

AUDIT FINDINGS AND RECOMMENDATIONS

Metroport Billing Activities

Metroport carrier activity (e.g., helicopter take-off, landings, etc.) is recorded by Atlantic staff in daily activity logs, and is the basis for carrier billings. Fees for the various activities are required to be posted publicly and filed with EDC.

We observed 32 helicopter landings and take-offs, and matched the times observed to the daily postings in the activity logs to determine whether Atlantic staff recorded them accurately. We found that the activity logs were accurate for our specific observations.

We also selected a random sample of 25 invoices, totaling \$70,351, and traced them back to the Heliport's general ledger to determine whether the proper amount of revenue was recorded in the accounting records.

We then selected a statistical sample of 14 daily logs prepared during the audit period, consisting of 511 activity entries, and compared 131 of the entries to their associated computer-generated customer billing reports and invoices. We found four instances where either the supporting activity logs or computer-generated billing reports were apparently altered - one of which resulted in a reduced billing. The departure time for this carrier was altered from over six hours to less than 15 minutes, resulting in \$435 in parking fees being eliminated for this carrier. When we brought this issue to Atlantic's attention, we were told about a

charter flight agreement it had with this carrier. The charter flight agreement called for Atlantic to book charter flights for this carrier and, in return, Atlantic would receive a portion of the passenger fees, and the carrier would not be charged for parking. However, our review of the agreement did not find any such provision. While EDC did not take issue with the waiving of parking fees, it did agree with us that records should not be altered. This carrier has since ceased operating this charter service.

To determine the extent of lost Metroport revenues as a result of this charter agreement, we reviewed all 494 entries in the daily activity logs for this specific carrier for calendar years 2004 and 2005, and found 68 entries in the daily activity logs were either written over or whited out. Thus, we could not quantify the value of the original entries. However, for 32 of the 68 entries where the original notations were legible, the alterations were always to the carrier's departure times to negate the parking fee. These alterations resulted in more than \$7,000 in parking fees not being charged to the carrier, and \$700 less revenue to EDC.

Atlantic officials contend that all of these alterations related to the aforementioned charter flight agreement. However, Metroport records showed that 26 of the 32 alterations on calendar year 2005 logs, appeared on days where there were no recorded charter flights. (Charter flight records were not available for calendar year 2004.) According to Atlantic officials, if a helicopter sits, waiting for charter customers that never materialize, they still did not charge the carrier a parking fee - no matter how long they were parked at the Metroport. As stated previously, the agreement does not provide for the waiving of fees.

We note that Metroport activity logs are official Metroport documents and should never be altered to replace correct information with incorrect information. In addition to causing financial discrepancies, altering records will mislead persons or entities relying on this information, and may create a potential legal liability for Atlantic and EDC if, for example, law enforcement officials need specific information regarding carrier arrival and departure times. Instead, actual fees should be charged to carriers based on accurate information and invoices may be credited if appropriate and documented.

Another deficiency noted when reviewing carrier invoices pertained to invoice numbering. Standard controls require invoices to be press-numbered in sequential order to provide accountability over billing transactions. Press-numbered invoices allow for easy identification of missing numbers and, therefore, unbilled transactions. We found that invoices to carriers were manually numbered instead of being pre-printed, and, in some instances, there were unexplained gaps between invoice numbers. For example, between August and September 2005, nine invoices could not be located. Because we have gaps and alterations in records, there is no assurance that all heliport billings, and associated revenue, has been properly accounted for.

Under-Reported Revenue

According to the terms of its initial agreement with EDC, Atlantic was required to remit 10 percent of its gross quarterly revenue collections (receipts) to EDC. In September 2005, the agreement was revised so Atlantic would remit "10 percent of its quarterly gross receipts - or \$50,000 - whichever is greater." The agreement also stipulated that Atlantic would submit a quarterly revenue collection activity statement to EDC, and maintain

complete and accurate records of all Metroport-related financial transactions. While Atlantic has remitted quarterly rental fees to EDC in compliance with agreement time frames, we identified several issues regarding its revenue operations leading us to conclude that EDC has not received its appropriate share of Metroport revenues.

Atlantic records its revenue receipts in a daily cash journal which we were told is the basis for its quarterly activity statements to EDC. In calendar years 2004 and 2005, Atlantic reported revenue collections of \$2 million and \$2.15 million, respectively. To help us assess the reasonableness of its reported revenues, we attempted to compare these amounts to Atlantic's financial statements and tax returns for these years. However, since Atlantic's financial statements and tax returns report revenues for multiple related entities, we could not use them for comparative purposes.

Using the monthly totals on Atlantic's cash receipts journal for the period January 1, 2004 through March 31, 2006, we found several discrepancies between these records and the quarterly activity statements submitted to EDC. For nine of the 27 months, Atlantic under-reported revenue to EDC by a total of \$96,301, and over-reported revenue by a total of \$11,921, resulting in a net under-reporting to EDC of \$84,380, and an additional rental fee liability of \$8,438.

According to Atlantic officials, the noted discrepancies were the result of bookkeeping errors. We recommend EDC officials monitor Atlantic's financial records periodically to help ensure EDC receives its proper share of Metroport revenue.

In addition, as noted above, Atlantic maintains a separate log detailing charter flight activity (e.g., dates of flights, payments made to Atlantic for these flights, etc.).

Because Atlantic's share of charter flight revenue was required to be included in Metroport activity for rental fee purposes, we traced charter flight activity between January 1, 2005 and March 31, 2006 to Atlantic's revenue records. (Metroport credit card sales records were not readily available for calendar year 2004.)

Of the 27 charter flights recorded in the log during this period, we were only able to trace payment information for 17. We could not find any payment documentation for the remaining 10 flights, valued at \$3,675. Further, there was no evidence that any revenue relating to these 10 flights was reported to EDC. For five of the 17 flights where we did find payment documentation, we could not trace the payments to Atlantic's quarterly activity statements to EDC. As such, we conclude that Atlantic under-reported the associated \$1,991 in revenue and owes EDC an additional \$199 in rental fees for these flights.

Credits to Carrier Accounts

During our review of Metroport records we came across several "credit memos" reducing billing invoices to carriers. According to Atlantic officials, credits are issued to carrier accounts to correct billing errors. However, we found that they do not maintain sufficient documentation to support and justify these credits.

For the period January 1, 2004 to March 31, 2006, Atlantic informed us that they issued a total of 26 credit memos, totaling \$6,440, relating to 45 billable events. To verify the validity of these credits, we attempted to trace the information on the credit memos to their associated billing records and supporting activity logs. For 17 of the 45 billable events recorded on credit memos (\$1,850), Atlantic did not document what the exact error on the

original bill was and how the credit amount was calculated. Absent appropriate documentation, EDC should recover its share of these credits (\$185) and require Atlantic to keep complete and accurate documentation supporting all future credits.

Outstanding Accounts Receivable

Since the existing agreement between EDC and Atlantic is based on actual revenue collections, unpaid invoices (outstanding receivables) are not included in Atlantic's quarterly activity statements to EDC. If these outstanding receivables are not collected, EDC loses its respective share of Metroport revenue. As of a March 31, 2007, Atlantic's accounts receivable aging schedule reported \$425,000 in outstanding receivables, including \$370,000 that was outstanding for over 90 days. In a few cases, receivables have been outstanding for years. Thus, to date, EDC has not received any portion of this earned revenue. Atlantic could not evidence any attempts to actively collect these funds. Instead, Atlantic officials informed us that the long-term receivables are usually the result of an unresolved billing dispute.

We recommend EDC require Atlantic to pursue these outstanding receivables and remit EDC's appropriate share upon collection. If it is determined that these funds are uncollectible, Atlantic should write them off in accordance with generally accepted accounting principles.

In response to our discussion document outlining the findings in this report, Atlantic officials reiterated their assertion that they have always endeavored to ensure that their financial records accurately depict Atlantic's financial transactions. However, they will attempt to address the improvement opportunities we note in our report. EDC

officials did not offer any formal comments on our discussion document.

Recommendations

1. Require Atlantic to:
 - Immediately discontinue altering official Metroport activity logs;
 - Develop billing adjustment procedures in accordance with generally accepted accounting principles; and
 - Use only press-numbered invoices to properly account for all carrier billing transactions.
2. Recover the \$8,438 as a result of under-reported revenues reportedly due to mathematical errors.
3. Recover the \$199 as a result of documented charter flight revenues not previously reported.
4. Investigate the circumstances surrounding the 10 charter flights where associated revenues could not be traced to Atlantic's financial records. If associate revenues were in fact collected, recover appropriate share.
5. Recover the \$185 in unsubstantiated credits issued to carriers in their invoices.
6. Require Atlantic to pursue the \$370,000 in long-term outstanding receivables from carriers. Once collected, recover appropriate share.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. The objectives of our audit were to

determine whether Metroport records and reports revenue collections accurately and remitted the appropriate rental fees to EDC. The audit covered the period January 1, 2004 to May 31, 2006.

To accomplish these objectives, we observed helicopter landings and take-off times and reviewed Metroport activity logs, billing invoices, fee schedules and contract documents between EDC and Atlantic. In addition, we met with EDC and Atlantic officials and reviewed accounts receivable records; cash receipt records and quarterly activity statements submitted to EDC.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

This audit was performed according to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article 3 of the General Municipal Law.

REPORTING REQUIREMENTS

We provided a draft copy of this report to EDC and Atlantic officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A. EDC officials concurred with several of our recommendations.

Within 90 days of the final release of this report, we request that EDC officials report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and, if not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include William Challice, Frank Patone, Anthony Carbonelli, Salvatore D'Amato, Anthony Carlo, Ira Lipper and Sue Gold.

APPENDIX A - AUDITEE RESPONSE



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July 20, 2007

Mr. William P. Challice
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Re: Draft Audit Report 2007-N-7 East 34th Street Heliport Revenue Operations

Dear Mr. Challice:

In response to the recommendations contained in your draft audit report, we offer the following responses:

Recommendations:

1. Atlantic should immediately:

- A. Discontinue altering official Metroport activity logs.

Response: Atlantic has agreed that changes to the record log will be made using a single line striking through the incorrect information, with the initials of the agent, and the reason for the change so noted.

- B. Develop billing adjustment procedures in accordance with generally accepted accounting principles; Use only press-numbered invoices to properly account for all billing transactions.

Response: Invoices are now generated by Atlantic, and then forwarded to Baltimore for invoice numbering which are processed by the Great Plains accounting system.

2. Recover the \$8,438 as a result of underreported revenues reportedly due to mathematical errors.
3. Recover the \$199 as a result of documented charter flight revenues not previously reported.

Response: We have received the full amount of \$8,637.00 on June 19, 2007.

4. Investigate circumstances surrounding the ten charter flights where associated revenues could not be traced to Atlantic's financial records. If associate revenues were in fact collected, recover appropriate share.

Response: Atlantic is disputing the determination that revenue was not collected for the charter flights in the audit period. Payment for the charter operation is collected in the account set up for charter revenue. The account is under the charter to/ from for any activity that is shared by the charter company and Atlantic.

5. Recover the \$185 in unsubstantiated credits issued to carriers in their invoices.

Response: We have been advised by Atlantic that all credit memos have a related reason in the comments section, for wrong tail number, wrong entry time or parking time adjustments. This information is noted on the memo issued to the customer, and copied to file.

Future credit memos will now be issued with more detailed information.

6. Require Atlantic to pursue \$370,000 in outstanding receivables from carriers.

Response: Atlantic reviews the outstanding receivables monthly. Rigorous attempts, consistent with good practices are made to collect past due funds.

If you have any questions, please do not hesitate to contact me at (212) 312-3688.

Sincerely,



Deo Singh
Controller

cc: Patricia Wagner, General Manager, Atlantic