

***Airport Fees Performance Audit:
Processes to Manage Fees Used for
Operations and Facility Improvements
Can Be Strengthened***



Independence you can rely on

August 2021

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LAURA DOUD

Report Summary



Why This Audit Is Important

The Long Beach Airport (Airport) fees form a significant portion of the Airport’s operating revenue and are used to fund operations and facility improvement projects which help optimize passenger traffic. Maintaining a high level of passenger traffic helps support the Long Beach economy.

Audit Objective

Our audit evaluated the Airport’s management of airline fees and customer facility charges to ensure fees are properly assessed, collected, reconciled, and deposited in their entirety.

Acknowledgement

We thank management and staff at the Airport for their collaboration, assistance, and cooperation during this audit.

What We Found

The Airport collects an average of \$14 million in airline fees and customer facility charges annually, representing 33% of the Airport’s annual operating revenue. These airline fees and customer facility charges are self-reported, creating an inherent risk that the total fee amounts may be inaccurate. The Airport’s current processes to review and reconcile the accuracy of fee amounts and the timely collection of fees owed can be improved. The inconsistent nature of the fee collection process is caused by a lack of existing policies and procedures resulting in:

- Airline revenue reconciliations were not completed for four years. By completing reconciliations, this audit found an additional \$72,827 in revenue owed to the Airport. While this uncollected amount is very small relative to the collection total, we believe that the inconsistent reconciliation of fees is an important internal control deficiency and should be addressed through process improvements without significant ongoing cost to operations.
- Fee rates were not reviewed to ensure all correct rates were applied, resulting in airlines sometimes paying fees based on incorrect rates.
- Overnight aircraft parking spreadsheets were not transcribed with accurate data. Had reconciliations been completed, incorrect airline fees would have been assessed.
- Contractual terms with car rental companies and airlines are inconsistent. Lack of enforcement led to a 10-month overdue payment without any late fees being charged.

What We Recommend

We recommend that the Airport create written policies to establish consistent procedures for oversight of airline fees and customer facility charges revenue. Additionally, the Airport needs to ensure that contracts are updated to reflect current practices and that contract stipulations are followed.



I. Background

The Airport collects fees and reinvests them into operations and facility improvements aimed to enhance the passenger experience.

The Airport has a positive impact on Long Beach's local economy.

The Long Beach Airport (Airport) was established in 1923 as the first municipal airport to serve Southern California and has since grown to be well-recognized, ranking among the top 10 small airports in the United States in 2020, according to USA Today's Readers' Choice poll. The Airport has a positive impact on the City of Long Beach and in the local economy. In Fiscal Year (FY) 2019, 3.5 million passengers passed through the Airport, with each passenger contributing \$546 to our local economy, as outlined in the Airport's 2019 Economic Impact Report.

Airline fees and customer facility charges are reinvested into the Airport.

To operate out of the Airport, companies must pay fees associated with their use of the premises. Airline fees and customer facility charges paid by car rental companies are among the several fees collected by the Airport. Airline fees are reinvested back into Airport operations by funding capital projects, such as a new ticketing lobby and a baggage claims area, aimed to maintain modern facilities and enhance customer experience. Customer facility charges could be used to construct consolidated airport vehicle rental facilities and other car-rental related facility improvements.

By the estimates of the Airports Council International-North America, U.S. airports will require \$128 billion in improvements through 2023 to meet the demands of travelers as well as airlines. Continued modernization and improvement of the Airport's facilities is critical to enhancing customer satisfaction, maintaining consistent passenger levels, and attracting airlines and ensuring that they continue to see Long Beach as a destination.

Airline fees affect airport operations, airport improvements, and passenger satisfaction.

Figure 1.
Airport fees are reinvested into airport operations and improvements, impacting passengers' experience and contributing to the Long Beach economy



Fees Assessed by Long Beach Airport

Three types of airline fees and a car-rental charge are included in this audit:

- Landing Fees – Charged to the airline on each landing of commercial aircraft carrying persons or cargo.

Landing, gate use, overnight aircraft parking fees, and customer facility charges make up 33% of the Airport's annual operating revenue.

- Gate Use Fees – Charged to the airline on each aircraft using the terminal building apron for enplanement or deplanement of passengers or cargo.
- Overnight Aircraft Parking Fees – Charged to the airline for any aircraft parked on the terminal building apron overnight.
- Customer Facility Charges – Assessed by the rental car companies and paid by car rental customers. These fees are remitted to the Airport and can be used to construct consolidated car rental facilities, and other car-rental related facility improvements, which in turn enhance the experience for passengers who rent a car at the Airport.

During the audit scope of October 2015 through March 2019, airline fees amounted to \$41.8 million and customer facility charges amounted to \$6.3 million. In total, airline fees and customer facility charges revenue amounted to approximately one-third (33%) of the Airport's annual operating revenue.

Long Beach Airport's Fee Management

Airlines submit a monthly report of their airline fees owed to the Airport and remit payment for the associated fees. According to expected practice, Airport Accounting should independently reconcile the airline fees on an annual basis using independent third-party data to ensure that the self-reported fees are accurate and complete. Airline fees reported by the airlines and reconciled by the Airport should be based on the following formula:

Figure 2.
Landings, gate use, or overnight parking is multiplied by aircraft weight and approved rates to arrive at the total amount due to the Airport



Car rental companies also self-report customer facility charges in a monthly report and pay a set rate of \$10 per each car rental transaction. There is currently no independent data source to verify the accuracy of these car rental payments. Unlike the availability of third-party airline data to the Airport, there is no third-party rental car data and, therefore, the Airport cannot perform an independent reconciliation of the customer facility charge fees. In our benchmark analysis, we found that other airports also do not have access to third-party data and, thus, do not perform fee reconciliations. However, both the Reno and Spokane airports utilize audits of the car rental companies to confirm rental car transactions and fees owed to the airports.

II. Findings & Recommendations

The findings described below are related to the Airport's management of airline fees and customer facility charges. Many of the issues can be remedied through the creation and enforcement of clear policies requiring the consistent performance of procedures to effectively manage such fees. Additionally, this audit found that contract terms are not always enforced and that they can be made more consistent for airlines and for car rental companies. We believe that the audit recommendations are likely to involve upfront costs in the form of reallocation of staff time to create written policies and procedures, but minimal ongoing costs once clear protocols are established and being followed.

Finding #1: *Reconciliations of Airport fees are not performed consistently or effectively, while reconciliations of rental car charges are not performed. The audit identified missed airline fee revenues but did not identify any unpaid car rental charges.*

To ensure that the self-reported airline fees received by the Airport were accurate, this audit reconciled both airline fees and customer facility charge fees that should have been paid during the audit scope of October 2015 – March 2019. Our reconciliations consisted of comparing airlines' self-reported fees versus a re-calculation of fees based on third-party data of each airline's activity level from the Airport Noise and Operations Monitoring System (Noise System, described below). We also reconciled car rental companies' self-reported fees versus car rental company transaction data. We did not identify any significant differences between the revenues reported by car rental companies and the re-calculated amounts.

Auditors did not identify any missing car rental charges.

The Airport utilizes the Noise System to reconcile airline reported revenues. The Noise System's primary use is to provide the Airport with noise activity data to enforce the City's noise ordinance. The System contains airline activity data such as aircraft types and landing times for each aircraft, making it a useful resource in conducting airline revenue reconciliations. Being able to use the Noise System data for reconciliation purposes is a secondary benefit of the system.

Our reconciliation was conducted using such Noise System data and found that the reconciliation method used by the Airport is incomplete and flawed because the Airport's calculation does not include all airline activity that should be included in their calculation of fees. This means that any errors with the portion of airline activity that is not included in the Airport's calculation are undetectable by the reconciliation (an incorrect rate paid on that activity, for example). Moreover, the reconciliation does not include charter airline data, does not include a verification of aircraft weights, and does not include a thorough validation of Noise System data.

Between October 2015 – March 2019, the Airport did not consistently reconcile airline fees. During the audit period, only calendar year 2018 was fully reconciled. The Airport partially reconciled calendar year 2017 but did not finalize the reconciliation. In total, the airport identified and collected an additional \$35,257 in airline fees for 2018 and identified \$23,592 for calendar year 2017 which was not collected because the reconciliation was not finalized. See amounts fully or partially reconciled by the Airport below:

Figure 3.
The Airport identified \$58,849 through its reconciliations, of which \$35,257 has been collected and \$23,592 remains outstanding

Reconciliation Period	Status of Airport Reconciliation	Revenue Identified by Airport Reconciliation	Revenue Owed to Airport
10/01/2015 - 12/31/2016	Not Completed		\$0
01/01/2017 - 12/31/2017	Partially Completed	\$23,592	\$23,592
01/01/2018 - 12/31/2018	Completed	\$35,257*	\$0
01/01/2019 - 03/31/2019	Not Completed		\$0
<i>Final Revenue Due to Airport</i>		\$58,849	\$23,592

* The Airport identified and collected \$35,257 through its 2018 reconciliation. All other revenues remain outstanding.

Combined, Airport and CAO reconciliations identified \$72,827 in airline fees owed.

The City Auditor’s Office (CAO) reconciled airline revenues for the entire audit scope period to confirm that the Airport’s reconciliation was accurate and to identify outstanding revenues for the years that the Airport did not reconcile. Figure 4 below shows an additional \$49,235 identified by the City Auditor’s Office in addition to the \$23,592 identified by the Airport that was not collected, resulting in a total of \$72,827 owed to the Airport for the audit period¹.

Figure 4.
Combined, Airport and CAO reconciliations identified \$72,827 in airline fees owed

Reconciliation Period	Outstanding Revenue Identified by Airport	Outstanding Revenue Identified by CAO	Revenue Owed to Airport
10/01/2015 - 12/31/2016	\$0	\$23,020	\$23,020
01/01/2017 - 12/31/2017	\$23,592	\$24,102	\$47,694
01/01/2018 - 12/31/2018	\$0	\$5,375	\$5,375
01/01/2019 - 03/31/2019	\$0	(\$3,262)	(\$3,262)
<i>Final Revenue Due to Airport</i>	\$23,592	\$49,235	\$72,827

The uncollected \$72,827 is 0.17% of the total \$41.8M collected during the entire audit period. While the uncollected amount represents a very small fraction of the total amount collected during the audit period, we conduct our audits based on the internal audit industry’s definition of materiality, and the understanding that materiality can be quantitative or qualitative and should not be necessarily determined by meeting a set or arbitrary dollar threshold.

¹ See Appendix A for more information regarding owed revenues and specific examples regarding issues causing the underpaid amounts.

In our audits, we assess materiality and significance for a variety of matters and risk areas that often do not have a quantifiable cost to their impact, including those regarding operational efficiency and effectiveness, safeguarding assets, customer service, public perception, service continuity, and compliance with laws and regulations.

Within this context, we raise these audit findings because: 1) these fees are self-reported by the airlines and are more prone to errors; and 2) more importantly, the uncollected amounts highlight ineffectiveness and inconsistency in the Airport's fee-collection process which must be addressed to ensure accurate revenue collection. The audit concluded that the \$72,827 in airline fees owed were the result of a) a lack of a written policy and procedures document to ensure that reconciliation-related procedures are completed, and b) a reconciliation method that is incomplete and flawed because it does not ensure that all the calculation inputs are correct.

A. The Airport lacks clear, written policies and procedures on revenue reconciliations. As a result, the Airport is not completing reconciliations consistently or effectively.

As a best practice, reconciliations of expected revenue and actual revenue received should be conducted on a regular basis. Timely and regular reconciliations ensure that any differences are addressed promptly. A benchmark conducted during this audit also found that three other similarly-sized airports - Albany, Reno, and Spokane - are reconciling their airline revenues either monthly or annually. Two airports – Boise and Ontario – do not perform a reconciliation beyond verifying that reported revenues are received.

The Airport does not have written policies and procedures to ensure reconciliations are completed correctly.

While the Airport acknowledges the need for revenue reconciliations, the Airport currently does not have written policies and procedures surrounding airline and car rental revenue reconciliations to ensure they are completed accurately and consistently. Written policies and procedures are management best practices. They ensure that organizations operate effectively by providing guidance, instruction, and accountability to staff on their responsibilities for day-to-day operations, and by saving the organization time and resources and streamlining internal processes. The audit found that Airport staff, operating without written policies, do not always complete necessary reconciliation-related procedures:

- The Airport does not complete all airline revenue reconciliations.
- The Airport does not regularly update its overnight aircraft parking records.
- Airport Accounting staff do not obtain necessary data needed for annual reconciliations.
- Airport staff do not always identify errors in the reports submitted by the airlines.
- The Airport does not require standardized reports from all airlines.

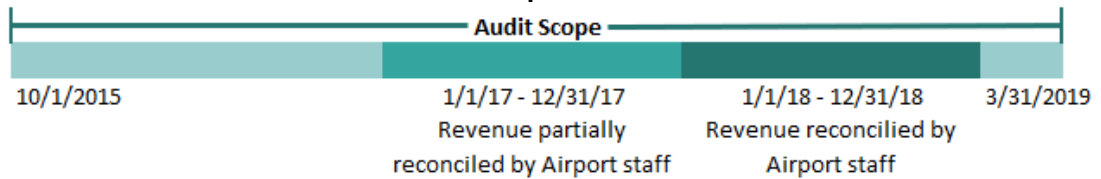
- The Airport does not reconcile customer facility charge fees due to the lack of third-party car rental transaction data.

Our benchmark identified one similar airport that is following the best practice of having policies and procedures relating to fee reconciliations in place. Given the lapses identified, it is important that the Airport also adopt this best practice.

The Airport does not complete all airline revenue reconciliations.

Without any specific documents requiring reconciliations of airline revenues and customer facility charges, reconciliations have not always been performed for airline fees and have never been done for customer facility charge revenues. During the period audited, only airline fees for calendar year 2018 were fully reconciled by the Airport. Calendar year 2017 was partially reconciled, but the reconciliation was not finalized.

Figure 5.
Airport staff only fully reconciled 2018 airline fee revenue which represents only a fraction of all revenue that should have been reconciled for the audit period



Of the last 84 months (2014 - 2020), only 12 months of airline fees were fully reconciled. There may be additional fees owed for years not reconciled.

Prior to 10/1/2015, airline revenues were last reconciled for calendar year 2013. Therefore, there may be additional underpaid fees not identified between January 2014 - September 2015 that this audit does not capture.

Airport staff attributed the lack of reconciliations to staff turnover and understaffing. In 2019, the Airport assigned a staff member to retroactively complete the 2018 reconciliation, but the staff member transferred to another department within the year, leaving the Airport without anyone assigned or properly trained to complete the reconciliations, including the 2017 reconciliation which was in progress. This situation left the Airport with neither staff trained to complete the reconciliations, nor written guidelines for remaining staff to perform the task. Our benchmark shows that reconciliations are a manual process not just at Long Beach Airport, but also at other airports. To ensure that reconciliations are completed annually moving forward, the Airport must assign and train staff as backup in case of future turnover.

The Airport does not regularly update its overnight aircraft parking records.

Airlines that park their aircraft at the terminal building apron overnight pay overnight parking fees. Airport Operations staff conduct two daily walk-throughs of the Airport’s ramp area and record a count of all the aircraft parked overnight. Airport Accounting receives these daily logs and is

expected to enter the data into a monthly spreadsheet to reconcile against the airlines' self-reported overnight parking counts.

Overnight aircraft parking records were not regularly updated. Outdated, inaccurate data can cause errors in reconciliation.

According to Airport Accounting, overnight aircraft parking spreadsheets are to be updated monthly or quarterly and submitted to a supervisor for review. However, this audit found that the monthly overnight aircraft parking spreadsheets were not updated by Airport Accounting staff for the period of January 2019 through December 2019. As of February 2020, the monthly overnight aircraft parking spreadsheets had not been updated for the months of January 2019 through December 2019. This extended period when records were not updated demonstrates the need for policies and procedures to hold staff accountable for certain tasks and procedures. Correct airline fee reconciliations depend on accurate and timely overnight aircraft parking spreadsheets; otherwise, potential revenues to the City could be lost, and the reconciliation process could be lengthened if the data requires correction.

Airport Accounting staff do not obtain necessary data needed for annual reconciliations.

Data from the Noise System is a key component of the annual reconciliations. The Airport currently uses the Noise System to monitor aircraft noise levels according to the City's noise ordinance and has also adopted the Noise System as the third-party data source for airline fee reconciliations. The Noise System tracks airline landings, aircraft type, and landing time.

To complete the reconciliations, Airport Accounting staff must obtain the data from the Airport's Noise Office. However, the Noise System data had not been obtained by Airport Accounting staff after 2013. The Airport staff cited the absence of this data as one of the reasons that the reconciliations for 2014–2017 were not completed. Per the Airport Noise Office, the data for the years in question was available. According to the Airport's Noise Office, noise data may have stopped being provided to Accounting after 2013 because of changes in management which may have led to gaps in communication between Airport Noise and Airport Accounting. Airport Accounting has stated that the Noise System data had some errors and therefore the reliability of the data was being assessed. Regardless of the cause, policies and procedures requiring that staff request, verify, and provide the Noise System data can remedy this issue.

Airport staff do not always capture errors in the reports submitted by the airlines.

When the Airport receives the airlines' monthly revenue reports, staff review the mathematical accuracy of the payment received to ensure that when multiplied, the count of airline activity (e.g. landings, gate use, and overnight aircraft parking), the rate paid, and the aircraft weight equal the dollar amount paid by the airline. During this process, fee rates paid by the airlines should be reviewed to ensure they correspond with the rates applicable for the month being paid, given that rates may change annually or semi-annually with the approval of City Council.

Airlines' use of incorrect landing rates was not detected by the Airport, leading to unidentified unpaid revenues.

This audit found that in 2017, there were instances where airlines applied an incorrect rate when reporting fees owed, and the Airport did not catch the error. For example, JetBlue used an incorrect mid-year adjusted rate of \$9.05 for nighttime landings between May and September of 2017. The City Council-approved fee for that time period was \$10.06. The use of incorrect rates by JetBlue resulted in a \$23,951 underpayment for the five-month period during which the incorrect rate was used.

Given the significant difference that an incorrect rate can yield, it is critical that there are clear guidelines requiring staff verification of rates used by the airlines to ensure they match City Council-approved rates. This requirement, as well as a verification of all other components of the payment calculation, should be included in written policy and procedures to ensure that these errors are consistently detected.

In our benchmarking analysis, we found that the five airports that responded to our survey did not employ technology solutions that would automatically detect errors in fee reporting and calculations. Reconciliations were generally manually performed.

The Airport does not require standardized reports from all airlines.

The Airport receives the airlines' monthly revenue reports that detail the airline fees owed by each airline. The benchmark conducted during this audit found that three other airports (Albany, Boise, and Reno) require that airlines use standardized revenue reports. The Long Beach Airport did not require that all airlines use the same standardized reporting template and some airlines are using a template of their own. One airline that is using its own template is SkyWest/Delta. SkyWest/Delta's template does not separate daytime and nighttime landings, which incur different rates, resulting in inaccurate fee reporting. SkyWest/Delta's report provides a count of all their landings and calculates fees owed to the Airport based only on the lower daytime rate. Below is an example of their reported numbers for March 2016.

**Figure 6.
SkyWest/Delta needs to differentiate between daytime and nighttime landings to ensure it pays the correct fee rates as they are only paying day rates**

Type of Aircraft	MGLW	Actual Landings	Cost	Total Cost
CR7	DL	67,000	60 \$4.77000	\$19,175.40
CR9	DL	75,100	59 \$4.77000	\$21,135.39
CRJ	DL	47,000	1 \$4.77000	\$224.19
Totals:		120		\$40,534.98

SkyWest/Delta reported 120 landings at a daytime rate of \$4.77. The Noise System identified 12 nighttime landings subject to the nighttime rate of \$10.06, but they were not identified in SkyWest/Delta's report.

To illustrate this issue, during the month of March 2016, SkyWest/Delta reported 120 landings with the daytime rate of \$4.77, as shown above, but the Noise System data specified 108 daytime landings and 12 nighttime landings. The 12 nighttime landings should have been charged a higher rate of \$10.06, which is more than double the daytime fees the airline actually paid. In total, the use of the incorrect rate resulted in \$4,686 underpaid by SkyWest/Delta during March 2016.

Misreported data from SkyWest/Delta was undetected due to the absence of standardized revenue reports.

If the Airport had required all airlines to use a template separating daytime and nighttime landings, the SkyWest/Delta reporting error would have likely been prevented. A report template that separates daytime and nighttime flights would provide guidance for the airlines and would set an expectation that flights are to be separated appropriately by time of day. This issue was not identified by the Airport because the 2015 reconciliation was not yet performed. An additional benefit of standardized reporting is increased Airport Accounting efficiency in performing annual reconciliations, as the standardized reporting would clearly delineate daytime versus nighttime landings by each individual airline. As a result, it is important that airlines are required to utilize standardized reports and that this requirement is included in the Airport's written policies and procedures.

The Airport does not reconcile customer facility charge fees due to the lack of third-party car rental transaction data.

Per California law, car rental companies are responsible for collecting \$10 per car rental contract and reporting and remitting that revenue to the Airport on a monthly basis. At the Airport, car rental companies submit monthly reports that detail the total number of car rental transactions for the reporting month multiplied by the \$10 rate.

The Airport currently does not have a third-party data system that can be used to verify that the transaction count reported by the car rental companies is accurate. In the absence of such third-party data, which appears to be common across airports as revealed by our benchmark analysis, the Airport has relied on the car rental companies to report the customer facility charge fees accurately. For this reason, according to Airport staff, the Airport does not reconcile these fees.

Customer facility charge revenue reconciliations can increase transparency into car rental operations and revenue reporting.

However, the Airport has the contractual right to request transaction data to ensure that the payment remitted to the Airport is supported, but the Airport has not historically requested this information. In the absence of third-party data, requesting the car rental companies' transaction data for reconciliation purposes can give the Airport some level of confidence that the transaction count and payment for those transactions is, at a minimum, supported.

To verify customer facility charge revenues remitted to the Airport, this audit reconciled three months' worth of customer facility charge transaction records from the major car rental companies operating at the Airport. The

reconciliations did not find major discrepancies; however, the reconciliations did identify some areas for improvement. For example, reconciliations for Alamo, Enterprise, and National resulted in these companies overpaying \$960 in customer facility charges revenue during the review period. Company representatives explained the \$960 difference as transaction adjustments made outside of their point-of-sales system, resulting in revenue remitted to the Airport that is not reflected in transaction data. This practice would not have been uncovered without reconciliation.

Airport staff indicated that there is no incentive for car rental companies to improperly report customer facility charges, because the revenue is reinvested into facility improvements beneficial to them. However, conducting revenue reconciliations is a best practice and helps identify and correct any issues that may otherwise go unnoticed. Per the City's commercial use permits and contracts with car rental companies, monthly reports submitted by car rental companies must show the business transacted and other data as may be required by the Airport. As such, the Airport has the right to request more detailed transaction information for the completion of CFC reconciliations. It is important that the Airport begins requesting more detailed transaction data and utilizing this data for its reconciliation. The Airport should also include this requirement into their policies and procedures to ensure that this task is completed.

Alternatively, the Airport may require that the car rental companies submit copies of financial audits specific to CFCs completed by an independent third-party. Per the Airport, car rental companies are audited, thereby mitigating the risk of financial misstatements. Requesting that such audits are submitted to the Airport provides assurance that revenues have been properly reported to the Airport. Our benchmark found that two other airports (Reno and Spokane) use audits of their car rental companies to verify the revenues reported by the car rental companies.

Recommendations

- 1.1 Create policies and procedures that assign tasks and responsibilities to specific individuals in the area of airline fee management. Policies and procedures should include the following:**
- **Airline revenue reconciliations must be completed annually.**
 - **Airport Accounting must compile overnight aircraft parking records on a monthly basis.**
 - **Noise System data used in the reconciliations must be obtained annually.**
 - **Fee rates and other payment calculation inputs must be verified when the monthly revenue reports are received and during the reconciliation process.**
 - **Require that airlines utilize standard reporting templates that separate daytime and nighttime**

landings.

1.2 Create policies and procedures assigning tasks and responsibilities to specific individuals in the area of customer facility charge revenue. Policies and procedures should include at least one of following:

- **Customer facility charge transactions records should be requested from car rental companies annually. The Airport should complete an annual reconciliation of transaction reports requested and revenues received.**
- **The Airport should request and confirm that an independent audit of car rental companies was performed which verifies that CFC revenues have been reported accurately.**

B. The method used to reconcile airline fee revenue is flawed.

When a revenue reconciliation is conducted, it is important that the reconciliation includes all required data inputs and that the data is accurate. When working with data, it is also best practice to perform data quality reviews to ensure that all data used in an analysis is accurate and complete to yield reconciliation results that are reliable and correct.

In addition to finding that revenue reconciliations are not regularly performed, this audit found that the annual airline revenue reconciliation does not take into account all necessary factors to ensure that all outstanding revenues owed by the airlines are captured. The current reconciliation process:

- Does not analyze all airline activity and, therefore, potentially miscalculates additional fees owed,
- Does not include revenues from charter airlines,
- Does not include a review of reported aircraft weights, and
- Does not include a thorough validation of Noise System data.

The annual reconciliation does not analyze all airline activity and, therefore, potentially miscalculates additional fees owed.

The reconciliation does not verify all actual airline activity counts to ensure all revenue has been received.

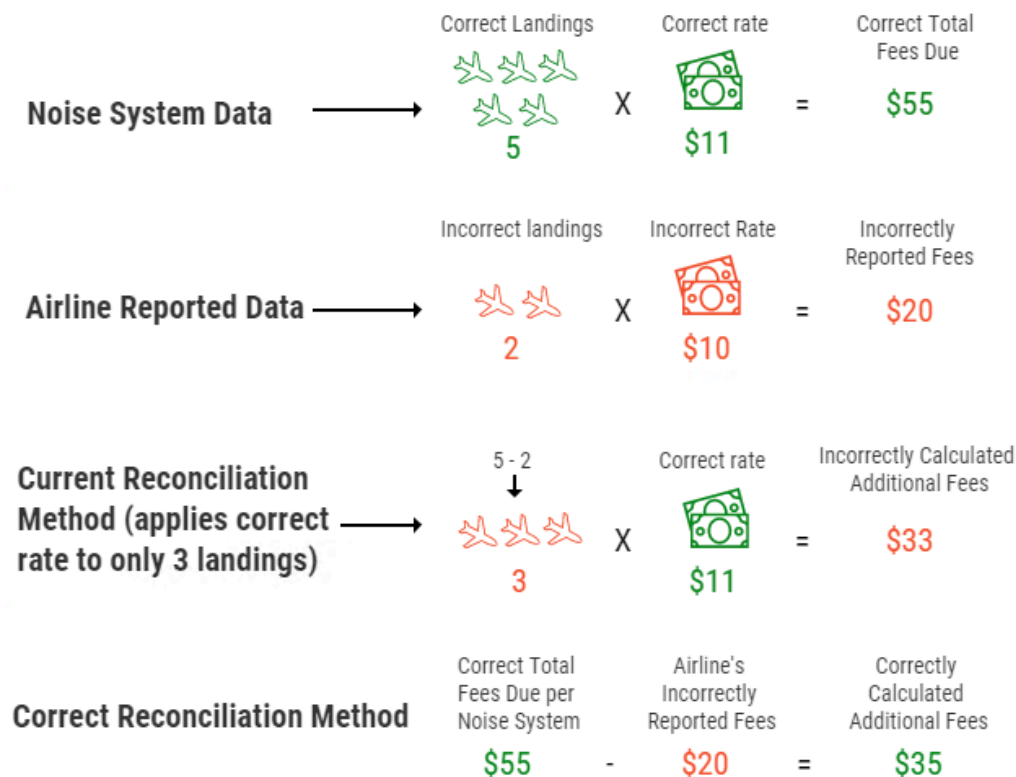
The annual reconciliation identifies differences between the self-reported airline activity counts and the counts observed in the Noise System and in the monthly overnight parking spreadsheets. The annual reconciliation then determines additional revenues due based only on any unreported airline activity. The reconciliation is flawed and incomplete because it does not take into consideration that there may be errors in the information and revenue reported by the airlines' resulting from the use of incorrect fee rates or aircraft weights, both of which are integral components to the airline fee calculation.

Figure 6 below is a visual representation of a fee calculation error that may occur with this incomplete method. If the Noise System captured 5 landings,

but the airline only reported 2 landings, the reconciliation would only identify additional fees owed on 3 landings that remain unpaid by the airline (5 Noise System landings minus 2 reported landings equals 3 outstanding landings). If the airline used the incorrect rate for the 2 landings they reported, this reconciliation would not identify additional money owed for those 2 landings.

Figure 7.

Airport's reconciliation method only captures a portion of additional revenues owed by airlines because it only considers a portion of all landings, gate uses, and aircraft parked overnight



The reconciliation method used by the Airport is flawed and under-calculates the money owed by airlines.

In the example above, the airline used a landing rate of \$10 rather than the accurate \$11 rate. The current reconciliation method would capture \$33 in additional fees for the 3 unreported landings using the \$11 rate. The correct method would capture \$35 in additional fees, because it calculates all fees expected based on the correct \$11 rate and subtracts amounts already reported by the airline (\$55 - \$20 = \$35). A correct reconciliation results in an additional \$2 for the Airport.

The example above is a demonstration of the issue on a small scale. The impact of this method, however, can be much larger. For example, JetBlue reported an incorrect rate of \$9.05 per nighttime landing for the period of May 2017 – September 2017, instead of the actual rate of \$10.06. The Airport's reconciliation method did not capture additional money on the landings already reported by the airline because it only calculated additional revenues for any unreported activity rather than applying the correct landing rate to all the airline activity captured by the Noise system. This flaw in the reconciliation method resulted in not identifying an additional \$23,951 in underpaid revenue for this issue alone.

Reconciliations must include a comparison of recalculated revenues and revenue received in the bank.

For a complete and correct reconciliation, the Airport's process should also compare recalculated revenue amounts against revenues actually deposited in the City's bank account. While Airport Accounting does perform verification of airline fee revenues deposited into the City's bank account, this process is not incorporated in the reconciliation, which would ensure that all revenues are reported and received accurately.

The annual reconciliation does not include revenues from charter airlines.

Charter airlines are smaller airlines that do not have regularly scheduled flights. These airlines are also subject to landing, gate use, and overnight parking fees that the larger airlines pay. While these airlines are subject to fees, they are not currently included in the Airport's annual reconciliation. Between October 2015 and December 2016, charter airlines reported a total airline fee amount of \$13,380. This audit reconciled some charter airline revenues and found reporting issues, such as differences in landing counts, gate use, and remain overnight aircraft parking counts. Airport staff has the ability to obtain and use Noise System landing counts for these airlines. If staff is reconciling airline revenue, charter airline revenue should also be included to ensure completeness.

The annual reconciliation does not include a review of reported aircraft weights.

Aircraft maximum landing weights are a key component in calculating the airline fees owed to the Airport, as most airline fees are based on the weight of the aircraft. The annual reconciliations do not currently include a verification of aircraft weights to ensure that the weights reported by the airlines are accurate.

The Airport can use third-party data guides to verify aircraft weights for reconciliation purposes.

Per our benchmark, two other airports rely on electronic systems that automatically identify aircraft weights to be used for revenue reconciliations, thus ensuring that the aircraft weights are accurate. The Airport does not have an electronic system that provides them with this level of detail. While the Airport has access to third-party information guides² that provide the certified landing weight of different aircraft types and models, it does not use the guides to verify aircraft weights. While our audit did not identify any material differences in the airline-reported aircraft weights, using the third-party guides to ensure the accuracy of weights reported is important because the weight is a key component of the fees paid by the airlines.

² This audit utilized the Burns & McDonnell guide titled "Aircraft Characteristics", 12th Edition. A website and cell phone application are also available and can be found here: <https://info.burnsmcd.com/aircraft-characteristics-app>.

The annual reconciliation does not include a thorough validation of Noise System data.

The Noise System is a valuable resource but must be periodically reviewed for data consistency and accuracy.

The Airport currently uses the Noise System as the third-party data source for airline fee reconciliations. The benchmark comparison found that only one other airport is using a third-party system to verify self-reported data from airlines. With the Noise System, the Airport has a valuable resource. However, it must ensure that the data captured by the system is as complete and accurate as possible.

Testing data accuracy before relying on it for any analysis or determinations, such as fee calculations, is a best practice. The U.S. Government Accountability Office (GAO) states that data tests can include checking missing data, checking for duplicate records, and testing for relationships between data elements such as patterns in the data.

While the Airport conducts some procedures to ensure data completeness, our review, which incorporated the tests recommended by U.S. GAO, found that some inconsistencies remained in the data that was used for the reconciliations. For example:

- a. There were 13 instances in which aircraft tail numbers, a unique code used to identify each and every registered aircraft, were missing in the Noise System data.
- b. There were 8 instances in which an aircraft's arrival or departure was missing (i.e., an aircraft was identified in the Noise System as having landed at the Airport and never departing and vice versa).
- c. There were 6 instances in which a single aircraft tail number was associated with multiple aircraft types.

These data issues are immaterial and minimal in comparison to 35,000 data records contained within the Noise System for calendar year 2018 only. However, for reconciliation purposes, it is important that Airport Accounting conduct more thorough reviews of data completeness to ensure that system data is as accurate as possible and that any issues with the data are addressed promptly.

Recommendations

- 1.3 Revise the reconciliation process to include all counts of landings, gate use, and overnight aircraft parking reported by airlines. The reconciliation should also compare expected revenues against actual revenues deposited into the City's bank account.**
- 1.4 Ensure that reconciliation inputs are verified. This includes the use of proper rates by the airlines and the verification of aircraft**

weights based on an independent data source.

- 1.5 Include charter airlines in the airline revenue reconciliation.
- 1.6 Have Airport Accounting annually review Noise System data to ensure that the data used in the reconciliations is accurate.

Finding #2: *The Airport lacks strong contract management practices, leading to unenforced contract terms.*

Our audit reviewed all airline agreements and car rental agreements and commercial use permits (CUPs). We assessed terms regarding fees that companies are required to pay to the Airport. We found that there are contract and CUP terms that are not reflective of current practices surrounding airline fees and customer facility charge fees. We also found that contract terms are not always consistent across similar airline agreements and car rental agreements/CUPs.

One contract term that is not enforced is late fees for either airlines or car rental companies. Airline contracts are grouped into three different categories: regular passenger airlines such as Southwest Airlines and American Airlines, cargo airlines such as UPS and FedEx, and charter airlines such as Miami Airlines. Late fees per airline category are listed below:

**Figure 8.
Late fees vary across different airline types**

	Regular Passenger Airlines	Cargo Airlines	Charter Airlines
<i>Late fees on late payments</i>	Lower of 1.5% of payment due and unpaid plus \$100, or highest amount allowed by applicable law. Plus 1.5% (excluding late charge) added each additional month.	\$1.50 per day.	\$1.50 per day.

Car rental companies fall into two different categories – larger companies housed within the Airport (e.g. Hertz, Alamo) who have a concessions contract with the Airport and smaller companies outside of the Airport (e.g. Airport Van Rentals, Allied Rent-A-Car) who have a commercial use permit with the Airport. Late fees for the different types of car rental companies are listed below:

**Figure 9.
Late fees vary across car rental companies with different contract types**

	Companies with a Concessions Contract	Companies with Commercial Use Permit
<i>Late fees on late payments</i>	Rate of return of the City's investment portfolio on the day on which the payment was due with compounding interest until the debt is paid off.	\$1.50 per day.

In a three-month sample period reviewed, 4 of 18 airline payments were late³; however, no late charges were assessed or paid on these late payments. For car rental companies, 3 of 19 payments were late⁴ and were also not charged late fees.

One car rental company payment in the amount of \$33,720 was overdue by approximately 10 months. The Airport noted that the payment was lost in the mail, which was resolved by the car rental company reissuing the check. While checks may occasionally be lost, it is important that payments do not take this long to be submitted.

Late fees were not enforced on late payments. The City loses interest revenue when payments are late.

Airport staff indicated that the late fees are not enforced because missed late fee revenue would not offset the administrative costs associated with enforcement efforts. However, the Airport missed out on 10-months' worth of late fees aimed to recoup interest revenue that would have been earned from investment of these funds. Enforcing late fees holds companies accountable for timely submitting their payments, and it also ensures that the Airport earns some of the revenue that it would have earned in interest revenue had the payment been received on time.

More consistent contract terms across similar agreement types helps facilitate enforcement.

As observed in the contract terms, late fees are not standardized across the companies doing business with the Airport. Inconsistencies in contract language make enforcement more difficult in all areas, including enforcement of late fees. Other inconsistencies were also noted in areas such as dispute resolution, record retention, and reports due to the Airport from the airlines⁵. While some differences in contractual language are expected due to differences in the type of operations in which each airline and car rental company engages, contract best practices call for contract documents to be as consistent as possible in substance and form. Inconsistencies may result in disagreements or contradictory contractual obligations for individuals conducting similar operations. Consistent terms that are easier to enforce, moreover, may help reduce the time that staff spend on contract enforcement.

Recommendations

- 2.1 Ensure that all contract stipulations are followed, including enforcement of late fees.**
- 2.2 Work with City Purchasing to ensure consistency among airline contracts and car rental company contracts and CUPs to help facilitate contract enforcement.**

³ The 4 late payments include: 1 Southwest payment (22 days late), 2 American Airlines payments (23 and 3 days late), and 1 SkyWest/Delta payment (1 day late).

⁴ The 3 late payments include: 1 Avis payment (71 days late), and 2 Hertz payments (297 and 5 days late).

⁵ See Appendix B for a breakdown of other contractual terms and differences observed.

III. Objective, Scope & Methodology

The objective of this audit was to assess whether the Long Beach Airport is effectively managing airline fees and customer facility charges to ensure fees are properly assessed, collected, reconciled, and deposited in their entirety. The audit scope covered the period of October 1, 2015 through March 31, 2019. To achieve this objective, we:

- Obtained an understanding of internal controls surrounding the collection, recording, and management of airline fee and customer facility charge revenues. Of the five internal control components and 17 underlying principles, all are significant to this audit's objective.
- Conducted interviews with Airport Administration, Accounting, and Operations staff regarding processes surrounding airline fees and customer facility charges.
- Reviewed Federal Aviation Administration and other legal guidelines regarding airport fees. Assessed the Airport's compliance with such guidelines as it relates to setting, administering, and managing airline fees.
- Reviewed California legal requirements regarding customer facility charges and assessed the Airport's compliance with such guidelines as it relates to setting, administering, and managing customer facility charges.
- Reviewed Noise System data to assess accuracy of information.
- Assessed the effectiveness of the Airport's airline fee reconciliation process.
- Reconciled commercial and cargo airlines' landing, gate use, and overnight aircraft parking fees for the entire audit scope. Charter airline fees were partially reconciled.
- Reconciled customer facility charges revenues from major car rental companies at the Airport for a 3-month period.
- Benchmarked against 5 airports with similar enplanements and budgets nationwide (Albany, Boise, Ontario, Reno, and Spokane).
- Assessed the Airport's tracking of performance metrics and communication related to airline fees and customer facility charges with stakeholders regarding performance tracking.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

IV. Appendices

Appendix A: Reconciliation Results

The audit identified a total amount of \$72,827 in fees owed. This amount is based on a combination of a reconciliation performed by audit staff and the Airport's reconciliation for years in which reconciliations were fully completed or partially completed. For 2018, the Airport completed their own reconciliation and collected or credited any amounts owed. Our audit identified an additional owed amount of \$5,375. For 2017, the Airport was in the process of reconciling and identified \$23,592 in revenue owed by the airlines. However, the Airport did not finish the process of collecting the additional revenue identified.

Figure 10.
Reconciliations of airline fees from October 1, 2015 through March 31, 2019 found \$72,827 owed to the Airport

Reconciliation Period	Revenue Identified by Airport	Revenue Identified by Audit	Revenue Owed to Airport
10/01/2015 - 12/31/2016		\$23,020	\$23,020
01/01/2017 - 12/31/2017	\$23,592	\$24,102	\$47,694
01/01/2018 - 12/31/2018	\$35,257*	\$5,375	\$5,375
01/01/2019 - 03/31/2019		(\$3,262)	(\$3,262)
<i>Final Revenue Due to Airport</i>			<i>\$72,827</i>

* The Airport identified and collected \$35,257 through its 2018 reconciliation. All other revenues remain outstanding.

Amounts identified as owed through this audit's reconciliation of airline fee revenues for the period of October 2015 – March 2019 were caused by the following:

1. Airlines sometimes used fee rates that differed from those approved by City Council. For example, American Airlines and JetBlue Airlines both paid the incorrect fee rates between October 2015 and December 2015. Airport staff who received the payment identified the discrepancy by checking the mathematical accuracy of the airline's self-reports, leading to outstanding revenues to be collected later. The use of incorrect fee rates by the airlines was not always detected during the Airport's check for mathematical accuracy, as was the case in 2017 when airlines used a nighttime landing rate of \$9.05 between May – September, but the correct rate was \$10.06.
2. SkyWest/Delta Airlines did not separate its daytime and nighttime landings in its airline fee reports. While daytime and nighttime landings incur different fees, SkyWest/Delta paid daytime landing rates for all of its flights between October 2015 – March 2019, even though Noise System data shows that the airline had nighttime landings. The 2018 reconciliation conducted by the Airport detected this discrepancy. The issue went undetected for other years, because the annual reconciliations were not conducted.

3. There were some differences in the number of landing, gate use, and overnight aircraft parking counts reported by the airlines versus the Airport's internal records. Specifically, the Noise System provides a count of landings, all of which result in a landing fee and a corresponding gate use charge which is based on passengers using airport gates. Airline-reported counts and Noise System counts did not always align. Other differences were noted between overnight aircraft parking counts reported by the airlines and Airport Accounting's monthly overnight aircraft parking logs.

Appendix B: Contract Language Differences

A review of airline contracts found that contracts are inconsistent in areas that should be applicable across all companies. For example, language regarding landing fees and the fee calculation method (based on plane weight) is included in permits for regular passenger airlines. However, such language is not outlined in the UPS contract. Regular passenger airline permits also include more robust language than contracts for cargo and charter airlines, specifically on topics such as late payment charges, dispute resolution, record retention requirements, and reports due to the Airport. To illustrate these differences, below is a brief contract comparison of some of the terms where language differs for different airlines.

**Figure 11.
Contract terms vary in requirements and level of detail across airlines**

	Regular Passenger Airlines	Cargo Airlines	Charter Airlines
Late fees on late payments	Lower of 1.5% of payment due and unpaid plus \$100, or highest amount allowed by applicable law. Plus 1.5% (excluding late charge) added each additional month.	\$1.50 per day.	\$1.50 per day.
Dispute resolution	Airlines must first exhaust all remedies provided by applicable law and FAA regulations.	Not included in contract.	Not included in contract.
Record retention	Records must be kept for 5 years beyond expiration of permit.	Not included in contract.	Not included in contract.
Reports due to Airport	Report with statistical information is due at the end of the calendar month and must include, but is not limited to, the total of all aircraft operations conducted by the airline, total combined gross landing weight, total enplanements and deplanements, and total aircraft stored daily and monthly at the airport.	A monthly Activity Report of Airline Operations form, provided by the Airport Bureau, shall accompany each landing fee payment.	A monthly Activity Report of Airline Operations form, provided by the Airport Bureau, shall accompany each landing fee payment.

Similar inconsistencies were identified for car rental company contracts. There are two types of car rental company contracts – full contracts for car rental companies housed at the Airport and commercial use permits for companies operating outside of Airport property. While most full contracts with companies housed at the Airport contain the same terms, the Alamo contract does not contain language surrounding fee due dates and record retention. For commercial use permits, the Airport Van Rental permit does not outline a requirement for monthly business reports due to the Airport, while monthly business reports are required in other permits. Such differences for companies conducting similar operations may lead to more difficult enforcement of terms since enforcement varies for different contracts.

V. Management Response

Date: August 23, 2021

To: Thomas B. Modica, City Manager 

From: Cynthia Guidry, Director, Long Beach Airport 

For: Laura Doud, City Auditor

Subject: **Fees Administration Audit**

Thank you for the opportunity to comment on the Performance Audit of the Airport's processes to manage fees collected from the airlines and rental car operations. Our Management Response and Action Plan is attached.

We agree with the City Auditor's recommendations that Airport can strengthen its processes and believe the implementation of these recommendations will improve the timely collection and reconciliation of these airport fees. The Airport has already begun implementing the recommendations to document its procedures.

The Airport would also like to thank the City Auditor's Office for continuing the reconciliation of airlines fees from 2015 to 2019. Airport had begun the reconciliation process and was able to recapture unreported fees. However, due to staffing difficulties and the COVID-19 pandemic, Airport was not yet able to complete its reconciliation of past fees in a timely manner. The time and effort the City Auditor's Office dedicated to this reconciliation has been very helpful. The Auditor was able to reconcile an additional \$72,827 of uncollected revenue representing 0.17% of the fees collected during the audit period. While the overall amount may seem immaterial compared to the \$42 million in total fees collected by the Airport, Airport recognizes that every dollar counts and that there is room for improvement in its reconciliation process.

Additionally, the benchmarking of other airports against the Long Beach Airport is useful in highlighting the Airport's performance in comparison to other airports. Of the benchmarked airports, only one had written policies and procedures regarding fee reconciliation, and none of the airports had technology solutions that would detect errors in their fee process. The Airport will be able to improve its performance over the benchmarked airports by implementing the Auditor's recommendations and by utilizing our unique noise technology.

Please note that some of the recommendations may not be implemented immediately. Namely, the updating of permits and contracts would need to occur at the appropriate time.

If you have any questions, please contact me at (562) 570-2605.

ATTACHMENT

CC: CHARLES PARKIN, CITY ATTORNEY
DOUGLAS P. HAUBERT, CITY PROSECUTOR

Airport Fees Performance Audit

August 23, 2021

Page 2 of 2

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KEVIN JACKSON, DEPUTY CITY MANAGER

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REBECCA G. GARNER, ADMINISTRATIVE DEPUTY CITY MANAGER

MONIQUE DE LA GARZA, CITY CLERK

DEPARTMENT HEADS

MANAGEMENT RESPONSE AND ACTION PLAN

Airport Department Airport Fees Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	<p>Create policies and procedures that assign tasks and responsibilities to specific individuals in the area of airline fee management. Policies and procedures should include the following:</p> <ul style="list-style-type: none"> • Airline revenue reconciliations must be completed annually. • Airport Accounting must compile overnight aircraft parking records on a monthly basis. • Noise System data used in the reconciliations must be obtained annually. • Fee rates and other payment calculation inputs must be verified when the monthly revenue reports are received and during the reconciliation process. • Require that airlines utilize standard reporting templates that separate daytime and nighttime landings. 	H	13	Agree	Airport Department	The Airport will document the existing practices and develop formal policies to ensure consistency and timeliness in completing these tasks. Policies and procedures to be documented include airline revenue reconciliation, managing overnight aircraft parking records, obtaining noise system data, verifying fee rates monthly and developing and implementing standard reporting templates. These efforts will begin immediately and will be fully completed within the next 12 months as the Airport documents, refines and finalizes the policies and procedures.	August 31, 2022
1.2	<p>Create policies and procedures assigning tasks and responsibilities to specific individuals in the area of customer facility charge revenue. Policies and procedures should include at least one of the following:</p> <ul style="list-style-type: none"> • Customer facility charge transactions records should be requested from car rental companies annually. The Airport should complete an annual reconciliation of transaction reports and revenues received. • The Airport should request and confirm that an independent audit of car rental companies was performed which verifies that CFC revenues have been reported accurately. 	H	13	Agree	Airport Department	The Airport will develop policies and procedures for these tasks. Policies and procedures will include obtaining transaction records from car rental companies and conducting an annual reconciliation. This is a new process that will require the Airport to work with car rental companies and train staff. The Airport will request and confirm that an independent audit of car rental companies was performed which verifies that CFC revenues have been reported accurately.	August 31, 2022
1.3	<p>Revise the reconciliation process to include all counts of landings, gate use, and overnight aircraft parking reported by airlines. The reconciliation should also compare expected revenues against actual revenues deposited into the City's bank account.</p>	H	17	Agree	Airport Department	The Airport will review the existing templates and practices for reconciling reports, activity and payments. The Airport will develop a new worksheet and procedures that accurately reconciles all pieces of the transactions including all counts of landings, gate use, and overnight aircraft parking. This action plan will be completed after the policies and procedures are developed.	December 31, 2022

MANAGEMENT RESPONSE AND ACTION PLAN

Airport Department Airport Fees Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.4	Ensure that reconciliation inputs are verified. This includes the use of proper rates by the airlines and the verification of aircraft weights based on an independent data source.	H	17	Agree	Airport Department	The Airport will secure an independent data sources and begin using the data to verify inputs when performing reconciliations. This task will be completed during the next reconciliation process for FY21 operations.	December 31, 2021
1.5	Include charter airlines in the airline revenue reconciliation.	H	17	Agree	Airport Department	The Airport will include charter airline revenue reconciliations in its reconciliation process.	December 31, 2021
1.6	Have Airport Accounting annually review Noise System data to ensure that the data used in the reconciliations is accurate.	H	17	Agree	Airport Department	The Airport will conduct a separate reconciliation of Noise System data from the revenue reconciliation to add assurance in the accuracy of the data. This process will require extensive resources and focus to ensure a proper review of noise system data is completed. A process does not currently exist and will need to be developed and tested before full implementation.	December 31, 2022
2.1	Ensure that all contract stipulations are followed, including enforcement of late fees.	M	19	Agree	Airport Department	The Airport will conduct a review of all contracts and implement new policies and procedures to ensure that all contract stipulations are followed, including enforcement of late fees. This action plan will follow the timeline of new agreements already being developed for new facilities at the Airport.	December 31, 2022
2.2	Work with City Purchasing to ensure consistency among airline contracts and car rental company contracts and CUPs to help facilitate contract enforcement.	L	19	Agree	Airport Department	The Airport will update contracts with Rental Car Companies when practical to ensure each group of similar users have consistent contracts to help facilitate contract enforcement. This action plan will follow the timeline of new agreements that will be developed when new facilities are completed at the Airport.	December 31, 2023

Priority

H – High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

M – Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

L – Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Shaded areas - to be completed by the department



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