

Internal Audit Report 2017-019

**Riverside County
Economic Development Agency
Aviation Department Audit**

Report Date: August 9, 2018



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August 9, 2018

Robert Field
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Economic Development Agency, Aviation Department
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Riverside, CA 92501

Subject: Internal Audit Report 2017-019: Riverside County Economic Development Agency, Aviation Department Audit

Dear Mr. Field:

In accordance with Board of Supervisors Resolution 83-338, we completed an audit of the Riverside County Economic Development Agency, Aviation Department to provide management and the Board of Supervisors with an independent assessment of internal controls over lease insurance, safety and maintenance, permit compliance, grant management, and capital and non-capital assets.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified opportunities for improvement of internal controls as follows: lease insurance, safety and maintenance, permit compliance, grant management, and capital and non-capital assets.

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

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We thank the Riverside County Economic Development Agency, Aviation Department management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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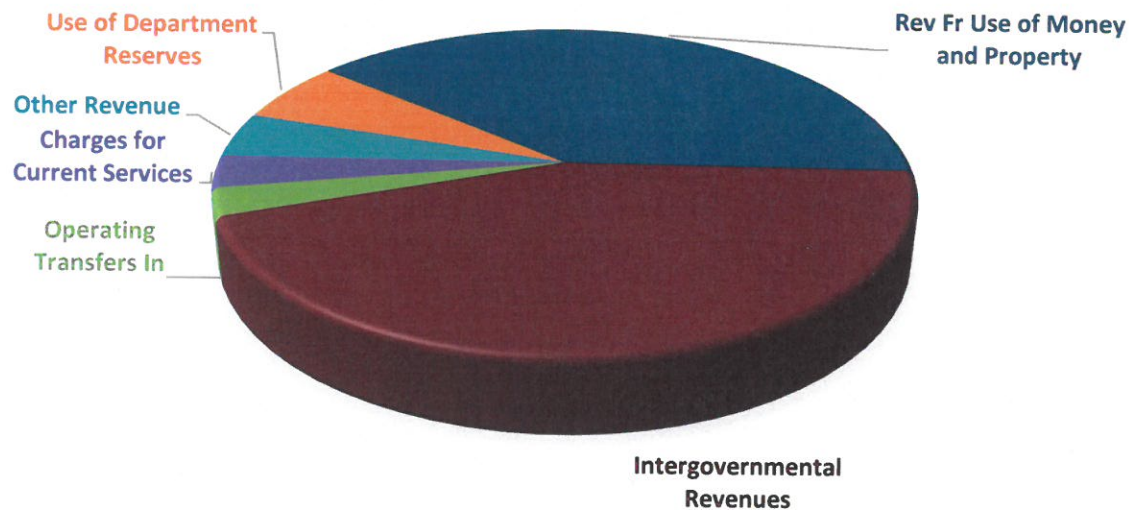
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Executive Summary

Department Overview

The Riverside County Economic Development Agency, Aviation Department (Aviation) has a mission to optimize the use of airport facilities to preserve, promote and enhance general aviation in the County of Riverside while developing economic growth and maintaining the highest levels of safety, convenience, and efficiency. They manage five airports and operated with an adopted budget of \$6.4 million and 14 authorized positions for Fiscal Year 2017-18. *County of Riverside, Fiscal Year 2017/18 Adopted Budget, Volume 1, November 2017, p. 232*

AVIATION BUDGET BY CATEGORY OF SOURCE



Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment about the adequacy and effectiveness of internal controls over lease insurance, safety and maintenance, permit compliance, grant management, and capital and non-capital assets. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information.

Audit Scope and Methodology

We conducted our audit from July 24, 2017, through October 30, 2017, for operations from July 1, 2015, through August 31, 2017. Following a risk based approach, our scope included the following:

- Lease insurance
- Safety and maintenance
- Permit Compliance
- Grant management
- Capital and non-capital assets

Audit Highlights

Existing Conditions

- Aviation staff did not always obtain proof of insurance upon policy renewal for airport leases. In addition, Aviation did not consistently deactivate gate card access to the airport when proof of insurance was not provided
- Through onsite inspection, we observed that there is not a set form or procedure established to perform mandatory, daily, weekly, or monthly maintenance tasks and document results and actions on an inspection or corrective action form
- Review of Caltrans inspection reports showed multiple findings that had not been remediated from 2015 through 2017
- Aviation did not receive state matching funds for five grants. This funding represents \$126,990 in potential lost revenue to the county
- Inventory of Aviation assets showed one capital asset and six non-capital assets that were not listed in the Riverside County financial system

Improvement Opportunities

- Update policies and procedures over lease insurance procedures
- Create a program to manage airport maintenance
- Resolve issues identified in previous inspection reports from Caltrans
- Implement a process to ensure state matching grant funds are received

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- Ensure changes to capital and non-capital assets are promptly recorded in the Riverside County financial system

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls as follows: lease insurance, safety and maintenance, permit compliance, grant management, and capital and non-capital assets.

Lease Insurance

Background

The Riverside County Economic Development Agency manages five airports through its Aviation Department. Riverside County owned airports enter into lease agreements for land rental, T-hangars, tie-downs, and port-a-port aircraft storage at each of the five airports. Each airport lease agreement contains a clause requiring insurance to be maintained in a contractually set amount with the County being named as an additional insured party. Depending on the type of lease, the lessee may be required to maintain workers compensation, airport liability, vehicle liability, and/or aircraft liability insurance. Proof of insurance must be submitted to the Aviation Department at the inception of the lease and upon insurance renewal.

Objective

To evaluate internal controls over lease insurance to ensure insurance requirements are being monitored, policies and procedures meant to protect Riverside County are being followed and enforced, and tenants are not operating on airport grounds without the required insurance.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, regulations, and board ordinances
- Conducted interviews and performed walk-throughs with Aviation personnel
- Obtained and analyzed lease agreements to obtain an understanding of their requirements
- Selected a sample of leases to verify compliance with insurance requirement

Finding 1: Lease Insurance Renewals

Aviation did not follow policies and procedures by not consistently performing the following:

- Obtain proof of insurance upon policy renewal
- Deactivate gate card access to the airport when proof of insurance was not provided

We reviewed 188 tenant insurance policies and found that 96 had not provided proof of insurance coverage. As of August 30, 2017, the average time lapse for insurance coverage was 191 days. Of those 96 policies, only 64 policies were requested to have their gate cards deactivated, with an average time lapse of 239 days from insurance expiration to gate card deactivation. Aviation policies and procedures, "Insurance Updates, Expiration Notices, and Gate Card Deactivation," requires all lease tenants to have and maintain general auto liability insurance in the amount of

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\$100,000/\$300,000, and maintain aircraft liability insurance in an amount no less than \$1,000,000. Additionally, the policy states, "Tenants who do not comply with the airport insurance requirements will have their gate card deactivated."

Aviation policies and procedures do not specify a timeframe that gate card access will be deactivated if proof insurance is not provided. In addition, the key card access agreements signed by the tenants do not specify the consequences for the tenant not providing proof of insurance coverage. By not adequately monitoring insurance renewals, Aviation is at risk of tenants operating without insurance. This puts the County of Riverside at risk of liability in case of accidents or other catastrophic events.

Recommendation 1.1

Ensure to follow policies and procedures to obtain proof of insurance or deactivate gate card access for those that do not provide proof of insurance.

Management's Response

"Concur. At the conclusion of this audit, the Aviation Division fully implemented the new Aviation Airport Business Manager (ABM) software database, Insurance Updates, Expiration Notices, and Gate Card Deactivation Policies and Procedures (Aviation Insurance Policies and Procedures) to ensure proof of insurance coverages are adequately received and documented for all direct tenants of the County Airports. As an additional tool, aviation staff utilize the new ABM software database to properly document and generate reports for 30-day notification to tenants of upcoming insurance certificates set to expire."

Actual/Estimated Date of Corrective Action: **Completed**

Recommendation 1.2

Update policies and procures to include a timeframe to deactivate keycard access when proof of insurance is not provided.

Management's Response

"Concur. The Aviation Insurance Policies and Procedures will be updated to include a timeframe for deactivation of key card access when proof of insurance is not provided. The Aviation Division will also update the Airport Rules and Regulations to be consistent with this revised Insurance Policy and Procedure.

The Division will also review the various types of contractual tenant agreements to ensure that eventually the Insurance Policy language becomes consistent with all future and amended legal contracts."

Actual/Estimated Date of Corrective Action: **December 2018**

Recommendation 1.3

Update key card access agreements to specify the consequences for not providing proof of insurance coverage.

Management's Response

"Concur. The key card access agreement in place in the Aviation Division will be internally reviewed with legal counsel to ensure various types of tenant agreements and the element of cancelling a gate card are consistent for implementation."

Actual/Estimated Date of Corrective Action: **December 2018**

Safety and Maintenance

Background

Aviation is required to maintain a State Airport Permit at each of its airports issued by the California Department of Transportation (Caltrans), Division of Aeronautics, in order to remain in operation. This permit requires Aviation to maintain a certain level of safety, as well as stay in compliance with various state and federal regulations. To maintain the airports, Aviation employs personnel to complete essential safety and maintenance tasks. Regular tasks include landscaping, clearing brush, clearing weeds and debris from runways and taxiways, making sure all the lights are working (especially runway lights), and painting and repainting lines on the runways and taxiways.

Objective

To evaluate the internal controls that ensure routine maintenance is performed and documented for Aviation airports to operate in a safe and compliant environment.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed for policies, applicable laws, codes, regulations, and board ordinances
- Conducted interviews and performed walk-throughs with Aviation personnel
- Selected a sample of airports to perform onsite inspections

Finding 2: Maintenance Inspection Procedures

Aviation does not have standard maintenance procedures to ensure a systematic and documented approach to daily, weekly, or monthly maintenance tasks. Best business practice is to have a policy and procedure in place to ensure essential maintenance tasks are completed. By not having a system in place to establish when and how routine maintenance should be performed, Aviation risks essential maintenance tasks not being performed resulting in safety risks to airport users and non-compliance with Caltrans requirements.

Recommendation 2

Establish policies and procedures to ensure essential maintenance tasks are performed and documented.

Management's Response

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“Concur. The Aviation Division does not have a written policy that outlines systematic routine inspections and maintenance of each airport. However, an airport maintenance inspection checklist does exist and inspections of the each airport do take place routinely. The Aviation Division will incorporate best business practices by creating a written policy and procedure that outlines the industry required levels and timing of maintenance at Airports. Staff will incorporate and update current maintenance checklists in order to document each routine airport inspection and reoccurring maintenance performed at each and every County Airport.”

Actual/Estimated Date of Corrective Action: **December 2018**

Permit Compliance

Background

Each year the California Department of Transportation (Caltrans), Division of Aeronautics, conducts a state permit compliance inspection and Federal Aviation Administration (FAA) Airport Master Record update of each airport. Caltrans' objectives are to ensure that airports meet all current applicable FAA minimum design safety standards, Federal Aviation Regulations, State Public Utilities Code, section 21001 et seq., the California Code of Regulations, Title 21, sections 3525-3560, and all required conditions depicted in the State Airport Permit issued by Caltrans. Since Caltrans is a regulatory agency, it is expected that Aviation complies with all requests and findings identified by Caltrans in order to stay in compliance. Aviation management is expected to address and resolve the issues in a timely manner.

Objective

To evaluate internal controls over permit compliance to ensure airports are operating in a safe and compliant environment.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes and regulations
- Obtained the three most recent Caltrans inspection reports for each of the five airports
- Identified any repeat findings from the inspections and inquired from management on the status
- Performed walk-throughs with key aviation personnel

Finding 3: Caltrans Inspections

During review of the Caltrans inspection reports, we noted that Blythe airport had one repeat finding from Caltrans compliance inspection reports from 2017, 2016 and 2015, which was to replace the runway pavement. We also noted Jacqueline Cochran had two repeat findings from 2017, 2016 and 2015 to relocate palm trees and to repaint helicopter parking markings. Aviation officials attribute this to turnover of airport management. By not addressing the issues reported by the Caltrans inspection reports, Aviation is not fully compliant with safety requirements from Caltrans. This increases the risk of having operations suspended at respective airports and the potential to lose the airport permits.

Recommendation 3

Resolve the issues identified by Caltrans without further delay.

Management's Response

“Partially Concur In the 2016 and 2017 Airport Inspections, Caltrans identified the overall pavement of the Blythe Airport to be in deteriorated condition. Although, Caltrans suggests the repairs be undertaken in the near future, completing these repairs will require grants monies from the Federal Aviation Administration (FAA), and this repair work is anticipated to take the course of several years to complete. The Aviation Budget is not currently able to support the sole cost for these suggested pavement repairs as the pavement construction is expected to cost several million dollars. The Aviation Division will prioritize pavement repairs considering the needs at all County Airports. Pavement Repairs will be addressed as priority projects in the next Airport Capital Improvement Program Update.

The FAA provides \$150,000 per year in entitlement funds to the Blythe Airport, which can only be accrued for four (4) years with a maximum carryover of \$600,000. The FAA provides 90 percent funding for each grant provided to the County. The remaining 10% is the responsibility of the County. Although, 5% grant matching may be available from the State, the matching funds are on a first come-first serve basis and are not guaranteed. Aviation Staff will also pursue any grant funding as it becomes available.

The palm cluster listed in the 2017 and 2016 Caltrans inspection were successfully removed in December 2017. This item has been completed.

In January 2018, the designated helicopter parking markings north of Taxiway A required by Caltrans were no longer necessary as the air ambulance company related to the north side of the Airport. The Aviation Division will work closely with Caltrans safety inspectors should any additional helicopter designated parking be required.

The Aviation Division will work closely with the Caltrans Safety Inspector and the FAA to ensure that airport operations are not suspended and that airport permits are not at risk. Caltrans is aware of Airport project funding limitations and the Aviation Division is in continual communication with both Caltrans and the FAA.”

Actual/Estimated Date of Corrective Action: **Ongoing/Partially Completed**

Grant Management

Background

Aviation had a total of eight grants totaling \$3.7 million, as of August 31, 2017. The grants are funded by the Federal Aviation Administration (FAA) and are used by Aviation to complete capital improvement projects, such as runway rehabilitation/construction or apron rehabilitation/design, at each of the five airports operated by Aviation. In addition, the grants may be used to complete projects in order to comply with federal requirements such as wildlife hazard assessments or updating the airport layout plan. The FAA typically pays 90% of the total cost for the project and the county is expected to fund the remaining 10%. The county can request to state of California to cover 5% of their required 10%. However, if funds are not available, the state may not pay.

Objective

To verify the existence and adequacy of internal controls over the process for locating and securing grants from State, Federal, and other sources.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, regulations, and board ordinances
- Conducted interviews and performed walk-throughs with Aviation personnel
- Obtained a list of all grants active during the audit period and selected a non-statistical sample of grants for testing
- Analyzed Aviation year-end financial data related to grant revenues for the audit period

Finding 4: State Matching Funds

The State provides matching funds for FAA grants based on the availability of funds. Aviation did not receive state matching funds for five grants. Review of the five grants showed that Aviation did not have support to show state matching funds were requested or received. Aviation does not have a policy and procedure in place to ensure state matching funds are requested and documented. This funding represented \$126,990 in loss of revenue to the county.

Recommendation 4

Develop a policy and procedure to ensure state matching funds are requested and documented for all grants.

Management's Response

“Concur. The Aviation Division confirmed that the Grants 2014 for the Wildlife Hazard Assessment for the Hemet Ryan Airport, the 2015 PCC Apron Rehabilitation/ Design for the Blythe Airport, the 2015 Apron Rehabilitation/Construction for the French Valley Airport, the 2016 Apron Rehabilitation/Construction for the Blythe Airport and the 2016 Airport Layout Plan Update for the Hemet-Ryan Airport were not submitted for Caltrans matching funds by the Aviation Division and for reasons not known to the current Aviation Management. The Aviation Division will ensure state grant matching funds are requested from the State of California for all future eligible capital improvement projects and will create a policy and procedure for pursuing grant funding.”

Actual/Estimated Date of Corrective Action: **August 2018**

Capital and Non-Capital Assets

Background

The Riverside County Auditor-Controller's Standard Practice Manual 501, *Cost Basis for Capital Assets and Capitalization Thresholds* (SPM 501) defines capital assets "as fixed assets and intangible assets of *significant value* having a utility which *extends beyond the current year* that are broadly classified as land, infrastructure, buildings and improvements, equipment, livestock, and intangible assets." Capital assets include real property such as building (structures), land, and land improvements, regardless of value, as well as vehicles, machinery, and equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 501 requires all real property with a value of \$1 and all capital assets with a value of \$5,000 or more to be recorded in the Riverside County financial system asset module (asset module). Standard Practice Manual 513, *Capital Asset Tags*, requires that capital assets be tagged or marked as county property. If the county property tag will not adhere to an item because of size, shape or use of the item, the department or agency should affix the assigned number in some other manner, i.e., engraving, inscribing, stenciling, etching, or painting the number on the item itself, or labeling the box in which it is kept. The number must be affixed in some way that will ensure identification for accountability.

Board of Supervisor's Policy H-26, *Non-Capitalized Asset Management*, defines non-capitalized walk-away assets as assets which are small, mobile, easily converted for personal use and have a fair market value between \$200 to \$5,000 (over \$5,000 are classified as capital assets). Examples include, but are not limited to laptops, personal digital assistants (PDAs), global positioning system (GPS) receivers, and cell phones. Departments are required to track walkaway assets through the Asset Module, or another established system, if reviewed and approved by the Auditor-Controller's Office.

The responsibility for processing capital assets and non-capital assets, and maintaining an accurate record of the assets primarily resides with the department. Aviation also has roles related to capital assets, including following the proper procedures when purchasing capital assets and annually verifying that all assets assigned to their locations are properly recorded in the asset module.

As of August 31, 2017, Aviation listed a total of 60 capital assets in the asset module; 26 categorized as equipment and 34 categorized as either land or infrastructure. The equipment is primarily used for airport maintenance and transporting airport staff. In addition, Aviation also had 23 non-capital assets recorded in the asset module, which primarily consisted of computer equipment.

Objective

To evaluate internal controls over capital assets and non-capital assets to ensure records are complete and assets are in working condition.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies and board ordinances
- Conducted interviews and performed walk-throughs with Aviation personnel
- Using the Riverside County financial system asset module (asset module), obtained a listing of capital and non-capital assets
- Selected a sample of capital and non-capital assets to perform detailed testing
- During inspections, identified any capital or non-capital assets that were not on the listing of capital and non-capital assets

Finding 5: Capital and Non-capital assets

During inspection of the airports, we found one capital asset and six non-capital assets that were not listed in the asset module. SPM 501 requires all capital assets to be listed in the asset module. In addition, Board of Supervisors Policy H-26 requires all non-capital assets to be tracked through the asset module, or another established system with approval from the Riverside County Auditor-Controller. Aviation staff did not update the asset module when assets were transferred to other divisions within the Riverside County Economic Development Agency. Asset inventory control is essential to ensure Aviation assets are adequately safeguarded, financial records are accurate, and policies and procedures are followed.

Recommendation 5

Ensure all assets are appropriately recorded in the asset module.

Management's Response

Concur. The Aviation Division purchased a capital asset called Bush Hog that came with the Kubota Diesel Tractor located at the Hemet-Ryan Airport purchased in January 2013. At the time of purchase, the asset was identified as a single capital asset under AVARC asset #103 along with the full cost of both pieces combined. It has now been recognized that the Bush Hog is a detachable asset and, should be recorded separately. The original asset #103 has been updated as recommended. Future large equipment purchases will be discussed with field staff to ensure equipment and detachable structures are identified for additional tracking, if necessary.

The non-capital assets were computer equipment items that were moved from other divisions within EDA to the Aviation division. Aviation will implement a system by which a picture of the asset tag will be submitted with the annual asset inventory to allow a better reconciliation process by the EDA Accounting and Finance. The division will work on reconciling all assets back to its

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origination and will process asset transfers within the PeopleSoft system. All missing equipment identified by this audit have been added updated in the PeopleSoft system.”

Actual/Estimated Date of Corrective Action: **Completed**