



Final Audit Follow-Up



Period Ending March 31, 2020
Report #2010 | August 31, 2020

Audit of Selected Airport Leases


Summary from Original Report #1620 (Issued September 16, 2016): The purpose of this audit was to determine, for the addressed leases, whether: (1) the Aviation Department maintained proper oversight over the related leasing activities, (2) the leasing activities were in the best interest of the City, (3) the City was adequately protected from exposure to risk, and (4) lease revenues due the City were reasonable and properly and timely collected.

The audit determined the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which the property was leased for nominal consideration. We identified several areas for improvement related to establishing an internal leasing policy, tracking and managing leases, increasing and collecting lease revenues, executing nominal value leases, pre-approving subleases, and maintaining insurance documentation.

Summary of Action Plan: In response to the audit recommendations described above, management established 13 action plan steps. Seven of the 13 action plan steps were previously completed or otherwise resolved in follow-up reports #1709, #1903 and #2001. The remaining six steps were due for completion by March 31, 2020, and are being addressed as part of this follow-up audit. This report is the fourth and final follow-up on audit report #1620. The status of the six remaining action plan steps is discussed in the table below.¹

Action Plan Steps	Status as of March 31, 2020
Objective A: To ensure the Aviation Department maintains proper oversight over the Airport's leasing activities.	
1. A formal comprehensive leasing policy that incorporates best practices will be developed and adopted. <i>(Management's Initial Estimated Completion Date: 03/31/17)</i>	Complete. During the period covered by this audit follow-up, the Aviation Department finalized and adopted their formal comprehensive leasing policy on February 20, 2020. Accordingly, this step is complete. 
Objective B: To ensure the Airport's leasing activities are in the best interest of the City.	
3. The formal comprehensive leasing policy developed pursuant to step A.1 above will provide the criteria and circumstances in which Airport property will be leased for nominal consideration. <i>(Management's Initial Estimated Completion Date: 03/31/17)</i>	Complete. The criteria and circumstances under which nominal leases are appropriate were included in the newly adopted leasing policy mentioned in step A.1. Accordingly, this step is complete. 

¹ The numbering sequence of the action plan steps is based on the steps provided by management in the original audit and only those steps which were outstanding at March 31, 2020 are included.

Action Plan Steps	Status as of March 31, 2020
Objective C: To ensure the City is adequately protected from exposure to risk.	
<p>1. All subleases shall be pre-approved by the City prior to execution between the parties and prior to execution of the Airport Use Agreement. If and when appropriate, Use Agreements, which authorize all subleases (with the exception of T-Hangars), will be executed between lessees, sublessees, and the City.</p> <p><i>(Management's Initial Estimated Completion Date: 12/31/17)</i></p>	<p>Complete. The newly adopted leasing policy mentioned in step A.1 includes language requiring subleases to be pre-approved by the City. Aviation management reported there have been no new subleases executed since the previous follow-up audit, nor do they anticipate any new subleases in the foreseeable future. Accordingly, this step is complete.</p> 
Objective D: To ensure lease revenues are reasonable and properly and timely collected.	
<p>1. When applicable, appropriate escalation provisions will be included in each subsequent lease agreement.</p> <p><i>(Management's Initial Estimated Completion Date: 12/31/17)</i></p>	<p>Complete. The newly adopted leasing policy mentioned in step A.1 includes provisions for the escalation of lease rates. During the period covered by this audit follow-up, the Aviation Department reported no new lease agreements for which lease rate escalation provisions would be appropriate have been executed, nor do they anticipate any new leases in the coming months. Accordingly, this step is complete.</p> 
<p>2. The formal comprehensive leasing policy developed pursuant to step A.1 above will include appropriate provisions regarding escalation of lease rates, including the nature and frequency that such escalations should be applied.</p> <p><i>(Management's Initial Estimated Completion Date: 03/31/17)</i></p>	<p>Complete. Provisions for the escalation of lease rates were included in the newly adopted leasing policy mentioned in step A.1. Specifically, the policy requires leases with terms of more than five (5) years should contain an escalation provision and those rate escalations are to be based on an economic index, such as the Consumer Price Index. Accordingly, this step is complete.</p> 
<p>4. The formal comprehensive leasing policy developed pursuant to step A.1 above will include appropriate actions that should be taken in regard to collecting amounts for delinquent accounts.</p> <p><i>(Management's Initial Estimated Completion Date: 03/31/17)</i></p>	<p>Complete. The newly adopted leasing policy mentioned in step A.1 included procedures regarding collection of amounts related to delinquent accounts. Specifically, the policy requires accounts with balances more than 90-days past due to be referred to the City Attorney's office for further collection assistance. Accordingly, this step is complete.</p> 

CONCLUSION

As stated above, in the original audit report #1620, management established 13 action plan steps to address the audit recommendations. Seven of the 13 action plan steps were previously completed or otherwise resolved in follow-up reports #1709, #1903 and #2001. The remaining six steps were due for completion by March 31, 2020. All six steps were completed during this follow-up audit period. This report is the fourth and final follow-up on audit report #1620.

We appreciate the cooperation and assistance provided by the Aviation Department management and staff during this audit follow-up. All responses and documents requested were provided in a timely manner without limitations or interference.

APPOINTED OFFICIAL'S RESPONSE

We appreciate the Office of the City Auditor's thorough examination of selected Airport lease and sublease agreements. We have reviewed the City Auditor's report related to the Audit of Selected Airport Leases and are pleased to see that the findings disclosed the Aviation Department effectively managed leases of City-owned property at the Airport for which the tenants also subleased some of the property to other entities, or for which property was leased for nominal consideration. We have taken note of the action plan comments, and staff will work to address all recommendations in an effort to enhance and strengthen the Airport's existing leasing practices. Of noteworthy mention, the Aviation Department staff finalized and formally adopted Airport Leasing Procedures in February 2020. We would like to thank the City Auditor's staff for their time and effort in this audit and their continued commitment to ensuring best practices are followed in the administration of Airport leases and subleases.

STATEMENT OF ACCORDANCE

The Office of the City Auditor's mission is to provide the City Commission an independent, objective, and comprehensive auditing program of City operations; to advance accountability through the provision of assurance and advisory services; and to actively work with Appointed Officials in identifying risks, evaluating controls, and making recommendations that promote economical, efficient, and effective delivery of City services.

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Please address inquiries regarding this report to the Office of the City Auditor at (850) 891-8397.

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