

**County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM**

To: Todd McNamee, Director, Department of Airports

Date: April 13, 2011

From: Christine L. Cohen

**Subject: FOLLOW-UP AUDIT OF VENTURA COUNTY DEPARTMENT OF AIRPORTS
LEASE/LICENSE AGREEMENT ADMINISTRATION**

We have completed our follow-up audit of the Ventura County Department of Airports ("Airports") lease/license agreement administration. Our overall objective was to evaluate the corrective action taken by Airports management to address the issues noted in our prior audit report dated March 3, 2008. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, Airports management had not implemented adequate corrective action to address the findings in our prior audit report. We did note that two improvements had been implemented to restrictively endorse checks upon receipt and properly calculate transient parking fees. We also noted that two findings were deemed not necessary regarding the transfer of environmental hazard liability and the expansion of late fees. However, our follow-up audit disclosed 17 continuing findings and 4 new findings. Through our audit samples, we also identified specific instances where approximately \$1,600 in late fees were not assessed and over \$51,000 in security deposits were not sufficient. Generally, our follow-up audit disclosed that corrective action was still needed to:

- Strengthen management oversight of the lease administration process.
- Improve management of the collection of rent and fees.
- Strengthen oversight of lessee compliance with capital improvement requirements.
- Enhance controls over contract life-cycle monitoring.
- Monitor lessee compliance with insurance requirements more closely.

Airports management initiated corrective action to address our findings. In response to the audit, Airports management stated:

"Corrective action was implemented beginning in February 2010 (prior to the beginning of the follow-up audit) and continues. As stated in the original audit report dated March 3, 2008, management was working

to implement corrective action to be completed by August 31, 2008. While the goal of August 31 was not met, corrective action was being implemented to include dedicated resources to lease management and modifying the lease database to be more robust which would result in improved rent and fee collection and lease compliance. Implementation of the corrective action was further delayed due to critical staff turnover with those persons responsible for lease management and implementation of the corrective action. Specifically:

- 1) Deputy Director (lease management lead) left the department for a promotional opportunity in early October 2008.
- 2) Capital Project Administrator promoted to Deputy Director in early October 2008.
- 3) Special Projects Coordinator (lease back up) promoted to Capital Projects Administrator December 2008.
- 4) Capital Projects Administrator out on maternity leave from January 2009 to April 2009 and returned on a modified work schedule (reduced hours) until September 2009. Deputy Director had to assume capital projects administration, Director and Deputy Director shared lease administration responsibilities as a stop gap solution to Capital Projects Administrator's absence.
- 5) Special Projects Coordinator position left vacant to reduce operational spending beginning December 2008.

"Airport management made the auditors aware at the outset of the follow-up audit that implementing the corrective action for the period to be audited became a lower priority due to the turnover and training (including corrective action) of staff or new positions, completing large capital projects, and completing other financial reviews for rate setting and budgeting."

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable John C. Zaragoza, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Michael Powers, County Executive Officer

County of Ventura
Office of the Auditor-Controller



**FOLLOW-UP AUDIT OF VENTURA COUNTY DEPARTMENT OF AIRPORTS
LEASE/LICENSE AGREEMENT ADMINISTRATION**

April 13, 2011

Christine L. Cohen
Auditor-Controller

**FOLLOW-UP AUDIT OF VENTURA COUNTY DEPARTMENT OF AIRPORTS
LEASE/LICENSE AGREEMENT ADMINISTRATION**

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FOLLOW-UP AUDIT OF VENTURA COUNTY DEPARTMENT OF AIRPORTS LEASE/LICENSE AGREEMENT ADMINISTRATION

BACKGROUND

The Ventura County Department of Airports (“Airports”) operates the County’s two regional airports in Oxnard and Camarillo. Airports was authorized a \$14.8 million combined budget for fiscal year (“FY”) 2009-10 and 32 authorized positions. In an effort to maximize operations, Airports leases certain land and facilities to other parties for both aviation (e.g., leasing of hangars) and non-aviation (e.g., rental of office space) purposes. Additional revenue sources include license and permit fees, daily tie down fees, aircraft fuel flow and landing fees, and transient parking fees.

General terms for land and facility leases include requirements to pay base rent and/or percentage rent as determined by the agreement. Capital improvements to both land and buildings were also required for 12 leases in effect during FY 2009-10. Other standard lease terms include security deposit, insurance coverage, and environmental protection requirements as appropriate. Airports’ 82 combined leases along with other license agreements and related fees generated over \$4.6 million (53%) of Airports’ total revenue of over \$8.7 million recognized during FY 2009-10.

SCOPE

Our overall objective was to evaluate the corrective action taken by Airports management to address the issues noted in our prior audit report dated March 3, 2008. Specifically, we reviewed the actions taken to:

- dedicate specific resources to lease administration;
- ensure current contract language transfers environmental hazard liabilities to tenants;
- improve the collection of rent and fees;
- strengthen oversight of lessee compliance with capital improvement requirements;
- enhance controls over contract life-cycle monitoring; and
- monitor lessee compliance with insurance requirements more closely.

We performed audit tests and evaluations using documents provided by Airports and the Auditor-Controller’s Office, including various reports generated by Airports’ lease management database. Our audit included reviews of various types of contractual revenue, including revenue generated from leases, license agreements, and activity permits. The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. For our audit, we used documents and records for the period November 1994 through August 2010.

FINDINGS

Overall, Airports management had not implemented adequate corrective action to address the findings in our prior audit report. We did note that improvements had been made to restrictively endorse checks upon receipt and properly calculate transient parking fees, and that additional actions regarding the transfer of environmental hazard liability and expansion of late fees were deemed not necessary. However, actions

were not sufficient to mitigate concerns in all other areas of the prior audit. Notably, efforts were needed to strengthen management oversight of the lease administration function, which we believe to be the main factor contributing to the new and continuing findings in this report.

Specifically, processes to collect rent and fees were not always sufficient, resulting in low collection rates for certain outstanding accounts. Our audit samples identified late fees of approximately \$1,600 that were not assessed and insufficient security deposits of over \$51,000. We also found that oversight of capital improvement requirements was not always sufficient and that enhancement of controls over contract life-cycle and insurance coverage monitoring was needed to ensure compliance.

Following are details of the areas where improvements were needed. Airports management initiated corrective action during the audit as noted.

1. **Lease Administration Oversight.** Management had not taken sufficient action to dedicate adequate attention to the lease administration function. For example, although Airports' lease management database was designed as the primary management tool to monitor contract terms for lease administration, the database was not always used as intended. Monthly reports generated from the database contained key dates to alert management of upcoming milestones that required certain action, such as notifying tenants of upcoming rent increases. However, we found that, of 34 notifications that were due to be sent to tenants for various purposes, 14 (41%) were not sent and 17 (50%) were not sent in a timely manner. These lapses suggest that management oversight of the lease administration process was lacking, which may have also contributed to the findings described in this report.

Management Action. Airports management stated: "Management has dedicated additional staff resources to maintain and utilize the lease database. The Management Assistant IV now supports the Deputy Director in administering the leases. Additionally, accounting staff provide aging reports to reconcile rents and fees due with the lease database."

2. **Collections Management.** Adequate corrective action had not been taken to improve the collections process. Areas where the collection of rent and fees continued to need improvement included: percentage rents; outstanding accounts; late fees; default notifications; fuel flowage reconciliations; security deposits; and segregation of duties.

A. **Percentage Rents Reviews.** Management had not taken sufficient action to review lessee records for reasonable assurance that reported revenues used to calculate percentage rents were accurate. Although percentage rents accounted for nearly \$225,000 during FY 2008-09, Airports management continued to rely on lessee-prepared documents without independent verification of gross receipts, leaving Airports vulnerable to error and/or fraud. For example, revenue examinations could be pursued, whereby external accounting firms verify lease revenues on a cyclical basis. In addition, although Airports utilized a lease projection report to track expected percentage rent revenues, the report was not always accurate to benchmark expected revenues. For example, rent projections for two of the eight (25%) lessees paying percentage rent during FY 2008-09 understated the prior year's actual rent by 100 percent for one lessee and 45 percent for the other. Pursuing independent verification of gross receipts, such as through revenue examinations of lessee financial records, would help to confirm that percentage rent payments are accurate.

Management Action. Airports management stated: “Management is consulting with other agencies to compare best practices and implement those practices where applicable. Further, management now obtains receipt information from third parties when available to better verify percentage rents due.”

- B. **Percentage Rents Documentation.** Management had not taken sufficient action to ensure that percentage rent payments were supported with proper documentation to confirm the accuracy of reported revenues used to calculate percentage rents. In our review of eight lease agreement files, six (75%) files, totaling \$46,366 in percentage rent payments, did not have sufficient documentation detailing the total revenue collected. Without proper documentation, Airports is not able to verify that the amount paid is the correct amount due.

Management Action. Airports management stated: “Management requires supporting documentation for all percentage rents. When it is not provided, it is requested and received. Additionally, management requests documentation from providers of materials to tenants to reconcile percentage rent collected. An example of this is fuel ‘drop slips’ from aviation fuel providers to the aviation businesses.”

- C. **Collecting Outstanding Accounts.** Management had not taken sufficient action to adequately collect on outstanding accounts. Our review of the 26 unpaid transient fees as of March 31, 2010, disclosed that 21 (81%) were over 90 days delinquent. Also, the Aged Open Invoices Report as of March 31, 2010, disclosed that outstanding rent and fees totaling \$99,752 past 30 days had not been collected. Of this amount, \$61,266 (61%) represented outstanding rent and fees from 2005 through 2009. We also noted one instance where a tenant had not been invoiced for \$2,395 in repair costs for an accident that occurred in January 2010. Improvements to the collection process continued to be needed to facilitate higher collection rates and fewer accounts becoming uncollectible due to the inability to locate the debtor and/or terminated tenants.

Management Action. Airports management stated: “Management receives monthly aging reports from the accounting office that is used to notify tenants of past due status and action to be taken. Continued non-payment result in escalated action up to and including termination of the tenant. Of the instances cited, one was a terminated lease that resulted in a settlement agreement negotiated with the aid of County Counsel where the former tenant is making monthly payments on past due rent. Another instance resulted in ‘locking down’ the tenant’s aircraft until payment was made, and three other instances cited resulted in the County being awarded judgments through small claims court.”

- D. **Identifying Balances Due.** Although transient fees were properly calculated, the Transient Parking Fee Schedule was not complete. Of the 35 records tested, 2 (6%) were missing the total balance due, which amounted to \$434 in outstanding fees. Incomplete information on the Transient Parking Fee Schedule may lead to lost revenue due to lack of visibility of amounts due.

Management Action. Airports management stated: “Management is providing additional training to staff to ensure accurate Transient Parking Fee administration by line staff.”

- E. **Assessment of Late Fees.** Management had not taken sufficient action to properly assess late fees for delinquent payments as allowed by contract terms and as approved by the Board of Supervisors in the Rent and Fee Schedule. Our review of 51 base rent payments received after the tenth of the month disclosed 6 (12%) delinquent payments that were not assessed late fees, totaling \$1,609 in lost late fee revenue. Without a penalty for noncompliance, a sense of urgency is not instilled in tenants to make timely payments.

Management Action. Airports management stated: "Management, by utilizing the lease database and aging reports, is aware of past due rent where late fees may be applied. Management has exercised discretion when applying late fees based on prior payment history and whether circumstances beyond tenant's control cause (partially or fully) the tenant to be late with payment of rent. Management is now providing better documentation of these negotiations when this discretion is exercised."

- F. **Late Fee Schedule Integrity.** Airports' Late Fee Schedule spreadsheet, which lists late fees to be applied to each tenant and was key in the proper assessment of late fees, was not always accurate. For example, late fee terms were not included on the Late Fee Schedule for one tenant although the lease agreement specified late fee terms. In addition, one sub-lease tenant, who was responsible for late fuel flow fees, was missing from the Late Fee Schedule. Furthermore, one holdover tenant was not included on the Late Fee Schedule although holdover leases are subject to the same terms and conditions of the original lease agreement.

Management Action. Airports management stated: "Management now places all leases on the list when the lease is established regardless of when rent collection will begin during the lease term."

- G. **Notices of Default.** Management had not taken sufficient action to ensure that notices of default were issued to tenants on a timely basis. For example, our audit disclosed that notices of default were not sent to 11 (33%) out of 33 sampled lessees for more than 3 months after the date of default. Of these particular tenants, two did not have current insurance coverage for over 2 years and one did not meet the security deposit minimum amount requirement for nearly 5 years. The timely notification of default to tenants ensures that tenants are made aware of the breach in contract terms and allows tenants an opportunity to comply immediately.

Management Action. Airports management stated: "Management has dedicated additional staff resources to maintain and utilize the lease database. The Management Assistant IV now supports the Deputy Director in administering the leases. There is now timely notification of default to tenants to ensure that tenants are made aware of the breach in contract terms and allow tenants an opportunity to comply immediately."

- H. **Fuel Flowage Reconciliation.** Management had not taken sufficient action to verify that fuel flowage usage reported by tenants reconciled to the fuel company's reported amounts. Rather, Airports continued to strictly rely on tenants to report the number of gallons of fuel delivered. Fuel flowage fees represent a significant portion of Airport fee revenues, accounting for nearly \$195,000 during FY 2008-09. Therefore, confirmation of tenant-reported numbers to fuel company records would be prudent to mitigate any risk of improper reporting and payment shortages.

Management Action. Airports management stated: “Management currently receives fuel company records to support tenant reported numbers.”

- I. **Insufficient Security Deposits.** Management had not taken sufficient action to ensure that security deposits met or exceeded the required amounts as set forth in the contract terms. Our review of eight contracts disclosed that three (38%) lessees did not have any portion of the required security deposit on file, totaling \$46,587 in inadequate security deposits. Each of these security deposits had been outstanding for over 12 months. Furthermore, security deposits for three other lessees were \$5,007 short of the minimum security deposit requirement. Ensuring security deposits are sufficient reduces the risk that Airports will need to cover the full costs associated with a noncompliant tenant should the tenant be terminated.

Management Action. Airports management stated: “Management agrees that security on file was lacking in some instances cited. In other instances cited, the security was in place but the department did not have current certificates on file. A review of lease files and the lease database, and tenant notification, has been conducted to ensure all security deposits are as they should be. Management also reviews security on file when rent adjustments are made, but this is an ongoing process to ensure all securities are accurate. Rent adjustments are current, and management is focused on insurance, capital improvements as well as securities.”

- J. **Segregation of Duties.** Duties were not always properly segregated to facilitate the proper handling of cash collections and to mitigate the risk of misappropriation. Our audit disclosed that one individual collected fees, set up accounts, and maintained accounts for four (50%) out of eight activity permits tested, one of which was paid with cash. Management could reduce associated risks by directing that an employee independent of maintaining accounts accept cash payments.

Management Action. Airports management stated: “This is directly related to the execution of activity permits. Management now requires copies of the checks and the activity permits be provided as back up to demonstrate proper payment is being made to the County. Permits are now numbered and logged for accounting purposes. Further, the execution of Activity Permits now requires the signature of two County employees instead of only one.”

3. **Capital Improvements.** Adequate corrective action had not been taken to strengthen oversight of capital improvements required by lessees. Twelve lease agreements required that capital improvements be completed during the contract term, and the County receives the significant benefit that capital improvements are made to County property at the lessees’ expense. However, continued weaknesses in capital improvement monitoring could undermine the intended benefit to be derived.

- A. **Inspections.** Management had not taken sufficient action to ensure that periodic inspections were performed and documented to verify lessee compliance with capital improvement obligations, and procedures did not always ensure that building permits were obtained before construction commenced. Specifically, no inspection documents were available for the one tenant that was reported to have completed improvements between January 2009 and May 2010. In addition, while improvements were generally pre-approved by the department, we found that one of the three tenants reviewed (33%) had not obtained the required building permits. The results of our

findings indicate that the County may be exposed to significant liability risks from construction that does not meet applicable codes and ordinances.

Management Action. Airports management stated: “Management now requires tenants to provide copies of permits prior to tenant commencing any construction activities. Additionally, management utilizes the lease database and reporting to more closely monitor capital improvement requirements.”

- B. **Documentation.** Management had not taken sufficient action to request supporting documentation for capital improvements made by certain tenants, and Airports did not reconcile tenant-submitted expenses with lease requirements. Proper documentation includes invoices and/or expense receipts showing the cost of the capital improvement. Specifically, for the one tenant improvement reported to have been completed between January 2009 and May 2010, adequate documentation was not available to ascertain the degree of compliance with the \$150,000 requirement. Proper documentation and reconciliation is essential for Airports to confirm that tenants have met the capital improvement thresholds, reduces the risk of false claims, and facilitates compliance with contract terms.

Management Action. Airports management stated: “Management now requires tenants to provide invoices and/or expense receipts for capital improvements to verify requirements have been met.”

- C. **Notices of Default.** Management had not taken sufficient action to issue 30-day notices to cure default to noncompliant tenants, and Airports did not properly document the granting of extensions. Our review of five tenants required to perform capital improvements disclosed concerns with default notices for four (80%) of the tenants and the related \$1.85 million in capital improvements that were past due. Specifically, two tenants had not been notified of default. Sufficient evidence was not available to verify whether another tenant completed improvements on time and whether any default actions were taken. For the fourth tenant, the default notice was not processed until 6 months after the due date. Sending notices of default to tenants in a timely manner ensures that tenants are made aware of the delinquency and allows tenants an opportunity to comply.

Management Action. Airports management stated: “Management has exercised discretion and has worked with tenants and provided additional time to complete capital improvements on a case by case basis due to the downturn in the economy. In some cases default notices are sent if management is unable to reach agreeable terms with tenants for completing capital improvements outside the term identified in the lease agreement. Better documentation of these negotiations is generated for the lease files.”

- D. **Surety Bonds.** Management had not taken sufficient action to ensure that tenants provided proof of a surety bond when capital improvements were required. The surety bond provides assurance against improvements that are incomplete or do not meet requirements of the lease agreements. Of the three tenant improvements either completed or under construction between January 2009 and May 2010, none provided evidence of surety bond coverage. As a result, over \$2 million of tenant improvements was without surety bond coverage, exposing the County to significant risk of tenant default.

Management Action. Airports management stated: “Management, working with County Counsel, has obtained surety in forms other than bonds when the cost to obtain bonds is prohibitive to the project itself. For example, a recent tenant improvement totaling more than \$5 Million was collateralized by other leases held by the tenant and improvements previously made by the tenant totaling close to \$30 Million.”

4. **Contract Life-Cycle Monitoring.** Adequate corrective action had not been taken to enhance contract life-cycle monitoring to facilitate proper tracking of contract milestones. During our audit, we noted concerns regarding the electronic lease database, monitoring of license agreements and activity permits, and lease extensions. As a result, the potential for tenant noncompliance continued to be elevated.

A. **Inaccurate Lease Database.** Management had not taken sufficient action to remedy deficiencies in the lease management database to ensure the database was current, accurate, and complete. Following are significant exceptions in the March 2010 database noted during our audit:

- Two leases that terminated in April 2009 and February 2010 continued to be tracked as current leases.
- One lease was tracked with an incorrect lease period.
- Eleven (100%) out of 11 records sampled either did not include or contained expired information for various insurance coverage requirements.
- Eight (73%) out of 11 records sampled either did not include or contained expired security deposit information. Other fields that were not always completed included security deposit types, amounts, and bank information.
- Three (75%) of four tenants with capital improvement requirements were tracked with expired due dates for completion.

Database records need to be consistently updated and monitored by management to benefit from the database as a lease administration tool. Failure to do so could lead to liabilities from insufficient tenant insurance and security deposits and noncompliance with certain lease agreement requirements.

Management Action. Airports management stated: “Management has dedicated additional staff resources to maintain and utilize the lease database. The Management Assistant IV now supports the Deputy Director in administering the leases. Reports are more timely and accurate to assist in overall administration of the leases.”

B. **Monitoring License Agreements.** Management had not taken sufficient action to improve contract monitoring to ensure the validity of current license agreements. Specifically, of the 38 agreements tested from the hangar and tie-down license list, 2 (5%) agreements were not on file and 1 (3%) was not signed by a County representative. In addition, although the list was used to monitor current agreements, pertinent fields to facilitate monitoring were not always complete,

including fields for aircraft tail numbers, parking space numbers, and sign-up dates. Furthermore, our tests disclosed that insurance coverage for eight (21%) licensees was either missing, expired, or inadequate.

Management Action. Airports management stated: “Management is investigating the missing agreements and if unable to locate will have the tenant execute a new agreement with the County. Management has taken a more aggressive approach to inadequate insurance. Tenants are first provided a notice giving the tenant 30 days to provide proof of valid insurance. If the tenant does not comply, a second 10 day notice is provided and tenant’s gate access card is deactivated. If tenant still has not complied, the license agreement is terminated.”

- C. **Monitoring Activity Permits.** Improvements were needed in Airports’ monitoring of activity permits. Specifically, our tests disclosed that two permittees continued to conduct operations under expired permits, one of which was expired for 10 months prior to renewal. Also, two active permits did not appear on the activity permit list used for monitoring. Our review of these lists for each airport further disclosed that certain fields useful for monitoring, such as the description and location of the activity, were not always included. Inaccuracies in the information on the activity permit lists could contribute to inefficient or lack of monitoring by management and may lead to noncompliance with certain permit terms and conditions.

Management Action. Airports management stated: “Management has corrected the expired license agreements and amended them (one complete and the other to be completed when current permit expires) to allow holdover status upon the next expiration of term.”

- D. **Lease Extensions.** Management had not taken sufficient action to properly exercise lease extensions in accordance with contract provisions. Our review of 13 lease agreements disclosed in two (15%) instances that the holdover clause, which would have allowed a month-to-month extension upon contract expiration, had been deleted. However, the tenants were allowed to continue on a month-to-month basis without the formal authority established by a holdover clause to execute the terms and conditions set forth in the Rent and Fee Schedule. One of these contracts had been expired for over a year and had not been renewed at the time of our audit. The other contract had been expired for 2 months before the lessee was notified of the expired lease.

Management Action. Airports management stated: “Management has dedicated additional staff resources to maintain and utilize the lease database. The Management Assistant IV now supports the Deputy Director in administering the leases. Reports are more timely and accurate to assist in overall administration of the leases. Management has either negotiated new leases or amended leases to include the holdover clause.”

5. **Insurance Coverage.** Adequate corrective action had not been taken to properly monitor lessee compliance with insurance requirements. As a result, improvements continued to be needed to ensure tenant compliance with the various types and levels of insurance coverage required by each lease agreement.

- A. **Expired Insurance Certificates.** Management had not taken sufficient action to follow-up on expired insurance certificates in a timely or consistent manner. For the 11 tenants whose

certificates expired between January 2009 and April 2010, notification letters for 9 (82%) were not processed by the date specified in Airports' Lease Management Report. Although we noted evidence of notification letters for four other tenants, the dates on which the letters were processed would not have allowed timely receipt of the insurance certificates. Additionally, we were not able to validate the certificate receipt dates for three tenants as the certificates did not contain the appropriate date stamps.

Management Action. Airports management stated: "Management has dedicated additional staff resources to maintain and utilize the lease database. The Management Assistant IV now supports the Deputy Director in administering the leases. Reports are more timely and accurate to assist in overall administration of the leases. County Risk Management is consulted to assist management in ensuring insurance requirements are being met when there are questions pertaining to policies and/or certificates provided by tenants."

- B. **Noncompliance with Insurance Coverage Requirements.** Management had not taken sufficient action to establish continuous processes for confirming or documenting specific insurance requirements mandated by the lease agreements upon receipt of the insurance certificates. As a result, our review of seven lease agreements disclosed that two (29%) of the tenants presented no evidence of current coverage. Lack of coverage for each tenant included the required \$2 million for general liability, \$1 million for workers' compensation, and \$100,000 for fire legal liability insurance. Three other tenants (43%) did not demonstrate full compliance with requirements. This included lack of the required \$2 million for general liability insurance for two of the tenants and inadequate or lack of the required \$100,000 for fire legal liability insurance for all three of the tenants. For these five tenants alone, nearly \$25 million in insurance liability was found to be without proof of coverage because the tenants did not provide current certificates or maintain adequate coverage.

Management Action. Airports management stated: "Management has dedicated additional staff resources to maintain and utilize the lease database. The Management Assistant IV now supports the Deputy Director in administering the leases. Reports are more timely and accurate to assist in overall administration of the leases. County Risk Management is consulted to assist management in ensuring insurance requirements are being met when there are questions pertaining to policies and/or certificates provided by tenants."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective action for each area identified for improvement as asserted below:

1. Lease Administration Oversight..... Complete
2. Collections Management
 - A. Percentage Rents Reviews Complete
 - B. Percentage Rents Documentation Complete
 - C. Collecting Outstanding Accounts..... Substantially complete but continuing to pursue available resources to better collect on outstanding accounts.
 - D. Identifying Balances Due Complete

- E. Assessment of Late Fees Complete
- F. Late Fee Schedule Integrity..... Complete
- G. Notices of Default..... 75% complete. Primary focus is response to default due to tenant not meeting insurance requirements.
- H. Fuel Flowage Reconciliation..... Complete
- I. Insufficient Security Deposits Substantially complete. Scheduled to be complete by August 2011.
- J. Segregation of Duties..... Complete
- 3. Capital Improvements
 - A. Inspections..... Complete. Department does conduct field inspections and also relies on Ventura County Building and Safety Department for code compliance.
 - B. Documentation..... 80% complete. Working with tenants to substantiate improvements with receipts/invoices.
 - C. Notices of Default..... Complete
 - D. Surety Bonds..... Complete
- 4. Contract Life-Cycle Monitoring
 - A. Inaccurate Lease Database..... Substantially complete but is ongoing process to maintain a current database.
 - B. Monitoring License Agreements Will be complete by April 2011.
 - C. Monitoring Activity Permits..... Complete
 - D. Lease Extensions..... Complete
- 5. Insurance Coverage
 - A. Expired Insurance Certificates Substantially up to date but is ongoing process to maintain current insurance for all tenants.
 - B. Noncompliance with Insurance Coverage Requirements Substantially up to date but is ongoing process to maintain current insurance for all tenants.