



**AU15-001**  
**Department of Aviation**  
**Airport Leases**

**City Auditor's Office**  
**Arlena Sones, CPA, CIA, CGAP**  
**City Auditor**

**October 6, 2016**

## Executive Summary

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In accordance with the 2015 Annual Audit Plan, we conducted an audit of the Department of Aviation (Aviation) of the City of Corpus Christi (City).

### **Audit Objective and Scope**

The objective of this audit is to determine whether airport management is ensuring lease payments from its tenants are accurate and timely.

The scope was October 1, 2014 to December 31, 2015.

### **Audit Conclusion**

While conducting fieldwork, auditors observed an environment where the communication between Aviation management and tenants was systematic, open, and encouraged. Staff was readily available, and audit requests were promptly answered.

Overall, we found the Department of Aviation to be professional and well organized. The department maintains a database for all its contracts, and the database provides management with reporting capabilities such as contractor insurance status and contract expiration dates.

Tenant payments were generally paid timely and accurately; however, there are opportunities for improvement in contract administration such as development of written procedure and clarification of contract language.

We would like to thank Aviation and its tenants who cooperated with us during this audit. We are confident that Aviation will give the appropriate attention to the issues presented in this report.

City and Aviation management agrees with this report. See management's responses following each issue. Management's response can be seen in its entirety in Appendix B.

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## Introduction

In accordance with the 2015 Annual Audit Plan, we conducted an audit of the Department of Aviation (Aviation) of the City of Corpus Christi (City).

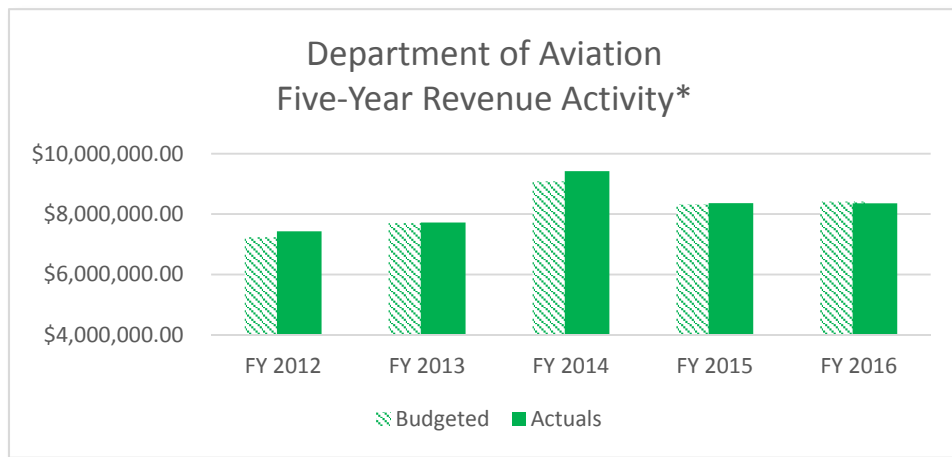
Due to the magnitude and complexity of the work performed, the results of this audit will be presented in two separate reports. This report, AU15-001, will focus on general administration of airport leases and the review of two tenants at the Corpus Christi International Airport (CCIA). AU15-004 Airport Rental Car Agencies will address issues specific to Aviation’s administration of rental car agency contracts.

### Background

CCIA provides essential air transportation services for Corpus Christi and the South Texas coastal region. Commercial airline services are provided by three of the world’s largest commercial airlines (American Airlines, Southwest Airlines, and United Airlines), and general aviation services are supported by two national fixed based operators (Signature Flight Services and Atlantic Aviation).

Aviation is comprised of five divisions: Finance and Administration, Facilities, Development and Construction Management, Public Safety (police & fire), and Operations. Aviation is budgeted for 82 full-time equivalents. Exhibit 1 below presents a 5-year trend of budgeted and actual operating revenues.

Exhibit 1



Source: FY 2011 – FY 2017 budget documents.

\*Unaudited Revenue Estimates. Please note, FY2014 represents activity for 14-months due to a change in fiscal year end.

CCIA covers more than 2,600 acres of land. Aviation leases land, building, and office space at the airport. In FY 2014 and FY 2015, Aviation collected approximately \$7,110,556 and \$7,174,198 from 24 tenants, respectively. A summary of revenue by tenant category is in Exhibit 2 below.

**Exhibit 2**

<b>Airport Concessionaires</b>			
<b>Count</b>	<b>Category</b>	<b>FY2014</b>	<b>FY2015</b>
5	Airport Car Rental	2,837,915	3,226,572
3	Airline Use & Lease	2,718,289	2,349,099
2	Fixed Based Operator *	498,593	620,933
5	Airport Lease Agreement	556,036	488,380
3	Concessionaire *	402,952	390,850
5	Ground Lease	96,771	98,204
1	Oil and Gas Lease	-	160
24	Ground Lease Total	7,110,556	7,174,198
Source: QuickBooks (unaudited)			
*We reviewed one fixed base operator and one concessionaire in this audit.			

We audited one fixed base operator and one restaurant concessionaire. The parking lot is managed by a third party, and that contract is not covered in this audit.

The Texas Department of Transportation Aviation Division referenced CCIA in a study as an example for best practices amongst small regional airports and ranked them 11<sup>th</sup> in economic impact among the 25 Texas commercial airports. While conducting fieldwork, auditors observed an environment where the communication between Aviation management and tenants was systematic, open, and encouraged.

Management ensured its staff was readily available to promptly respond to audit requests.

**Audit Objective and Conclusions**

The audit was to determine if Aviation management is ensuring that tenant lease payments are accurate and timely.

Generally, tenant lease payments were generally paid timely and accurately; however, there are opportunities for improvement in contract administration. Greater assurance is needed to ensure airport tenants are compliant with contractual obligations of monthly reporting and payment terms.

We commend Aviation on its MS Access database for tracking contracts. The database houses current and archived contracts, liability insurance requirements, displays expiration alerts, and produces useful management reports.

### **Management and Auditor Responsibility**

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial (and non-financial) activity is accurately reported and reliable, and management and employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit steps were developed to provide sufficient evidence to answer the objectives of this audit. Test methodology can be found in Appendix A - Audit Scope and Methodology.

### **Staff Acknowledgement**

Kimberly Houston, Senior Auditor  
Jacey Reeves, Auditor

## Audit Results and Recommendations

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### A. Contract Compliance

Condition: Management is not ensuring contract payments for lessees are accurate and timely. Review and approval of statements submitted by tenants are not documented.

#### *Annually adjusted minimum annual guarantee (MAG)*

The contract term is not used to calculate the adjusted MAG for the restaurant. Instead of using the contract term of August 15<sup>th</sup> to August 14<sup>th</sup> (or suitable alternative) varying periods such as August 15<sup>th</sup> to July 15<sup>th</sup> or July 1<sup>st</sup> to June 30<sup>th</sup> were used. The adjusted MAG for contract years 2 and 3 are understated by \$6,225 and \$2,448, respectively; however, the understatement did not result in underpayment by the tenant.

#### *Aviation is not assessing late fees or interest on outstanding balances*

For the reporting period of August 2013 through December 2015, 45% (13/29) of the restaurant's lease payments were not paid on-time, and late fees were not assessed.

#### *Supplemental documentation for monthly reporting was incomplete or missing.*

The restaurant's *sales report* and *sales by revenue center report* are not submitted by the restaurant as required by contract.

Supporting documentation submitted with the monthly statement for managing the City's aircraft hangar does not include a listing of all hanger occupants and correlating monthly rental fee. Therefore, the City has no way to verify if appropriate fees are collected and reported. Tie-down monthly statements do not specify aircraft categories (ex. government or private aircraft) or engine size (ex. light twin or turbo propeller) for aircraft subject to overnight charges.

#### *Contract prices fluctuated or are waived without proper approvals*

Tie-downs fees are reduced or waived for aircraft parking on the public ramp without the City's written approval. Per contract, the tie-down rate is \$25/day. However, this fee is waived for government aircraft or aircrafts under maintenance and reduced for aircraft owners/operators that have a national contract, purchase fuel, or to attract customers to the airport. For the three sample months, we noted tie-down fees were only charged to 43% (107/248) of aircrafts and tie-down fees were underpaid by \$1,935.

#### *Restaurant menu prices and selections change without authorization*

When reviewing menu prices and food selections for one restaurant, we noted 74% (17/23) of the sampled prices did not tie to the contract retail price and 48% (40/83) of contract's food selections are not sold in the restaurant.

Per contract, price adjustments are only permitted bi-annually and must be approved by the Director of Aviation or designee. Also, only items listed in the contract can be sold and any change requests must be approved by the Director of Aviation or designee.

Cause: Aviation does not have written procedures for contract administration, contract compliance enforcement, or documentation of staff review and management approval of tenant monthly statements and lease payments.

Criteria: Establishing procedures is one of the three principles related to control activities for establishing an effective and efficient internal control system by the COSO<sup>1</sup> *Internal Control – Integrated Framework*. Written procedures provide staff with clear direction on what their responsibilities are and management is better able to properly account for tenant revenues and expenditures.

**Recommendation:**

Structured monitoring, reviewing, and approval procedures are needed to ensure Aviation tenants are compliant with contract stipulations. Developing written procedures will strengthen controls of management oversight for monthly reporting and revenue collection. Further, adequate tenant supplemental documentation is needed to assist in compliance review.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Louis R Lares	January 15, 2017
<p><i>Action Plan:</i>            Developing a work plan to insure best practices for contract compliance. Including processes, procedures, and vital review functions. A city-wide contract administration policy would assist and clarify the issue of contract compliance. An IT role based access control system would also promote a desirable contract compliance system.</p>		

**B. Contract Language**

Condition: Concessionaire contracts do not convey management’s intent. For example, confusion exists over the terms in calculating the annually adjusted minimum annual guarantee (MAG). The contract erroneously states the MAG is equal to 85% of gross revenues. Per management, the restaurant’s adjusted MAG should be 85% of the previous year’s lease payments.

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<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission



Additionally, the contract states that late fees are the lesser of \$100 or 2.5% of gross revenue; however, management states the intent was the greater of \$100 or 2.5% or gross revenue.

Effect: The tenant would not be able to stay in business if Aviation collected 85% of gross revenue. If contract terms for late fees were written as indented, potential late fees would be \$34,281 instead of \$1,300.

Cause: Management relied on its consultant to write the contract terms, and did not ensure its intent was clearly communicated.

**Recommendation:**

For clarity, contract language needs to be written in a manner understandable to both management and tenants. Consulting with the City Attorney’s Office would assist management in exploring options to clarify language and amending contract terms.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Fred Segundo	January 15, 2017
<i>Action Plan: The Aviation department has initiated discussions with our assigned assistance city attorney to assure the review of contracts and a clearer contract language.</i>		

**C. Accounts Receivable Process**

Condition: Management review is not performed on tenant monthly statements, payments, supporting documentation, QuickBooks transactions, Infor journal entries, or monthly reconciliations. Detailed monthly reconciliations are not performed timely to ensure journal entries posted into Infor for each tenant reflect QuickBooks records.

Aviation initially records tenant payments into its financial system of record, QuickBooks, (which does not interface with Infor, the City’s financial system of record). Transactional data is subsequently posted by journal entry into Infor. Infor is reconciled to QuickBooks at a very high level; however, reconciliations are not completed timely. For example, the November 2014 reconciliation was completed February 24, 2016.

Effect: Without controls in place to ensure transactional accuracy, there is an increased risk that Infor will not reflect QuickBooks; errors or omissions may go overlooked; and management will not have accurate data to make informed decisions. Without timely reconciliations, errors may not be corrected in Infor if the reporting period has been closed.

Cause: Documented procedures are not in place for routine reconciliation of Infor to QuickBooks or for management review and approval of accounting transactions.

Criteria: GFOA Best Practices states management should establish controls and ensure they are documented for “all aspects of cash receipting and receivables.”

**Recommendation:**

Documented procedures promote effective management and oversight over accounts receivables. Those procedures should incorporate processes to:

- 1) Assign responsibility to monitor and review revenue collection.
- 2) Ensure all transactions are properly recorded and supported by detailed records.
- 3) Reconcile Infor to QuickBooks more timely.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Louis R Lares	January 15, 2017
<i>Action Plan: Generate an accounts receivable aging report that list customers that owe money. Reconcile the accounts receivable function monthly to the general ledger. Finance Manager will spot/sample review.</i>		

**D. Segregation of Duties**

Condition: Segregation of duties is needed for functions related to processing invoices, cash receipting, statement review, and monthly reconciliation.

One staff member performs all statement review, invoicing, receipting, posting payments to QuickBooks, journal entry requests to Financial Services Department, records management, reconciliations, and other financial responsibilities.

Effect: A large workload combined with the responsibility of reviewing comprehensive data results in processing delays and prevents staff from giving the appropriate attention to the review of tenant submitted documentation. Absence of supervisor review increases the risk of errors or misstatements going undetected.

Cause: Duties related to reviewing, approving, recording, and reconciling tenant revenue are not adequately divided amongst staff and do not incorporate a supervisory role.

Criteria: Per COSO, management should consider whether duties are divided or segregated amongst different people to reduce the risk of error or inappropriate or fraudulent actions.

**Recommendation:**

Duties should be divided for reviewing, recording, approving, and reconciling transactions. Also, supervisory review needs to be incorporated into the process. Where segregation is not feasible, alternative controls need to be developed.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Louis R Lares	January 15, 2017
<i>Action Plan: The Finance &amp; Admin Manager will be performing monthly reconciliation of Infor to QuickBooks.</i>		

**E. Contingency and Succession Planning**

Condition: A contract administration succession plan is not in place over accounting for and reporting of tenant lease payments or maintenance of the contract database.

One staff member has full access control over QuickBooks and performs all functions related to accounting for and reporting on tenant payments. Another staff member is solely trained to design, manage, and modify Aviation’s contract database system.

Effect: Without proficiently trained backup personnel during periods of absences or staff vacancies, invoicing, journal entries, and other tenant related business is put on hold.

Cause: Aviation personnel are not adequately cross-trained so that others have the ability to perform critical functions when primary personnel are unavailable or during periods of increased work volume.

Criteria: One of the COSO points of focus related to the control environment is to “plan and prepare for succession.” Contingency and succession plans need to be defined for key roles to help continue achieving the organization’s objectives.

**Recommendation:**

Cross-training employees helps mitigate risks, maintains business consistency during periods of workflow fluctuation, ensures business continuity during absences or turn over, and builds a more versatile team. All key functions need adequately trained personnel to step-in and continue business.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia	January 15, 2017
<i>Action Plan: Aviation department will initiate efforts to cross train other employees keeping in mind that operations, public safety and other sections of the airport have priority thus limiting resources into the financial section of the airport.</i>		

## Appendix A – Audit Scope and Methodology

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The audit scope for testwork purposes was October 1, 2014 through December 31, 2015. We conducted this audit from September 2015 to August 2016.

Our methodology included inquiry, observation, and data analysis. We reviewed City contracts related to activities of airport fixed based operators (FBO), and food establishments. We conducted interviews with management and staff at Aviation and with representatives from tenant agencies. Additionally, we made inquiries with the City Attorney's Office, and City Secretary's Office.

Audit steps were developed to test compliance with contract stipulations. We used random sampling to select the 3 months out of our audit scope for testwork and expanded further review when necessary. We reviewed tenant monthly statements, supporting documents, and payments for accuracy and timeliness. Revenue was traced from QuickBooks into the Infor financial system. We compared rates and product selections against contractual specifications and verified whether customers were charged the correct price and if the appropriate goods were available. Records from both Aviation and tenants were tested for compliance with record retention requirements.

We relied on data from the City's legacy financial system, PeopleSoft, the current financial system, Infor, and Aviation's system of record, QuickBooks. Aviation also uses a Microsoft Access database to manage contracts and leases. We did not perform general or application control tests on the financial system; instead, we performed direct tests on the financial data. We do not believe our lack of testing system controls affected the outcomes of this report.

In conducting our audit, we relied on the following authoritative guidelines to serve as criteria for the audit:

- Texas Records Control Schedule
- Contract agreements, renewals, and amendments

We believe this testwork provides sufficient and appropriate evidence for our audit conclusion and finding.

**Appendix B - Management Response**



October 3, 2016

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: AU15-001 Department of Aviation, Airport Leases

Ms. Sones,

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Sincerely,

  
\_\_\_\_\_  
Fred Segundo  
Director

10/3/16  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Jay Ellington  
Interim Assistant City Manager

10/3/16  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Margie Rose  
City Manager

10.4.16  
\_\_\_\_\_  
Date

**A. Procedures Needed Over Contract Compliance**

**Recommendation:**

Structured monitoring, reviewing, and approval procedures are needed to ensure airport concessionaires are compliant with contract stipulations. Developing written procedures strengthen controls for management oversight of monthly reporting and revenue payments. Further, adequate tenant supplemental documentation is needed to assist in compliance review.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Louis R Lares	January 15, 2017
<p><i>Action Plan:</i>                      Developing a work plan to insure best practices for contract compliance. Including processes, procedures, and vital review functions. A city-wide contract administration policy would assist and clarify the issue of contract compliance. An IT role based access control system would also promote a desirable contract compliance system.</p>		

**B. Contract Language**

**Recommendation:**

For clarity, contract language needs to be written in a manner understandable to both management and tenants. Consulting with the City Attorney's Office would assist management in exploring options to clarify language and amending contract terms.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Fred Segundo	January 15, 2017
<p><i>Action Plan: The Aviation department has initiated discussions with our assigned assistant city attorney to assure the review of contracts and a clearer contract language.</i></p>		

**C. Oversight of Accounts Receivable Process**

**Recommendation:**

Documented procedures promote effective management and oversight over accounts receivables. Those procedures should incorporate processes to:

- 1) Assign responsibility to monitor and review revenue collection.
- 2) Ensure all transactions are properly recorded and supported by detailed records.
- 3) Timely reconcile the appropriate general ledger accounts to QuickBooks.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Louis R Lares	January 15, 2017
<i>Action Plan: Generate an accounts receivable aging report that list customers that owe money. Reconcile the accounts receivable function monthly to the general ledger. Finance Manager will spot/sample review.</i>		

**D. Segregation of Duties**

**Recommendation:**

Dividing duties for recording, approving, reviewing, and reconciling transactions will provide adequate segregation of duties. Also, supervisory review needs to be incorporated into the process. Where segregation is not feasible, alternative controls need to be developed.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia	January 15, 2017
<i>Action Plan: The Finance &amp; Admin Manager will be performing monthly reconciliation of Infor to QuickBooks.</i>		



**E. Contingency and Succession Planning**

**Recommendation:**

Cross-training employees helps mitigate risks, maintains business consistency during periods of workflow fluctuation, ensures business continuity during absences or turn over, and builds a more versatile team. All key functions need adequately trained personnel to step-in and continue business.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia	January 15, 2017
<i>Action Plan: Aviation department will initiate efforts to cross train other employees keeping in mind that operations, public safety and other sections of the airport have priority thus limiting resources into the financial section of the airport.</i>		