

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

1824



FROM: Auditor-Controller

SUBMITTAL DATE:
March 6, 2014

SUBJECT: Internal Audit Report 2013-005: County of Riverside Economic Development Agency – Aviation Department [All Districts] [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:
1. Receive and file Internal Audit Report 2013-005: County of Riverside Economic Development Agency – Aviation Department

BACKGROUND:
Summary

We have completed an audit of the County of Riverside Economic Development Agency - Aviation Department to provide management and the Board of Supervisors with an independent assessment of internal controls over airport lease agreements, capital assets, non-capital assets, expenditures, revenues, airport security, information security, and permit compliance. The audit covered the period of July 1, 2010 through June 30, 2012.

Paul Angulo
Paul Angulo, CPA, MA
County Auditor-Controller

Departmental Concurrence

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
SOURCE OF FUNDS: N/A				Budget Adjustment: No	
				For Fiscal Year: N/A	

C.E.O. RECOMMENDATION:

APPROVE

BY: *Kevin Johnson*
Kevin Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- Positions Added
- 4/5 Vote
- Change Order

Prev. Agn. Ref.: _____ District: ALL Agenda Number: _____

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Internal Audit Report 2013-005: County of Riverside Economic Development Agency – Aviation
Department

DATE: March 6, 2014

PAGE: 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of lease agreements, capital assets, non-capital assets and expenditures. We determined the Aviation Department has adequate internal controls over revenue, airport security, information security, and permit compliance.

We will follow-up in one year to determine if actions were taken to correct the findings noted.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

Attachments

- A. Internal Audit Report 2013-005: County of Riverside Economic Development Agency – Aviation Department.



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

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Paul Angulo, CPA, MA
AUDITOR-CONTROLLER

February 26, 2014

Rob Field, Assistant Chief Executive Office - EDA
Economic Development Agency Aviation Department
3403 10th Street, Suite 500
Riverside, CA 92501

Subject: Internal Audit Report 2013-005: County of Riverside Economic Development Agency – Aviation Department

Dear Mr. Field:

We have completed an audit of the County of Riverside Economic Development Agency Aviation Department to provide management and the Board of Supervisors with an independent assessment of internal controls over airport lease agreements, capital assets, non-capital assets, expenditures, revenues, airport security, information security, and permit compliance. The audit covered the period of July 1, 2010 through June 30, 2012.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require 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 by management to provide reasonable assurance of achieving operational efficiency, compliance with laws and regulations, reliability of financial and non-financial information, and to safeguard county assets. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of lease agreements, capital assets, non-capital assets and expenditures. We determined the Aviation Department has adequate internal controls over revenue, airport security, information security, and permit compliance.

We will follow-up in one year to determine if actions were taken to correct the findings noted.

Internal Audit Report 2013-005: EDA Aviation Department

We thank the Aviation Department management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
County Auditor-Controller

Mark W. Cousineau

By: Mark Cousineau, CPA, CIA, CFE
Chief Internal Auditor

cc: Jay Orr, County Executive Officer

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Internal Audit Report Audit 2013-005

**Economic Development Agency -
Aviation Department**

Report Date: January 30, 2014



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County of Riverside Auditor-Controller
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Executive Summary

Overview

The Riverside County Economic Development Agency Aviation Department (Aviation Department) manages five airports; French Valley, Jacqueline Cochran Regional, Hemet-Ryan, Chiriaco Summit, and Blythe. The Federal Aviation Administration (FAA) classifies four of the county airports as general aviation airports in its National Plan of Integrated Airport Systems (NPIAS) (2001-2005). The NPIAS is composed of all commercial service and reliever airports, and selected general aviation airports. Airports included in the NPIAS are important to national transportation needs, and, as a consequence, are eligible to receive grants under the FAA's Airport Improvement Program (AIP). Chiriaco Summit Airport is classified as other public use airport and is not listed in NPIAS. The airports are governed by the FAA and the California Department of Transportation Division of Aeronautics (Caltrans).

General aviation facilities and services are an important component of the County's transportation system. To meet these needs, County of Riverside (County) has concluded that it must facilitate coordination of its airport plans with the aviation planning conducted by the State of California, the County Economic Development Agency (EDA), and local agencies related to transportation, land use, and financing. The County also recognized that it is important to provide civilian airport facilities for general aviation and emergency purposes, and to protect airports from encroachment by future development within areas that would be subject to high noise levels. Because the County's general aviation airports are an integral part of the regional transportation system, they must be operated efficiently to provide convenient transportation for people and goods.

There are several Fixed-Base Operators (FBOs) located throughout the airports. A FBO is a commercial business which offers a full range of general aviation services including airport fueling, maintenance, aircraft storage, and flight instruction. These FBOs enter into long-term leases to operate from the County airports. In addition, the airports enter into other business leases.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over airport lease agreements, capital assets, non-capital assets, expenditures, revenues, airport security, information security, and permit compliance.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the processes of lease agreements, capital assets, non-capital assets, and expenditures. We determine the Aviation Department has adequate internal controls over revenue, airport security, information security and permit compliance.

Lease Agreements

Background

The Riverside County Economic Development Agency manages five airports through its Aviation Department. The 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 the 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.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over airport lease agreements.

Audit Methodology

To accomplish our objectives, we:

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

Finding 1: Monitoring Compliance with Lease Insurance Requirements

Aviation Department did not monitor lessee compliance with lease agreements to ensure required insurance was maintained. Seventy-seven percent, 23 out of 30, of lease agreements reviewed did not comply with one or more of the County insurance requirements. In addition, Aviation Department did not track sub-leases to ensure compliance with contractual insurance requirements. By not monitoring compliance with insurance requirements, the County could be held liable for any injuries or property and environmental damages occurring on County property if the airport tenants causing the accidents do not have the needed insurance coverage.

Recommendation 1.1

Review all lease agreement files to ensure copies of required insurance have been obtained and are in effect.

Management position concerning the recommendation: Concur

Stage 1 – Immediate review and corrective action. Aviation agrees with the Auditors' recommendation. Aviation staff are taking immediate corrective action as well as launching a long term strategy for automated tracking and notification that will be carefully designed to eliminate this problem in the future.

The files for all general ground leases with Aviation are already pulled for manual review and the active tenant list has also been pulled for review. There are more than six hundred subleases to be reviewed as well, and staff as well as temporary project assistants are being recruited to help expedite this high volume of review and, where necessary, notification and follow-up. Data files will be updated as this step of the process moves forward with all speed.

Stage 2 – Long term systemic data management and customer communication. The larger long term issue of managing this information and the client relations will require investment in replacing the existing Access Database System with a system that includes an insurance tracking module that will notify the appropriate staff of expired insurance and will automatically generate a letter to the tenant informing them to submit proof of current insurance. As lease information is entered into the database, each lease will be reviewed for insurance requirements. Upon implementation – expected by June 30, 2014 – Aviation will assure that all tenants accessing the airports will have the necessary insurance requirements on file.

Actual/estimated Date of Corrective Action:

Stage 1: Action is already underway, to be complete in 90 days.

Stage 2: Action (automation) to be complete June 30, 2014.

Aviation will expedite research and selection of a software solution within 60 days and expect proper implementation to take an additional 90 days. During implementation staff will be entering all information into both the current and new systems to verify all information is captured and leasing information, invoicing, and insurance information are reflected correctly. If a replacement software solution is not found, we will reassess a manual insurance tracking solution that will ensure all lease insurance requirements are being met.

Estimated cost to implement recommendation (If material): \$ 30,000

Recommendation 1.2

Establish procedures to ensure contractual insurance requirements are kept current and obtained upon expiration or when sub-leasing arrangements have been made.

Management position concerning the recommendation: Concur

Aviation agrees with the Auditors' recommendation. In accord with best management practices and accounting protocols, procedures for timely review, notification and reconciliation of contractual insurance requirements will be written and staff will be trained and tested to ensure efficient application.

Actual/estimated Date of Corrective Action: June 30, 2014.

Estimated cost to implement recommendation (If material): N/A

Capital Assets

Background

The Auditor-Controller's (SPM) Standard Practice Manual 913, *Capitalization Thresholds*, 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 (or, long-lived assets), 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 913 requires all *real property* with a value of \$1 (one dollar) and all capital assets with a value of \$5,000 or more to be recorded in the PeopleSoft Asset Management Module (Asset Module). SPM 903, *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.

The responsibility for processing capital assets and maintaining an accurate record of the assets primarily resides with the department. Aviation Department management also have 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 June 10, 2013, Aviation Department listed a total of 49 capital assets in the Asset Module; 23 categorized as equipment and 26 categorized as either land or infrastructure. The equipment is primarily used for airport maintenance and transporting airport staff.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets.

Audit Methodology

To accomplish our objectives, we:

- ✓ Identified and reviewed departmental policies, government accounting standards for counties, Riverside County Board Policies and Auditor Controller's SPMs.

Internal Audit Report 2013-005: EDA Aviation Department

- ✓ Conducted interviews and performed walk-throughs with Aviation Department personnel.
- ✓ Communicated with Auditor-Controller's Office (ACO) capital asset personnel and obtained background information on processes followed to classify and add assets to the Asset Module.
- ✓ Reviewed expense accounts which are not normally used to record purchases of capital assets to verify if any expense should have been capitalized.
- ✓ Inspected a sample of capital assets.
- ✓ Reviewed Aviation Department documents submitted to the ACO ensuring capital assets were properly inventoried and certified.
- ✓ Queried information using PeopleSoft Financials for existing capital assets and recorded retirement of assets.

Finding 2: Inadequate control over capital asset equipment

We selected for review and verification ten of the 23 Aviation Department equipment assets capitalized in the Asset Module and selected four physical assets from the airports to determine if they were properly capitalized. Below are the results of our review:

- ✓ The Riverside County asset identification number was not visible on any of the ten selected assets.
- ✓ Information necessary for inventory control (tag number, serial ID, model and location) was incomplete in the Asset Module for nine (90%) of ten assets tested. Of the four physical assets selected from the airports, none (100%) could be traced to the Asset Module.

We were informed that previous Aviation Department staff entered the asset capitalization data into the Asset Module without having detailed asset information and subsequent updating had not occurred. Since this issue was brought to the Aviation Department's attention, we were informed actions were taken to complete identifying information in the Asset Module. We have noticed that some of the identifying information has been updated in the Asset Module; however, the County asset identification number is still incomplete or omitted. Asset inventory control is essential to ensure Aviation Department assets are adequately safeguarded, financial records are accurate, and County policies and procedures are adhered to.

Recommendation 2

Review and update the Asset Module to ensure accuracy and completeness of asset identification information and contact the ACO's capital asset staff to obtain asset identification numbers and asset tags for any not previously obtained.

Management position concerning the recommendation: Concur

We agree with the Auditors' recommendation, and the following actions have been taken to address the situation. We have contacted the Auditor Controller's Office to obtain asset identification numbers and asset tags. The Auditor Controller's Office has directed Aviation to purchase its own tag numbers and we are currently ordering tags and an embossing system to identify all assets. In addition, the division has put in place a procedure that requires staff to verify the accuracy of assets that are added and removed from the fixed asset inventory in Asset Module including mandatory fields. These procedures include using an internal Payment Authorization Form which allows staff to identify if the purchase qualifies as an asset and should be added to the Asset Module. Equipment purchases and building improvements with a value of \$5,000 or more will be routed to the Principal Accountant for final asset qualification review prior to entering into the Asset Module. Furthermore, these procedures include an annual inventory process in April of each year where Airport Staff is verifying all pertinent information such as asset identification number, serial ID, model and ensuring that the asset has a county tag or embossed number that is visible and easily traceable in the Asset Module. Furthermore, this new policy states that the Airport Staff is to submit requisite documentation regarding asset transactions no later than 10 days after a physical inventory has been performed to the Accounting & Finance Staff for input into the Asset Module.

Actual/estimated Date of Corrective Action: April 30, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Finding 3: Unrecorded Capital Assets

During our review of the Aviation's Department expenses incurred from July 1, 2010 through June 30, 2012, we discovered three assets (two fuel tanks and an acoustical aircraft counting system), with a total value of \$51,757, that were not capitalized. The purchases were accounted for in appropriation 2 (services and supplies) rather than appropriation 4 (fixed assets) and therefore were not readily identifiable to capitalize. Aviation Department staff intended on making an appropriation transfer to properly classify the acoustical aircraft counting system purchase, but did not follow-through on the transaction. The fuel tanks were not capitalized due to a technical misunderstanding of when to capitalize or expense an asset purchase. As a result, the capital assets held by the Aviation Department and the County as a whole were understated and the assets were not identified in the Asset Module for accountability and control.

Aviation Department staff took immediate corrective action to record the assets upon us bringing this to their attention. A subsequent query of the Asset Module revealed the three assets had been added.

Recommendation 3

Perform a physical inventory to ensure all assets requiring capitalization are identified and documentation is prepared to include them in the Asset Nodule in accordance with SPM 913.

Management position concerning the recommendation: Concur

We agree with the Auditors' recommendation, and the following action will be taken to address the situation. We will review the SPM Number 913 with staff in an Aviation Staff meeting. We will perform a physical inventory within 90 days to verify inventory of current assets as well as look for any additional capital assets that should be added to the asset list. Furthermore, a new procedure has been established to properly account for newly acquired assets, account for asset transfers and disposal, and semiannual reconciliation of all expenditures accounts. This will reduce the risk of overlooking any future assets that require capitalization. All assets requiring capitalization will be capitalized and properly identified in the Asset Module.

Actual/estimated Date of Corrective Action: April 30, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Non-Capital Assets

Background

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 walk-away assets through the Asset Module, or another established system, if reviewed and approved by the ACO.

As of June 6, 2013, the Aviation Department had 28 non-capital assets recorded in the Asset Module, which primarily consisted of computer equipment.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over non-capital assets.

Audit Methodology

To accomplish our objectives, we:

- ✓ Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- ✓ Conducted interviews and performed walk-throughs with Aviation Department personnel.
- ✓ Utilized PeopleSoft Financials queries to identify the quantity, location, and movement of non-capital assets.
- ✓ Selected sample of non-capital asset transactions to perform detailed testing.
- ✓ Verified the safeguarding and inventory of non-capital assets.

Finding 4: Inadequate Monitoring of Non-Capital Walk-Away Assets

Aviation Department did not update the Asset Module for disposed non-capital assets. 17 of the 28 non-capital assets (61%) were physically disposed and removed from the Aviation Department's inventory; however, the removed assets were still listed in the Asset Module. By not updating the Asset Module, the Aviation Department is unable to control or safeguard assets under their fiduciary responsibility making them susceptible to loss, theft or misuse without being detected.

Recommendation 4.1

Perform a physical inventory of the Aviation's Department walk-away assets and ensure the Asset Module is updated to reflect all existing assets.

Management position concerning the recommendation: Concur

We agree with the Auditors' recommendation, and the following actions will be taken to reduce the risk of loss, theft or misuse of non-capital assets. Aviation staff will perform a physical inventory within 90 days to verify inventory of current non-capital assets as well as look for any additional non-capital assets that should be added to the asset list. The Asset Management Module will be updated in a timely manner.

Actual/estimated Date of Corrective Action: April 30, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Recommendation 4.2

Establish procedures to ensure disposed assets are removed from the Asset Module on a timely basis.

Management position concerning the recommendation: Concur

We agree with the Auditors' recommendation, and the following action has been taken to ensure disposed assets are removed from the Asset module within 30 days of any asset retirement. The Principal Development Specialist along with a member of accounting and finance staff, are to perform a physical inventory of all capital and non-capital assets on an annual basis in April of each year. The Principal Development Specialist is to submit requisite documentation regarding asset transactions no later than 10 days after the physical inventory has been completed to the Accounting & Finance Staff for input into the PeopleSoft Asset Management module. In addition, a new process has been established to email the Airport Manager and field Staff monthly to identify asset transactions, such as additions, transfers, and disposals. This monthly e-mail verification will begin in May 2014 after the physical inventory. The PeopleSoft Asset Management module will be updated within 30 days of any asset retirement.

Actual/estimated Date of Corrective Action: May 31, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Expenditures

Background

SPM 104 requires county departments to establish and maintain an effective system of internal controls. Internal controls refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in certain categories, including ensuring accurate, reliable, and timely financial records and reports. We conducted an analysis of expenditure accounts for the period under review, and identified significant and unusual variances. We performed further detail testing of the variances and noted several expenditures that were incorrectly classified in the wrong expenditure account.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over departmental expenditures.

Audit Methodology

To accomplish our objective, we:

- ✓ Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- ✓ Conducted interviews and performed walk-throughs with Aviation Department personnel.
- ✓ Conducted a variance analysis of the expenditure accounts for the period under review.
- ✓ Utilized Simpler Financial queries to detail expenditure transactions.
- ✓ Selected samples of expenditure transactions to perform detailed testing.
- ✓ Traced recorded expenditure transactions to supporting documentation to verify accuracy.
- ✓ Verified the expenditures were adequately approved.
- ✓ Verified the propriety of purchased items or services.

Finding 5: Incorrectly Classified Aviation Department Expenditures

Aviation Department incorrectly classified some expenditures. For example, the Aviation Department purchased two fuel tanks for \$42,667 and recorded the transaction as a

Internal Audit Report 2013-005: EDA Aviation Department

miscellaneous expense. However, since the fuel tanks utility extends beyond one year and the value exceeds the \$5,000 capitalization criteria established in SPM Policy Number 913, *Capitalization Thresholds*, the purchase should have been recorded in account 546040 and capitalized in the Asset Module. Quarterly equipment maintenance costs totaling \$13,457 were incorrectly recorded as professional services instead of as equipment maintenance. The incorrect classification of the fuel tanks was the result of Aviation Department routinely paying invoices from *Services and Supplies*, appropriation 2, and not the available funding in *Capital Assets*, appropriation 4, to record the acquisition. Specifically, payment vouchers should be closely reviewed to ensure account codes properly match the nature of transactions being approved. The incorrect classification of the maintenance expenditures was the result of the Aviation Department trying to maintain all expenditures related to this particular vendor in one expense account. Classifying expenditures incorrectly provides inconsistent and inaccurate financial reporting countywide.

Recommendation 5.1

The Aviation Department should establish a procedure to ensure quality control over the accounting string used to record payments.

Management position concerning the recommendation: Concur

We agree with the Auditors' recommendation, and the following actions will be taken to address the situation. A new procedure will be established to ensure transactions are recorded and adjustments are made in a timely manner. Under the direction of the Deputy Director, staff is to conduct a monthly reconciliation of all expenditures accounts to ensure all transactions being recorded are properly accounted for in the correct expenditure accounts. This reconciliation will be approved by the Principal Accountant. Training and guidance information regarding accounting principles and codes have been provided to staff to record payments to aid in creating more accurate and useful financial reports.

Actual/estimated Date of Corrective Action: January 31, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Recommendation 5.2

Review *Service and Supplies*, appropriation 2, expense accounts prior to fiscal year-end closing to ensure all assets meeting SPM 913 criteria are properly capitalized.

Management position concerning the recommendation: Concur

We agree with the Auditors' recommendation, and the following action has been taken to address the situation. A thorough review of all expenditures accounts will be done monthly to

Internal Audit Report 2013-005: EDA Aviation Department

ensure all assets requiring capitalization have been capitalized and reported in the Asset Module.

Actual/estimated Date of Corrective Action: January 31, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Revenue

Background

Lease revenue is significant revenue for the Aviation Department. By fiscal year end 2013, total lease revenue total \$2,141,138 out of total annual revenue of \$4,720,676. Lease revenue includes land rental, aircraft hangers, and tie-downs at each of the five airports. An Access database has been created to track the properties, leases, customers, and billings for these leases. The Aviation Department administration staff is responsible for the monthly/annual lease billings and the revenue postings.

Board of Supervisors Resolution Number 2008-362 allows French Valley, Jacqueline Cochran Regional, and Hemet Ryan Airports to sell aircraft fuel to pilots through contractors known as a Fixed Based Operator (FBO). The FBO lease agreements require a \$0.12 per gallon fee to be assessed on aircraft fuel sales. Monthly, Aviation Department staff determines the number of gallons sold based on the fuel tank meter readings and they bill the tenants with the option to pay \$0.10 or \$0.12 per gallon depending on a 20 or 30 day payment period.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of Aviation's Department internal controls over revenue.

Audit Methodology

To accomplish our objectives, we:

- ✓ Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- ✓ Conducted interviews and performed walk-throughs with Aviation Department personnel.
- ✓ Conducted a variance analysis of revenue for the period under review.
- ✓ Obtained and reviewed list of current leasing customers and FBOs.
- ✓ Selected a sample of leasing customers and FBOs and verified timely and accurate billing by the Aviation Department.
- ✓ Traced recognized revenue to supporting documentation to verify accuracy.
- ✓ Reconciled deposited amounts to the corresponding payments received to ensure all payments are received / deposited.
- ✓ Selected samples of outstanding balances to determine if the Aviation Department is doing its due diligence collecting outstanding amounts.

Audit Results

Based on our review, Aviation Department internal controls over revenue appear adequate and effective.

Airport Security

Background

To ensure a prompt response to all airport security breaches and emergency events, the Aviation Department has drafted an emergency plan. The plan is general in nature, but also specific to each respective airport. The plan addresses aircraft emergencies, bomb incidents, aircraft hijacking, sabotage or theft, removal of disabled aircraft, and other types of emergencies like crowd control, natural disasters and radiological disasters. Security breaches or emergency events have not been reported at any of the airports for more than 10 years.

Following September 11, 2001, the FAA prompted local airports to enhance security and provided grant funds to improve perimeter security and airport access controls.

Also, after September 11, 2001, the TSA (Transportation Security Administration) was created to strengthen the security of the nation's transportation system, which includes the nation's airports. This agency created a guidance document titled "Security Guidelines for General Aviation Airports" to address aviation security concepts, technology, and enhancements.

Audit Objective

Our audit objective is to determine if drafted plans over airport security and emergency events are adequate and include TSA suggested guidelines.

Audit Methodology

To accomplish our objective, we:

- ✓ Obtained and reviewed Aviation's Department security and emergency plan.
- ✓ Obtained and reviewed the TSA Security Guidelines for General Aviation.
- ✓ Conducted interviews and performed walk-throughs with Aviation Department personnel.
- ✓ Verified compliance with the TSA "Security Guidelines for General Aviation Airports" for selected airports.
- ✓ Verified the airports had perimeter security in place.
- ✓ Verified the airports' access points had restricted access.
- ✓ Verified aircraft and vehicle fueling facilities were appropriately located.

Audit Results

Based upon the results of our audit, airport security and emergency plans include the areas identified in current guidance and airport access is controlled.

Information Security

Background

Aviation Department maintains hard copy information containing sensitive information such as, driver license number and vehicle information. This information is maintained in a locked cabinet and is only accessible by a limited number of personnel.

Board of Supervisors Policy Number A-58, Riverside County Enterprise Information Systems Security Policy, addresses the protection of Riverside County information in accordance with all applicable laws, governmental regulations and accepted best practices to minimize information security risk; ensuring the right information is available to the right people at the right time.

Policy Number A-58 states sensitive information includes personal, medical records or financial information on employees, constituents, citizens, customers, business partners, or anyone else that has not been previously defined in law to be a public record. Sensitive information may also include any other information that could enable an individual to commit identify theft when so defined in law or policy.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over information security.

Audit Methodology

To accomplish our objectives, we:

- ✓ Conducted interviews and observed operating procedures with Aviation Department personnel.
- ✓ Identified and reviewed laws, codes, and regulations, BOS' ordinances, applicable policies and procedures regarding information security.
- ✓ Performed tests to ensure internal controls were adequate over security of information.
- ✓ Determined the nature of information stored by Aviation Department.

Audit Results

Based upon the results of our audit, internal controls over information security are adequate and effective. Aviation Department secures sensitive information and limits access to authorized personnel only.

Permit Compliance

Background

The California Department of Transportation (Caltrans), Division of Aeronautics, conducted a state permit compliance inspection and Federal Aviation Administration (FAA) Airport Master Record (Form 5010-1) update on French Valley, Hemet Ryan, Jacqueline Cochran Regional, Chiriaco Summit, and Blythe airport. The inspections were conducted between the period of June 2012 and February 2013. The French Valley inspection found the airport to be in satisfactory condition with no identifiable safety problems. The inspection for Hemet Ryan, Jacqueline Cochran Regional, Chiriaco Summit, and Blythe airport revealed several safety problems that needed to be addressed and corrected.

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.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of whether the Aviation Department addressed the non-compliance issues reported by Caltrans in their compliance inspection reports.

Audit Methodology

To accomplish our objectives, we:

- ✓ Obtained Caltrans inspection reports and reviewed reported non-compliance issues.
- ✓ Reviewed Aviation's Department written response to the Caltrans inspection report to determine follow-up issues.
- ✓ Selected two airports (Hemet Ryan & Jacqueline Cochran) with reported non-compliance issues and verified recommendations were implemented.

Audit Results

Based upon the results of our audit, Aviation Department has implemented the recommendations from the Caltrans inspection reports.



DATE: January 15, 2013

TO: Auditor-Controller's Office
Audits and Specialized Accounting Division

FROM: Lisa Brandl, Managing Director *AB*
Economic Development Agency-Aviation Division

SUBJECT: Reply to Audit Report 2013-005

Finding 1: Monitoring Compliance with Lease Insurance Requirements

The department did not monitor compliance with lease agreement to ensure required insurance was maintained. Seventy-seven percent, 23 out of 30, of lease agreements reviewed did not comply with one or more of the county insurance requirements. In addition, the department did not track sub-leases to ensure compliance with contractual insurance requirements. By not monitoring compliance with insurance requirements, the County could be held liable for any injuries or property damage occurring on County property.

Recommendation 1.1

Review all lease agreement files to ensure copies of required insurance have been obtained and are in effect.

Management position concerning the recommendation: Concur

Comments:

Stage 1 – Immediate review and corrective action. Aviation agrees with the Auditors' recommendation. Aviation staff are taking immediate corrective action as well as launching a long term strategy for automated tracking and notification that will be carefully designed to eliminate this problem in the future.

The files for all general ground leases with Aviation are already pulled for manual review and the active tenant list has also been pulled for review. There are more than six hundred subleases to be reviewed as well, and staff as well as temporary project assistants are being recruited to help expedite this high volume of review and, where necessary, notification and follow-up. Data files will be updated as this step of the process moves forward with all speed.

Stage 2 – Long term systemic data management and customer communication. The larger long term issue of managing this information and the client relations will require investment in replacing the existing Access Database System with a system that includes an insurance tracking module that will notify the appropriate staff of expired insurance and will automatically generate a letter to the tenant informing them to submit proof of current insurance. As lease information is entered into the database, each lease will be reviewed for insurance requirements. Upon implementation – expected by June 30, 2014 – Aviation will assure that all tenants accessing the airports will have the necessary insurance requirements on file.

Actual/estimated Date of Corrective Action:

Stage 1: Action is already underway, to be complete in 90 days.

Stage 2: Action (automation) to be complete June 30, 2014.

Aviation will expedite research and selection of a software solution within 60 days and expect proper implementation to take an additional 90 days. During implementation staff will be entering all information into both the current and new systems to verify all information is captured and leasing information, invoicing, and insurance information are reflected correctly. If a replacement software solution is not found, we will reassess a manual insurance tracking solution that will ensure all lease insurance requirements are being met.

Estimated cost to implement recommendation (If material): \$ 30,000

Recommendation 1.2

Establish procedures to ensure contractual insurance requirements are kept current and obtained upon expiration or when sub-leasing arrangements have been made.

Management position concerning the recommendation: Concur

Comments:

Aviation agrees with the Auditors' recommendation. In accord with best management practices and accounting protocols, procedures for timely review, notification and reconciliation of contractual insurance requirements will be written and staff will be trained and tested to ensure efficient application.

Actual/estimated Date of Corrective Action: June 30, 2014.

Estimated cost to implement recommendation (If material): N/A

Finding 2: Inadequate control over capital asset equipment

We selected for review and verification ten of the 23 Aviation Department equipment assets capitalized in PeopleSoft and selected four physical assets from the airports to determine if they were properly capitalized. Below are the results of our review:

- ✓ The Riverside County asset identification number was not visible on any of the ten selected assets.
- ✓ Information necessary for inventory control (tag number, serial ID, model and location) was incomplete in the asset module for nine (90%) of assets tested. Of the four physical assets selected from the airports, none (100%) could be traced to the PeopleSoft Asset Management module.

We were informed that prior department staff entered the asset capitalization data into PeopleSoft without having detailed asset information and subsequent updating had not occurred. Since this issue was brought to the attention of the department, we were informed actions were taken to complete identifying information in PeopleSoft. We have noticed that some of the identifying information has been updated in PeopleSoft; however, the County asset identification number is still incomplete. Asset inventory control is essential to ensure Aviation Department assets are adequately safeguarded, financial records are accurate, and Riverside County policies and procedures are adhered to.

Recommendation 2

Review and update the Asset Management Module to ensure accuracy and completeness of asset identification information and contact the Auditor Controller's capital asset unit to obtain asset identification numbers and asset tags for any not previously obtained.

Management position concerning the recommendation: Concur

Comments:

We agree with the Auditors' recommendation, and the following actions have been taken to address the situation. We have contacted the Auditor Controller's Office to obtain asset identification numbers and asset tags. The Auditor Controller's Office has directed Aviation to purchase its own tag numbers and we are currently ordering tags and an embossing system to identify all assets. In addition, the division has put in place a procedure that requires staff to verify the accuracy of assets that are added and removed from the fixed asset inventory in PeopleSoft Asset Module including mandatory fields. These procedures include using an internal Payment Authorization Form which allows staff to identify if the purchase qualifies as an asset and should be added to the PeopleSoft Asset Module. Equipment purchases and building improvements with a value of \$5,000 or more will be routed to the Principal Accountant for final asset qualification review prior to entering into the PeopleSoft Asset Module. Furthermore, these procedures include an annual inventory process in April of each year where Airport Staff is verifying all pertinent information such as asset identification number, serial ID, model and ensuring that the asset has a county tag or embossed number that is visible and easily traceable in the PeopleSoft Asset Management module. Furthermore, this new policy states that the Airport Staff is to submit requisite documentation regarding asset transactions no later than 10 days after a physical inventory has been performed to the Accounting & Finance Staff for input into the PeopleSoft Asset Management module.

Actual/estimated Date of Corrective Action: April 30, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Finding 3: Unrecorded Capital Assets

During our review of department expenses incurred from July 1, 2010 through June 30, 2012, we discovered three assets (two fuel tanks and an acoustical aircraft weather counter system), with a total value of \$51,757, that were not capitalized. The purchases were accounted for in appropriation 2 (services and supplies) rather than appropriation 4 (fixed assets) and therefore were not readily identifiable to capitalize. The department intended on making an appropriation transfer to properly classify the acoustical aircraft weather weight system purchase, but missed to follow-through on the transaction. The fuel tanks were not capitalized due to a technical misunderstanding of when to capitalize or expense an asset purchase. As a result, the investment value of capital assets held by the Aviation Department and the County as a whole was understated and the assets were not identified in PeopleSoft for accountability and control.

Upon bringing this to the attention of department staff, the process was started to add the assets to the PeopleSoft capital asset module. A subsequent query of the PeopleSoft asset module revealed that the three assets had been added.

Recommendation 3

Perform a physical inventory to ensure all assets requiring capitalization are identified and documentation is prepared to include them in the PeopleSoft Asset Management module in accordance with SPM 913.

Management position concerning the recommendation: Concur

Comments:

We agree with the Auditors' recommendation, and the following action will be taken to address the situation. We will review the SPM Number 913 with staff in an Aviation Staff meeting. We will perform a physical inventory within 90 days to verify inventory of current assets as well as look for any additional capital assets that should be added to the asset list. Furthermore, a new procedure has been established to properly account for newly acquired assets, account for asset transfers and disposal, and semiannual reconciled all expenditures accounts. This will reduce the risk of overlooking any future assets that require capitalization. All assets requiring capitalization will be capitalized and properly identified in the Asset Module.

Actual/estimated Date of Corrective Action: April 30, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Finding 4: Inadequate Monitoring of Non-Capital Walk-Away Assets

The department did not update the PeopleSoft Asset Management module for disposed non-capital assets. Seventeen of the 28 non-capital assets (61%) were disposed and removed from the department's inventory. By not updating the Asset Management module, the department is unable to identify, control or safeguard assets under their fiduciary responsibility making them susceptible to loss, theft or misuse without being detected.

Recommendation 4.1

Perform a physical inventory of department walk-away assets and ensure the Asset Management module is updated to reflect all assets on-hand.

Management position concerning the recommendation: Concur

Comments:

We agree with the Auditors' recommendation, and the following actions will be taken to reduce the risk of loss, theft or misuse of non-capital assets. Aviation staff will perform a physical inventory within 90 days to verify inventory of current non-capital assets as well as look for any additional non-capital assets that should be added to the asset list. The Asset Management Module will be updated in a timely manner.

Actual/estimated Date of Corrective Action: April 30, 2014 and ongoing.

Estimated cost to implement recommendation (if material): N/A

Recommendation 4.2

Establish procedures to ensure disposed assets are removed from the module on a timely basis.

Management position concerning the recommendation: Concur

Comments:

We agree with the Auditors' recommendation, and the following action has been taken to ensure disposed assets are removed from the Asset module within 30 days of any asset retirement. The Principal Development Specialist along with a member of accounting and finance staff, are to perform a physical inventory of all capital and non-capital assets on an annual basis in April of each year. The Principal Development Specialist is to submit requisite documentation regarding asset transactions no later than 10 days after the physical inventory has been completed to the Accounting & Finance Staff for input into the PeopleSoft Asset Management module. In addition, a new process has been established to email the Airport Manager and field Staff monthly to identify asset transactions, such as additions, transfers, and disposals. This monthly e-mail verification will begin in May 2014 after the physical inventory. The PeopleSoft Asset Management module will be updated within 30 days of any asset retirement.

Actual/estimated Date of Corrective Action: May 31, 2014 and ongoing.

Estimated cost to implement recommendation (if material): N/A

Finding 5: Incorrectly Classified Department Expenses

The department incorrectly classified some expenditures. For example, the department purchased two fuel tanks for \$42,667 and recorded the transaction as a miscellaneous expense in account 523230. However, since the fuel tanks utility extends beyond one year and the value exceeds the \$5,000 capitalization criteria established in SPM Policy Number 913, *Capitalization Thresholds*, the purchase should have been capitalized in account 546040 and expensed over its useful service life, rather than immediately expensed in the year of acquisition. In professional services account, account 525440, annual and quarterly equipment maintenance inspection costs, totaling \$13,457, were incorrectly classified. These transactions should have been recorded in an equipment maintenance account, such as account 521300, *Maintenance – Aircraft*, rather than professional services. The incorrect classification of the fuel tanks was the result of the department routinely paying invoices from *Services and Supplies*, appropriation 2, and not the available funding in *Capital Assets*, appropriation 4, to record the acquisition. Specifically, payment vouchers should be closely reviewed to ensure account codes properly match the nature of transactions being approved. The incorrect classification of the maintenance expenditures was the result of the department trying to maintain all expenditures related to this particular vendor in one expense account. Classifying expenditures incorrectly provides inconsistent and inaccurate financial reporting countywide.

Recommendation 5.1

The Aviation Department should establish a procedure to ensure quality control over the accounting string used to record payments.

Management position concerning the recommendation: Concur

Comments:

We agree with the Auditors' recommendation, and the following actions will be taken to address the situation. A new procedure will be established to ensure transactions are recorded and adjustments are made in a timely manner. Under the direction of the Deputy Director, staff is to conduct a monthly reconciliation of all expenditures accounts to ensure all transactions being recorded are properly accounted for in the correct expenditure accounts. This reconciliation will be approved by the Principal Accountant. Training and guidance information regarding accounting principles and codes have been provided to staff to record payments to aid in creating more accurate and useful financial reports.

Actual/estimated Date of Corrective Action: January 31, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A

Recommendation 5.2

Review *Service and Supplies*, appropriation 2, expense accounts prior to fiscal year-end closing to ensure all assets meeting SPM 913 criteria are properly capitalized.

Management position concerning the recommendation: Concur

Comments:

We agree with the Auditors' recommendation, and the following action has been taken to address the situation. A thorough review of all expenditures accounts will be done monthly to ensure all assets requiring capitalization have been capitalized and reported in the Asset Module.

Actual/estimated Date of Corrective Action: January 31, 2014 and ongoing.

Estimated cost to implement recommendation (If material): N/A