



Financial Performance Audit Report

Southwest Airlines

The Internal Audit Department of the Rhode Island Airport Corporation (“RIAC”) presents its report concerning the financial performance audit of Southwest Airlines (“Southwest”) for the period July 1, 2022, through June 30, 2023, as follows:

Background

Southwest entered into an agreement (Agreement) on July 1, 2010, with Rhode Island Airport Corporation to operate within Rhode Island T.F. Green International Airport (“Airport”). Extensions of the Agreement were in effect through the fiscal year ended June 30, 2023. A revised agreement was executed and was effective July 1, 2023.

The Agreement contained various provisions and charges for activities such as aircraft landings, aircraft overnight parking (RON), lease space for customer counters and baggage service office and baggage hold rooms, jet bridge usage, hold room usage, common use fees, and joint use fees. The Agreement also contained a requirement for self-reporting of key activities by Southwest (Activity Report) documenting aircraft landings, aircraft types and associated landing weights along with departing and arriving passenger statistics. Such information is utilized for billing landing fees, Passenger Facility Charges, and joint use fees.

Objectives and Scope

The objectives of this audit were to determine if Southwest met the provisions of the Agreement and to assess the accuracy of their self-reporting. To meet these objectives, our audit focused on key provisions of the Agreement, and monthly submissions furnished by Southwest. The audit included testing and analysis to assess whether reports were complete and accurate relative to the underlying operating activities. Our testing also included identifying whether any significant discrepancies (over or under) in reporting or departures from other contractual terms existed. If such discrepancies were identified, this report would include the adjustments to the fee(s) payable to RIAC and our recommendations to improve

record keeping and reporting processes of Southwest relative to its ability to comply with Agreement provisions.

The scope of our audit was limited to the following:

- Records and reports supporting the activities related to aircraft landings, aircraft overnight parking, jet bridge usage, and hold room usage.
- Records, reports, and calculations related to Passenger Facility Charges.
- Calculations of joint use and supporting documents.
- Records, maps, and calculations related to lease space for customer counters, baggage service office, and baggage hold rooms.
- Calculations of fees payable by Southwest to the Airport for the period from July 1, 2022, through June 30, 2023, and evidence of such fees paid in a timely manner.

This audit and the resulting report relate only to the fees reported by Southwest and related payment terms as noted in the Agreement. The audit does not extend to any other performance or financial audits or other financial results of the Airport and Southwest or its related companies.

Testing and Procedures

To meet the objectives of our audit, we performed the following procedures:

- Obtained the 2010 Agreement and amendments and identified all revenue drivers.
- Selected June 2023 for testing for the following areas:
 - Rents based on square footage (ticket counter, baggage service office, and baggage hold room, etc.).
 - Landing fees.
 - Aircraft overnight parking fees.
 - Jet bridge fees.
 - Hold room fees.
 - Common use fees.
 - Joint use fees.
 - Passenger Facility Charges.
- Obtained the following reports and documents to confirm accuracy of recording:
 - Revenue Analysis of invoiced amounts for FY 2023.
 - All invoices for billable amounts for Southwest for June 2023.
 - Signatory Airlines Rates and Charges Report.
 - Maps of terminal and ramp, noting square footage.
 - Airline activity reports for Southwest for FY 2023.
 - Casper Landing Report by month for FY 2023.
 - Aircraft Overnight Parking (RON) Log for June 2023.
 - Report for billable RONs for all aircraft for April, May, and June of 2023.

- RON monthly report for Southwest for June 2023.
 - RON monthly report for Southwest for FY 2023.
 - Report for Jet bridge use for FY 2023 for Southwest (Casper).
- Recalculated all revenues and reconciled underlying invoices and/or other documents including RIAC accounting reports.
 - Contacted other airports to verify landing weight estimates were similar for aircrafts used by Southwest.
 - Reviewed the timeliness of payments by Southwest and compared to Agreement provisions.
 - Assessed the timeliness of RIAC invoices sent to Southwest seeking payment.
 - Discussed with RIAC staff the audit scope, testing procedures, and findings and recommendations.

We conducted this financial performance audit in accordance with generally accepted government auditing standards set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Audit Results Southwest

Based on the results of our testing for the period from July 1, 2022, through June 30, 2023, all amounts were properly calculated and reported, and payments were accurate and timely with the following exception.

- Fixed rent includes ramp apron, ticket counter, baggage service office, baggage hold room, hold room, and ramp operations. The Agreement states that fixed rent is due to RIAC on “the first day of the month in advance without notice”. The audit indicated that this payment is typically received 6 days late. For the test month of June 2023, the amount totaled \$204,721.
- The fixed rent portion of joint use space (\$19,836), or twenty percent of the total, is also required to be remitted on “the first day of the month in advance without notice”. For the test month, this amount was remitted on August 9, 2023, or 40 days after the June month end, and only after an invoice was issued by RIAC.

It is recommended that both rents be remitted on the 1st of the month as required under the Agreement.

Southwest's fees and statistics reported for June 2023

- Enplanements – 46,143
- Landings - 345
- Landing fees - \$132,155
- Fixed rents- \$204,721
- Joint use fees (fixed) - \$19,836
- Joint use fees (variable) - \$139,792
- Aircraft overnight parking, badges, and other - \$2,451
- Fees paid to RIAC for June 2023 was \$479,119, and FY 2023 was \$5,678,405.

Audit Results RIAC

RIAC's Operations employees track aircraft overnight parking manually and then compile the data in the computer for tracking. Each month's data is reviewed by both Finance and Air Service Development before being entered into RIAC's billing system and supporting records. Overnight aircraft parking invoices are then created by Finance and submitted to Southwest for payment. Certain items have been identified in this process from the audit where improvement can be made.

- The audit testing of the aircraft overnight parking revealed several instances where tail numbers were inaccurately recorded. The nature of the manual recording process is susceptible to inaccuracies and can result in billing errors. RIAC had recently issued an RFP for a comprehensive aircraft monitoring system. It is recommended that the project scope include monitoring and recording of overnight aircraft parking and other usage. RIAC may also want to consider a tracking system that can fully integrate with RIAC's accounting and billing system.
- For some items such as landing fees, the due date for remittance is the 15th day of the following month, and only after an invoice is issued by RIAC. In this case, the activity report which is not due from the airlines until the 10th day of the month is often received late by one or more of the airlines. It is then reviewed by Finance and Air Service Development before processing, which makes it nearly impossible for a timely receipt of payment.

It is recommended that Finance review all the billing and remittance requirements and process to determine if there is a way to shorten the duration. For example, joint use billings cannot be billed until all airlines have reported their activity. Once reported and reviewed, the invoices are created not only for joint use, but also landing fees. In discussions with Finance, they plan to invoice landing fees when the majority of activity reports are received from the airlines as opposed to when all of them have been received. Finance should also consider discussing with the airlines, the acceleration of the activity report, especially with those airlines with late submissions.

Conclusion

With the exception of the fixed rent remittance dates noted previously, we conclude that Southwest was in compliance with both the reporting and payment provisions of its Agreement with RIAC.

This report is intended solely for the information and use of RIAC and Southwest and is not intended to be and should not be used by anyone other than these specified parties.



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