



Audit Report



OIG-24-043

CORONAVIRUS DISEASE 2019 PANDEMIC RELIEF PROGRAMS

Audit of Air Carrier Worker Support Certifications - Prospect Airport Services, Inc.

September 26, 2024

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 26, 2024

**MEMORANDUM FOR JESSICA MILANO
CHIEF PROGRAM OFFICER**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Audit of Air Carrier Worker Support Certifications – Prospect
Airport Services, Inc.

Attached is our audit report for the *Audit of Air Carrier Worker Support Certification – Prospect Airport Services, Inc.* (Prospect) (OIG-24-043; dated September 26, 2024). Under a contract monitored by our office, Saggar & Rosenberg, P.C. (S&R), a certified independent public accounting firm, performed the audit. The objective of this audit was to assess the accuracy, completeness, and sufficiency of Prospect's sworn financial statement or other data used to certify the wages, salaries, benefits, and other compensation amounts submitted and approved by the Department of the Treasury (Treasury) for the Air Carrier Payroll Support Program (PSP1). This audit was mandated by Title IV, Subtitle B, *Air Carrier Worker Support*, of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act).¹ The scope of this audit covered the period from April 1, 2019 through September 30, 2019, and included the certified PSP1 Application, sworn financial statement, tax returns, and other documentation submitted to Treasury.

In its audit report, S&R found Prospect incorrectly compiled data used for the Awardable Amounts section of the PSP1 Application, resulting in a \$310,004 overstatement. Specifically, the:

- Inclusion of unallowable corporate officer compensation, resulted in a [REDACTED] overstatement;
- Differences between the accrual-based financial information used for benefits and the actual amounts paid, resulted in an overstatement of [REDACTED]; and

¹ P.L. 116-136 (March 27, 2020).

- Inclusion of benefit compensation for ineligible affiliate employees, resulted in a [REDACTED] overstatement.

However, the overstatements were entirely offset by a \$4,860,352 understatement due to:

- Data errors resulted in an understatement of [REDACTED]; and
- Eligible tip compensation paid to company employees that Prospect voluntarily withheld from the PSP1 Application, resulted in an understatement of [REDACTED].

Overall, Prospect understated its requested PSP1 amount by \$4,550,348 and did not over-request PSP1 financial assistance despite partial non-compliance with application requirements.

Our contract required that the audit be performed in accordance with generally accepted government auditing standards. In connection with the contract, we reviewed S&R's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on Prospect's compliance with Treasury's PSP1 policies and procedures. S&R is responsible for the attached auditor's report and the conclusions expressed therein. Our review found no instances in which S&R did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the courtesies and cooperation provided to S&R and our staff during the audit. If you have any questions or require further information, please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Deputy Assistant Inspector General for Audit, at (202) 487-8371.

Attachment

cc: Gregory Till, Chief Operating Officer, Office of Capital Access, Department of the Treasury
Danielle Christensen, Deputy Chief Program Officer, Office of Capital Access, Department of the Treasury
Jason Morrow, Senior Counsel, Department of the Treasury
Jeff Davis, Partner, Saggat & Rosenberg, P.C.

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Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
COVID-19	Coronavirus Disease 2019
DOT	Department of Transportation
GAO	Government Accountability Office
Guidelines	Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors
IRS	Internal Revenue Service
OIG	Treasury Office of Inspector General
Prospect	Prospect Airport Services, Inc.
PSP1	Payroll Support Program, CARES Act
PSP2	Payroll Support Program Extension, Consolidated Appropriations Act, 2021
PSP3	Payroll Support Program 3, American Rescue Plan Act of 2021
S&R	Saggar & Rosenberg, P.C.
SOC 1	System and Organizational Controls
Treasury	Department of the Treasury

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September 26, 2024

Jessica Milano
Chief Program Officer
Department of the Treasury

This report presents the results of our audit of Prospect Airport Services, Inc.'s (Prospect) certifications made to the Department of the Treasury (Treasury) as part of its participation in the Air Carrier Payroll Support Program (PSP1). This audit was mandated by Title IV, Subtitle B, *Air Carrier Worker Support*, of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act).¹ Under the CARES Act, Treasury was to provide \$32 billion in financial assistance to passenger air carriers, cargo air carriers, and certain contractors to be exclusively used for the continuation of payment of employee wages, salaries, and benefits, in response to the economic impact of the Coronavirus Disease 2019 (COVID-19).² Furthermore, the Treasury Office of Inspector General (OIG) is required to audit certifications made by passenger and cargo air carriers that do not report salaries and benefits to the Department of Transportation (DOT) (hereinafter referred to as non-241 air carriers)³ and contractors.

Under a contract with OIG, Saggat & Rosenberg, P.C. (S&R) conducted this audit. Our audit objective was to assess the accuracy, completeness, and sufficiency of Prospect's sworn financial statement or other data used to certify the wages, salaries, benefits, and other compensation amounts submitted and approved by Treasury for PSP1. The scope of our audit covered the period from April 1, 2019 through September 30, 2019, and included the certified PSP1 Application, sworn financial statement,

¹ P.L. 116–136 (March 27, 2020).

² The financial assistance provided under the CARES Act was split between Passenger Air Carriers (\$25 billion), Cargo Air Carriers (\$4 billion), and Contractors (\$3 billion).

³ Passenger and cargo air carriers that are not required to report salaries and wages to DOT under 14 CFR, Part 241, "Uniform System of Accounts and Reports for Large Certificated Air Carriers".

tax returns, and other documentation submitted to Treasury on April 10, 2020.⁴

To accomplish the objective, we reviewed applicable laws and regulations and Treasury's policies and procedures, including but not limited to, the Title IV, Subtitle B, *Air Carrier Worker Support* of the CARES Act; *Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors* (Guidelines); PSP1 Agreement; and *Frequently Asked Questions: Application Procedures for Payroll Support to Air Carriers and Contractors*. We interviewed key personnel from Prospect, Treasury, and contracted consultants engaged by Treasury to evaluate certified company applications. We conducted our fieldwork from August 2023 through June 2024. Appendix 1 contains a more detailed description of our objective, scope, and methodology.

Results in Brief

In brief, S&R found that Prospect, a contractor, reported correct information for three of the four sections reviewed on its PSP1 Application.⁵ These sections are: (1) Applicant Information, (2) Applicant Type, and (3) Certification. We also found that Prospect reported incorrect information in the Awardable Amounts section. The company included [REDACTED] of unallowable corporate officer compensation, [REDACTED] of differences between actual amounts paid and accrual-based financial information used for benefits, and [REDACTED] of ineligible affiliate employees' benefit compensation. However, the overstatement was entirely offset by [REDACTED] due to data errors; and [REDACTED] of allowable tip compensation paid to company employees that was voluntarily withheld from the application. Overall, Prospect understated its requested amount by \$4,550,348 and did not over-request PSP1 financial assistance despite partial non-compliance with application requirements.

As part of our reporting process, we provided Prospect management with an opportunity to comment on a draft of this

⁴ Prospect submitted the PSP1 Application and related supporting documentation on April 10, 2020.

⁵ The PSP1 Application is comprised of eight sections. Four sections - Financial Institution Information, Employment Levels, Taxpayer Protection, and Additional Information, were not subject to audit procedures. Details regarding the sections not reviewed can be found in appendix 1.

report. In a written response, Prospect management stated they agree with the audit findings and noted that the inclusion of benefits for ineligible affiliate employees occurred due to Prospect's inability to update the original application to remove benefits for one affiliate that Treasury deemed ineligible for PSP1. Prospect management's response, in its entirety, is included as appendix 2 of this report.

In a written response, Treasury management stated the draft report describes work performed by OIG's contractor to determine whether the recipient's requested awardable amount complied with Treasury's program requirements. The draft report notes the extensive fieldwork conducted for this review between August 2023 and June 2024, including interviewing Prospect's management and reviewing a wide range of the company's financial records and corporate documents. In relation to Prospect, Treasury management noted that OIG's contractor found no amounts were overpaid. Treasury management appreciates the OIG's work on this engagement and looks forward to working with the OIG to protect the integrity of the PSP and other recovery programs. Treasury management's response, in its entirety, is included as appendix 3 of this report.

Background

Title IV, Subtitle B, of the CARES Act, *Air Carrier Worker Support*, requires Treasury to provide financial assistance to air carriers and contractors that must exclusively be used for the continuation of payments of employees' wages, salaries, and benefits. Financial assistance is to be provided to:

- (1) passenger air carriers, in an aggregate amount up to \$25 billion;
- (2) cargo air carriers, in an aggregate amount up to \$4 billion; and
- (3) contractors, in an aggregate amount up to \$3 billion.

According to the CARES Act, Treasury is required to provide financial assistance to air carriers that report salaries and benefits

to DOT (referred to as 241 air carriers),⁶ in an amount equal to the salaries and benefits reported to DOT for the period April 1, 2019 through September 30, 2019. For air carriers that do not report such data to DOT (referred to as non-241 air carriers), and contractors, financial assistance is required to be in an amount that the air carrier or contractor certifies using sworn financial statements or other appropriate data as the amount of wages, salaries, benefits, and other compensation paid to employees during the period of April 1, 2019 through September 30, 2019. The amounts submitted on the application to Treasury were considered sworn financial statements. To be eligible for payments, air carriers and contractors must enter into agreements with Treasury certifying that they meet certain required assurances, terms, and conditions.

On March 30, 2020, Treasury posted on its website the Guidelines, which included the PSP1 Application. The PSP1 Application is comprised of eight sections:

1. Applicant Information — (1) applicant name; (2) taxpayer identification number and address; and (3) contact person's name, title, phone number, and email address.
2. Applicant Type — selection of applicant type whether it is passenger air carrier, cargo air carrier, or contractor. Additionally, if the applicant is a contractor, this section would identify the contractor's service functions and the name of the air carrier or airport to which services are provided. Finally, this section includes affiliate and parent company information.
3. Financial Institution Information — (1) the applicant's account number and routing number; and (2) the financial institution's name, address, and telephone number.
4. Employment Levels — applicant's average number of employees for 2019 and involuntary reductions after March 1, 2020.

⁶ 14 CFR, Part 241 "Uniform System of Accounts and Reports for Large Certificated Air Carriers" defines "Air carrier, large certificated" as an air carrier holding a certificate issued under 49 U.S.C. 41102, as amended, that: (1) operates aircraft designed to have a maximum passenger capacity of more than 18,000 pounds; or (2) conducts operations where one or both terminals of a flight stage are outside the 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. These air carriers are required to report financial information to DOT. Prospect and its affiliates are not Large Certificated Air Carriers

5. Awardable Amounts — applicant’s sworn financial statement consisting of salaries, wages, benefits, and other compensation for the period April 1, 2019 through September 30, 2019.
6. Taxpayer Protection — a table that outlines in detail the proposed financial instrument to be issued to Treasury.
7. Additional Information — applicant’s verification of submitting its Internal Revenue Service (IRS) Form 941, *Employer’s Quarterly Federal Tax Return*,⁷ covering the period April 1, 2019 through September 30, 2019 along with the PSP1 Application submitted to Treasury.
8. Certification — names, titles, and signatures of two certifying officials⁸ and the applicant’s name and application submission date.

On April 18, 2020, Treasury published a sample PSP1 Agreement on its website, which provided definitions, terms, and conditions for participation in PSP1, and required applicants to submit completed applications by April 27, 2020. After Treasury reviewed and approved an application, both parties were required to sign the PSP1 Agreement.

Treasury Disbursement Processes

To disburse PSP1 payments to contractor applicants as quickly as possible and prior to the application deadline of April 27, 2020, Treasury applied an initial estimated pro-rata rate of 69.7 percent to the awardable amount because not all applications had been submitted at the time. After the application deadline, Treasury determined the total amount requested by all contractors was approximately \$4.1 billion, which exceeded the \$3 billion available financial assistance. Because its initial estimated pro-rata rate was low, Treasury calculated an additional 20.3 percent, the top-off amount, for contractors making the final pro-rata rate 90 percent. Treasury explained that 17 contractors did not accept the top-off

⁷ IRS Form 941 is a tax form that businesses file quarterly to report income taxes, Social Security taxes, and Medicare taxes they withheld from employees’ paychecks.

⁸ The certifying officials attested under penalty of perjury that the information and certifications provided in the application and its attachments are true and correct.

amount; as such, the final awardable amount for those contractors was 69.7 percent.

Treasury disbursed an initial lump sum payment of one-third of the awardable amount, followed by four equal subsequent payments to ensure it provided sufficient and timely financial assistance corresponding to the applicants' payroll schedule. In instances where Treasury needed to perform additional follow-up with contractors or needed additional time to approve applications, Treasury compressed the payment schedule on a case-by-case basis. Generally, Treasury disbursed the top-off amounts for contractors in February 2021.

PSP1 Interim Audit Report

In a prior audit report,⁹ OIG identified two systemic issues affecting the payment amounts administered to all PSP1 recipients for non-241 air carriers and contractors. Specifically, some of the recipients audited included unallowable employer-side payroll taxes and/or corporate officer compensation in their calculation of the awardable amounts on their PSP1 applications. Treasury management acknowledged these issues and agreed to: (1) review payments issued under PSP1 to ensure awarded amounts are allowable per the CARES Act and Treasury guidance; and (2) remedy the incorrect amounts awarded under PSP1. Based on our recommendations, in March 2022 Treasury implemented a PSP1 recertification process whereby recipients had to certify whether they excluded employer-side payroll taxes and corporate officer compensation in their calculation of the awardable amounts on their PSP1 applications. Treasury's goal was to determine if overpayments were made to recipients based on inaccurate information included in PSP1 applications.

Treasury officials told us that if recoupment was necessary for an applicant's inclusion of unallowable expenses, such as corporate officer compensation and employer-side payroll taxes in the application, the recoupment method was dependent on timing. Any overpayment was first offset against the approved top-off payment. If an overpayment remained, or the overpayment was identified after all PSP1 disbursements were made, and the

⁹ OIG-21-025, *Interim Audit Update – Air Carrier and Contractor Certifications for Payroll Support Program (Interim Audit)*, March 31, 2021.

recipient was entitled to PSP2 or PSP3 funding, the overpayment was offset against the PSP2 and/or PSP3 awards prior to issuance. All remaining PSP1 overpayments not previously collected where the recipient did not qualify for, or apply for, PSP2 and PSP3 funding, were required to be repaid to Treasury.

Prospect Airport Services, Inc.

Headquartered in Des Plaines, Illinois, Prospect is a contractor that delivers a broad range of services to airlines in 30 cities and 31 airports around the country that include ticket and gate agents, passenger services, ramp/cabin services, cargo services, janitorial, and security services.

The Prospect PSP1 Application¹⁰ was comprised of four United States-based affiliate companies. The three other companies are (1) Prospect International Airport Services, (2) Prospect of Orlando, and (3) Prospect of Tampa, all of which are managed and operated by the same management group. Initially, each affiliate submitted separate PSP1 applications to Treasury; however, those applications were merged during Treasury’s application review process. A breakdown of the initial applications that were approved by Treasury is detailed below in Table 1.

Table 1. PSP1 Initial Application Requests

Company	Initial PSP1 Application
Prospect Airport Services	██████████
Prospect International Airport Services	██████████
Prospect of Orlando	██████████
Prospect of Tampa	██████████
TOTAL – Merged Application	██████████

Source: Initial PSP1 Applications

After Prospect’s application was merged with its three affiliates, Prospect accepted the contractor top-off for a total award amount

¹⁰ The PSP1 Application was merged; however, only the Awardable Amounts section included consolidated data for all four affiliates. Hereafter, Prospect refers to all four affiliates.

of \$94,580,166, or 90 percent of the company's requested amount. Treasury's disbursements to Prospect were as follows:

- July 10, 2020: \$36,623,542
- July 30, 2020: \$18,324,275
- September 1, 2020: \$18,315,938
- February 12, 2021: \$21,316,411

In addition to PSP1, Treasury awarded Prospect \$31,947,078 under the Payroll Support Program Extension (PSP2)¹¹ authorized by the Consolidated Appropriations Act, 2021 and \$31,947,078 under the Payroll Support Program 3 (PSP3)¹² authorized by the American Rescue Plan Act of 2021. PSP2 and PSP3 were not the subject of this audit.

Audit Results

We found that Prospect reported correct information for three of the four sections reviewed on its PSP1 Application. These sections are: (1) Applicant Information, (2) Applicant Type, and (3) Certification. We compared information provided in each section of the PSP1 Application to supporting documentation including general ledger data, company sworn financial statement, IRS Form 941, executive-level business charts, payroll registers, and third-party benefit invoices.

We also found that Prospect reported incorrect information in the Awardable Amounts section. The company included [REDACTED] of unallowable corporate officer compensation, [REDACTED] of differences between actual amounts paid and accrual-based financial information used for benefits, and [REDACTED] of ineligible affiliate employees' benefit compensation. However, the overstatement was offset by [REDACTED] due to data errors, and [REDACTED] of

¹¹ The Consolidated Appropriations Act, 2021 (P.L. 116-260), enacted on December 27, 2020, created the *Airline Worker Support Extension* for passenger air carriers and certain contractors. Treasury referred to this as Payroll Support Program Extension (PSP2).

¹² The American Rescue Plan of 2021 (P.L. 117-2), enacted on March 11, 2021, created the *Air Transportation Payroll Support Program Extension* authorizing Treasury to provide additional assistance to passenger air carriers and contractors that received financial assistance under PSP2. Treasury referred to this as Payroll Support Program 3 (PSP3).

allowable tip compensation paid to company employees that was voluntarily withheld from the application. Overall, Prospect understated its requested PSP1 amount by \$4,550,348 and did not over-request PSP1 financial assistance despite partial non-compliance with application requirements.

Finding 1

Prospect Did Not Over-Request PSP1 Financial Assistance Despite Partial Non-Compliance with Application Requirements

Both the CARES Act and Treasury’s Guidelines define “employee” as “an individual, other than a corporate officer, who is employed by an air carrier or contractor in the United States (including its territories and possessions).”

In addition, the signed PSP1 Agreement, effective date July 10, 2020, subsequently defines a corporate officer as:

with respect to the Recipient, its president; any vice president in charge of a principal business unit, division, or function (such as sales, administration, or finance); any other officer who performs a policy-making function; or any other person who performs similar policy making functions for the Recipient. Executive officers of subsidiaries or parents of the Recipient may be deemed Corporate Officers of the Recipient if they perform such policy-making functions for the Recipient.

Treasury’s Guidelines define wages, salaries, benefits, and other compensation as:

remuneration paid by the applicant to its employees for personal services and includes salaries, wages, overtime pay, cost-of-living differentials, and other similar compensation, as distinguished from per diem allowances or reimbursement for expenses incurred by personnel for the benefit of the applicant.

In addition, the Guidelines define Awardable Amounts as:

an amount that such contractor certifies, using sworn financial statements or other appropriate data, as the amount

of wages, salaries, benefits, and other compensation that such contractor paid its employees during the time period.

Prospect incorrectly certified the PSP1 awardable amount by including a total of \$310,004 in ineligible expenses. Specifically, Prospect:

- Included benefit compensation for the company President, who met the definition of corporate officer per the PSP1 Agreement, resulting in an overstatement of [REDACTED];
- Prepared the PSP1 Application using accrual-based financial information, rather than the actual compensation paid for benefits, resulting in an overstatement of [REDACTED].
- Included benefit compensation for two of its ineligible affiliate companies,¹³ resulting in an overstatement of [REDACTED], as shown in Table 2.

Table 2. Ineligible Affiliate Benefits

Benefits	Amount	Description
Healthcare	[REDACTED]	<ul style="list-style-type: none"> • Prospect included employer and employee healthcare benefit contributions of two ineligible affiliates in the amount of [REDACTED]. • Prospect excluded employee healthcare benefit contributions of two ineligible affiliates in the amount of [REDACTED].
Deferred Compensation Savings Plan	[REDACTED]	<ul style="list-style-type: none"> • Prospect included savings plan benefits of one ineligible affiliate.
TOTAL	[REDACTED]	Net Overstatement

Source: S&R Calculation of Awardable Amount

However, the overstatements were entirely offset by (1) data errors related to typos and rounding, totaling [REDACTED]; and

¹³ One affiliate applied to PSP1 but was deemed ineligible by Treasury. The other affiliate did not apply to PSP1 and is not a subsidiary of the approved affiliates; therefore, the company is ineligible to receive PSP1 funds.

(2) eligible tip compensation¹⁴ paid to company employees that Prospect voluntarily withheld from the PSP1 Application, totaling [REDACTED]. As a result, Prospect understated its requested PSP1 amount by \$4,550,348.

Prospect management stated that the inclusion of corporate officer compensation in its request for benefits was due to unintentional oversight. Prospect management also stated they were unable to update the application to remove benefit costs for employees of ineligible PSP1 affiliate companies once the four approved affiliate applications were merged by Treasury. In addition, Prospect management stated that data errors and the use of accrual-based financial information for the benefit costs in its PSP1 Application stemmed from unintentional oversight during the application process. Further, Prospect management stated that they excluded tip compensation from the application to exercise conservatism.

To remedy the findings noted in the prior OIG audit report,¹⁵ Treasury required PSP2 applicants to recertify their PSP1 awardable amounts. Prospect erroneously certified to Treasury under PSP2, that its PSP1 Application did not include unallowable corporate officer compensation. However, Prospect's PSP1 allowable amount exceeded its requested amount by \$4,550,348, as illustrated in Table 3 below. Therefore, Prospect did not over-request PSP1 financial assistance.

¹⁴ Tips compensation paid to Prospect employees and its affiliates was recorded on its bi-weekly pay registers and reported on IRS Form 941.

¹⁵ OIG-21-025, *Interim Audit Update – Air Carrier and Contractor Certifications for Payroll Support Program (Interim Audit)*, March 31, 2021.

Table 3. Aggregate Understatement

Description	Total
Corporate Officers	████████
Accrual-Based Benefit Data	████████
Ineligible Affiliates	████████
Data Errors	████████
Tips Excluded From Application	████████
Understatement	\$4,550,348

Source: S&R Calculation of Awardable Amount

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. A distribution list for this report is provided as appendix 4.

Saggar & Rosenberg, P.C. /s/

Appendix 1: Objective, Scope, and Methodology

Our objective was to assess the accuracy, completeness, and sufficiency of Prospect Airport Services, Inc.'s (Prospect) sworn financial statement or other data used to certify the wages, salaries, benefits, and other compensation amounts submitted and approved by the Department of the Treasury (Treasury).

The scope of our audit covered the period from April 1, 2019 through September 30, 2019, and included the certified Payroll Support Program (PSP1) Application, sworn financial statement, tax returns, and other documentation submitted to Treasury on April 10, 2020.¹⁶

To accomplish this objective, Saggat & Rosenberg, P.C. (S&R) performed the following activities during audit fieldwork from August 2023 through June 2024:

- Reviewed applicable laws and regulations, including:
 - Title IV, Subtitle B, *Air Carrier Worker Support*, of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act);¹⁷ and
 - 14 CFR, Part 241,¹⁸ *Uniform System of Accounts and Reports for Large Certificated Air Carriers*, December 28, 2023.
- Reviewed Treasury's policies and procedures related to PSP1:
 - *Guidelines and Application Procedures for Payroll Support to Air Carriers and Contractors* (Guidelines), which included the PSP1 Application, March 30, 2020;
 - PSP1 Agreement;

¹⁶ Prospect submitted the PSP1 Application and related supporting documentation on April 10, 2020.

¹⁷ P.L. 116-136 (March 27, 2020).

¹⁸ 14 CFR, Part 241 "Uniform System of Accounts and Reports for Large Certificated Air Carriers" defines "Air carrier, large certificated" as an air carrier holding a certificate issued under 49 U.S.C. 41102, as amended, that: (1) operates aircraft designed to have a maximum passenger capacity of more than 18,000 pounds; or (2) conducts operations where one or both terminals of a flight stage are outside the 50 states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. These air carriers are required to report financial information to the Department of Transportation. Prospect and its affiliates are not Large Certificated Air Carriers.

Appendix 1: Objective, Scope, and Methodology

- *Question and Answer: Payroll Support to Air Carriers and Contractors*, (April 2, 2020, April 3, 2020, and April 20, 2020 versions); and
- *Frequently Asked Questions: Application Procedures for Payroll Support to Air Carriers and Contractors*, April 3, 2020.
- Performed 100 percent testing for four of the eight sections of the PSP1 Application—specifically, the Applicant Information, Applicant Type, Awardable Amounts, and Certification sections. The other four sections were not reviewed because the Taxpayer Protection section generally applied to 241 air carriers, with exceptions; the Employment Levels, Financial Institution Information, and Additional Information sections had no impact on Treasury’s determination of recipients’ award amounts.
- Interviewed key Treasury personnel and contracted consultant personnel engaged by Treasury to aid in its evaluation of the air carriers’ and the contractors’ certified applications and other data.
- Interviewed Prospect management responsible for the completion and submission of the sworn financial statement in the Awardable Amounts section of the PSP1 Application.
- Reviewed sworn financial statement and documents to support the requested payroll support amount. The documentation included, general ledger data, company pay registers, benefit invoices, Internal Revenue Service (IRS) Form 941, *Employer’s Quarterly Federal Tax Return*,¹⁹ and organizational hierarchy information.
- Reviewed Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*²⁰ to identify the components of internal control that are significant to the audit objective. Understanding internal control within the context of an entity’s internal control framework can help auditors determine whether internal control deficiencies exist. We concluded that one of the five internal control components, Control Activities, as related to Prospect’s payroll system, was

¹⁹ IRS Form 941 is a tax form that businesses file quarterly to report income taxes, Social Security taxes, and Medicare taxes they withheld from employee paychecks.

²⁰ GAO-14-704G (September 2014).

Appendix 1: Objective, Scope, and Methodology

significant to the audit objective.²¹ This component states that control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. To assess the controls over Prospect's payroll system, we examined Prospect's response to Data Supplier Questionnaires,²² reviewed a System and Organizational Controls 1 (SOC 1),²³ and interviewed Prospect's management responsible for generating and using the data. Additional details regarding our assessment of the reliability of the data is reported in the section below.

- Reviewed GAO's *Assessing Data Reliability*²⁴ guidance, which states that a data reliability determination does not involve attesting to the overall reliability of the data or database. For this audit, the audit team has only determined the reliability of the specific data sources needed to support the findings, conclusions, or recommendations in the context of the audit objective. Prospect prepared the PSP1 Application using bi-weekly payroll compensation from April 2019 through September 2019, which included information developed from Prospect's payroll and financial accounting systems. We compared details generated from the payroll registers at the individual employee level, as well as third-party vendor benefit invoices from April 2019 through September 2019 to the amounts presented in the Awardable Amounts section of the PSP1 Application.

To assess data reliability of these sources, we reviewed Prospect's response to the Data Supplier Questionnaire for the payroll and financial accounting systems, reviewed the SOC 1 report for the payroll system, and interviewed Prospect's management responsible for generating and using the data. Based on our assessment, we determined that the data was

²¹ The five components of internal control are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

²² A Data Reliability Assessment is completed to assess the reliability of data originating from a system to determine if it is reliable for the purposes of the audit. The Data Supplier Questionnaire would be one of the tools used during the Data Reliability Assessment.

²³ SOC 1 report addresses a company's internal control over financial reporting, which pertains to the application of checks-and-limits. Essentially, it is the audit of a third-party vendor's accounting and financial controls.

²⁴ GAO-20-283G (December 2019).

Appendix 1: Objective, Scope, and Methodology

sufficiently reliable to support the findings and conclusions to answer the objective of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix 2: Prospect Management Response



Focused on Safety, Committed to Service.

Dedicated to Our Customers



August 29, 2024

DEPARTMENT OF THE TREASURY

Re: Management response – Audit of Air Carrier Worker Support Certifications – Prospect Airport Services, Inc.

Prospect agrees with audit findings.

Prospect Airport Services, Inc. contracts and pays for medical coverage and deferral program for all Prospect' affiliates. The inclusion of benefits for ineligible affiliate employees occurred because the application could not be updated to remove benefits for one affiliate that the Treasury deemed ineligible for PSP1.

Sincerely,



Vicki Strobel
President

Appendix 3: Treasury Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 20, 2024

Deborah L. Harker
Assistant Inspector General for Audit
U.S. Department of the Treasury – Office of Inspector General
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Ms. Harker:

I write regarding the Office of Inspector General's (OIG) draft *Audit of Air Carrier Worker Support Certifications* (Draft Report), regarding Prospect Airport Services, Inc. (the Recipient), a recipient of funds under Treasury's Payroll Support Program (PSP). The U.S. Department of the Treasury (Treasury) appreciates OIG's efforts.

Background on the Payroll Support Program

PSP was part of an effort to provide emergency assistance in response to the unprecedented challenges presented by the COVID-19 public health emergency and had three iterations:

- The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020, and established the Payroll Support Program (PSP1) to provide financial assistance to America's passenger air carriers, cargo air carriers, and certain aviation contractors. Treasury disbursed more than \$28 billion to over 600 businesses in PSP1, directly supporting more than 600,000 American jobs.
- In December 2020, the Consolidated Appropriations Act, 2021, created the Payroll Support Program Extension (PSP2) for eligible passenger air carriers and certain aviation contractors. Treasury disbursed over \$15 billion to over 480 passenger air carriers and contractors under PSP2.
- In March 2021, the American Rescue Plan Act of 2021 provided an additional \$15 billion for Treasury to make further payroll support payments to entities that participated in PSP2 (PSP3). Treasury disbursed over \$14.5 billion to over 480 passenger air carriers and contractors under PSP3.

The CARES Act set forth two different methodologies for calculating awardable amounts for the largest carriers and for smaller air carriers and aviation contractors. For the largest air carriers, which received approximately 89% of the total PSP assistance, PSP1 amounts were based on reports the carriers had filed with the U.S. Department of Transportation under 14 C.F.R. part 241. In contrast, the statute required Treasury to provide financial assistance to smaller air carriers and aviation contractors in an amount that the applicants certified, using sworn financial statements or other appropriate data, as the amount of wages, salaries, and benefits that they paid to their employees during the time period from April 1, 2019, through September 30, 2019.

For awards to the smaller companies, the PSP1 application and Treasury's guidelines made clear that the awardable amounts should not include, inter alia, (1) any employer-side payroll taxes, which are not paid to employees, and (2) compensation paid to corporate officers and non-employee contractors. Before accepting PSP2 applications, Treasury published additional guidance further emphasizing that such amounts should not be included in the companies' awardable amount calculations.¹ In both PSP1 and PSP2, Treasury required two officials of each applicant, including at least one corporate officer, to certify that the information provided in the application was correct and did not contain any materially false or fraudulent statements.

In April 2020, OIG began a series of audits of PSP1 recipients to determine whether they had properly calculated their requested awardable amounts. In March 2021, OIG issued an Interim Audit Update, notifying Treasury that a number of recipients being audited had impermissibly included, in their PSP1 applications, employer-side payroll taxes or corporate officer compensation in the calculation of the awardable amount, which may have resulted in an overstatement of the amount of PSP1 funds requested. In response, Treasury promptly took a series of remedial actions, including requiring that all PSP1 applicants receiving awards on the basis of self-certification re-certify whether their awardable amounts included employer-side payroll taxes or corporate officer compensation. Where a company informed Treasury that it had improperly included those amounts in its application, Treasury either withheld future PSP1 disbursements or began pursuing debt recoupment. Through this process, Treasury has successfully recouped more than \$147 million of PSP overpayments.

OIG's Finding

The Draft Report describes the work performed by OIG's contractor to determine whether the Recipient's requested awardable amount complied with the guidelines provided by Treasury. The Draft Report notes the extensive fieldwork conducted for this review between August 2023 and June 2024 to determine the accuracy of the information in the Recipient's PSP1 application submitted to Treasury, including interviewing the Recipient's management and collecting and reviewing a wide range of the company's financial records and corporate documents. OIG found that the Recipient's application incorrectly included unallowable corporate officer compensation, differences between actual amounts paid and accrual-based financial information used for benefits, and ineligible affiliate employees' benefit compensation. However, OIG also found that the overstatement was offset by data errors and Recipient's decision not to include allowable tip compensation paid to employees. Overall, therefore, the Recipient did not receive any overpayment for PSP1.

¹ Because awardable amounts in PSP3 were calculated as a percentage of each company's PSP2 award, companies were not required to calculate awardable amounts for PSP3.

Again, Treasury appreciates OIG's work on these engagements. We look forward to working with you to protect the integrity of the PSP and other recovery programs.

Sincerely,

A handwritten signature in black ink that reads "Jessica Milano". The signature is written in a cursive, flowing style.

Jessica Milano
Chief Program Officer

Appendix 4: Report Distribution

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