

**COUNTY OF SAN BERNARDINO
AIRPORTS DEPARTMENT
PERFORMANCE AUDIT
AND
COMPLIANCE ANALYSIS**

Prepared by

RSM McGladrey, Inc.
Business Solutions

*Riverside, California
April 23, 2001*

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Exhibits Listing

April 23, 2001

Mr. Larry Walker
Auditor/Controller-Recorder
County of San Bernardino
222 West Hospitality Lane
San Bernardino, California 92415

Dear Mr. Walker:

We have completed and attached our report related to our performance audit and compliance analysis for the County of San Bernardino Airports Department. This final report presents the results of the procedures and testing from all Phases of our work plan detailed in our proposal dated December 4, 2000. This report applies to work performed for the period July 1, 1998 through December 31, 2000.

This report is organized in the following sections: *Executive Summary*, *Phase I* – Understanding the County of San Bernardino Airports System, *Phase II* – Ensure that Published Plans, Policies and Procedures are Current and Directly Reflect Existing Operations, *Phase III* – Evaluation Compliance with Pertinent State and Federal Laws and Regulations, *Phase IV* – Conduct an Evaluation of the Systems of Internal Controls, *Phase V* – Conduct a Review and Analysis of Selected Lease Agreements, *Phase VI* – Assessment of Department's Efficiency in Achieving Goals, *Phase VII* – Summary of Interviews.

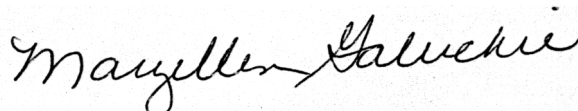
We would like to express our appreciation to the Airports Department, Real Estate Services Department and the Auditor/Controller-Recorder's Office. The staff in all three groups went out of their way to be cooperative and contributed to the success of the project. We would like to specifically thank Robin German, James Jenkins, Bill Ingraham and Steve Mintle for their time and their talent. We appreciate this opportunity to serve the County of San Bernardino and look forward to working with you in the future. If you have any questions regarding this first report, please contact Rod LeMond or Maryellen Galuchie at (909) 248-1805.

Respectfully Submitted,

RSM McGladrey, Inc.



Rod LeMond, Managing Director
Governmental Services



Maryellen Galuchie, Managing Director
Consulting Services

Objective

San Bernardino County engaged RSM McGladrey, Inc. to conduct a Performance Audit of the Airports Department. The task included the administrative, management and accounting functions as well as the analysis of the role and the operational performance of the Department. RSM McGladrey, Inc. teamed up with Global Aviation Research, Inc. to satisfy the full scope of the County's requirements.

The review covered the Department's activities for the period July 1, 1998 through December 31, 2000. The purpose of this report is to present our evaluation based on the specific tasks we performed. The report includes an assessment of the performance of the Department and recommendations for the future.

The San Bernardino County Airports Department provides for the management, maintenance and operation of six County-owned airports. Our audit reviewed the Administrative Office, the five Desert Airports and the Chino Airport. Since the County believed that there was a uniform operational and financial system for the six Airports, the focus of our review was on the Chino Airport because it represents 50% of the activities of all airports combined. We performed limited testing of procedures and practices at the Desert Airports during our analysis.

Based on the specific requirements of the County, the project was broken into eight phases:

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|-------------------|---|
| <i>Phase I</i> | Review management practices, along with accounting and administrative controls for adequacy and conformance with County policies and procedures and industry standards. |
| <i>Phase II</i> | Ensure that published plans, policies and procedures are current and directly reflect existing operations. |
| <i>Phase III</i> | Evaluate compliance with pertinent state and federal laws and regulations. |
| <i>Phase IV</i> | Conduct an evaluation of the systems of internal controls. |
| <i>Phase V</i> | Conduct a review and analysis of selected leases for contract compliance. |
| <i>Phase VI</i> | Assess the Department's efficiency and effectiveness in achieving its goal. |
| <i>Phase VII</i> | Conduct interviews at all levels of the organization hierarchy. |
| <i>Phase VIII</i> | Prepare and present a comprehensive report. |

The Executive Summary consists of our overall assessment on the performance of the Airports Department, summary of key findings and summary of findings in each Phase. The full report contains the detailed findings, our evaluation and recommendations by phase.

Overall Assessment

The audit, though limited in scope and depth, found a team of dedicated people managing the Airports Department and satisfactorily operating six General Aviation airports with over 300,000 operations (landings and take offs) per year despite limitations in management, personnel, procedures and finances. We also discovered deficiencies in the performance of the Department. Seven areas were found to be especially in need of immediate attention:

1. Overall Goals and Objectives
2. Structure and Staffing Resources
3. Rules, Regulations, Policies and Procedures
4. Leasing and Property Management
5. Budget and Accounting
6. The Grant Process
7. The Airports Commission

A number of the problems and concerns identified in this report have been present for many years. During our review, we found a summary of another review of the Airports Department commissioned by the Grand Jury completed in 1991/1992. It would be negligent of the County to let the situation continue. It will take time, commitments and resources to reach the performance level that must be expected from the Airports Department.

We assessed the overall compliance with Federal (FAA) and State (Caltrans) regulatory agencies. We not only reviewed documentation from the Department, but also interviewed individuals at the agencies. The San Bernardino Airports Department is in compliance with the necessary regulations and appears to maintain good working relationships with the regulatory agencies. Any findings from recent inspections are minor and easily addressed. Given the level of turnover in the Department of the recent past, the results in this area are very commendable.

We would like to express our appreciation to the Airports Department, Real Estate Services Department and the Auditor Controller/Recorder's Office. The staff in all three of these groups went out of their way to be cooperative and contributed to the success of the project. We would like to specifically thank Robin German, James Jenkins, Bill Ingraham and Steve Mintle for their time and their talent

Summary of Key Findings

1. Overall Goals and Objectives

One of the most important areas of any organization is the overall goals and objectives (or mission) governing the organization. The overall goals and objectives for the Airports Department should be determined at the County level with input from the external aviation-related regulatory agencies. Once the Departmental goals and objectives are determined, they can be implemented across the Department and at each Airport location.

Currently, there are no overall published goals or objectives for the Airports Department. This lack of guidance to the Department hampers the efforts to address the following basic underlying foundations:

- Service level to County.
- Organization structure and staffing.
- Written and approved rules, regulations, policies and procedures.
- System process change/reengineering.
- Accountability/measurement standards and reporting.

The guidance from the County should come from the Board of Supervisors and be reflected in the County Code. The Code sections governing the Airports have not been updated in many years. We recommend the review and update of the County Code.

2. Structure and Staffing Resources

Our review focused on the events covering the past 30 months. However, certain key issues and events required us to investigate issues earlier than July 1998. Overall, the Department has had a number of very large, very public problems. Most of which can be directly tied to the Department's structure and staffing resources. The structure of the Department has evolved primarily around limited resources, personnel turnover and open/unfilled positions, which has impaired the Department's capability to effectively manage.

The Department is involved with running the operations of an airport system covering a large geographic area. Additionally, it is responsible for an average Capital Improvement Plan budget of \$13.6 million. It is also in the business of managing over 400 revenue leases for the County.

In our detailed analysis, we are recommending several changes in the structure of the Department. We realize that the review covered the period before the current Director started. The recommendations should be investigated thoroughly before implementing in light of the talents and experiences of the new Director. Overall, we found that the Department lacked higher level operational experience at the Administrative Office to assist in the day-to-day operational issues and management at the airports. The Director, currently, does not have enough time to effectively handle all responsibilities as evidenced by our findings. We are recommending that an Assistant Director position be created. With the creation of this position, a lower level position could be eliminated.

Another key resource missing in the Department is the property management experience. The current resources available come from the Airports Management and Real Estate. Because the Department has so many revenue leases and a backlog of issues to work through, property management experience should be added to the staff on a full-time, proactive basis. This can be accomplished several different ways as we have addressed in the body of this report. Dedicated property management resources, under the control of the Director, can proactively work with the current tenants to improve service. This resource can also help manage the property at the Airports to maximize the County's return on its assets.

Finally, we are recommending filling all open positions and adding one operations worker to handle the workload of the Department.

We believe that changes in structure, addition of key resources to a very small Department staff and implementation of other key recommendations in the report, will go a long way in structuring the Department so that past problems do not repeat themselves

3. Rules, Regulations, Policies and Procedures

Hand-in-hand with structure and staffing is the issue of written and approved rules, regulations, policies and procedures (RRP&P) covering the activities of the Airports Department. Established, written and approved RRP&P first insures that Department management and, where necessary, the Board addresses activities of the Department. Except for general County policies covering certain activities of the Department, for example, cash management, the Department has no written and approved RRP&P.

Review and enforcement of RRP&P is difficult when they are not written. Additionally, the Department has experienced considerable turnover, which has further complicated issues. Furthermore, it is nearly impossible to maintain a consistent and level playing field amongst tenants, vendors and employees when you spread a Department over a large geographic area and hope each site is run the same. The inadequate and/or absence of the RRP&P is one of the key reasons for many historical problems. Starting with the leasing area, the Department must establish RRP&P to compliment the guidance and staffing issues discussed above. Without all three of these key recommendations implemented, the Department will continue to experience problems similar to the past.

4. Leasing and Property Management

The negative findings in the leasing and property management area are extensive. Again, the findings relate directly to lack of guidance, staffing and RRP&P in the Department as discussed above. The County must first address the desired result of the leasing and property management activities. We would expect that the County wishes to both service the aviation needs of the communities and maximize the return on its assets.

With the mission clearly stated, the Department must have the dedicated Real Estate Services staff assigned to their needs. Currently, Real Estate Services has assigned an individual with the appropriate experience to respond to the needs of the Department. We believe that, for at least the short term, this individual needs to be proactive with improving the RRP&P and addressing the long list of leasing issues currently facing the Department.

In addition to the Real Estate talent needed, the Department should add property management experience to the Administrative staff. In the past, the Department has employed accounting clerks to manage this area. As discussed previously, the property management function of the Department is very complex. It involves monitoring and enforcing contract compliance. With over 400 leases, the level of activity and complexity justifies a person with the qualified experience. The alternative is to outsource this area to another qualified Department or an outside property management firm.

It is critical that the County finalize the revenue leasing policies and procedures it is currently working on. Two key elements that the County must keep in mind are flexibility and timeliness. Most prospective tenants will not wait up to a year to finalize a lease. They will either go elsewhere or move in without a lease – both of which occurred in the past. Either way, it does not result in maximizing the return on the County's assets.

5. Budget and Accounting

The area of budgeting and accounting has surfaced several key concerns for the Department. During the period under review, we observed inconsistencies with the budgeting and accounting for transactions. A level of consistency must be established. More importantly, certain revenues received are restricted in use to either capital improvements or operations. We were unable to track expenditures to their source of restricted revenues, which could cause revenue diversion concerns to the granting agencies.

Another area of concern is the methodology of charging the Airports Department for its appropriate share of County-wide Cost Allocation Plan ("COWCAP"). The budget of the Department currently reflects a surplus of approximately \$272,000. This surplus is deceiving because it is the surplus prior to the COWCAP charges. The budget suggests that this \$272,000 is an effective subsidy to the general fund.

However, if the full COWCAP costs were charged, the Departmental budget would reflect a charge of approximately \$816,000. Thus the Department is actually being subsidized by the County's general fund by approximately \$544,000. While this may be the intent of the Board, we believe that the information should be available to the County to make that decision. As a note, the COWCAP charge also covers utilities, which are currently increasing at a very high rate. Additionally, we found that the Apple Valley Airport is correctly charged for all actual expenses because they are covered by a special district fund.

6. The Grant Process

The Capital Improvement Plan (CIP) for the Department is based on the Master Plans for each Airport. Specific projects and related budgets are included in the annual budget. Most airports, including the San Bernardino Airports Department, obtain Federal and State Grants to subsidize their CIP. The Grants from these agencies can be as much as 90% of the total cost of the specific project. Simply said, the Grant Process is the lifeline for General Aviation Airports.

As Federal and State Grants should be a major part of any airports Capital Improvement Plans, every effort should be made to garner all of the funding possible since the Airports themselves do not generate sufficient funds from operations to match the costs of being part of the airport system. Over the period of our review, the Department has received approximately \$5.5 million in Grants for CIP. The process to obtain Federal and State Grants is regulated and requires system knowledge, planning and a continuous dialogue with the State and Federal agencies. A well-prepared and organized Grant process is needed to succeed in this system.

The Grant process in the Airports Department seems to lack the structure and focus to maximize the return for the Airport system. There is no one person who is responsible for the entire process including aggressively pursuing Grant opportunities. Additionally, the procedures surrounding the process should be streamlined. We understand that the Department will be changing its structure and staffing while implementing suggestions in the report. Responsibility for the Grant process should be assigned to a Manager level position.

Related to the Grant process and the accounting allocation issues described above is the practice of requesting reimbursement for legitimate administrative expenses of the Department for the management and administration of the CIP projects involving Grant funding. The Department currently reports the level of activity related to each project. An analysis should be performed to determine the appropriate charge as a percentage of the project. This expense should be charged to the project and incorporated in

the budget request. It is beyond the scope of this project to determine the reimbursement amount. However, we believe it would be less than the cost of a full-time person in the Department.

7. The Airports Commission

The Airports Commission was set up as an advisory body to the County with responsibility to review and comment with respect to Board initiated issues regarding the Airports systems. The duties and responsibilities of the Airports Commission are provided under County Code section 12.164:

“The Commission shall have the responsibility to publicly review and discuss those matters it has been requested to review and comment upon by the Board of Supervisors or the Environmental Public Works Agency. All resolutions, motions, or other comments made by the Commission may be reviewed by the Airports Department of the Environmental Public Works Agency and comments, if any, will be appended to the Commission recommendations prior to forwarding to the Board for action.”

According to the County Code Section 12.165, Commission members should exhibit certain qualifications and experience. Specifically:

“Each member of the Commission shall possess extensive experience and expertise in one or more phases of aviation or airport activities, by virtue of substantial participation therein for at least one (1) year, but in lieu of such qualification not more than two (2) members in fields of construction engineering or commercial/industrial management.”

The Commission is not authorized to act in any capacity that involves the direct management or operation of the San Bernardino County Airports system. However, the Commission is designed to fill a key role in the oversight of the Department. The following are the specific duties and responsibilities of the Airports Commission:

- Review lease proposals of longer than a one-year term and make recommendations regarding approval by the Board.
- Suggest policy and make recommendations in regard to areas of aviation and airports’ growth and overall development.
- Promote airports and general aviation in San Bernardino County.
- Review and coordinate County airport special events and recommend appropriate Board action.
- The Airports Commission Chairman shall serve as alternate to the County Director of Airports as a member of the FAA Task 5a Working Group.
- The appropriate Commissioners may be advisory members of the Airport Land Use Commissions serving their respective district of appointment.
- Review and make recommendations for initial preparation of the annual airports budget.

- Review and make recommendations for appropriate action on rental delinquencies or lease defaults requiring possible legal action and /or termination by the Board.
- Develop and review annually an aviation work plan and aviation five-year program for presentation to the Board.

With regard to the duties and responsibilities of the current Commission, we found no evidence within the lease files of participation with regard to:

- Reviewing lease proposals longer than one-year terms with recommendations regarding approval to the Board. The Admin Office has reported that reviews have taken place on an inconsistent basis.
- Reviewing and recommending appropriate action on rental delinquencies or lease defaults requiring possible legal action.
- Developing and reviewing of an annual aviation work plan and aviation five-year program for presentation to the Board.

We recommend that the Commission fulfill all its responsibilities as provided under County Code, or change the Code to reflect the desired role of the Commission. As lease issues comprise a significant problem for the Airports system, advisory input by the Commission would prove helpful. We would also recommend the examination of the Commission members' qualifications and experience to determine compliance with the above Code.

The next analysis is a summary of key findings/issues discovered during our work in each Phase. Additional details and other less significant issues can be found in later sections in this report.

Summary of Findings

Phase I

In Phase I we reviewed management practices, accounting and administrative controls for adequacy and conformance with County policies and procedures and industry standards. We first developed an overview understanding of the systems, procedures and organizational structure of the Airports Department. The specific cycles included in our analysis are:

- Purchasing, payables and disbursements
- Accounts receivable including leases, lease administration and receipts
- Payroll
- General ledger, cost accounting and transfers
- Fixed assets and capital improvement projects
- Grants and grant accounting
- Budgeting

Overall, we found the systems utilized by the Department to be adequate. We did find a number of internal control issues including authorization, review and reconciliation lacking; however, we have addressed those issues in subsequent Phases.

Our second major task in this Phase was to test 90 transactions in the system during the 30-month period of our review. We tested each transaction by control attributes with each cycle having different attributes. One single transaction could have more than one error since we were testing multiple attributes. A summary of the test is presented in the table below.

Cycle	Sample Size	Attributes Tested	No. of Errors
Purchasing, Payables and Disbursement	30	7	28
Receivables and Cash Management	22	5	9
Payroll	16	6	0
Capital Improvements	22	6	1

The highest number of errors was found in the purchasing, payables and disbursements cycle. This cycle contains the most transactions of the Department. Authorization and documentation issues accounted for most of these errors. In the receivables and cash management cycle the errors primarily involved reconciliation and timeliness of deposits. The Department performed well in the payroll and capital improvements cycles.

Phase II

In Phase II we reviewed published plans, policies and procedures to ensure they are current and directly reflect existing operations. A number of issues came to our attention during the analysis. They include the following:

- We found no overall defined goals and objectives for the Airports Department. Some policies and directives are contained in the County Code. Goals and objectives are critical in every aspect of the Department from establishing rates and charges to measuring performance.
- The current job descriptions are not standardized and are at times in conflict between positions. They should be revised to reflect what is expected for each position in the Department.
- In our review of the Department's adherence to plans required by Federal and State regulatory agencies, we found no major deficiencies. This area is generally in good order.
- The Department does have Master Plans for each Airport in the system and is in compliance with FAA regulations. The Department is currently in the process of updating the Chino Airport Master Plan. The County has an opportunity to make plans to develop the Chino Airport, which has been stagnant since the last

Master Plan was updated 12 years ago.

- In the Budget area, we found that the Department prepared annual budgets and monitored actual results during the year. We did find fluctuation in the classification of expenses during the three budget periods reviewed. Additionally, the methodology used to charge the Department their usage of County resources was not in compliance with the County's cost allocation system resulting in a lower charge to the Department. Finally, we observed an apparent revenue diversion issue in that the County budget showed a \$272,000 "surplus" in the Airports Department, which would revert to, or subsidize the County's general fund. If accurate, this could be a case of grant funds and/or Airport operations revenues being diverted to the general fund, which would be inappropriate. In fact, as noted in key issue #5 relating to the budget and account area, after including the Department's appropriate share of county-wide costs, the Department is actually subsidized by the general fund. We conclude that revenue diversion does not appear to be an actuality here.
- The County has several policies controlling all Departments in the County. We found inconsistencies with the cash management, purchasing authorization, bidding process, employee performance evaluation and fixed asset accounting practices of the Airports Department.
- The Airports Commission was set up as an advisory body to the County with responsibility to review and comment with respect to Board initiated issues relative to the Airports system. The duties, responsibilities and qualifications are provided under County Code section 12.164 and 12.165. During our review we found little evidence of the Commission's activities especially in the area of leasing. We also do not believe that the Commission membership has the qualifications as designated in the Code. The role and qualifications of the Commission should be reviewed. County Code should then be changed to reflect the updated role of the Commission.

Phase III

In Phase III we evaluated compliance with pertinent state and federal laws and regulations. We found that the Department does not have current and adequate "Airport Rules and Regulations" or "Minimum Standards" for Airports available as guiding documents. Both of these documents are needed for daily activities at the Airports.

All leases seem to comply with current FAA rules and regulations. However, the Standard Lease Contract is not well suited to insure that lessees understand and comply with the myriad of rules set forth in this document. It would be beneficial to reorganize and streamline this important document so that a clear and understandable contract between the County and the airport lessees can be established.

The evaluation of the relationship between Caltrans and the Airports Department brought forth no apparent difficulties between the offices or any major discrepancies that would need immediate attention.

Phase IV

In Phase IV we conducted an evaluation of the systems of internal controls. This evaluation is not an opinion on the internal controls based on the attestation standards established by the American Institute of Certified Public Accountants. Those standards would not be sufficient to provide the level of findings and recommendations requested by the County in this audit, so we designed procedures to produce the desired results.

Internal controls are designed to safeguard assets and ensure that operational activities and transactions are captured. Our assessment was focused on identifying the specific strengths and weaknesses for each cycle with regard to the internal control categories of segregation, access, documentation, authorization, reconciliation, review and reporting. Our review followed the same cycles as Phase I described above.

We rated the internal controls in each cycle by each of the five categories. A rating of “high” indicates that there is high risk that the controls in place are not adequate (not necessarily indicative of a high rate of negative findings). A summary of our assessment is contained in the table below.

Function Cycle	Segregation	Access	Documentation	Authorization	Review/ Reporting
Purchasing	Moderate	High	Low	High	Low
Payables	Low	Low	Low	Low	Low
Receivables	High	Moderate	High	High	High
Lease Admin	High	High	High	High	High
Payroll	Low	Low	Low	Low	High
General Ledger	Low	Low	Moderate	Low	High
Fixed Assets & Capital Improvements	Low	Low	High	Low	High
Grants	High	Low	Low	Low	High
Budgeting	Low	Low	Low	Low	High

Based on our assessment, cycles classified as “high” risk are purchasing, accounts receivable, lease administration and fixed assets & capital improvements. The detailed findings and recommendations in the Phase IV section of this report contain 35 comments. Except for the internal control concerns in the leasing cycle, the most significant issues are summarized below. The internal control issues related to leasing are presented in our summary of Phase V.

- The Department has no policies or procedures documentation for key financial functions. Policies and procedures are critical in the success of any internal control system and can provide guidance in situations where personnel transition/turnover occurs. During the span of time encompassed by our performance review, internal control exceptions were higher during periods of personnel transition in the accounts payable and accounts receivable areas.
- Purchase orders can be modified, once initially sent, by personnel who are not authorized to make or change the purchase order. It is critical that properly authorized personnel indicate changes and that an audit trail is maintained.

Modifications to purchase orders should require managerial approval.

- Checks and cash averaging \$40,000 are deposited weekly usually by the Administrative staff in the Department. This causes two problems. First, the County loses the availability of these funds until they are deposited. Secondly, the safety of the personnel carrying the checks to the bank should be considered. The County has a lot of options to improve controls including a lockbox or armored car service.
- A physical inventory of the Department's fixed assets was not performed last year ended June 30, 2000. Additionally, tagging newly purchased fixed assets is not done consistently. In order to safeguard the County's assets, the assets must be tagged and accounted for once purchased, then inventoried on an annual basis. The Department should consider tracking and accounting for "highly marketable" assets that are under the current \$5,000 capitalization threshold.

Phase V

In Phase V we conducted a review and analysis of selected lease agreements for compliance. We tested 57 lease files during the period July 1, 1998 and December 31, 2000:

- All annual leases in excess of \$50,000 - Total 5 leases.
- Ten percent of leases \$50,000 or less – Total 40 leases.
- All leases formally in default for financial reasons – Total 12 leases.

A summary of key findings is contained in the table below.

	File Deficiencies	% of Total	Procedures, Admin & Compliance	% of Total	Security Deposit	% of Total	Insurance Compliance	% of Total
Ordinance Based Leases	23	40%	25	44%	20	35%	31	54%
Non-Ordinance Based Leases	15	27%	20	35%	14	25%	22	39%
Sub-Total	38	67%	45	79%	34	60%	53	93%
No File Deficiencies	19	33%	12	21%	23	40%	4	7%
Total File Sample	57	100%	57	100%	57	100%	57	100%

Among the top four classifications of findings, the best the Department did on compliance is 40% in the security deposits area. Overall, the results indicate a lot of work needs to be done in the leasing administration area. Besides authorization controls that were violated by personnel no longer with the County, the primary reason the errors occurred was due to staffing limitations relating to both time and property management experience. It appears the computer system in place has more capabilities not yet implemented by the Department, yet another staffing limitation. Phase V of this report contains a detail of our recommendation. The key issues are summarized below:

- The lease files do not contain the information to reliably determine whether a lessee is engaging in subletting. The lease either allows the lessee to sublease without approval; allow for a sublease only after obtaining County approval; or does not allow for sublease at all. No individual or business should occupy leasehold whether master or sublease without going through the proper approval process as agreed to in the lease contract.
- The payment status of tenants are maintained at the Admin Office in San Bernardino, but not communicated on a timely basis to the Airport Managers. The system does have remote access to the property management software, but the Department has not taken full advantage of the capability. We found instances where access to the information would have resulted in a different action by the Manager and better maximization of County resources.
- Holdover lease status occurs when the term of a non-ordinance lease expires and a lease renewal has not been signed. The leases continue with the previous terms and rate schedule until the tenant and the County approves a new agreement. When leases are in a holdover, the Department does not have a commitment for the continued lease/revenue on a long-term basis for their larger properties, and there are potential lost revenues because the tenant has extended the rate terms at the old agreement terms. The two key reasons this occurs is due to staff limitations and the fact that the leasing process takes too long – in some cases up to a year.
- During the period of our review, certain lease payments were held and not deposited for up to six months waiting for a lease contract to be approved and signed. Payments received while the lease contract is pending approval should be deposited and classified in a special category that is reconciled and reviewed on a monthly basis.
- No procedures are in place to reconcile cash or check payments received at the Airports' sites to receipts received by Airport Admin. We were told of at least one instance where a receipt was issued, and the check returned to the payor because the contract had not been signed. This is different than the "held checks" issue noted above. Apparently in this instance, the lessee was able to occupy and use the facility "rent free" for nine months until the contract was signed.
- The County does not have Board-approved, written policies or procedures for the initiation, processing, approval and servicing of the leases. Policies and procedures have evolved over several years and are generally adhered to. Without clear policies and procedures in force, control is compromised on all facets of the lease process and subsequent administration of the leases.
- Due diligence on potential lessee and lease arrangements are not consistent. We found limited or no background documentation on tenants in the leasing files including credit checks on the ability to pay. The Department has had a number of

problems over the years with unsuitable tenants, which could have been mitigated through the due diligence process.

- Insurance compliance on new and existing leases must be monitored and enforced on a consistent basis. Our review of the insurance documentation in the files indicates that there is widespread (53 files) non-compliance in the Department. The Department has insufficient staffing to implement and maintain the proper insurance compliance system. The potential liability issue for the County could be quite large.
- Lease rates are not updated with the escalation terms per lease in the case of non-ordinance leases. Lessee should be notified annually for any changes to lease rates. It should be documented and approved by the Director if the increases are waived.
- Commission fees submitted to the Airports by commercial tenants are not verified or “audited”. A review and verification on a periodic basis, or periodic audit, of lessees’ records is recommended.
- The occupation of lease premises by the lessee pre-dated perfection of the lease agreements in 20 of the 57 files reviewed. The difference ranged from a few days to approximately nine months. Without proper approval and arrangements with lessees, the County could be subject to potential liability issues.
- In 34 of the lease files reviewed, we did not find the proper evidence for the receipt of security deposits at lease inception or proper security payment, as required per lease agreement. If the County does not have the security deposit, it might have no recourse to the delinquent tenant or tenant vacating the premises in substandard conditions.
- The County must pay special attention to leases that have reversionary clauses to proactively engage in lease negotiations with the lessee/sub-lessees to mitigate the loss of rental fees and hasten timely lease initiation during the transition period. Based on discussions with tenants and subsequent review of lease files, we have found instances of long-term negotiations with occupancy of the facilities and no rents collected.
- One file selected had two different land leases subject to structure reversion which had more favorable terms than the other leases reviewed. These leases had two instances where 40-year terms were granted and were approved by the Board during the mid-1980s. Their lease charges were not significantly different from others holding similar leaseholds, but terms, in comparison, were usually 20 years with a five-year option granted in the same approximate time frame (mid-1980s). Longer terms can be justified based on the activity and improvements constructed, but there was no documentation with regard to justification of longer terms in the file. Without proper justification, these extended terms could be construed as preferential treatment.

- We have included a summary of the history surrounding the four large Lockheed hangars at the Chino Airport. Based on our understanding of the sequence of events, the County committed itself to 30-year bonds for \$16 million with only one tenant with only a 10-year lease, who later failed to renew. The four hangars are very different than the other airport facilities and continue to be a strain on the Department.
- With the exception of the Chino Airport's Lockheed Hangars all County facilities at the airports seem to be fully leased with ordinance or non-ordinance leases. There is a waiting list at Chino for hangar space and any openings can be filled quickly. The past marketing efforts to find tenants for the Lockheed Hangars were only partially successful. The hope that financially weak tenants such as start-ups could turn into reliable and profitable sources of revenue did not turn into reality, and poor lease contract management aggravated this situation. The Director's choice between no-revenue and a questionable source of revenue is not unusual for this type of property in the recent and present aviation market. Stretching this situation over years is however neither common nor good management practice and could have possibly been avoided with clearer guidelines and communication. At some point planning should have replaced hoping for the future.

Phase VI

In Phase VI we developed an assessment of the Department's efficiency and effectiveness in achieving its goal. As mentioned earlier, there are no general goals and objectives for the Department. We did utilize the annual budgets, Airport Master Plans and information obtained during the airport visits and the interviews with the Managers to accomplish our goal. Additionally, we compared policies, procedure and practices to industry standards. A summary of key comments in this Phase is as follows:

- The organization of the Airports Department seems to be based on available personnel rather than tasks at hand. Additionally, there has been a lot of turnover in the Department during the analysis period and many positions remained unfilled for long periods of time. These open positions have aggravated the situation and need to be filled with the highest priority. We recommend that the organization of the Department be changed. Also, career developments paths should be developed for positions within the Department for the purpose of retaining employees and future source of management talent.
- The Airports Department does a commendable job in keeping the operations at all County airports alive. Minor discrepancies were identified by Caltrans but they are of the housekeeping variety such as keeping bushes trimmed etc. Lack of personnel and resources at Chino keep the Airport Manager in the repair mode where proper maintenance would probably be more economical. The new Master Plan should help to develop a coordinated approach for the future of the airport.
- The subject of FAA and State Grants to Airports encompasses several areas from the funding process to the monitoring process. The Grant process in the Airports Department seems to lack the structure and focus to maximize the return for the Airport system. Since this is a critical area, responsibility must be placed in a

Manager level position.

- The main factors that determine airport fees and rates are the type and quality of service, the market, and the rules and regulations. The market for aviation facilities is driven by location and demand. The Airports Department does not seem to have a clear direction or goal on their rate setting process. While the current rates and fees seem to be in line with other comparable airports' rates and fees, it is obvious that lack of enforcement and poor lease contracting keep the County from maximizing the revenue. Chino Airport has room for development and there seems to be a demand for more T-Hangar space. Planning and aggressive property management would be the way to increase the revenue base at the Chino Airport.
- We visited three of the four facilities where the Department has permanent staffing, the Admin Office in San Bernardino and the Airport Managers' facilities at the Chino and Apple Valley Airports. The Apple Valley Airport facilities are in excellent condition and give a strong professional first impression. The offices at the Chino Airport are less attractive and are not very representative for an airport of Chino's size and activities. As the present facility seems to be only an interim solution it would be prudent to plan for a new facility at a more accessible spot on the airport. At the same time it might be worth evaluating the potential of relocating the Department's Admin Office to a combined facility at the Chino Airport.
- During our review we observed and were told of numerous activities that occur on the Airports' sites, specifically the Chino Airport, that, if monitored, could result in capturing additional revenue for the Department. Monitoring of after hours activities is a difficult issue. The cost/benefit of adding personnel must be considered in the decision.
- To summarize the appraisal and rate setting process, every five years the County determines the fair market value of the Airports' properties. The fair market rental rates are then determined from the fair market value of each property. The ordinance rate schedules are updated annually so new rental rates can be incorporated the next year. Most of the non-ordinance leases contain provisions to incorporate adjusted rental rates resulting from the appraisal process.

In 1995, the County had the Real Estate Services Group prepare the appraisal for the Chino Airport. For many reasons, in 1996, Real Estate Services made a recommendation to the Board to "roll back most leases to the 1989 levels". When the rates were rolled-back in 1996, credits were issued to many tenants for the "overpayment" since 1995. At the same time, it appears that the annual escalation clause was not enforced. The Board did not approve the latter action.

Ordinance schedules were also adjusted beginning in the fiscal year 1997/1998. Rental rates for some properties were lowered approximately 13%. In the subsequent year, many other rental rates were lowered from 1% to 22%. In at least one case (tie-down rental), the 1998/1999 was almost 10% less than the 1989 rate.

The situations described above may have been fair and equitable; however, they should have been communicated more effectively to management and/or received approval. Additionally, the County should determine if the practice of charging revenue on gross receipts versus a higher base rate is practical and reflects market practices.

- The process of receiving revenue from gross receipts especially at the Chino Airport seems to be in need of clarification and enforcement. Businesses that are actively providing goods or services on Airport property without renting space need to be properly licensed, insured and authorized by the owner of the Airport, i.e., the County. Unauthorized business activities could eventually end up as liabilities for the County. The County Code specifically refers to such activities as Aircraft repair and maintenance and lists restrictions; however there seems to be little enforcement by way of the leases or by controlling the activities.

Clarification is required as to which activities are considered Airport business and subject to proper authorization. Leases need to specify if the leased facility is for private or commercial use and therefore subject to a business permit and percentage payments or not. Business activities that are not covered by a lease have to be controlled with permits and or percentage fees. Violations have to be identified and reported to the proper authorities. On top of the legal and liability aspect there is also a good economic incentive to establish a strong business policy.

Properly licensed and insured businesses can use the Airport for profitable services and sales of goods. Authorization protects them and their clients from poor business practices and is well worth the cost of a business license or the percentage fee. On percentage fees the Department should perform some form of verification (on a test basis) of the gross receipt calculation.

Introduction - Understanding the Systems and Procedures

The County of San Bernardino (“County”) Airports Department (“Department”) is comprised of six (6) airports (“Airports”): Chino, Apple Valley, Barstow-Daggett, Needles, Twenty-nine Palms, Baker (an unmanned emergency landing strip) plus an Administration Office. The Department oversees the operations, upkeep and maintenance of the airport facilities. The staffing at the airport includes 20 (regular staff) employees who are primarily located at Chino, Apple Valley and Barstow-Daggett airports. (See organization chart Exhibit I-1) The Airport Administration Office (“Admin”) located on 825 E. 3rd Street in San Bernardino currently has a staff of six. The Department supplements staffing with temporary, part-time positions, as needed.

The objective of this Phase was to review the management practices, accounting and administrative controls of the Airports Department for adequacy and conformance with County policies and procedures and industry standards. The period of our analysis was from July 1998 through December 2000 (30-month period). We accomplished our objective by performing the following specific tasks:

- Developed an overview understanding of the systems, procedures and organizational structure of the Department. This overview provided guidance for many subsequent project tasks.
- Reviewed and documented our understanding of the systems and procedures surrounding the financial and reporting systems for the Department. We interviewed a number of Departmental and County employees involved in the systems. We documented our understanding on an overview basis.
- The specific cycles included in our analysis are purchasing, payables and disbursement cycle; accounts receivable including leases, lease administration and receipts cycle; payroll cycle; general ledger, cost accounting and transfers cycle; fixed assets and capital improvement projects cycle; grants and grant accounting cycle; and budgeting cycle.
- Developed and distributed a questionnaire covering the operational aspects of the Department.
- Performed transaction “walk-throughs” of each cycle identified above to ensure our understanding is complete.
- Tested the integrity of the transactions through a test sample of (90) transactions selected across all cycles for the period under review. The transactions were system-wide.
- Prepared a summary of findings and recommendations that are contained in other sections of this report (internal controls, leases, efficiencies) where appropriate.

Purchasing, Payables and Disbursement Cycle

The Department's system for purchases, payables and disbursements follow County guidelines and procedures. In summary, all spending is first budgeted, approved by the Airports' Administration, reviewed by the County Purchasing Department ("Purchasing") and recorded by the Auditor/Controller-Recorder's Office ("ACR"). The dollar amount of the purchase dictates the type of documents and procedures required.

In the field, the purchasing process for supplies or services needed for the upkeep and maintenance of the airport facility is usually initiated by the Maintenance Supervisor at each individual airport. For purchases of less than \$250, petty cash can be used. For purchases other than petty cash, the County policy mandates a three-bid process. For amounts between \$250 and \$3,000, the bids can be either oral or written and are obtained by Airports. For requests greater than \$3,000, the bids are required to be in writing from the vendor and are obtained by Purchasing. Vendor selection also requires at least one bid from the County's Emerging Small Business Enterprise ("ESBE") list, if an eligible vendor is included on the County's master list for the specific procurement items.

For requests greater than \$250, the purchasing process is detailed as follows:

Purchase Document	For Amounts Between	Process
Purchase Request: Low Value ("LV")	\$250 - \$3,000	Request and quote summary sent to Admin for authorization, coding and LV PO#. LV sent to Purchasing when invoice received, then forwarded to ACR for input.
Purchase Request ("PR")	\$3,000 - \$5,000	Purchase Request and quote summary sent to Admin for authorization and coding. Admin receives PO# verbally from Purchasing. PR and invoice sent to Purchasing then forwarded to ACR for input.
Requisition	> \$5000	Requisition prepared by Admin and sent to Purchasing. Purchasing researches vendors obtains a quote and issues a written PO form. Input is performed at ACR.
Blanket Purchase Order ("BPO")	Established annually for recurring purchases.	Same as requisition.
Central Stores Warehouse	For bulk and general office items. There is no spending limit.	Central Stores Warehouse order form approved at each locale by Manager and then sent directly to Purchasing.

Board Approval is required for any unbudgeted fixed asset under \$10,000 and all contracts for services in excess of \$25,000.

In the Admin Office: The Accounts Payable (“A/P”) Fiscal II Clerk, maintains tracking logs for Low Value Purchase Order (“LV”), Purchase Request (“PR”) and blanket purchase order (BPO) numbers in MS Access.

The A/P clerk receives all purchasing requests and logs them into the database. The Supervising Accounting Technician (“SAT”) then reviews and authorizes all LVs and PRs. The only PR that can be authorized at the airport field level is for Central Stores Warehouse. Airport Administration must authorize all purchases over \$250, except for Central Stores Warehouse. The SAT has full signature authority to approve all department purchasing requests. The Executive Secretary II has backup signature authority for all PRs for payments and payment vouchers. All PRs are reviewed by Purchasing then forwarded to the ACR Office for processing in the County’s system. The Airport Department staff does no system input.

There are some slight purchase process differences between supplies and services. For example, services in excess of \$3,000 require a requisition, whereas a purchase for supplies in excess of \$3,000 has the option of using a PR for spending up to \$7,500, as long as the item is approved in the budget.

A Blanket Purchase Order (“BPO”) is set up for annual expenditures to a specific vendor and is usually valid for a fiscal year, July 1 through June 30. Most BPOs are time and amount sensitive; however, some recurring services, such as janitorial, are valid until cancelled and are not sensitive to a fiscal year time limit.

BPOs are subject to a bidding process in accordance with County Purchasing Department (“Purchasing”) Policies. A Requisition form is used. Due to the specialized services needed, Airports will usually attach bids and forward them to Purchasing. In June 2000, all BPOs were put out to bid in accordance with a County-wide mandate. Prior to this, a renewal BPO was not subject to a bidding process, just modification (usually a written memo, but no County document for such). Once the BPO is issued, field agents can spend up to the total amount. As spending occurs, the receipt for each purchase is forwarded to Admin. The receipt is matched with the invoice or statement. Original receipts with a request for payment are forwarded to Purchasing for review, then to the ACR Office for input. Throughout the process, the request is scrutinized and can be questioned by Admin, Purchasing, or the ACR’s Office.

If, during the year, the BPO amount needs to be increased, a memo or email is sent to Purchasing requesting and justifying an increase.

An example of a BPO: In Chino, each maintenance worker has a Home Depot purchase card supported by a BPO. On a daily basis, workers turn in any receipts for purchases to the Maintenance Supervisor. Copies of the receipts are kept on file at the airport and the original receipts with appropriate object code are then forwarded to the Admin Office. Admin reconciles the receipts to the monthly vendor statement.

The Petty Cash Fund: A Signature/Fund Custodian Authorization Form on file with the Executive Secretary at the Admin Office formally authorizes the Petty Cash Fund Custodian for each location. Below is a listing of locations, total petty cash fund, the administrator and means of the fund. Petty Cash in Chino and Daggett are checking accounts and not cash on hand. Dollar petty cash funds in Apple Valley and Admin are kept in a lockbox. At Admin, the lockbox is also kept in a safe.

Organization	Total Fund	Fund Custodian	Means
Admin	\$200	Fiscal I	Cash on Hand
Chino	\$1,000	Secretary I	Checking Account
Barstow Daggett	\$1,000	Maintenance Supervisor	Checking Account
Apple Valley	\$500	Fiscal II	Cash on Hand

Petty cash disbursements are limited to amounts up to \$250 for a single reimbursement. Fund Custodians submit a periodic reconciliation of the petty cash account to Admin. Original receipts, coding and the balancing report are submitted with this request. On average, Chino reconciles its petty cash every 30 to 45 days, for an average amount of \$500. On petty cash reimbursement checks in Chino, internal policy requires two signatures: the Fund Custodian and Airport Manager, although only one signature is required by the bank.

The payables and disbursement process follows the delivery of the goods or services. Invoices are sent to the airport where the service or supplies are consumed. The receiver of the goods or service signs and dates the invoice. The original invoice and PR are sent to Admin for the authorization for payment.

Disbursement Document	Description
Request for Payment (RP)	All payments except for recurring items.
Payment Voucher (PV)	Recurring items, such as telephone.

Admin completes the RP or PV, with the appropriate account coding, for all payments. The document is signed and usually approved by the SAT. The original invoice and RP are sent to Purchasing. A PV is sent directly to the ACR Office for input.

At the beginning of each month, a Financial Accounting System (“FAS”) Warrant Report is sent to Admin for the prior month’s disbursements. The A/R Clerk reviews the Disbursement Report and the A/P Clerk reviews the Receiving reports. Once checked for accuracy, copies of the PR and attachments are transferred from pending to paid files. Each month, expenditure reports are available from the FAS system comparing the approved budget to actual spending. A BPO Expenditure Summary is available from MS Access. In 2000, Airports Admin processed LVs for operations totaling \$84,000, PRs totaling \$138,000, and BPOs totaling \$311,000. As a Department, the disbursement system has a safeguard whereby disbursements will not be made above the approved budget. If a department goes over budget, disbursements will not be made until approved by the Board, or they are held over to the subsequent fiscal year.

Accounts Receivable, Lease Administration and Receipts Cycle

The Department receives revenue from the 10 major categories listed below. The revenue amounts vary by the airport site(s).

1. Real estate lease payments
2. Fuel flowage fees
3. Commission on gross revenues
4. Tax revenues
5. Tie down fees
6. Federal Grants
7. State Grants
8. Gate access card fees
9. Interest on fund surplus for Apple Valley
10. Salary reimbursements

Real Estate Lease Payments

Lease agreements usually originate by contact with the site Airport Manager or Director of Airports. With the exception of Federal Grants, lease income comprises the largest segment of cash inflow for the Airports Department. Admin handles the servicing of these leases including billing, collections and deposit of this income. Invoices are sent out approximately the 15th of each month, payment is due on the 1st of the next month and is delinquent if not received by the 10th (10-day grace period actually determined by postmark date). Payments are credited as of date of receipt. Lease payments are sent to Admin; received by the front desk; and logged in a “check/receipt log”. The Front Desk position then forwards the check(s) to the A/R clerk, who then posts the payments to the appropriate account in the Aeroware system.

The Aeroware system is a property management and lease software utilized for the generation of real estate leasing invoices and tracking of lease receivables. The system also has the capability of tracking insurance compliance, which has just recently been implemented. In prior years, the insurance has not been monitored, according to Admin. Lease expiration dates have been monitored by using an external Excel spreadsheet report. The Aeroware system was implemented mid-year 2000. The software could not easily incorporate the historical A/R aging; therefore, any A/R that was sent to collections prior to June 30, 2000, is not incorporated into the A/R delinquency report. Any A/R generated post July 1, 2000, that was sent to collections is reflected in the A/R delinquency report generated from the current system. Therefore, in order to review the complete aging, two reports must be added together.

At the end of each week, the SAT or the A/R Clerk, depending on availability of staff, reconciles the Front Desk log with the Aeroware payment history report to determine if all checks received are posted. The A/R clerk prepares the deposit, which is then reviewed by the Fiscal II position or SAT, and deposited weekly, usually by the A/R clerk, into a designated County-wide Fund (NLJ). This is a consolidated banking account for the County. The deposit is further evidenced by the deposit slip. Payments received during the week, prior to the deposit run, are held in a safe located in the Admin Office.

A Distribution “D” report is filed, which provides for the allocation and disbursement of funds to the appropriate Department/Airport and is classified to the appropriate inflow/revenue code. It is then approved by the SAT before submission to the ACR Office, where it is then input into the FAS system.

Small amounts of cash payments may be collected at Airport sites and are logged in at each individual site. A receipt is issued at the site from a sequentially numbered receipt book obtained from Admin. Cash payments are physically “walked” in by Airport personnel to the Admin Office periodically, as need dictates. A policy change was introduced on July 6, 1999; prohibiting the receipt of cash payments for hangar rent while still allowing gate cards, and tie down fees to be received in cash. No procedure is in place to reconcile receipts issued on the Airport’s site to cash receipts received by Admin.

The Admin Office generates a delinquency report on a monthly basis to manage A/R aging. If the account is delinquent in the 30- to 60-day category, a “Notice to Pay or Quit” letter is forwarded, together with a “Notice to Perform or Quit”, which provides for the accrual of penalties. These notices state that if full payment is not received within three days (or ten days per the lease agreement provision), the account is referred to County Counsel. These delinquent tenants still have a physical presence at the respective airports and are still considered active tenants, but preliminary legal and eviction proceedings may be initiated (e.g., Unlawful Detainer, lock out of facilities). When the tenant has left, abandoned, or has been evicted from the airport site, the account referred to County Counsel proceeds to Collections and becomes inactive at the Department. Some smaller accounts go directly from the Admin Office to Collections.

Collections make the determination of discharging or reinstating A/R accounts with final approval from the ACR Office. Collections forward a list of A/R to be discharged to Admin, where an “Application for Discharge from Accountability” is prepared and is then forwarded to the ACR Office for approval. Once approved, Admin records the discharge in the Aeroware system.

Checks submitted which are denied due to insufficient funds are reported to Admin. If a check is from an active tenant, the A/R is then reinstated and penalties are accrued. If the account is already in Collections, the status will remain unchanged.

To gain a more detailed understanding of the lease processing, refer to Phase V – Leasing Practices.

Fuel Flowage Fees

Fuel flowage fees are assessed on airport site fuel providers and are based on the amount of fuel supplied to the tanks, not on the amount of fuel dispensed to users. The fee assessed is 6.5 cents per gallon of fuel and is due the 1st of every month for a month in arrears. The billing system is based on the “honor system” where no invoice is generated until payment is received. The fuel providers indicate on a “D-1” form the amount of fuel that was supplied and forward the appropriate payment amount to Admin with no supporting documentation. The only situation where a fuel flowage fee would appear in the Aeroware A/R report is where a D-1 form was submitted to Admin without the payment. A similar fee is applied to oil at 7.5 cents per quart.

The filing of quarterly fuel tax returns to the State Board of Equalization is required of the Department because of their ownership of the fuel tanks on airport premises. Admin prepares the tax returns based on the D-1 forms provided by the airport site fuel providers, and files the returns with the appropriate tax

due. Per lease provision, the lessee is responsible for payment of such taxes and fees. An Aeroware invoice is generated on a monthly basis to assess the fuel providers for reimbursement of taxes paid.

Commissions

Commercial tenants are subject to a commission fee that is 2% to 4%, based on the adjusted gross revenue (i.e., gross revenue less the rent) of commercial activities. An exception is the café at Apple Valley where no commission is charged. The billing system is based on the “honor system” where no invoice is generated until payment is received. The commission is due on the 1st of the month with one month in arrears. There is no request for supporting documentation, such as financials, to support the calculation of the commission. No procedure exists or is currently utilized to manage and monitor monthly commission delinquencies.

Tax Revenue

Tax revenue is relevant only to the Apple Valley Airport and originates from the County Assessor’s Office. Apple Valley receives by allocation, a portion of the County’s general tax levy that appears as a separate line item on the property tax bills of High Desert constituents. This allocation is .141054% and is based on an AB 8 formula, which is mandated by the State of California. The formula is based on the prior year’s allocation, increased or decreased by the assessed value growth in the particular District for the year. The Property Tax Department within ACR calculates the allocation and transfers cash from the property tax trust funds to the Airport funds directly¹. The allocations are performed 15 times per year. Based on discussions with the SAT, no review of the allocation transfer is performed by Admin.

Tie Down Fees

Landing fees are assessed locally at the airport sites and are categorized as either transient tie down or permanent tie down. The County has established the following tie down fees for transient parking for three or more hours per day:

Single engine	\$5
Twin engine	\$8
Large aircraft	Based on number of tie down points affected

Admin creates an invoice for transient tie-down fees only when they receive payment, therefore delinquencies may not be tracked properly. A permanent tie-down fee is assessed per ordinance and invoiced by Admin.

Federal Grants

¹ With regard to labor, time spent by county employees such as Airports’ maintenance and administration is charged to the Special District. In 2001, Admin prepared a transfer of all time spent by Airports’ personnel, including the Director’s time, expensing it under Appropriation 200 for Apple Valley, and recording other revenue for the other Airport departments. In the prior fiscal year, Apple Valley recorded a transfer out and Airports recorded a reimbursement.

Federal Grant monies awarded to the airports are not recorded in the A/R account. It is recorded in the FAS system by the ACR's Office as received in the Capital Improvement Project fund.

State Grant

This is a \$10,000 award granted every year to each airport site, with the exception of Chino because Chino is classified as a "reliever" for Ontario and John Wayne airports. The reliever designation provides for air traffic overflow for the neighboring larger commercial airports. This designation provides for higher priority in the award of grant money. The Grant is recorded as received in the FAS system and is not recorded as a receivable.

Gate Access Cards

Gate access cards have a one-time-only charge of \$20. An Aeroware invoice is generated only upon the receipt of payment; therefore, no receivable is recorded.

Interest on Fund Surplus

Apple Valley maintains a fund derived from tax revenues. Any fund balance is interest bearing.

Salary Reimbursements

Apple Valley is a "Special District- CSA 60" and is charged for all labor support received by Airports, including time from Admin and the Director. A monthly transfer/reimbursement is charged to the self-sufficient Special District from the general fund to insure that County general funds are not used to support the Special District.

Payroll Cycle

The Economic Development/Public Services Group (ED/PSG) has its own Human Resource and Payroll Departments, both located on 3rd Street in San Bernardino. Human Resources ("HR") is responsible for hiring, performance reviews, salary "step" adjustments, benefits, contract compliance and termination of employees. Payroll processes timecards and ensures accurate pay scale, account coding and paycheck distribution.

To initiate a new hire, Airports sends a personnel requisition form signed by the Director and the County Administrator to HR. HR then performs the candidate qualifying interview and certification in accordance with County guidelines. A list of qualified candidates is then sent to the department. Airports conduct the interviews, select the candidates, and make an offer. Once the offer is accepted, HR follows up with a pre-hire physical, drug/alcohol testing and first day orientation.

Per the County Memorandum of Understanding ("MOU") 1999/2001, a work performance evaluation is completed annually. The employee, the supervisor and the department Director sign this evaluation. Any change in salary "step" is indicated directly on the performance evaluation form. A salary step notification report signed by HR is then sent to Payroll for entry into the system. To end employment, a separation report is completed and signed by the Director. If an employee is transferring between County Departments, a Job Action Request is completed by HR and sent to Payroll. Only the Director has authority within the department to authorize a new hire or authorize a change in salary.

ED/PSG maintains employee records for one year only. The Central Human Resource Department at 175 W. 5th Street maintains complete employee files.

The payroll process begins each week with timecard submission. Each Airport employee completes a timecard, coding hours to the various projects. The location manager and employee sign the timecard and submit it directly to Payroll. There are 26 pay periods per year, with net compensation either mailed or directly deposited seven workdays after the period end. A check register and labor distribution report by organization and project is sent and reviewed by Admin.

HR and payroll service charges are allocated annually to Airports based on headcount and are reflected as a transfer in the budget.

General Ledger, Cost Accounting and Transfers Cycle

General Ledger

The County uses the FAS computer software specifically tailored for San Bernardino's governmental and financial management needs. The Department supplements this system with a MS Access program that tracks Accounts Payable, and Aeroware that maintains leases. FAS can be queried using Shadow. ED/PSG also has a Cost Accounting System for job costing that is integrated with FAS. This system sums project information for services/supplies and labor to produce reports such as a job cost ledger, cost center analysis and labor distribution.

Account Coding and Cost Accounting

An account coding is designed to track information under five broad categories. The following is an example of Airport Coding and commonly used codes for each:

Fund	Dept	Organization	Appr.	Object	Job Number
AAA	APT	CNO	200	2870	08002870

Fund: All the Airports, except Apple Valley, fall under the municipalities General Fund (AAA) within the Economic Development and Public Services Group. Apple Valley (EBJ) is in a special district fund supported by property tax revenues. Airports also has a security trust fund, which holds deposits from tenants. For accounting purposes, numerous "special funds" are created to track capital improvement projects.

AAA General Fund

EBJ Apple Valley, a special district supported by tax revenues. Also known as
County Service Area ("CSA") 60, interest bearing.

NLM Security Trusts deposits from tenants, non-interest bearing

R** Capital improvements tracking code. All interest bearing.

Department: The Department Code for Airports is APT and Apple Valley is 400.

APT Airports
400 Apple Valley Special District

Organization: Overall, the Airports organization code is APT. Internally, the Department further breaks down the organization into six locations for the individual airports. Payroll also uses this coding field for salaries/benefits (591-594) and for temporary labor (595-598).

Description	Organization Code
Baker (emergency landing strip)	BKR
Chino	CNO
Barstow-Daggett	DAG
Needles	EED
Twenty-nine Palms	TNP
591 – 594 Labor	591 – 594
595 – 598 Temporary Labor	595 – 598

Appropriations/Object Code: The appropriations categories aggregate the detailed line items or object codes. For example, appropriation 100 is comprised of 1,000 individual object codes that detail salaries and benefit expenses.

Appropriation Unit
100 Salaries and Benefits
200 Services & Supplies
300 Other Charges
400 Capital/Improvements
500 Intra-Funds Transfers In/Out

Object (line item detail):
2890 Grounds Maintenance,
2120 Small tools and Instruments

Job Number: Job Numbers are used for coding labor time and expenditures for capital improvement projects.

Lockheed Facility (Chino) 08XSARCI
General Maintenance (Chino) 08002870

On a monthly basis, the Airport Director has received the following reports:

1. Budget recap report for each Airport
2. Collections and aging report
3. Bi-weekly payroll reports tracking leave time
4. Open positions from personnel
5. CIP monthly report from Architect and Engineering (“A&E”) (no cost information)

The Director provides an Airports' status report to John Goss, and holds monthly senior staff meetings.

Transfers

According to our interviews, there are no formal written County procedures for transfers. At Airports, any transfers out of the Department are first logged, and then approved by the SAT. Examples of Airport generated transfers include moving funds into the security deposit trust from rent, moving funds for capital projects, and transferring the cost of County employees who work at Apple Valley. As a special district, Apple Valley is charged for the time of County employees. An internal transfer also acts like a journal entry for any corrections between funds, departments, organizations, appropriation or object code.

Transfers to the Airports include Architecture & Engineering (“A&E”) direct labor, Real Estate Service direct labor, and services received from other County Departments, such as Signage, Surveyor’s Services, Computer Services and Vehicle Services. Labor charges for Real Estate Services are directly coded to Airports via a timecard. Services provided by County Departments are treated similar to outside vendors in that they provide a bid for the project or work (except for Vehicle Services).

Outside of transfers, there is also a category for allocated costs. The County cost allocation plan (“COWCAP”) allocates various shared services to each department. Examples of these allocated services include utilities, A&E overhead, space use, janitorial, etc. (See Exhibit II – 3 for more detail).

The exception to this allocation is for departments funded from the general fund, of which the Airports Department is one. Allocated costs are not transferred or recorded between general fund departments. As estimated in the 2001 Budget book, COWCAP expenses for Airports are \$816,000. The top three allocated services, based on amount, are \$467,000 for utilities, \$90,000 for A&E indirect support and \$98,000 for space use. These are not reflected in Airports’ reported budgets.

The County Facilities Management Department is responsible for tracking and paying utilities. In the past, efforts by the Airports Department to obtain information on electrical costs by meter at the airport sites have proved to be unsuccessful. At this time, the impact of having such data as a possible pass through of such costs to tenants is unknown.

In lieu of paying COWCAP overhead charges, Airport agrees to contribute approximately \$272,000 annually to the general fund.

Fixed Assets and Capital Improvement Projects Cycle

Project Management

Airport Management prepares Capital Improvement Project (“CIP”) information for several different stakeholders. The primary users of the information are the County, the Federal Aviation Administration (“FAA”) and the State of California CalTrans Aeronautics Division (“Caltrans”).

For the County’s budget process, a one-page project summary for each capital project is prepared by Airport Management and sent to the County Administrative Officer (“CAO”) with a copy forwarded to Architecture and Engineering Department (“A&E”). The project cost estimates are prepared by the Airports Department at this time. The cost estimates for budget purposes are preliminary, as formal bids have not yet been pursued. It is not necessary that projects have final funding for inclusion in the budget book, just a plan for funding.

The A&E Department, located at 385 N. Arrowhead at the San Bernardino Government Center, manages the Airport's capital projects once funding is finalized. It is County policy that A&E be involved unless a capital project is less than \$25,000. There has been only one A&E project manager for Airport projects for the past several years. Eighty-five percent of his time has been spent on Airport project management. His time is transferred monthly to the CIP for each project.

Funding

Funds for Airport projects are usually 90% subsidized with an FAA Grant. Currently, the remaining 10% is derived from interest accrued on proceeds from the sale of the Fontana airport in 1987. As of December 31, 2000, the balance in this interest account was \$5.9 million. Per FAA regulations, the principal from the Fontana sale cannot be used for matching funds, but is available to fund 100% of a project. The balance in the principal account as of December 2000 was \$1.5 million. Apple Valley, as a special district, derives its capital funds from tax revenues, as well as the FAA.

Airport Management prepares the FAA applications for Grants, subject to Board approval, to apply for FAA funds. The Board also must approve the subsequent Grant offer. Once the project is scheduled to start, Airports assigns a fund tracking code. This three character code begins with the letter R** and is listed in the County's code manual. For example, the code REI tracks expenditures specific to the Chino parking lot reconstruction project. A&E assigns its own project numbers, usually one project per fund. At times, however, A&E will assign several project numbers that sum to one airport fund code.

Once a project is approved for funding, A&E obtains job bids, works with the contractors, tracks payments for each contractor, and ensures that County guidelines and contract documentation are appropriately filed. All purchase orders and payment requests are approved and processed by the Admin Office. A&E initiates the purchase request and approves goods and services as incurred. (See Grant Accounting this section.)

Tracking Expenditures

A&E uses MS Excel spreadsheets to track project spending. They do not receive FAS CIP reports; therefore, they do not balance or reconcile to amounts reported in the system. A&E does have on-line viewing of budgeted funds and payments made if they need to check available budget or to check if a payment has been made.

Project costs are tracked in FAS on a fiscal year basis under two main object codes, 4005 for Land and 4010 for Improvements. There is no budget by line item maintained by either Airports or A&E. At the end of each fiscal year, Admin prepares either a notice of construction in process or a notice of completion for the ACR. If the project is complete, ACR transfers the asset from the CIP to fixed assets. Since projects can span multiple fiscal years, all years are summed to reflect total project spending.

Monthly FAS reports track spending, comparing budget to expenditures and providing details on warrants, and available cash balance. A&E provides a monthly CIP report that recaps the budget amount, the primary contractor, a brief project status and critical path chart. No actual cost information is provided by A&E.

Project Administration

In addition to the payables task, Admin also ensures that both cash and appropriations are available for each project. Cash is retained in RAA (interest from sale on Fontana) and transferred by Admin to individual projects to cover expenses on an “as needed” basis. The request for transfer is prepared by the SAT and approved by both the ACR and CAO offices. Internal controls for cash spending include a review by the A/P Clerk and ACR to ensure that cash is available. Additionally, FAS will reject any payments made on a project fund where there are insufficient funds to pay. Airports do not have a separate bank disbursement account, but use the County-wide consolidated account. Bank account reconciliations are performed by the ACR, except for petty cash, which is reconciled by Admin.

Appropriations established during the budget process may require adjustment during the year as project scope or timing changes. A transfer appropriation is initiated by the SAT and approved by both the ACR and CAO offices.

The Admin Office maintains project and contract files. Each file contains copies of the following documents:

1. Funding information and request for fund transfers.
2. Expenditures transferred from other Departments (usually for A&E labor)
3. Expenditures, copies of invoices and support such as Board approved contracts and change orders. Each contract has a contract recap tracking form indicating the original contract amount, any change orders and payments against the contract. This information is kept manually.
4. Other correspondence, such as notice of acquisition, change disposition, and any notice of completed construction.
5. Copies of blanket orders and any miscellaneous payments.

County Purchasing Rules for Capital Project

The project manager ensures compliance with County policy regarding the contracting process. In our review, all approvals and tracking numbers were appropriate. We did not review selection and competition. Below is a summary of professional services and outside service provider policies:

Contracts for Services Greater than \$75,000

Selection	A selection committee of three to five, including A&E and the Airports Director, is identified and approved by either by the Board or by the CAO.
Competition	An RFP is prepared, reviewed by County Counsel and the CAO, and then submitted to the Board for approval.
Approval	The final contract is reviewed by County Counsel and the CAO before going before the Board for approval.
Tracking Number	The Clerk of the Board assigns a contract number.

Contracts for Services Less than \$75,000

Selection	A&E, as the designated project manager.
Competition	A&E prepares the scope, time schedule and approximate cost. Also negotiates the contacts and maintains a database of any contracts awarded.
Approval	If over \$25,000, the final contract is reviewed by County Counsel and the CAO before going to the Board for approval. If less than \$25,000, no additional review is needed.
Tracking number	If greater than \$25,000, assigned by the Clerk of the Board. If less than \$25,000, a purchase order number assigned by Purchasing.

Change Orders

Change orders are submitted to the County Counsel for review and approval. Change orders greater than 10% of the project total or cumulative change orders greater than \$25,000 require Board approval. Change orders less than 10%, or less than \$5,000, are approved by A&E.

A&E is the Contract Administrator for the Airports CIP. In this capacity, A&E prepares the scope of work, negotiates contracts, and obtains the necessary approvals. Copies of contracts and Change orders are kept in the permanent fund file at Airports Administration.

Grant Accounting Cycle

The County receives State and Federal Grants in order to improve, expand, and repair the County Airport facilities. The majority of the Grant money comes from the FAA. All FAA Grants received thus far have been for construction-type activities or land purchase surrounding the Airports. Airport personnel follow the same procedures for Federal Grants as on their State Grants. Therefore, the systems understanding presented is on the FAA Grant process only.

Application Process

The Grant process commences with the grant application process. All Grants are compiled by the Airport Managers in conjunction with the Director. The grant applications require the Managers to complete a specific application in the FAA's format detailing budget information for the project, narrative of the project and scope of work, and certifications/assurances by the Airport Manager regarding the project and information contained in the application. This application process includes a high level of FAA involvement. The FAA directs the specific wording that needs to be used based on the type of project and will ask the Airport Manager to adjust the application amount if they determine it necessary.

The County's process when project cost expectations appear to exceed budget is to stop the project until the additional funding from the FAA is granted. The Board requires approval of the application prior to submission to the FAA. The Director is responsible for signing all grant applications/grant agreements. Once the FAA has approved the application and the County receives a grant agreement, the Board requires review and approval of the agreement prior to accepting the grant agreement. No project expenditures are incurred until the grant agreement has been approved and signed by both parties. The Executive Secretary in the Admin Office maintains all grant files. Included in these files are the grant

application/agreement, Board approval items, any correspondence with the grantor and requests for reimbursement.

Design and Construction Contracts

Since the majority of costs running through the grant process are construction-type costs or land purchase costs, the next phase in the grant process relates to the bid process and awarding contracts to the construction contractor. A&E is responsible for the overall project administration. A&E sends out RFP's for design and other professional services. Once a grant has been approved, the Airport Manager or the Director contacts A&E to communicate that funding is now available for the project.

First, a RFP is sent out to obtain project design and other professional services. The selection criterion for consultants is based on most qualified versus lowest bidder. A&E reviews the RFP, conducts interviews of the candidates; negotiates the scope of work and fees, then makes a recommendation to the Board as to which firm is the most qualified. A standard contract is compiled which details the scope of work and each party's responsibilities, fees, and itemized detail of work to be performed. The FAA receives a copy of the proposed contract and must approve prior to signing the agreement. This contract is then reviewed and approved by the Board prior to entering into the contract with the selected consultant.

Construction Contractor Contracts

Once the consultant contract has been finalized, bid packages are compiled and made available to interested construction contractors. A&E is responsible for this process, which follows the County's approved, documented bid process stipulated in the County's purchasing procedures/policies. The lowest bidder is required unless it is grossly evident that the contractor would be unable to perform the work. The construction contract must be approved by the FAA and the Board prior to entering into the contract.

Change orders are developed through the joint effort between A&E and the design firm. These two groups generally act as the engineers on the projects as well and, therefore, are able to determine whether a change order is necessary. The actual change order documentation is compiled by A&E and reviewed by a County Contract Compliance Officer and County Counsel. A&E signs for change orders less than 10% of the contract amount or an aggregate of less than \$25,000. The Board of Supervisors approves any change orders over \$25,000. Although not required by the FAA, the County requires that the FAA verbally approve the change order prior to approval.

Expenditures for Progress Payments

Once construction has commenced, the construction contractor will periodically (usually no more than once a month) submit Requests for Progress Payment on the project, which detail line item by line item the scope of work, the dollar amount of each item and the percentage of completion for that particular item. The invoices are submitted by the contractor directly to A&E, who reviews the request comparing percent complete with their knowledge of completion, based on site visits and daily contact with the construction contractor. Additionally, A&E notes whether there is a separate line item for change orders. Once approval has been received from the construction/project management perspective, the request is forwarded to Admin.

The Fiscal II Clerk in Admin receives the requests, determines there is an open contract with budget amounts available on the project and that cash is available in the project fund for payment. The document is then approved for payment and passes on to the Director for approval. Currently, these

requests are being routed to the SAT in the absence of a Director. The SAT contacts the Airport Manager to determine that the work on the request has been performed prior to their approval. Once approved, the request is given to the A/P clerk in Admin to compile an RP, which contains copies of supporting documentation (request for progress payment). This is reviewed/approved by the SAT before forwarding to the ACR for payment. A copy of the documentation is placed in each project file at the Admin Office.

All open purchase orders are maintained by the A/P Clerk and matched with the related invoice maintained in the project files. Admin reconciles their expenditure records to the monthly FAS reporting by the ACR office. The Clerk also reviews the monthly FAS reports to ensure a warrant was issued by the ACR for each request submitted and the amount reduced the available budget.

Labor related expenses for A&E are also regularly incurred through the Payroll system. These costs are not directly charged to the airport grant account/fund, rather they are charged as expenditures in A&E. They are then transferred to the airport grant account/fund based on an “invoice” generated from A&E to the Airport. The SAT is responsible for compiling the necessary documentation and approvals (herself and/or the Director) for the ACR’s office to perform the journal entry. No labor and overhead costs relating to Admin are charged to the grants.

Grant Expenditure Reimbursement

The FAA grants are on a reimbursement basis. The County must incur the costs prior to receiving any federal money. Additionally, all reimbursement requests must be supported by related invoices/requests for progress payment. The SAT in Admin is responsible for submitting the Requests for Reimbursement to the FAA. These requests are ideally submitted monthly; however, there are times when the money is not requested on a monthly basis, but rather every other month. The FAA will reimburse 90% of the costs of the project. Therefore, the County must fund 10%. The costs reimbursed by the FAA are, for example, construction-related costs and A&E labor costs incurred for the project manager.

In order to determine the amount of costs to be reimbursed, the SAT obtains the monthly expenditure report reconciled by the A/R Clerk in Airports, which lists individual expenditures by project code. A copy of this expenditure report, copies of all related contractor requests for progress payment and “invoices” from A&E are attached to the request for reimbursement and submitted to the FAA. The SAT also informs the County Treasury Department (“Treasury”) that a request in a particular amount was presented to the FAA and reimbursement should be received via electronic wire within a few weeks. Treasury notifies the SAT when the wire is received. The A/P Clerk then compiles a “deposit” ticket directing which fund the wire should be received into by Treasury. The SAT approves the document, and submits to Treasury. The ACR inputs the transaction into the system.

Budget Cycle

The Budget process begins in December with a request from the CAO for a projection of fiscal year end expenditures and concludes on June 30th when the Board approves the budget. The Board is involved in this process beginning in February by assisting in establishing budget targets. The Board also receives a workbook in April with draft projections and the final budget presentation in June. This early involvement by the Board is relatively new. In prior years, the Board would review the budget in June only.

Budget instructions are sent from the CAO with supplemental instructions sent from the Public Services Group. Within the Airports Department, the Managers and Director determine the upcoming years' needs for appropriations and capital. The SAT is the only one that has access to the online budgeting worksheets. The budget is detailed by object code with separate detail and explanations for capital items. Internal meetings are held with the Economic Development Office and CAO prior to budget submission.

Airport Managers receive a monthly Budget Status Report that compares actual spending and encumbrances to the budget.

Transaction Testing

In order to gain a level of comfort that the system understanding was accurate and that the transactions were being recorded properly, we tested 90 transactions selected from four major transactions cycles. We designed our test so that the results would give us a statistical confidence level that measures the degree of compliance that transactions were posted properly and reflected the population. The different cycles and transaction size for each was as follows:

Cycle	Sample Size
Purchasing, Payables and Disbursement	30
Receivables and Cash Management	22
Payroll	16
Capital Improvements	22

All sample transactions were located and we found that the supporting documents and audit trail agreed with the amounts posted in the system. See exhibits I-2 through I-7 for a complete list of transactions tested.

Review the Purchasing Activities

The purpose of this test was to determine if the purchasing activities had appropriate controls for authorization of expenditures and the amounts were supported by the documentation in adherence to County procedures.

We tested 30 transactions in this cycle with a total dollar value of \$61,701. Of these transactions, 60% relating to the purchase of services, 37% relating to the purchase of supplies and 3% to a journal voucher correction. The following presents a summary of attributes, number of exceptions found, and observations:

Exception Description	No. Exceptions
Requestor authorization	8
Bid documentation	8
Purchase authorization	4

Requestor Authorization

- Four transactions had “signature on file” noted but not an original signature on the document.
- Two transactions had typed initials but not an original signature.
- One transaction, a work order from vehicle services, had the requestor as “Chino Airport” and not a specific name.
- One transaction for petty cash reconciliation did not list any requestor information or who prepared the reconciliation.

Bid Documentation

- Two LVs did not have any evidence of bid information or sole source justification as required by the County.
- Six had no indication regarding an ESBE vendor as required by the County, if available.

Purchase Authorization

- Three LVs and one PR had typed initials for the approval but no original signature or computer initials as are used by Airports.

Review the Payables Activity

Of the 30 payable transactions reviewed, 14 transactions with a dollar value of \$8,470 related to requests for payment, seven transactions with a dollar value of \$39,268 related to a requests for transfer, two transactions with a dollar value of \$3,053 related to a requisitions, three transactions with a dollar value of \$855 related to payments for travel and or visa, and four transactions with a dollar value of \$10,056 were for payment vouchers.

The following presents a summary of attributes, number of exceptions found, and observations:

Exception Description	No. Exceptions
Invoice Receipt	7
Invoice match to purchase documentation	1
Complete account coding	0
Payment approval	0

Invoice Receipt

- One transaction had no receiver signature on four invoices; the receiver for permit fees totaling \$8,375 had signed only one of five invoices.
- Three LVs were not signed by the receiver.
- Two utility bills were approved for payment by the SAT. No other employee reviewed.

Invoice Amount Match to Purchase Documents Amount

- One invoice was \$105 higher than the purchase document due to freight charges.
- One transaction had an email from Purchasing authorizing payment outside the blanket amount, since the maximum amount had been reached.
- One transaction had an email from Purchasing approving a partial payment request against a purchase order so the Purchase Order would not be closed.

All selected transactions had a complete account coding and were approved and signed for payment.

Review the Accounts Receivable Activity

The purpose of this test was to determine that the receipt activities had appropriate controls for safeguarding the receipt of cash and checks, that receipts were properly supported by appropriate documentation and in adherence with County cash management procedures.

The total number of transactions tested for this cycle was 22, with an associated dollar amount of \$4,141,933. Of these transactions, 64% were cash receipts, 14% were transfers, 9% were property tax receipts, 5% were rent payroll deduction and 8% were other corrections.

The following presents a summary of attributes, number of exceptions found, and observations:

Exception description	No. Exceptions
Complete account coding	0
Deposit matches the amount received	3
Collections were promptly deposited	3
Deposit was reviewed by authorized personnel	2
Appropriate documentation supports the entry	1

Bank Deposit Amount Agrees with Amount Received (Deposit Log)

- One transaction held a \$50 check for two weeks before deposit.
- Two transactions from the Regional Park were included on the distribution form. However, these are credit/transfer transactions between County departments and should be accounted separate from checks and cash.

Prompt Deposits (Within One Week)

- One transaction held a \$50 check posted to the system two weeks later.
- One transaction was not deposited for two weeks and one was not deposited for 11 days.

- A held check log was kept by the A/R clerk from May to November 2000. Fourteen checks with a dollar amount of \$12,430 were held and posted to the system one week to five months after receipt. From the total amount held, at least \$4,725 was returned NSF.

Account Coding

- Two transactions posted penalties and interest as rent.

Authorization

- One transaction the preparer of the distribution report and the approver were the same person. The same person also posted the payments.

Review the Payroll Activity

The purpose of this test was to test compliance of payroll activities with County policy. A total of 14 Airports' employees were reviewed from the different Airports as well as Admin.

The following presents a summary of attributes and number of exceptions found. No exceptions were found in this area.

Exception Description	No. Exceptions
Timecard submitted for each pay period	0
Job codes are indicated	0
Overtime is authorized	0
New Hires are authorized	0
Separations are recorded timely	0
Pay rate changes are authorized	0

Review the Capital Improvement Activity

The purpose of this test was to determine that the disbursement and transfer activities within the capital improvement funds were properly authorized, supported by appropriate documentation and in adherence with County procedures. The transactions were reviewed for compliance with regard to contracts. Ten funds were tested to ensure that expenditures were under budget, budget changes were authorized, prior year spending was below the encumbered amount, and cash was available for expended amounts.

The 22 transactions tested totaled \$740,021. Of this, \$66,901 was exclusive to Apple Valley. From the sample, 18% were for purchases related to land acquisition, 72% for improvements to land, 5% for equipment purchases and 5% for vehicle purchases.

The following presents a summary of attributes, number of exceptions found, and observations:

Exception Description	No. Exceptions
Purchasing/Payables Compliance	0
Expenditures less than budget	0
Authorization of contracts and Change Orders	0
Authorization for budget appropriations	1
Authorization for cash transfers	0
Completion of project is recorded on fixed asset register.	0

- Fund RES, for Apple Valley land acquisition, did not have support for a \$155,000 budget change. The ACR generated a budget change for \$1.3 million. However, no support was filed for the balance of \$155,000.
- In one transaction, a request was sent from ACR requiring an increase in cash to cover expenditures. Airports Admin is not proactive in monitoring capital spending and cash needed in these activities.
- We found that Airports Admin approved purchase and payables documents and that project spending was below the approved budget amounts. Except for fund RES, all budget changes were approved by Admin and the CAO.

Recommendations

A summary of recommendations based on exceptions reviewed is as follows:

1. Process PRs only when they are accompanied by bids, a bid summary or sole source justification.
2. Require the purchaser to indicate ESBE vendor information on bid summary documents.
3. Require original signatures on any PR documents.
4. Require that airport management review all vehicle service requests.
5. Require petty cash review and accountability at the airport locations. Reconciliations should be signed by the Fund Custodian. Receipts should be signed by the requestor.
6. Follow a consistent policy of purchase approval authorization. Use of full signature is preferable. If computer generated initials is selected, other internal controls must safeguard the approval process.
7. Require that all invoices show a “receiver” approval signature.

8. Review the cost/benefits of armored car service for weekly deposits.
9. Ensure that all checks and cash are deposited when received.
10. Ensure that revenues and receipts are being properly classified to rent, penalties, lease commission, etc.
11. Print a receivables history from Airman, the DOS software used prior to Aeroware, for at least five historical years, to be able to demonstrate a tenant payment history. This printout should be filed at Admin.
12. Ensure the segregation of duties for accounts receivable document preparation and approval.

Objective

The objective of Phase II is to ensure that published plans, policies and procedures are current and directly reflect existing operations. To accomplish this goal we performed several key tasks:

1. We obtained copies of all relevant published plans, policies and procedures related to the financial systems and operations of the Department.
2. We reviewed published documents to ensure they are current and reflect existing operations.
3. Finally, we prepared a summary of findings and recommendations that is contained in this section of the report.

Operations Plans and Policies

The San Bernardino County Airports Department is integrated into the County Administration as part of the Economic Development and Public Services Group. The Department oversees six County owned airports: Chino, Apple Valley, Barstow-Daggett, Needles, Twenty-nine Palms and Baker Airports. The Department's website describes its mission as the "management...of six County-owned airports" and assistance to "private and municipal airport operators in the county ... to operate and maintain the airports in a safe and financially responsible manner..."

The Department manages, maintains and operates these General Aviation Airports under the guidance of San Bernardino County and the rules and regulations set forth by the Federal Aviation Administration and the State of California Caltrans Office of Airports. The County Airports Rules and Regulations are published in the County Code as Sections 12.164–12.167 (Airports Commission) dated 1/18/88 and Sections 71.011 through 71.063 Airport Rules and Regulations dated 2/28/78. The six chapters in Section 71 compile ordinances that have been adopted by the Board of Supervisors and reflect County, State and Federal laws as well as County policies. The chapters specifically cover the following areas:

1. General Rules and Regulations
2. Aircraft Operations
3. Motor Vehicle Regulations
4. Personal Contact
5. Fire Hazards and Fueling Operations
6. Commercial or Business Activity

There have been no amendments to these policies and directives for many years, while at the same time the organization of the "Airports Division" headed by a Division Chief has evolved into a "Airports Department" headed by a Director of Airports.

The County Code regulating the County Airports Department is outdated and incomplete. While detailed in some areas such as fueling operations with 13 rules, it is hazy in others such as responsibilities of the Division Chief. The scope of the County Title for the Airports states:

“Each such airport shall be conducted as a public facility for the promotion and accommodation of civil aviation and associated activities...” (Section 71.011).

Even though this statement is acceptable in its generic form, it does not reflect the role of General Aviation airports today. Airports are integral parts of the national airport system. They are not only “accommodating civil aviation” but they have become resources for the local community and regional economy. Airports can be seen as development opportunities from General Aviation to Commercial Aviation or obstacles in developing communities with issues that could arise such as noise pollution.

With six very different airports, from the isolated Baker emergency landing strip to the busy reliever airport of Chino, there is a need to define goals and objectives for the San Bernardino County Airport system. These goals and objectives, in turn, will lead to a defined mission statement that should include specific tasks and responsibilities of the Department.

General aviation airports generate most of their revenues from hangar and land leases as well as a percentage fee from fuel sales. Commonly, it is the Airport Director’s highest priority and interest to promote his airport and earn revenues. In an airport system, this task widens to balancing the interests of the individual airports as well as the individual communities involved. Without proper guidelines this task becomes open to shifting priorities as well as interests, thus the potential for generating conflicts and controversies. The San Bernardino County Airports Department lacks the guidance, rules and regulations to manage the San Bernardino County airport system with less controversy.

One of the most important areas of any organization is the overall goals and objectives (or mission) governing the organization. The overall goals and objectives for the Airports Department should be determined at the County level with input from the external aviation-related regulatory agencies. Once the Departmental goals and objectives are determined, they can be implemented across the Department and at each Airport location. The Master Plans for each Airport should reflect the direction of the overall Department. The overall guidance to the Department should address the following basic underlying foundations:

- Service level to County.
- Organization structure and staffing.
- Written and approved rules, regulations, policies and procedures.
- System process change/reengineering.
- Accountability/measurement standards and reporting.

The guidance from the County should come from the Board of Supervisors and be reflected in the County Code.

Job Descriptions

Employees must have direction as to reporting procedures, lines of communication, duties expected of the position and a general, overall understanding of their job functions. This direction is usually communicated in job descriptions. The positions and/or job descriptions reviewed were as follows:

Director of Airports
Airport Manager(s)
Airport Operations Supervisor
Airport Maintenance Supervisor
Airport Maintenance Worker
Supervising Accountant I
Executive Secretary I, II
Fiscal Clerk II
Clerk III

The job descriptions for the various positions date back to 1986/1987/1990 with updates in 1992 (Airport Maintenance Supervisor), 1996 (Director of Airports), 1997 (Airport Manager), and 1999 (Airport Operations Supervisor). The administrative positions were last reviewed in 1987 and in 1992. The job descriptions more or less match the actual activities of the assigned personnel with two exceptions. The Supervising Accounting Technician (“SAT”) seems to perform additional tasks that are part of operations, and the Maintenance Workers perform tasks that exceed the generic “performing a wide variety of repair, maintenance, and construction duties.” These workers and their supervisors are actively involved in operations, safety and security at the different airports.

In initial reviews, it was evident that the job description for the Operations Supervisor was quite ambiguous in how it related to other positions, the functions to be accomplished, and who would direct this position. On all other job descriptions, only minor to moderate areas of concern were brought to light. A summary of the observations is as follows:

1. As a general statement for all descriptions, the “Definition” section of the Job Descriptions begins by stating, “under general administrative direction” or “under direction” or “under general direction”, but does not state as to under direction of whom. This area could be confusing to a new employee.
2. The next area, listed as, “Distinguishing Characteristics” of the Job Description, has no consistency from one description to another. Additionally there are areas of confusion on some descriptions. In the case of the Director of Airports, the description states, “The position reports to the Assistant County Administrator.” But, when reviewing the description for the Airport Manager, there is no statement to be found as to whom this position reports. The Airport Maintenance Supervisor job description states, “Positions report to, and are distinguished from Airport Manager by the latter’s overall, etc.”. Once again there is a lack of consistency from one job description to another.

In the “Distinguishing Characteristics” section of the Airport Operations Supervisor job description, it reads, “The position reports to Airport Managers on matters of daily operations and to the Director of Airports for assignments of an administrative nature.” This reporting process leads to confusion on the part of the Airport Managers as well as the Airport Operations Supervisor.

3. Under the section of the job description titled “Example of Duties,” most positions have understandable and definable duties. However, the position of Airport Operations Supervisor is rather convoluted. For instance, one of the position’s duties is to “supervise the daily activities of airport personnel engaged in the operation of County airports to assure compliance with all Federal, State and County regulations and mandated programs”. It would be and is quite difficult for the Airport Managers to understand this duty as described, when in fact the Airport Manager’s job is to supervise the daily activities of their employees. In addition, does this duty of the Airport Operations Supervisor mean the position also supervises the Airport Managers?

Another duty is to “observe airport staff as they complete their assignments to identify operational practices that require change for compliance purposes or consistency within the airport system”. Again, this assigned duty runs contrary to the duties of the Airport Managers. Also, does this mean the Airport Operations Supervisor, observes the Airport Managers, even though the position reports to the Managers?

The Supervisor’s duties include the responsibility to “plan, organize and supervise assigned maintenance activities and projects” and “evaluate subordinate supervisors”. With these assigned duties, where does the Airport Manager fit in?

An interesting fact that was found during an interview with an Airport Manager is that one Manager had never seen the job description of the Airport Operations Supervisor.

A final note regarding the analysis of job descriptions was the missing statement regarding membership in professional aviation organizations. It was, however, discovered that the Director of Airports and the Airport Managers do belong to the American Association of Airport Executives as well as the Southwest Chapter of AAAE along with the Airport Maintenance Supervisors.

Job descriptions are a good communication and accountability tool to be used in the Department. For that reason, we recommend the following key recommendations for improvement of the job descriptions:

- Standardize the format of the Job Descriptions.
- Update the Job Descriptions to presently assigned duties and responsibilities.
- Eliminate the conflicts of duty and reporting relationships between the positions.
- Add membership requirements in professional organizations to management.

Navigational Aids/Airport Condition

As part of the Department review, we also performed a high-level condition assessment of the Navigational Aids (“NavAids”) and the field conditions for each Airport. We made site visits to the Apple Valley and Chino Airports. The necessary information regarding the other Airports was garnered from the FAA Form 5010-1 and existing Master Plans.

Condition assessments are important to the justification of future improvements or facility repairs. Additionally, when applying for State and Federal Grants, assessments can be used as part of the justifications for the needed expenditures.

The Department’s role is to plan, prepare and supervise all necessary activities to maintain the operational status of all airfields. At the Needles and Twenty-nine Palms Airports, local tenants provide some services in maintaining the facility in return for subsidized lease fees. The Airport Capital Improvement Plan (“CIP”) lists the projects planned for each airport for the next five years. The current plan lists a total of 53 projects for the next 12 years. These projects include plans such as Master Plans or the Comprehensive Land Use Plans (“CLUP”), as well as additional NavAids and new construction. Some of the planned projects serve to maintain the existing facilities. Availability of funding, as well as continuous contacts with the financing agencies, drives the transition of projects from planning to purchases and construction.

The Department maintains the necessary documentation to keep the San Bernardino Airports System operational. In the interview process with the Airport Managers, there did not appear to be any major deficiencies at the Airports nor any real need for additional NavAids other than what is listed in the CIPs. The largest need for improvements seems to be at the Chino Airport. It requires continuous efforts to determine the feasibility of repair versus replacement. It seems that most resources in Chino are spent on repair in lieu of a coordinated effort of preventive maintenance. The lack of up-to-date planning documents at Chino is not helpful in aggressively pursuing State and Federal funds for future development. However, as the Airport Master Plan Study will be undertaken shortly, there will be an excellent opportunity to focus on the future development with current planning documents.

Master Plans

Five of the six airports in the Airport System have a current Master Plan. Only the Baker Airport, considered an emergency landing strip, does not have a Master Plan. The last updates for each of the plans are as follows:

1. Chino Airport in 1986
2. Apple Valley Airport in 1992
3. Barstow-Daggett Airport in 1992
4. Twenty-nine Palms Airport in 1991
5. Needles Airport in 1991

Airport Master Plans are required FAA documents to initiate and support the future development and FAA funding process. The Plans are 90% funded by the FAA and provide the airports with a periodic opportunity to review and focus the role of their airport(s) in the community. A cycle of 12 to 15 years between Master Plans makes them long-range planning documents with less accuracy towards the end of the planning cycle. The Chino Airport Master Plan is presently under review with an FAA Grant. The process has recently started and will take several months to complete both the Master Plan and the supporting studies.

For the five airports, the existing Master Plans fulfill FAA requirements as planning documents. The new Chino Master Plan Study is much needed to update the role of this airport for the next five to ten years. The original forecast in 1986 for number of aircraft operations predicted a growth from 210,000 in 1984 to 420,000 aircraft operations in 2000. The actual number in 2000 was only 200,000 operations. This is a good indication of the changes that general aviation has gone through in the last 15 years. It also indicates that the Chino Airport has been stagnant in the last 10 years, which raises the question: why? The initial response seems to be lack of agreement on the role of the Airport and unclear priorities. The Lockheed project was at the beginning of a process pointing towards growth and development. Unfortunately, the momentum was lost, and it will require a concentrated effort to regain the efficiency of a well-functioning Airport again.

Budgets

The budget for Airports activities was evaluated from summary information published in the budget books for the County of San Bernardino. For purpose of comparison between years, actual results were used for 1999 and 2000 and compared to the 2001 budget. (See Exhibit II-2 for budgeted and actual results)

During the budgeting process, a separate budget is prepared for each Airport. The five general fund Airports: Chino, Barstow-Daggett, Baker, Needles and Twenty-nine Palms, are summed and reported as one economic unit. Apple Valley, a County Service Area (CSA 60), is funded through tax revenues, not the general fund, and is reported individually. The appropriations in 2001 for the five airports are \$2.4 million. The appropriations for Apple Valley are \$1.3 million including \$384,000 for reimbursement of County labor, \$575,000 for a contribution to a Capital Improvement reserve and \$319,000 for services & supplies. Actual expenditures for 1999, 2000 and year to date 2001 are below the budgeted amounts for each year.

During the period of the review we observed the following for the combined five general fund Airports:

1. The drop in "Equipment" purchases from \$106,719 in 1999, to \$43,557 in 2000, to \$7,000 budgeted in 2001.
2. The fluctuation of "Transfers" (Payroll Support Services, as well as Surveyor's charges), actual expenditure of \$80,807 in 1999, to \$13,113 in 2000, and \$24,044 budgeted in 2001.

3. A \$40,000 “State Aid” revenue each year with no related expenditure. This is a concern due to state compliance rules.
4. “Federal aid” of \$18,508 in 1999, with no federal aid recorded since then. It was explained that this was charged to this line item in error.
5. Federal aid for capital projects is not reflected in this budget.

For the CSA 60 Apple Valley Airport Budget, we observed the following significant trends:

1. The item “Services and Supplies” has grown from \$249,175 in 1999 to \$270,467 in 2000 to a projected \$702,891 in 2001. This was explained as an accounting change. Beginning in 2001, Apple Valley labor will be recorded as “Services & Supplies” and not through “Transfers/Reimbursements as had been the process in 1999 and 2000.
2. In the 2001 budget, the \$319,000 “Services and Supplies” reflects an increase of roughly 15% since actual 1999.
3. There is no line item for personnel costs. They are included in either “Reimbursements” or “Services & Supplies”.
4. “Equipment & Vehicles” has dropped from \$114,972 in 1999, to \$42,983 in 2000, to zero budgeted in 2001.
5. “State Aid” is budgeted at \$10,000 each year, though the actual aid in 2000 was \$35,269. There is no expenditure listed or documented for these funds.
6. Federal Aid is not listed in the Revenue/Appropriations budget or in the capital improvement budget.
7. “Other Services” reflects fees charged for fuel sales and lease commissions. This line varies from \$1,099 in 1999, to \$311 in 2000, to a budgeted \$13,400 in 2001, a ten-fold increase relative to 1999. In 2000, a property tax adjustment of (\$12,317) reduced this line item to \$311.
8. “Other Revenue,” or taxable sales to the public, went from \$10,487 in 1999, to \$11,751 in 2000, down to budgeted \$4,150 in 2001, an approximate 60% decrease. The actual amount for the first six months already exceeds the 2001 budget.
9. There are no “Transfers.”

Airport management and staff had difficulty in explaining the variances, reducing the comfortable level that current review and management reporting is providing a good view of operational activities.

County-Wide Cost Allocation Plan

County-Wide Cost Allocation Plan expenses (“COWCAP”) are expenses incurred by the County and allocated to the various Departments incurring the expense. For Airports, these expenses are not reflected on the Revenue/Appropriations budget. The amount allocated to the Airports is significant and includes amounts spent for utilities. The annual allocation for the review period and the top expense categories are:

	FY 1999	FY 2000	FY 2001
TOTAL ALLOCATION *	\$744,281	\$748,804	\$816,000
Utilities	53%	63%	57%
Space Use	14%	14%	12%
Equipment Use	9%	8%	7%
County Counsel	4%	3%	3%
Other	20%	12%	21%

* See Exhibit II-3

This allocation is prepared annually. Actual information for comparison is not readily available. In lieu of paying COWCAP expenses, it has been agreed by the County Administrative Officer (“CAO”) that Airports contributes \$272,000 per year to the general fund.

The practice of not charging the Airports Department COWCAP suggests the Airports Department is covering its costs of operations and has revenue, which exceeds costs of \$272,000. In fact, this is misleading to users of the budgets and financial statements. For year 2000/2001, the Department is expected to actually incur \$816,000 of COWCAP expenses, which should leave the Department in a deficit of <\$544,000>.

We spoke to individuals who thought the \$272,000 surplus was excess revenue to the County’s General Fund. An additional concern on the presentation of these expenses is how the regulatory agencies will construe the situation. By showing, the \$272,000 as an excess (and not showing the actual COWCAP) it appears that the excess is going back to the unrestricted general fund. This practice is prohibited when dealing with agencies such as the FAA.

Any funds from Federal or State Grant sources obligate the Airport operations to meet certain guidelines. The FAA in its “Policies and Procedures Concerning the Use of Airport Revenue” states:

1. “..airport owner or operator receiving federal financial assistance will use airport revenues only for purposes related to the airport.”
2. “All fees charges, rent, or other payments received by or accruing to the sponsor for any one of the following reasons are considered to be airport revenue:”
3. “Unlawful revenue diversion is the use of airport revenue for purposes other than the capital or operating costs of the airport, the local airport system...”
4. “Documentary evidence to support direct and indirect charges to the airport must show the amounts claimed were actually expended.”

5. *“Payments of impact fees must meet the general requirement that airport revenue be expended only for actual documented costs of items eligible for use of airport revenue under this policy statement.”*

The current reporting of revenues and expenses makes it difficult to ascertain if the required documentation and compliance is being followed. The transfer of operating funds from airport revenue at Apple Valley Airport into a Capital Improvement Reserve fund, and the movement of Excess Funds into the Revenue of the following fiscal year raises questions about the compliance with current regulations and policies. Any excess revenue over expenditures generated by the Airports Department is restricted for use by the Department only. Any excess revenue is never allowed to be contributed to the General Fund.

Various Accounting Policies

The Airports Department has implemented and follows the County’s accounting policies. We briefly describe these policies here, together with the intent and goal of the policy. See Phase IV for more extensive comments and recommendations on internal controls.

For receipts and cash management, we reviewed the County’s policy on Internal Controls and Cash Management. The County policy specifies as a primary goal, the need to reduce employees from traveling long distances with large amounts of cash. Airports responded and complied with this policy requiring Airport tenants to send monthly payments in check form directly to Admin. This avoids the accumulation of cash and checks at the Airport locations and from personnel then transporting the remuneration to Admin for deposit. While this has worked to a large extent, small amounts of cash are still received at the Airport locations for gate cards or tie down fees. It is suggested that greater control measures be instituted for tracking all receipts at the Airport locations.

Another key goal of the policy is to accelerate deposits. Currently, deposits are made only weekly and hand carried by the A/P Clerk to the bank. All funds received should be deposited within three business days of receipt and locked in the safe at night until the deposit is made. To ensure the safety of the employee and to accelerate deposits, we suggest using an armored courier service twice a week, or arranging for lockbox service.

The County has detailed its purchasing and payables procedures in the June 2000 procurement manual. Due to the importance and far reaching impact of these policies, copies are located at both the Admin Office and at the Chino Airport. In accordance with County policy, the Airports Department has full authority to process orders, obtain quotes, make purchases and commit payment for purchases within budget limitations. Airports does follow and comply with these procurement procedures, and spending was below budget for the period reviewed.

For policies relating to equipment and vehicle inventory, we reviewed County Ordinance 1200, Policies 11-09 on Surplus Personal Property (July 2000/2001) and Policy 11-13 on the Purchase of Fixed Assets and Lease Purchases of Equipment (May 1996). Copies of these policies are located at the Admin Office. We found that purchases of fixed assets were in compliance with appropriate budget and purchasing approvals.

Once purchased, the County's goal is to safeguard these assets and obtain the maximum output and value from each asset. At the Airports, vehicles, trucks and equipment are maintained according to a tracking schedule to maximize the operational life of the assets. Keys are controlled by the Maintenance Supervisor with limited access and locked nightly. We found these to be appropriate safeguards. The Airports has also gone beyond compliance and has instituted their own daily patrol checklist whereby all equipment and structures are inspected. It is a 27-point comprehensive checklist (See Exhibit II-1). Inspection of the grounds and awareness of what tenants are doing is critical to operating a safe and efficient airport.

The fixed asset inventory additions and deletions are maintained first through acquisition of the asset, then annual fixed asset inventories, and finally disposals as needed. The goal here is appropriate tracking. The last annual review of the physical assets was performed in May 1999. We do recommend an annual physical inventory as required by the County policy.

With regard to capital improvements, we reviewed standard practices regarding the selection of professional services for architectural, landscape architectural, engineering, environmental, land surveying and construction project management services (11-05) and contract standards (11-06) and contract preparation and processing (11-06SP). Contracts for capital improvements are selected and negotiated by A&E. From project files maintained by Admin, we found that contracts were properly approved by the Board if greater than \$25,000 or reviewed by Purchasing if less than \$25,000. The contracts filed also had the required approvals by the County Counsel and CAO.

We had concerns over the contract administration, specifically, the tracking of contract payments and contract changes. Admin's contract files are maintained manually. Each payment or change is written on a tracking form in the file. Manual systems are open to potential errors. However, in our sample, we did not observe any exceptions or problems. Contracts and changes were all properly authorized and spending was below capital budget.

The Consolidated Memorandum of Understanding ("MOU") 1999/2001 for the San Bernardino Public Employees Association and the County of San Bernardino documents employee rights as a County employee. We found salary and reimbursements to be in accordance with this policy. One area that did not meet with County policy was regarding step increases. The MOU details merit advancement, indicating that "a Work Performance Evaluation is to be completed within the six pay periods, 90 days prior to the date that the step increase is due to be effective." A labor report requested from Human Resources ("HR") dated January 12, 2001, listed five employees who were eligible for step increases between the dates of 8/13/99 and 12/15/00. However, Airport management had submitted no work performance evaluations to HR. Currently, there are still two employees who were missing evaluations.

At Airports, the Director authorizes all hiring, evaluations and separations. We reviewed hiring and separation documentation and found the Airports had properly authorized these functions. We did notice that employee records are located in a filing drawer outside the Directors' office. Access to employee work performance information should be confidential and limited with no access by other personnel.

The project manager ensures compliance with County policy in the area of Capital Projects. In our review, all approvals and tracking numbers were appropriate. We did not review the bidding and selection process.

Airports Commission

The Airports Commission was set up as an advisory body to the County with responsibility to review and comment with respect to Board of Supervisors (“Board”) initiated issues regarding the Airports systems. The duties and responsibilities of the Airports Commission are provided under County Code section 12.164:

“The Commission shall have the responsibility to publicly review and discuss those matters it has been requested to review and comment upon by the Board of Supervisors or the Environmental Public Works Agency. All resolutions, motions, or other comments made by the Commission may be reviewed by the Airports Department of the Environmental Public Works Agency and comments, if any, will be appended to the Commission recommendations prior to forwarding to the Board for action.”

According to the County Code Section 12.165, Commission members should exhibit certain qualifications and experience. Specifically:

“Each member of the Commission shall possess extensive experience and expertise in one or more phases of aviation or airport activities, by virtue of substantial participation therein for at least one (1) year, but in lieu of such qualification not more than two (2) members in fields of construction engineering or commercial/industrial management.”

Commission meetings are to be held monthly, unless it is determined by the Chairman of the Commission that less frequent meetings are sufficient to satisfy all of the duties and responsibilities as outlined below.

The Commission is not authorized to act in any capacity that involves the direct management or operation of the San Bernardino County Airports system. Nor is it authorized to sign contracts, disburse funds, implement programs, employ or consider any personnel matters. However, the Commission may be asked for recommendations with respect to the selection and hiring of the Director of Airports for the County.

The following are the specific duties and responsibilities of the Airports Commission:

- Review lease proposals of longer than a one-year term and make recommendations regarding approval by the Board.
- Suggest policy and make recommendations in regard to areas of aviation and airports’ growth and overall development.
- Promote airports and general aviation in San Bernardino County.
- Review and coordinate County airport special events and recommend appropriate Board action.
- The Airports Commission Chairman shall serve as alternate to the County Director of Airports as a member of the FAA Task 5a Working Group.

- The appropriate Commissioners may be advisory members of the Airport Land Use Commissions serving their respective district of appointment.
- Review and make recommendations for initial preparation of the annual airports budget.
- Review and make recommendations for appropriate action on rental delinquencies or lease defaults requiring possible legal action and /or termination by the Board.
- Develop and review annually an aviation work plan and aviation five-year program for presentation to the Board.

With regard to the duties and responsibilities of the current Commission, we found no evidence within the lease files of participation with regard to:

- Reviewing lease proposals longer than one-year terms with recommendations regarding approval to the Board. The Admin Office has reported that reviews have taken place on an inconsistent basis.
- Reviewing and recommending appropriate action on rental delinquencies or lease defaults requiring possible legal action.
- Developing and reviewing of an annual aviation work plan and aviation five-year program for presentation to the Board.

We recommend that the Commission fulfill all its responsibilities as provided under County Code, or change the Code to reflect the desired role of the Commission. As lease issues comprise a significant problem for the Airports system, advisory input by the Commission would prove helpful. We would also recommend the examination of the Commission members' qualifications and experience to determine compliance with the above Code.

Objective

The objective of Phase III is to evaluate compliance with pertinent State and Federal laws and regulations. To accomplish this goal we performed several key tasks:

1. We obtained information from current grants and other financial regulatory issues. Based on our understanding of the scope of the Airport operations, we determined the significant regulations that apply. Additionally, we gained an understanding of the critical compliance elements of the grants and evaluated the administrative controls to ensure compliance.
2. We assessed compliance to the operational regulations based on interviews, observations, document reviews, report analysis and questionnaire responses.
3. Finally, we prepared a summary of findings and recommendations that is contained in this section of the report.

Airport Rules and Regulations and Minimum Standards

A basic part of the operation of any airport is to have on file and ready to use, an approved copy of Airport “Rules and Regulations” and a set of Airport “Minimum Standards”. These tools give the Airport Manager instant access to guidelines that have been approved by the sanctioning body of the Airport. These documents should be available to the public at large and to all tenants of the particular airport on which they reside.

The “Rules and Regulations” will leave no doubt as to what is expected of tenants and airport businesses and gives the airport operator a firm base on which to make day to day decisions. Additionally, the “Rules and Regulations” have the rule of law behind them.

“Minimum Standards” are the written guidelines as to what a potential tenant or business must do to comply with established standards for the airport. Examples could be the minimum amount of ground needed to lease prior to construction of a facility or what the minimum insurance coverage will be for a tenant or business or what may and may not be done within the confines of a hangar.

After discussions with the Managers and other personnel, we found only outdated Airport “Rules and Regulations” and no “Minimum Standards” for Airports available as guiding documents. Both Airport Managers agreed that these documents are needed for their daily activities. In addition, FAA AC 5190.6A states that “Airport owners should be encouraged to develop and publish minimum standards...” Therefore, we recommend that both the Airport “Rules and Regulations” and “Minimum Standards” be undated/developed, approved and published as soon as possible.

FAA Compliance with Leasing Practices

We reviewed the Airports' leases to determine if FAA Compliance language was contained within existing leases. This compliance language is required and attested to every time a Grant is received. An entire list of Grant Assurances is agreed to by Airport Sponsors. If they are not abided by, the Airport Sponsor can and will lose future Grants or may be made to pay back existing Grants.

For this step, we only reviewed the current Standard Airport Lease Agreement (not all outstanding leases). The provided template for Standard Airport Lease refers to an Exhibit B that contains the required FAA compliance. All leases based on this document comply with current FAA rules and regulations. The template lease contract however is not well suited to insure that lessees understand and comply with the myriad of rules set forth in this document. It would be beneficial to reorganize and streamline this important document so that a clear and knowledgeable contract between the County and the airport lessees can be established.

Caltrans Topics

The California Department of Transportation, Office of Airports (Caltrans), oversees the safe, efficient operations of all of the State's airports. Caltrans inspects all airport facilities at least every 18 months to two years. Relations between airport operators and Caltrans must remain at a high level to not only accomplish corrections that may be needed at the airports as a result of the inspections, but also to keep a level of cooperation with the State government.

Caltrans also issues State Grants to airports for improvement projects. These Grants can ease the burden of local sponsors' financial responsibilities. Additionally, good relations with Caltrans can relate to greater funding levels.

As a visit to the Caltrans offices in Sacramento was not part of the original proposal, observations were made through telephone conversations with Caltrans, documentation provided by that office and discussions with the Airport Managers.

The Federal Aviation Administration Form 5010-1, Airport Master Record, shows a summary of all pertinent information for any airport. Items such as name and address of the manager and location of the airport are shown; but more importantly, is the information regarding size of airport, runway data, lighting and obstruction data, services offered at the airport, numbers of based aircraft and annual operations. All of this information should be updated on an annual basis. The County's Form 5010-1 that was obtained for each airports were for the most part current and up to date. The forms for Apple Valley and Barstow-Daggett were not in the final form, but had been submitted to Caltrans.

We found that the Airport Layout Plans (ALP) had not been updated in some time. These updates should be accomplished as soon as a new project has been completed. These ALPs work hand in hand with Form 5010.

The evaluation of the relationship between Caltrans and the San Bernardino Airports Department brought forth no apparent difficulties between the offices or any major discrepancies that would need immediate attention.

Reports were provided from Caltrans regarding the inspections of the Desert Airports. The areas of concern could be categorized as “house cleaning” items. It was also quite clear that the Airport Manager maintains a very good working relationship with Caltrans. This was evident by the correspondence between the two offices. This type of relationship bodes well for the Desert Airports and could be used as a model for other Airport Managers. Discussions with Caltrans personnel confirmed that relations were high with the Apple Valley Airport Manager.

No written reports were supplied for the Chino Airport inspection, but in conversations with Caltrans, there were no glaring issues to address. In addition, with the upcoming Master Plan Study underway at Chino Airport, all information will be updated.

We recommend that the Form 5010 be updated for each Airport on a timely basis. We advise continuing the close working relationship with Caltrans for future support and state funds.

Airport Rates and Changes

The FAA’s policy regarding the establishment of airport rates and charges is as follows:

“It is the fundamental position of the Department that the issue of rates and charges is best addressed at the local level by agreement between users and airports. The Department is adopting this Policy Statement on the standards applicable to airport fees imposed for aeronautical use of the airport to provide guidance to airport proprietors and aeronautical users, to encourage direct negotiation between these parties, to minimize the need for direct Federal intervention to resolve differences over airport fees and to establish the standards which the Department will apply in addressing airport fee disputes under 49 USC Sec. 47129 and in addressing questions of airport proprietors’ compliance with Federal requirements governing airport fees.”

The FAA provides that all aeronautical users are entitled to airport access on fair and reasonable terms without unjust discrimination. The Department recognizes that “...airport proprietors may use different mechanisms and methodologies to establish fees for different facilities, e.g. for the airfield and terminal area and for different aeronautical users, e.g. air carriers and fixed-base operators.” Acceptable methodologies for determining fair and reasonable rates, fees and charges imposed on aeronautical use would include historic cost valuation, direct negotiation with aeronautical users, or objective determinations of fair market value.

The tenet of fair access would also imply the fair and consistent application of these established fees, rates and charges. The rates established by the Airports Department appear to be in compliance. However, we found instances where the application of rates and charges to aeronautical users may not be consistent and may violate the spirit of the above regulations. Two examples of fair access irregularities:

1. Subsidized rents of \$1.00 per month were noted in a number of leases (e.g., Chino Fire District). Although justification may appear obvious, no file documentation existed for the application of the subsidized rent.

2. In March 2000, Northstar was allowed to occupy one-half of Hangar 2 at a permit fee rate of \$200 per day for up to 10 days per month (See Lockheed Hangar discussion in Phase V). The 10-day per month restriction was not enforced and it was reported that after July 2000, Northstar had made use of the entire facility. Similar hangar space was under lease agreement for approximately \$16,000 per month.

We recommend documenting any deviation from the application of established fair rates and explaining any deviation from fair and reasonable rates. Disparate rate charges for usage of similar facilities are incongruent with the practice of fair and equal access. This practice should be discontinued if it cannot be reasonably justified.

BACKGROUND AND SUMMARY

We have completed an assessment of the systems of internal controls implemented at the Airports Department. Our assessment was focused on the controls specifically related to the accounting and administrative functions. Our assessment is not an opinion on the internal controls based on the attestation standards established by the American Institute of Certified Public Accountants, as those standards would not provide the level of findings and recommendations requested by the County. To accomplish this goal we performed several key tasks:

1. We critiqued the design of the internal controls surrounding the critical areas of the accounting and financial systems. The critical areas covered are purchasing, payables, receivables, lease administration, payroll, general ledger, fixed assets and capital improvements, grants and budgeting.
2. We tested the effectiveness of the system through inquiry, observation and transaction testing.
3. Finally, we prepared a summary of findings and recommendations that is contained in this section of the report.

Internal controls are designed to safeguard assets and ensure that operational activities and transactions are captured. Our assessment was focused on identifying the specific strengths and weaknesses for each cycle with regard to the internal control categories of:

**Segregation
Access
Documentation
Authorization
Reconciliation
Review and Reporting**

The financial and accounting controls in the County system are based on process/function segregation, limited access and authorization, document reviews and an overall control based on the annual budget as approved by the Board of Supervisors.

Table IV-1 below, reflects a summarized risk assessment for each process reviewed. Table IV-2 contains specific control issues for each of the cycles analyzed. Following the two tables are narratives on each issue. The internal controls system risk was rated based on three categories: low, moderate and high. These ratings have been assigned based on two factors:

1. The characteristics of the process being assessed. As an example, certain processes because they may deal with transactions involving small dollar amounts, or demand is limited, may receive a "low" risk rating, even though the process has relatively few controls over it. On the other hand, a process might still be rated as "high" even though it has some controls, because of the volume of transactions associated with the process or the monetary size of the transaction is significant (exposure to potential loss).

2. The extent of controls present. For example, a process may receive a “high” risk rating in the reporting area because, while the process has the necessary reports available, the timeliness or even the use of the reports is not at an acceptable standard.

Table IV – 1

<i>Function Cycle</i>	<i>Segregation</i>	<i>Access</i>	<i>Documentation</i>	<i>Authorization</i>	<i>Review/ Reporting</i>
Purchasing	Moderate	High	Low	High	Low
Payables	Low	Low	Low	Low	Low
Receivables	High	Moderate	High	High	High
Lease Admin	High	High	High	High	High
Payroll	Low	Low	Low	Low	High
General Ledger	Low	Low	Moderate	Low	High
Fixed Assets & Capital Improvements	Low	Low	High	Low	High
Grants	High	Low	Low	Low	High
Budgeting	Low	Low	Low	Low	High

Based on our assessment, cycles classified as “high” risk are purchasing, accounts receivable, lease administration and fixed assets & capital improvements. It should be recognized that the system of internal controls at the Airports is dependent upon the County’s system of internal controls that include a high degree of segregation of functions and review with Purchasing, the ACR’s office and the County Administrative Office. To further understand the assessment we have included definitions of each control type below.

Segregation risk is the ability of a single person to do multiple tasks within a function. One example of a risk area is in the receivables cycle where a single person can accept receipts and approve the deposit report. In our assessment segregation risk is especially prevalent when there is high turnover in personnel or where a formal procedure does not exist.

Access risk is the ability by several people to have access to the same function. As the number of people who have access increases, so does the risk. Overall, this risk is low for cycles that interact with the FAS system, as access to FAS is extremely limited. Lease administration is one area of exception as no procedures are in place and both Real Estate Services and Airports Management can negotiate leases.

Documentation risk is the lack of documentation or control over documentation such as pre-numbered, printed forms and control sheets. Critical control forms are pre-numbered, color-coded and reconciled. The County has a well-defined system for processing documents, especially for purchasing, payables and payroll. Areas of weakness that fall outside these functions are accounts receivable where there is no reconciliation of receipts given in the field with the deposit log. There was also documentation risk in the control of leasing documents and capital improvement project documentation.

Authorization can circumvent any and all access and segregation controls and should be limited to those with formal authority. The Airports Department has very limited authorization, only three people have formal authorization authority over County documents. However, each person has unlimited approval authorization, no dollar limits are designated by person or level of responsibility. When possible, the authorizing authority and reconciliation functions should be performed by separate individual. The implication to Airports is more involvement by the Director in approving and reviewing functions.

Review, reconciliation and reporting are areas that suffer from having limited staffing. At the Airports Department only the very basic tasks in this area have been implemented. While data has been captured and is available for reconciliation and reporting, personnel capacity has limited such use and analysis. Presently, the majority of the four-person-staff process the transactional data. Reporting capabilities are not limited by the system, but by the lack of qualified personnel to extract and analyze the data. Additionally, the FAS system does not account for receivables. It is on a cash basis. There are no reconciliations or reporting on an accrual basis outside the Department.

The reporting process can be an effective compensating control for issues relating to review and reconciliation, if performed on a timely basis. By developing key trend or relationship reporting, the need for additional staff can be delayed and adequate review and reconciliation functions could be undertaken by existing staff with support by the Director and Managers.

The table below summarizes a list of control risk and comments based on our observations.

Table IV – 2

Item No.	Functional Cycle	Identified Control Risk	Comments
1	Purchasing / Payables	Segregation	Lack of purchase requestors written signature on documents.
2		Segregation	Use of electronic signature by purchase approver.
3		Documentation	Lack of support for expenditures transferred from other departments.
4		Documentation	No procedures or policy documentation for key financial functions.
5		Documentation	Some low value purchase requests were not accompanied by a bid summary or non compete justification.
6		Authorization	No local management approval on travel expenditures.
7		Authorization	No authorization is necessary for vehicle maintenance and repairs. Quotes are not reconciled to actual charges.
8		Authorization	Lack of managerial approval on purchase order modifications.
9		Review	Inadequate new vendor review.
10		Review	Analysis performed using MS Access program with no training.
11	Receivables	Access	Deposit of cash and checks by A/P clerk, safeguarding issue.
12		Documentation	Cash or checks not deposited when received.
13		Reconciliation	Fuel reports submitted by lessee have no external verification by Airport Admin.
14		Reconciliation	No reconciliation of collections from the field with Admin.
15	Lease Administration	Documentation	No Board approved written policies or procedures for the initiation, approval, and servicing of the leases.
16		Authorization	Due diligence on potential lessee and lease arrangements are not consistent.
17		Documentation	Insurance compliance on new and existing leases is not monitored on an ongoing basis.
18		Review	Lack of communication between field and Airport Admin.
19		Documentation	Transient tie-down fees not reliably tracked or documented.
20		Access	Both the Airport Admin and Real Estate

Item No.	Functional Cycle	Identified Control Risk	Comments
			Services have drafted lease agreements.
21		Documentation	Allowing lease rental of property with significant deviation from fair market value of property without proper justification.
22		Review	Inconsistent handling of delinquent tenants.
23		Review	Hanger fees are not updated with annual escalation clause per lease.
24		Reconciliation	Commission fees submitted by commercial clients lack external verification.
25	Capital Improvements	Review/Reporting	No overall review of project information.
26		Review	Department management does not review frequent budget appropriation changes.
27	Fixed Assets	Review	Physical inventory was not prepared last year.
28		Documentation	Construction projects are added to fixed asset register without detailed support.
29	Payroll	Reporting	Work Performance Evaluations not prepared annually resulting in late step increases.
30		Authorization	Signature/Authorization forms are not updated when personnel changes occur.
33	Grants	Segregation	No application procedures. In the absence of a Director, the Airport Managers were sole individuals responsible for applying for grants.
34		Review	Airport Management does not review work in process reports for current projects.
35		Reporting	Requests for reimbursement are not submitted consistently on a timely manner.

Control Risk Comments

Purchasing/Payables

1. Lack of purchase requestors written signature on documents.

Several purchase requests (PR) had typed initials on the requestor line of the form. Pursuant to an Airports internal policy memo dated April 3, 2000, PRs require a written signature by the requestor. This provides evidence of segregation of these functions. Due to geographic dispersion, Airport personnel utilize email for PRs, followed by a signed original hard copy document. This has facilitated overall efficiency to the outlaying Airports. However, the Accounts Payable Clerk does not always follow up and ensure that hard copies are received. The person authorizing the payment of invoices should perform a second check, since the invoice should be supported by purchase documentation.

2. Use of electronic signature by purchase approver.

Purchasing documents are often approved with the use of computer-generated initials. This procedure poses a risk that authorization could be circumvented if the file is duplicated or used by someone other than the owner. Although the initial file is password protected, it is still a risk that someone could fraudulently bypass this critical control step. This would present an extremely difficult situation in identifying unauthorized transactions.

Additionally, a full name signature was not used consistently to indicate authorization and in other cases, the initials or even a single initial for the same person was used. Consistency in form provides the fastest avenue for identifying forged or altered authorizations. It is suggested to minimize the use of computer-generated initials as proof of authorization.

3. Support for expenditures transferred from other Departments is not sent to the receiving Department.

For transfers to the Airports Department, full supporting documentation should be requested or automatically received from the originating Department. The Administrative Office (“Admin”) staff should reconcile these transfers on a monthly or at least on a quarterly basis. This would assure the timely discovery of inappropriate charges.

4. No procedures or policy documentation for key financial functions.

Policies and procedures are critical in the success of any internal control system and can provide guidance in situations where personnel transition/turnover occurs. During the span of time encompassed by our performance review, internal control exceptions were higher during periods of personnel transition in the accounts payable and accounts receivable areas. Since these are key areas of internal control, it is suggested to expedite completion of policies and procedures in these two areas.

5. **Low value purchase requests should be accompanied by bid summary or non-compete justification.**

Based on our transaction analysis, several low value purchase requests were not accompanied by the County mandated bid summary or non-compete justification. This is a key function of the Accounts Payable position in meeting the County guidelines for purchases. The proper LV bid document is the responsibility of the originating Department not Purchasing. Purchases without this documentation should not be processed.

6. **Local management approval required on travel expenditures.**

Travel expenditures should be reviewed and initialed by the appropriate location management before being processed in Admin. We found instances where this was not done. The authority should be part of the Airport operational responsibility.

7. **No authorization is necessary for vehicle maintenance and repairs. Quotes are not reconciled to actual charges.**

An observation of Vehicle Services policies reveals little approval authority required for repair work and car rental. Airports has initiated an internal purchase order policy requiring a work quote from Vehicles Services because prior expenses appeared out of line with market. It is recommended that this internal policy be consistently applied, and that Airports usage of vehicle service be analyzed by airport location to reveal trends and possible overcharges. The quotes should also be reconciled to the actual charges with any significant variances reviewed.

8. **Modifications of purchase orders should require managerial approval.**

The Manager of Purchasing confirmed that purchase order modification required only an email from the Department requesting the increase and to provide justification. For instance, we found where an email by a Fiscal Clerk II increased a contract purchase order from \$7,000 to \$14,000. This appears to be a circumvention of the approval process. It is suggested that properly authorized personnel indicate changes and that an audit trail is maintained.

9. **Inadequate new vendor review.**

The ACR only checks for duplicate federal identification or social security number. They do not match addresses or search for other similar characteristics such as the same name with different identification numbers. This is a common method to identify abuse to the system.

10. **Analysis performed using MS Access program with no training.**

A prior Accounts Payable Clerk designed an access database system to automate functions and link MS Access with FAS for query abilities. No design information was documented. Knowledge of MS Access is not currently a requirement for the position, which has lead to loss of data by subsequent inexperienced users. We recommend that if utilizing the MS Access database is the best method for analyzing transactions, then someone on the Admin staff should be properly trained to run the program to insure integrity of data.

Receivables and Cash Controls

11. Checks and cash are deposited weekly usually by the Accounts Payable Clerk.

On an average, the weekly deposit for the Airports Department is approximately \$40,000. The checks are held in a locked safe until deposited; however, the County loses the access and the time value of money for these funds until they are deposited. Additionally, it is not a good safeguard of assets to hold the deposits for this long even if it is in a safe. Finally, the safety of the Accounts Payable Clerk who carries the checks to the bank should be considered. The County has many options to improve controls. Such changes as a lock-box or armored car services could be considered.

12. Cash or checks not deposited when received.

Lease payments have been held in the past up to six months waiting for a lease contract to be approved and signed. These check payments were tracked in a log. We recommend that payments received should be deposited as soon as possible (See comment above). Payments received while the lease contract is pending approval should be classified in a special category that is reconciled and reviewed on a monthly basis. It would be common to expect deposits and advance rent checks to be received while the contract approval process is on-going.

13. Fuel reports submitted by lessee have no external verification by Airport Admin.

A request for a bill of lading document submitted along with the fuel reports should provide adequate verification of the computed fees.

14. No procedure is in place to reconcile cash or check payments received at the Airports' sites to receipts received by Airport Admin.

Each Airport site issues receipts for any cash or payments received on site. The receipts are issued from a sequentially numbered book originally issued from Admin. These payments are forwarded from the airport site to Admin, where they are then logged in. There is no procedure in place to reconcile receipts issued at the Airport site with payments forwarded and logged in by Admin. There should be a monthly reconciliation performed by other Admin personnel. We were told of at least one instance where a receipt was issued and the check returned to the payor because the contract had not been signed. This is different from the "held checks" issue noted above. In this instance, the lessee was able to move in and use the facility "rent free" until the contract was signed nine months later.

Lease Administration

15. There are no Board-approved, written policies or procedures for the initiation, processing, approval and servicing of the leases.

During the review period, the County did not have written policies and procedures relating to the leasing process. Policies and procedures have evolved over several years and are generally adhered to. All leases that generated more than \$2,000 per month require Board approval.

Leases under \$2,000 per month can be approved by the Director of Real Estate Services and do not require Board approval. Leases that generate less than \$1,000 per month can be approved by the Director of Airports and do not require Board approval.

Without clear policies and procedures in force, control is compromised on all facets of the lease process and subsequent administration of the leases. We understand the County is in the process of developing and approving formal written policies and procedures for revenue leases. This should be one of the highest priority items for the Department and the County.

16. There is no consistent due diligence on potential lessee and lease arrangements.

Due diligence on potential lessee and lease arrangements are not consistent. For instance, we found limited or no background documentation on tenants in the leasing files. This includes credit checks on the ability to pay. The Department has had a number of problems over the years with unsuitable tenants, which could have been mitigated through the due diligence process. The upfront due diligence gives you the opportunity of “deselecting” tenants before they are “selected”.

17. Insurance compliance on new and existing leases needs to be monitored.

Each lessee agrees to keep in force a number of different insurance policies. The Department’s property management software, Aeroware, appears to be capable of monitoring insurance compliance in terms of existence, expiration and coverage. The system has not been fully utilized to date. Admin does send out deficiency notices when they can, but many files reviewed were incomplete on this issue. The potential liability issue for the County could be quite large. Resources should be dedicated to correct this.

18. Lack of communication between field and Admin.

An Airport Manager allowed a delinquent tenant on the Airport site to enter into a new separate lease agreement. The net result was the existence of two delinquent accounts. Control procedures to check status of tenant accounts must exist before granting leaseholds.

19. Transient tie down fees not reliably tracked or documented by the Admin Department.

Airport sites have a procedure in place to track transient tie-down fees, but there is no reporting to Airport Admin until the receipt of payment. Therefore, there is a probability the Department is losing revenue unnecessarily. We have, however, noted instances where there was Airport correspondence to assess the transient fee charge. Airport Admin has indicated that the benefits may not exceed the costs incurred to collect this “lost” revenue.

20. Both the Admin Office and Real Estate Services have drafted lease agreements.

When multiple Departments generate separate lease documents it creates uniformity and enforcement issues. Both Airport Admin and Real Estate Services generated leases during the review period. Neither a designated Department nor an individual reviewed these leases. In the future, one Department should have final review of all leases and files to insure compliance with County policies and procedures and uniformity.

21. Allowing lease rental of property with significant deviation from fair market value of rental.

Large hangar rentals were allowed at rates significantly under fair market value without approval of the Board. The former Director of Airports initiated and approved a permit fee based lease under the \$2,000 per month – the threshold to circumvent Board approval. Any lease rental rate that deviates significantly from established fair market value rates should require Board approval.

22. Inconsistent handling of delinquent tenants.

Delinquent tenants are not referred to County Counsel on a uniform and consistent basis. All tenants should be subject to the same policies and procedures.

23. Hangar fees are not updated with annual escalation increases as per lease.

Lessee should be notified annually for any changes to lease rates. It should be documented and approved by the Director if the escalation increase is waived. Also, for the increase calculations and subsequent tenant notices, Aeroware should be used to automate this function and not burden the limited Airport personnel.

24. Commission fees submitted to the Airports by commercial tenants are not externally verified.

Some commercial tenants are subject to a commission fee that is 2% to 4% of the adjusted gross revenue (i.e. gross revenue less rent paid). These submitted commission fees are based solely on the “honor” system where the tenant submits their fee on a “D-1” form (Monthly Commercial Charges and Fee Statement). There is no request for supporting documentation such as financials on a monthly or any periodic basis. A review and verification on a periodic basis, or periodic audit, of lessees’ records is recommended.

Capital Improvements

25. Review of capital project information.

Very few Departmental resources are applied to the reviewing, reconciling and reporting of capital projects. While data is captured in FAS, the small Admin staff does not have time to perform analysis. Presently, the project management function is outsourced to A&E, but the ultimate responsibility for Airport activities lies with Airport personnel who seem to only have time process transactional data.

A reporting process can be an effective control tool when used on a timely basis. It can also enhance the flow of information and decision making process. A report should be created for Airport management detailing monthly costs, budget changes and cash balance. With the query ability of FAS, the impact on staff resources should be minimal.

26. Budget appropriation changes are not reviewed by Department management.

When the capital budget amount requires an increase, the Supervising Accounting Technician (“SAT”) submits a budget appropriation form to the ACR and CAO. The required budget appropriation is shifted from the “contingency” account to the indicated project. Budget changes should be reviewed and approved by the Director of the Department.

Fixed Assets

27. Physical inventory was not prepared last year.

In accordance with County Ordinance 1200, the County requires an annual verification and certification for equipment on hand as of March 31st. This provides the opportunity to reconcile the physical inventory to what is booked, to assure proper identification on all assets, to track the assets physical location, and to control unauthorized disposition of assets. Airports Department observes County policy of capitalizing assets in excess of \$5,000.

The Executive Secretary II in Admin performed the last physical inventory for equipment at the Airports in May 1999. Physical inventory was not taken last year as required by this ordinance. Exceptions noted on the 1999 inventory: Ten items were listed as a fixed asset, but had not been physically tagged with an inventory number; four items had an inventory number, but were not listed on the inventory; one item was not tagged and not listed, and one item was not located. In 1998, exceptions noted were: nine items were listed as fixed assets, but had not been tagged; one item was not listed, but had an inventory number, and one item was not listed and not tagged.

Once a fixed asset is purchased, it is the responsibility of Purchasing to establish the tag number for the item purchased. However, given the experience of the last two inventories taken, it appears that tagging fixed assets in a timely manner is not occurring. In addition to performing a physical inventory annually, Airports should be proactive in obtaining and applying inventory tags when assets are procured.

28. Construction projects are added to fixed asset register without detailed support.

For land, structures and improvements, a notice of project completion is prepared by Admin and sent to ACR to add completed projects to the fixed asset register. From the transactions tested, the amounts reported as final have no detailed supporting documentation either attached or in the file. The SAT looks up total spending for each fiscal year from FAS.

The expenditure detail from FAS should be printed at the end of each fiscal year and filed in the project folder. An audit trail would then be created and the asset value completely supported. Additionally, the fixed asset descriptions should include the fund number as a reference, ensuring an audit trail to the project folder. The Department has initiated this process over the past three years on an inconsistent basis.

Payroll

29. **Work performance evaluations are not prepared annually resulting in late step increases.**

The Airports Department can be proactive by requesting a monthly report from Human Resources that details when step increases are due. Forwarding this information to the appropriate supervisor within the six pay period time frame would allow time for the supervisor to respond.

30. **Signature/authorization forms are not updated when changes occur.**

Maintaining up to date signature/authorization forms enables proper approval and avoids the possibility of misappropriation by someone who has left the Department.

General Ledger

31 **Creation of Management Reports.**

There are very few management reports for the Department. The reports that are prepared do not include an overall Departmental summary of activity and results to measure the Department's performance. At a minimum the Director should have an executive summary reports that highlight critical operating data and information. More detailed reports can be developed based on need.

32. **Sporadic review of transfers and charges/revenues from other departments.**

The Department does not have the detailed information on expenditures and transfers from other Departments to obtain a full understanding of the service provided. One specific area related to the property taxes collected on behalf of CSA 60.

The County Assessor's Office calculates all property tax allocations and transfers cash out of the property tax trust accounts into the Airport accounts in the general ledger. Although there are several reviews performed within the Assessor's Office surrounding the allocation calculations and transfers in the general ledger, no one in the Airports Department reviews the allocation calculations nor performs any analytical review of the amount transferred. At a minimum, Admin should analytically compare the amounts transferred in from prior years transfers to date in order determine the reasonableness of the allocation. This comparison should be performed by one individual on a periodic basis and reviewed by the Director.

Grants

33. **Application Process**

The Department should assign a manager or higher to review and approve grant applications prior to submission to the Board. This procedure existed in the past. We suggest the procedure be expanded in naming an alternate person to perform this function in the absence of a Director of Airports.

34. Airport Management does not review work in process reports for current projects.

Currently, the Airport Department does not review budget to actual projects costs on monthly or annual basis. These work in progress reports could compare actual project costs incurred and reconcile them to the general ledger. Additionally, a budget to actual analysis would be helpful to management. Although project costs are budgeted on total project basis, this review would initiate inquiries appropriate to the approximate stage of completion of the project to date. We recommend this comparison be performed by Admin and reviewed by the project management consultant, A&E and the Director on a periodic basis.

35. Grant Expenditure Reimbursement

The Grant reimbursement process is usually done at least on a monthly basis. The Department should implement a policy, which requires reimbursement requests to be submitted timely to receive cash as quickly as possible. Such a policy would require at a minimum, reimbursement forms and supporting documentation to be compiled on a monthly basis, and reviewed by the Director prior to submission to the grantor.

Background

The objective of Phase V is to conduct a review and analysis of selected lease agreements. To accomplish this goal we performed several key tasks:

1. We prepared an understanding of the County's lease framework for standard lease arrangements in effect during period of review. Leases in place during the review period were both fixed base operations and ground leases for farming activities. Some of the fixed base operations leases had master and sublease arrangements.
2. We tested the following lease transactions during the period July 1, 1998 and December 31, 2000:
 - All annual leases in excess of \$50,000.
 - Ten percent of leases \$50,000 or less.
 - All leases formally in default for financial reasons
3. Finally, we prepared a summary of findings and recommendations that is contained in this section of the report.

The Airports Department has the most revenue leases in the County. The leasing process is very complex and has many different components. In order to understand the context of the recommendations, one must first gain an understanding of the leasing process. The process described below contains further details than the leasing cycle described in Phase I.

Real Estate Leases

With the exception of Federal Grants, real estate lease revenues comprise the largest segment of cash inflow for the Airports Department. Real estate lease agreements usually originate by contact with the site Airport Manager or Director of Airports. All Airport sites, with the exception of Baker, generate lease revenues. Typically, leaseholds consist of hangars, office and/or ramp space. There are essentially four major types of leases at the Airport sites, which are classified as either ordinance, or non-ordinance based agreements. Ordinance-based lease agreements have a statutory basis for lease charges as established by ordinance of the County. Lease charges for non-ordinance based agreements are accordingly not determined by County ordinance. Approximately every five years, an appraisal is performed on selected Airport sites. Once approved by the Board, this appraisal provides a basis for determining rates for all lease-based agreements.

Ordinance-Based Lease Agreements:

Permit Fee Lease

Permit fee leases are set up on a month-to-month term schedule with a right to cancel by either party after thirty days. The monthly fees are determined strictly by reference to the County Ordinance Fee Schedule. Property subject to this type of lease are T-hangars, tie-down and rental houses (Barstow-Daggett and Needles).

Non-Ordinance Based Agreements:

Month-to-Month Lease

The non-ordinance, month-to-month lease is set up on a month-to-month term with a right to cancel by either party after 30 days. Property subject to this type of lease can include ramp space, storage space, office space, and large hangars, etc. Real Estate Services and the Airports Director (“Director”) usually negotiate the lease terms. The lease fees are normally based on the approved appraisal.

Standard Lease

The term for standard leases is typically more than one-year. The space leased is generally larger than either of the month-to-month leases. Lease fees under standard leases are usually based on the approved appraisal of the respective property.

Lenders Lease

The term for lenders leases typically range from 30 to 50 years and are usually comprised of a ground lease that provides for large-scale external development of facilities such as office complexes, hangars, etc. The lease revenue for the Airports Department (“Department”) is generated from the ground lease – not the structures built by the lessee. Usually, after the term of the lease expires, the ownership of structures and improvements on the property reverts to the County. Lease fees charged are based on the approved appraisal for the respective properties.

Appraisal Process

Department policy provides for a formal appraisal of selected Airport sites to occur every five years. The appraisal is performed by either an external, independent consultant or, as in the case for the 1995 appraisal year, performed by the Real Estate Services division of the County. The appraisal provides a basis for determining “fair market rental rates” by which lease fees are determined. Contingent upon Board of Supervisors (“Board”) approval of the appraisal, all lease rates (ordinance and non-ordinance) are modified to reflect “fair market rental rates” and are effective as of a specified date. Once approved, the appraisal is accepted in its entirety and is not subject to piecemeal acceptance or rejection by the Department.

Currently, the sites that go through the appraisal process are Chino, Apple Valley and Barstow-Daggett. Until recently, the Department rotated the appraisal process so that Chino’s appraisal was on the 0 and 5 years; Apple Valley on the 2 and 7 years; and Barstow-Daggett on the 3 and 8 years. Because of the turnover of Airport Directors, the appraisal process was inconsistent.

The Board rejected the 1995 appraisal of the Chino Airport. Accordingly, the Department has been using the approved 1990 appraisal (dated 1989) to provide a basis to determine lease rates. The County has contracted with Aviation Management Consulting Group of Colorado, an independent consulting firm, to perform the year 2000 appraisal for the three Airports. This appraisal is currently in process.

Policies and Procedures

The Admin Office and Real Estate Services acknowledged the lack of documentation of formal written policies and procedures with respect to the initiation, processing, and approval of leases. However, Real Estate Services summarized the basic policy that was generally adhered to in prior years. All leases that generated more than \$2,000 per month ultimately required Board approval. Leases that generated less than \$2,000 per month could be approved by the Director of Real Estate Services and did not require Board approval. Leases that generated less than \$1,000 per month could be approved exclusively by the Director of Airports and did not require Board approval.

With the exception of ordinance-based leases, rental rates based on appraisal were loosely adhered to and essentially fell under the discretion of the Director of Airports. The Admin Office drafted some leases directly. Real Estate Services did not review all the leases. Little or no due diligence was performed by the Airports Department to insure that suitable tenants, in terms of financial standing and the interests of the Airports/County, were being considered for the “best use” of available space. Additionally, there were no procedures in place to provide a competitive environment and “level playing field” for the leasing of County-owned property.

The Department, in conjunction with a County-wide effort, recently proposed new standardized policies for entering into real estate leases. These proposed “draft” policies and procedures, although not currently approved by the Board, have already been instituted and are currently utilized for prospective real estate transactions. These policies will continue in force until formal Board approval of final lease policies and procedures.

Real Estate Services begins the lease process by promoting awareness of the availability of space at the respective Airport site. This is accomplished by various methods such as utilizing the local news media, notification of other neighboring airports and internal County communications. Once potential tenant interest has been identified, information is forwarded from Real Estate Services to the potential lessee indicating lease particulars such as airport site information, term, rates, etc. and a request for financial and other qualifying information.

The following “draft” procedures will apply depending primarily on magnitude of lease fees, use of property and length of term:

“Use of competitive procedure in leasing County owned airport property:

The Airports Department will be responsible for reviewing and approving any fee ordinance based permits and agreements. The Director of Airports may also execute permits and agreements that: Are equal to or less than \$1,000 per month in generated rent, and have a term that does not exceed two years (including option periods).

The Airports Department shall use an approved Solicitation of Proposal (“SOP”) process for the following circumstances: Lease agreements that are estimated to exceed \$1,000 and are less than \$10,000 per month in generated base rent and, have a term equal to or greater than two years and less than ten years (including option periods).

The Airports Department shall use an approved Request for Proposal (RFP) process for: Land development and re-development opportunities and, all leases, permits and licenses that have: a term that exceeds ten years (including option periods) or exceeds \$10,000 per month in generated base rent.

Exceptions to this clause may include the following: public benefit leases as determined or defined by the Board of Supervisors.”

The procedure for a *Solicitation of Proposal* (“SOP”) is summarized as follows:

- The Airports Department and Real Estate Services will determine the exact parameters of hangar office and/or ramp space to be leased.
- Real Estate Services reviews current Airport rates and current appraisal to determine rental rates.
- The SOP document is submitted to County Counsel for approval and then is issued to the interested parties.
- An evaluation committee is established to review all received proposals. The committee will be selected by the Director of Airports and may consist of representatives from the following groups: Airports Department, A&E, Real Estate Services and a representative from the Airport Commission.
- All proposals are analyzed and a short list of qualified candidates is determined.
- The committee meets with the candidates to discuss terms and conditions of lease agreement and listen to the candidate’s presentation.
- The evaluation committee recommends a candidate for the leased space.
- The Airports Department and Real Estate Service negotiates all final lease terms, conditions, etc.
- Final draft of the proposed lease is submitted to County Counsel for review. Lease agreement is forwarded to tenant for execution.
- Upon receipt of executed lease agreement, Real Estate Services and the Airports Department will process Board Agenda Item for presentation to the Board of Supervisors for final approval.

The procedure for a *Request for Proposal* (“RFP”) is summarized as follows:

- The Airports Department and Real Estate Services determine exact parameters of hangar office and/or ramp space to be leased.
- Real Estate Services reviews the current Airport rates and current appraisal to determine rental rates.
- The RFP document is submitted to County Counsel for approval and then is issued to the interested parties.
- The RFP notice is printed and advertised in a local and regional newspaper for no less than 10 days. Letters are also sent to developers, prospective tenants, etc.
- An evaluation committee is established to review all received proposals. The committee will be selected by the Director of Airports and may consist of representatives from the following groups: Airports Department, A&E, Real Estate Services and a representative from the Airport Commission.
- All proposals are analyzed and a short list of qualified candidates is determined.

- The committee meets with the candidates to discuss terms and conditions of lease agreement and listen to the candidate's presentation.
- The evaluation committee recommends a candidate for the leased space.
- The Airports Department and Real Estate Services negotiates all final lease terms, conditions, etc.
- Final draft of the proposed lease is submitted to County Counsel for review. Lease agreement is forwarded to tenant for execution.
- Upon receipt of executed lease agreement, Real Estate Services and the Airports Department will process Board Agenda Item for presentation to the Board of Supervisors for final approval.

Real Estate Services indicates that the approval committee utilized for both the SOP and RFP process has been instituted to help insure a fair selection procedure and to help maintain at the forefront, the best interests of the Airports and County. Based upon their selection criterion, the approval committee selects the best candidate to occupy the space.

Leases that are forwarded to the Board are typically standard and lenders leases. All leases (including master and sub-leases) that generate greater than \$1,000 per month are forwarded to the Board for final approval. Copies of the approved leases are then forwarded to the interested parties such as Real Estate Services, Admin, CAO and the tenant.

The Assessor's office requests on an annual basis, information regarding leased property and personal property (e.g. aircraft) on all Airport premises for the purpose of the assessment of California Property Tax. The Assessor's office has requested that the report include property held on Airport premises as of January 1, for each succeeding year. Historically, these reports were prepared in the field at the respective Airport sites and forwarded directly to the Assessor's office. The Admin Office might be forwarded a copy on an inconsistent basis. Currently, reports are generated by the Admin Office, with the initial report dated January 26, 2000 for Chino Airport.

The Admin Office handles the servicing of all leases including billing, collections and deposit of lease income. Invoices are sent out around the 15th of each month, and payment is due on the 1st of the next month. The lessee is delinquent if payment is not received by the 10th (10-day grace period actually determined by postmark date). Payments are credited as of date of receipt. Lease payments are sent to the Admin Office, received by the front desk and logged in a "check/receipt log".

Small amounts of cash payments may be collected at the Airport sites and are logged in at each individual site. A receipt is issued at the Airport from a sequentially numbered receipt book. Cash payments received at the Airports are physically "walked" in by Airport personnel to the Admin Office as necessary. A policy change was introduced on July 6, 1999, prohibiting the receipt of cash payments for hangar rent while still allowing gate cards, and tie-down fees to be received in cash. No procedure is in place to reconcile receipts issued at the Airports to cash receipts received by the Admin Office.

The Aeroware system utilized by the Admin Office is a property management and lease software for the generation of real estate leasing invoices and tracking of lease receivables. According to management, the system is adequate to handle the property management needs of the Department when fully implemented. The system also has the capability of tracking insurance compliance, which has just recently been implemented on a limited basis. Previously, insurance compliance was not consistently monitored.

The Admin Office generates a delinquency report on a monthly basis to manage the A/R aging. If an account is delinquent in the 30 to 60 day category, a “Notice to Pay or Quit” letter is forwarded, along with a “Notice to Perform or Quit”, which provides for the accrual of penalties. These notices state that if full payment is not received within three days, (or ten days per lease agreement provision), the account is referred to the County Counsel’s office. These delinquent tenants still have a physical presence at the respective Airports and are still considered active tenants; however, preliminary legal and eviction proceedings may be initiated (e.g., Unlawful Detainer, lock out of facilities). When the tenant has left, abandoned, or has been evicted from the Airport site, the account referred by County Counsel to County Collections becomes inactive in the Airports’ system. Some smaller accounts go directly from the Admin Office to Collections.

Real Estate Services has indicated that under the former Director of Airports’ discretion, the annual escalation provisions governing increase in annual lease fees were not enforced for at least the prior two years. The justification for this was an apparent attempt to maximize occupancy of leased real estate. Our testing indicates that no adjustments were made in most leases since 1995.

Review and Analysis of Selected Revenue Lease Agreements

Airports Admin provided a listing of all current lease agreements as of November 15, 2000. This listing was utilized to structure our sample selection and subsequent review and analysis. It indicated 414 total lease agreements in effect, of which 87 were non-ordinance based, and 327 were ordinance based leased.

Procedure

We selected the following lease transactions during the period from July 1, 1998 through December 31, 2000:

1. All annual leases generating income in excess of \$50,000 per year. Total selected – 5.
2. All leases formally in default for financial reasons. All leases sent to County Central Collections during the test period were defined as in formal “default.” Total selected – 12.
3. Ten percent of leases generating \$50,000 or less per year. These leases were randomly selected. Total selected – 40.

Grand Total Selected – 57

In summary, the Airports Department has not set up adequate policies, procedures and/or methodologies to ensure that Airport tenants are complying with all terms and conditions of their lease agreements. Adequate policies and controls need to be set up for the initiation of leases and their administration once they are approved. Policies, procedures and systematic controls are needed to monitor on-going lease compliance with regard to payments, terms, insurance, lease administration and expiration. We have classified our findings into four major categories:

File Deficiencies – Lack of file documentation such as absence of original lease documents, rate deviation justification, basic tenant information, etc.

Lease Procedures, Administration & Compliance – Lack of adequate procedures for management of lease and fee collections, delinquencies, timing and evidence of signatures on lease documents, proper lease approvals, etc.

Security Deposit – Lack of administrative procedures to ensure the proper collection of security deposits as provided in lease agreements.

Insurance Compliance – Lack of evidence of insurance compliance, including insurance missing altogether; certain insurance coverage missing; current coverage not at coverage levels prescribed in lease provision; expiration dates not monitored systematically, etc.

Summary of Lease Findings for the Total Lease File Sample

	File Deficiencies	% of Total	Procedures, Admin & Compliance	% of Total	Security Deposit	% of Total	Insurance Compliance	% of Total
Ordinance Based Leases	23	40%	25	44%	20	35%	31	54%
Non- Ordinance Based Leases	15	27%	20	35%	14	25%	22	39%
Sub-Total	38	67%	45	79%	34	60%	53	93%
No File Deficiencies	19	33%	12	21%	23	40%	4	7%
Total File Sample	57	100%	57	100%	57	100%	57	100%

The table above summarizes the results of our non-statistical test. The top four classification of findings, reveal that the best the Department did on compliance is 40%. In other words, 23 files had documentation of security deposits. Overall, the results indicate a lot of work needs to be done in the leasing area. In addition to authorization controls that were violated by personnel no longer with the County, the primary reason the errors occurred was due to staffing limitations relating to both time and property management experience. It appears the computer system in place has more capabilities not yet implemented by the Department. Specific findings and our recommendations are presented below.

File Deficiencies

Tenant Information: The Airport Department has developed a lease “proposer’s questionnaire” which is the tool for gathering basic information such as prospective lessee name, social security number, employer information, pilot license number, etc. We found the completed form missing in ten of the lease files examined. Additionally, we attempted to contact several tenants to verify lease information and were not able to reach the tenant at the number in the Department’s files.

We recommend the Department develop and consistently utilize a file “check list” form to review and insure the inclusion of a questionnaire form to maintain basic tenant information in the lease file. Annual updates to the tenant information could be gathered during the insurance compliance process. This will insure that in routine or in cases of emergency, the tenant can be contacted.

Lease Agreements: The original lease agreements were not in four of the lease files tested. Some files did contain copies of the original document. Additionally, in seven of the files reviewed we found agreements with no authorization signatures.

Real estate lease contract agreements without signatures would be difficult to enforce. California UCC requires real estate agreements to be evidenced in writing. The Airport Department must develop and consistently utilize a system to insure that the original lease documents are included in the appropriate file. A file “check list” could be used to facilitate this process.

Subsidized Rents: Subsidized rents for community services and aviation organizations are to be expected in an Airport system of this size. In two of the files tested we found such subsidies. FAA requires justification for subsidies given to any organization. The justification was missing in both instances.

We recommend the Department establish a procedure whereby any subsidized rent agreements include written documentation as to why they are provided an exception to standard rental rates.

FAA Compliance in Agreements: The standard lease agreement contains a clause mandating compliance with all FAA regulations. In most leases reviewed, the FAA regulations were referred to as a separate exhibit. In 22 of the files reviewed, we did not find the separate exhibit.

The Department must establish a procedure whereby all lease agreements include FAA regulations that are subject to mandated compliance be filed in the lease file.

Lease Procedures, Administration & Compliance

Sublease Approval: The lease file does not contain the information to reliably determine whether a lessee is engaging in subletting. If applicable, the lease agreements specifically provide that the leaseholder must first obtain County approval before subletting. Some leases do not allow subleases at all. One situation we analyzed during our testing process found a tenant who was in the process of selling their business to an outside individual. The “new business” owner proceeded to occupy the leasehold interest. In effect a new tenant is occupying the leasehold first without going through an approval or application process. The Airport Department reported to us their frustration with this situation. Their alternatives are to start eviction proceedings or attempt to work out a lease agreement with the “new tenant”. The Airport Department has chosen the latter alternative.

No individual or business should occupy leasehold whether master or sublease without going through the proper approval process. Legal measures should be initiated to protect the interests of the Airport and County. An approved sublet agreement should be included within the master lease file and should be subject to all reporting requirements such as inquiries from the County Assessor’s Office for property tax assessment.

Tenant Payment Status: The payment status of tenants are maintained at the Admin Office in San Bernardino, but not communicated on a timely basis to the Airport Managers. The Managers are informed when a tenant is at a “Quit or Pay” status; however, generally not before. We found that the Managers can have remote access to the property management software. The Department needs to invest in training to educate the Managers on the capabilities of the system and how to access. We found instances where access to the information would have resulted in a different action by the Manager. For instance, one tenant was referred to County Counsel for delinquency processing, however, the Airport Manager was not informed on a timely basis. The tenant was able to enter into another ordinance, month-to-month lease on the same airport grounds. This resulted in two delinquent accounts from the same individual and two spaces tied up with problems.

Holdover Leases: Holdover lease status occurs when the term of a non-ordinance lease expires and a lease renewal has not been signed. The holdover lease continues with the previous terms and rate schedules until the tenant and the County approve a new lease agreement. There are two issues of concern on holdover leases. First, the Department does not have a commitment for the continued lease/revenue on a long-term basis for their larger properties. Secondly, there are potential lost revenues because the tenant has extended the rate terms at the old agreement terms. We found three leases during our testing in a holdover status.

There are a number of reasons why the holdover occurs. Staffing limitations has historically been the biggest problem. Now that Real Estate Services has dedicated an experienced property management professional to the Department, we would expect improvement. Another primary reason leases are not renewed timely is that the leasing process (whether new or renewal) takes too long. Revenue lease agreements (non-ordinance) should take one month from beginning to end. We understand that it has taken one year for some leases.

Real Estate Services and the Airports Department should establish an action plan to obtain new lease agreements for all leases in the holdover status. Additionally, the Department should anticipate lease expirations and proactively begin the renewal process earlier to avoid this problem in the future. Finally, the County must approve the revenue leasing policies and procedures to expedite the process.

Transient Aircraft Charges: Transient aircraft charges are paid as they occur. The Airport Management should issue a receipt for the revenue received and remit the payment to the Admin Office. The Admin Office cannot bill in advance for them, due to the nature of the revenue charge. They do, however, create an invoice once they receive payment.

Since the cash receipts journal at the Airport site is not reconciled to the payments received at the Admin Office, these transient charges could go unreported, as Admin has no method to track or anticipate the occasional charges. The creation of the invoice is an extra step that is not necessary to complete the transaction. At a minimum, the cash receipt journals at the Airports must be reconciled to payments received at the Admin Office and deposited into the bank.

Financial Due Diligence: Evidence of financial due diligence to determine financial suitability of prospective tenants to meet lease obligations was absent in 50 of the lease files we reviewed (or 88%). The Department has developed a questionnaire that does not provide for requests of information of a detailed financial nature. However, it does provide for authorization to perform a credit check.

With all the credit and collection issues facing the Department in the recent past, procedures should be implemented immediately to perform credit and reference checks on all potential tenants and develop a modified questionnaire form that would also provide for detailed financial information and reference contacts. Airports Department should develop a strict policy for determining credit worthiness for tentative tenant approval, and advise prospective tenants that credit and reference checks will be performed before any lease or permit approvals. Over the long-term, the implementation of these procedures should result in administrative cost savings for the County, as Admin will be relieved of dealing with, on a monthly basis, individuals that have not demonstrated prior fiscal responsibility.

Move-in Before Lease Approval: The occupation of lease premises by the lessee pre-dated perfection (i.e. proper signatures) of the lease agreements in 20 of the 57 files reviewed. The difference ranged from a few days to approximately nine months. Of our reviewed sample, there was one instance where rent charges did not begin at the leasehold occupation date but rather at the lease signature date, approximately a month and one-half later. As a result, the tenant was never charged and the Airports never collected the one and one-half months rent. In addition, without proper approval and arrangements with lessees, the County could be subject to potential liability issues.

A few leaseholders at the Chino Airport were selected at random and interviewed to get their overall impression of their experience with the Airport and Administration. Based on information voluntarily disclosed, a leaseholder indicated that there were approximately nine months where rent was never charged or collected for a facility that was fully occupied by the leaseholder. From what we could determine, in the early 1990s, the Airport was attempting to negotiate a new agreement with this “occupant” of the newly reverted facilities. The lease process took approximately nine months. Billing started once the lease was executed. The tenant was never “back-billed” for the nine months. The tenant attempted to pay the rental during this transition period; however, the check was returned.

Reversionary interests should be reviewed carefully and in advance of the reversion date. Current tenants and or subtenants occupying the leasehold pre-reversion should be contacted in advance to negotiate leases, provided they meet the qualifying criteria, that will become effectual post-reversion. This will mitigate any rent fee losses and liability issues.

The Department should establish procedures to insure that possession or occupation of rented space does not occur until a properly approved lease agreement is in place. These procedures should also document that all contractual requirements such as insurance, board approvals, etc. have taken place before occupation.

Reversionary Lease Agreements: These agreements are land lease based, which upon expiration of the original term, the leasehold improvements revert to the County. When the ownership of the structure reverts to the County, the tenant’s lease rate should then be updated to include the land and the structure value. To date, no leases subject to this provision have renewed after reversion. We reviewed an Airport Admin listing of long-term, non-ordinance land development leases. We examined the general terms of the agreements and noted terms ranging from 20 to 25 years with one to two year 5-year options being common.

One file selected had two different leases where 40-year terms were granted and approved by the Board during the mid 1980’s. The lease rates charged were not significantly different from others holding similar leaseholds at that time. In these two cases, the ownership of the building reverts to the County after 40 years versus the typical term of 20 years. Longer terms can be justified based on the activity and

improvements constructed, but there was no documentation with regard to justification of longer terms in this file. It appears this lessee was given preferential treatment.

Additionally, reversionary lease agreements warrant special review and consideration by Airport Admin, Real Estate Services and the Board as the original term nears expiration and an option to extend is exercised. As previously mentioned, a new agreement or amended agreement must be negotiated for the rent of the structure and land. It is critical that the leases be renegotiated and renewed on a timely basis and not pushed into a holdover status.

Periodic Tenant Inspections: Currently, the Airports informally engage in inspection of lessees' sites. We recommend that this process be formalized to include either a random selection for visitation of lessee sites or a process where all lessee sites would be visited on a revolving basis over a period of time. The need to formally inspect tenant facilities will allow the Department to monitor unauthorized use of Airport facilities. This will assist in maintaining safety standards and limiting liability to the County.

We were informed that some hangars have some type of living accommodations constructed within. This may be incompatible with lease provisions concerning authorized and approved aeronautical usage. Periodic tenant inspections would provide a tool to identify and manage possible lease infractions.

Commission Fees not Externally Verified: Commercial tenants are subject to a commission fee that is 2% to 4% of the adjusted gross revenue (i.e. gross revenue less rent paid). These submitted commission fees are based solely on the "honor" system where the tenant submits their fee on a "D-1" form (Monthly Commercial Charges and Fee Statement). There is no request for supporting documentation such as financials on a monthly or any periodic basis. A review and verification on a periodic basis, or periodic audit, of lessees' records is recommended.

Related to this issue, one tenant (defined as a Co-op) has five land leases in which they "sublet" to individuals who purchase stock ownership in the Co-op. Commercial fees would normally be subject on rental fees charged to a sub lease. However, this has not been considered a true sublease and therefore, has not subject to any commission fees. We reviewed documentation that indicated County Counsel had previously considered this issue and had concurred with this treatment. Although this may be a legal distinction, in practice, the Department may want to standardize future lease agreements.

Lease Process Delays: We reviewed an agriculture lease that took an extended period of time (in excess of two years) to negotiate a lease agreement. In summary, the tenant had an existing lease in place at the Chino Airport. An Airport runway was added that encroached on the leased land. The Department, FAA and A&E made numerous changes to the plans. There was no agreement between the County and the tenant as to the amount of land actually leased. The lease expired and went into holdover status. This continued for almost three years.

The primary reason for this lease remaining in holdover status was due to construction and numerous changes to the final Airport Layout Plan (ALP). It provided a situation where lot lines could not be reliably established, thus a reliable square footage determination could not be readily ascertained. We reviewed the payment history for this tenant, and it revealed a reduction in the rental rate to accommodate the removal of acreage.

Communication between A&E and Airports was poor during this time, which in addition to lack of staffing, contributed to this unacceptable delay of constructing a lease agreement. The procedure to

monitor, on a systematic basis, lease expiration (reliance on the Aeroware system) and managing leases in holdover status is key to avoiding such situations.

Supervisory Override on Leasing “Policy: Northstar (see Lockheed Hangar discussion for more information) occupied one-half of Hangar 2 in March 2000. The full use of this hangar would normally generate rents of approximately \$16,000 per month. Accordingly, one-half use should generate \$8,000 per month. The generation of such monthly fees would require Board approval before final approval of the lease agreement. Northstar was in fact issued a permit fee by the previous Director for the use of one-half of Hangar 2 at the rate of \$200/day for up to 10 days per month (i.e. \$2,000 per month).

The intent of the Director was to secure an agreement in place and collect some revenues on a vacant hangar. There was, however, no documented verification process used by Airport personnel to confirm that Northstar did not exceed their 10-day maximum use limit per month. Actually, the situation lasted much longer than one month. So, on a property that is “worth” \$8,000 per month, the County collected \$2,000.

The finalizing and approval of written policies and procedures regarding revenue leases should prevent this situation from occurring in the future. Additionally, leasing property at less than “fair market value” for extended periods of time violates FAA regulations. Any material deviations in fair market value must be justified in the file.

Lease Rate Increases: Non-ordinance leases usually have annual rate adjustments tied to some factor of the economy, such as the CPI. In two of the lease agreements we reviewed, we found provisions that allowed annual CPI adjustments that were not enforced. Additionally, leases that provided for percentage increases different than the CPI were not enforced. Based on our file reviews and interviews with Department personnel, we found that no CPI or other adjustments have been applied since 1995.

On property leases, a CPI adjustment for non-ordinance based leases is reasonable and customary. The Aeroware system could be utilized to track these adjustments and enforce the adjustments.

Unauthorized Lease Adjustments: In two lease files reviewed, we found invoices/receipt history that did not agree with lease rates stated in the lease agreement. In one of the instances the original agreement provided for an adjustment to the fee each year. The lessee underpaid the fee by the adjustment amount because he felt it was unfair. The Department eventually arrived at a Board-approved amended agreement and did not require the lessee to pay the full amount.

The leasing policies and procedures should not allow this going forward. If the lessee does not agree with the rate, they should have made a change prior to it being a legal document. Additionally, either the Director or Board, depending on the dollar amount, should approve the renegotiation.

Collection of Security Deposits

In 34 of the lease files reviewed, we did not find the proper evidence for the receipt of security deposits at lease inception, or proper security payment as required by the lease agreement. If the County does not have the security deposit, it might have no recourse to the delinquent tenant or tenant vacating the premises in substandard conditions.

The Department must establish procedures to collect the required security deposits prior to allowing the tenant access or occupation of the Airports area. Certified bank draft or other secured means of payment

should be required. Additionally, the Department should establish a payment section in the lease files that indicates the payment of deposit and payment history.

Insurance Compliance

The insurance requirements for leases generally consisted of fire, auto, aircraft, workman's compensation (if applicable) and general liability. Our review of the files indicate that there is widespread (53 files) non-compliance ranging from a complete lack of proper insurance documentation to an inability to maintain current evidence with respect to a particular coverage. We found numerous instances of Admin follow-up correspondence requesting evidence of insurance as required per lease agreement. However, Admin lacked a policy or systematic method of obtaining the insurance compliance documentation from the tenants. Insurance expiration dates have recently been incorporated into the Aeroware system, but the database is incomplete.

We did find instances where the County obtained documentation on coverage but was not specifically listed as an additional insured on insurance policies (in five of the files). We did find four instances where evidence of insurance was present, but did not have the proper coverage amount as described per lease agreement.

The Department should complete the database input of insurance information such as type, expiration dates, and required coverage amounts into the Aeroware system. The Admin Office should then perform a monthly review of insurance expiration reports. Insurance lapses for existing tenants can be monitored and managed to limit potential liability. In the event that a Waiver of Insurance is allowed, the waiver must be properly documented and justified.

Summary Discussion of the "Lockheed Hangars"

(See Exhibit V-1 for Lockheed Hangar Timeline)

Before 1988, the Board of Supervisors approved construction of four large commercial hangars (approximately 42,800 sq. ft. hangar space) at a cost of \$16 million. The construction was financed with a 30-year bond and a ten-year lease was secured with Lockheed as sole tenant. Phase I consisted of construction of the initial Hangar 3. Phase II consisted of the construction of Hangars 1, 2 and 4. By 1988, construction of all hangars was complete and occupied by Lockheed. By 1996 Lockheed decided to abandon the Chino facilities and negotiated a \$3.1 million lease buyout of the lease with the County.

The County now had a vacant facility that formerly commanded monthly rental rates of approximately \$16,000 per hangar, with an annual debt service of approximately \$860,000 through 2016. The \$3.1 million buyout provided potential operating capital to maintain the hangars and provide a mechanism to roll a portion of the buyout capital to subsidize a competitive lease rate (approx. \$0.27 per sq. ft.; a rate lower than competitor Ontario).

From our discussions with Department and Real Estate Services personnel, together with our review of available file documentation, it was evident that marketing efforts were employed to attract customers to lease the hangars.

These marketing efforts were not successful, and ultimately the hangars fell into disrepair, and animals began to take over the complex. Each time a potential lessee wanted to view the facilities, a \$2,000 clean-up expenditure was necessary to prepare the site for viewing. A brief summary of the historical leasing activities for each hangar is presented below.

Hangar 1

Lockheed abandoned Hangar 1 during 1996. In January 1997, Kamp Systems became the first company to lease one of the former Lockheed Hangars. They leased Hangar 1 under a 60 month, deferred rent arrangement whereby initial rental payments were gradually phased in to reach approximately \$17,000 per month (term end December 2002, option to extend for two five-year periods). Initial indications were that Kamp Systems was not financially strong and had a record of being sued by vendors, as some rudimentary due diligence revealed. Kamp Systems was nonetheless issued a Board-approved lease and preceded to be in arrears almost immediately. Kamp Systems has had a significant record of delinquencies.

In August 2000, Kamp Systems was requested by the Airport's Director to relocate to Hangar 4. File documentation indicates that Kamp Systems felt they were threatened with eviction if they did not consent to the relocation. Presumably, this move was to accommodate a proposed Executive Aviation Logistics ("EAL") occupation of both Hangars 1 and 2. Kamp Systems began partial relocation to Hangar 4, but did not fully vacate Hangar 1. Kamp Systems' lease of Hangar 1 did provide for reimbursement of lessee's moving expenses if County required the move. At that point, Kamp Systems occupied both Hangars 1 and 4. Kamp Systems did not have an approved County agreement in place for Hangar 4, or for an out building located nearby, which they were already utilizing.

The EAL proposed occupation of Hangars 1 and 2 did not appear likely; therefore Kamp Systems was allowed to re-locate back to Hangar 1, but only after significant leasehold improvements were done for them. As of January 2001, Kamp Systems vacated Hangar 4 and completely relocated back into Hangar 1.

Airport Admin informed us that in February 2001, federal agents raided the Kamp Systems' facility. Computer systems were confiscated and the hangar was locked down. No further information was available at this time.

Hangar 2

Lockheed abandoned Hangar 2 during 1996. In March 1998, Executive Aviation Logistics (EAL) leased one-half of Hangar 2 under a deferred rent arrangement, eventually ramping up to approximately \$8,000 per month (term end December 1998, option to extend two one-year periods). We understand from our interview that EAL essentially had full use of the entire hangar.

In February 1999, EAL vacated one-half of Hangar 2. In December 1999, Northstar (a repair and maintenance firm) entered into a permit fee agreement for rental of an area ramp (not hangar space) at a rate of \$500 per month (term end February 2000). In March 2000, Northstar occupied one-half of Hangar 2 on a permit fee basis at a rate of \$200 per day for up to 10 days per month (equivalent to \$2,000 per month). It was reported by the current interim Airports Manager that a former Airport Manager allowed Northstar to occupy the hangar before any lease agreement could be initiated. The former Airports Director then hastily obtained a permit fee agreement to minimize County liability.

In March 2000, EAL also occupied one-half of Hangar 2 on a permit fee basis at a rate of \$200 per day for up to 10 days per month (equivalent to \$2,000 per month). We were unable to locate the actual lease agreement. In July 2000, EAL vacated one-half of Hangar 2. It was reported that Northstar then had full use of the entire hangar. There was no evidence that a modified agreement was then negotiated.

In August 2000, EAL filed for Chapter 11 Bankruptcy. EAL, however, requested a dismissal of the proceedings within a few months. Although EAL vacated Hangar 2, they have occupied Hangar 3 since January 1998, under a different lease agreement (see Hangar 3 discussion). In the latter part of 2000, Northstar abandoned their leasehold and left behind two jetliners, various equipment and unpaid rental fees in excess of \$19,000. The Department initiated eviction proceedings.

In February 2001, Northstar was still occupying Hangar 2 until such time as arrangements were made for them to remove their planes and equipment. They have paid the rental fees in arrears and, according to Airport Admin, are now considered current.

Hangar 3

Lockheed abandoned Hangar 3 in 1996. In January 1998, EAL leased Hangar 3 under a deferred rent arrangement where the monthly fee increased to approximately \$16,000 per month, (term end is December 1998, with two one-year options.) Prior to renewing their lease, EAL proposed relocation to Hangars 1 and 2 with a provision for a rental rebate tied to property tax revenue generated from their leasehold interest and property subject to assessment. Lease file documentation indicates that a draft proposal was prepared but ultimately, for reasons unknown, was not presented to the Board for approval.

In August 2000, EAL filed for Chapter 11 bankruptcy. However, EAL shortly thereafter requested dismissal of the bankruptcy proceedings. In February 2001, EAL still occupies Hangar 3 and the lease is currently in holdover status. EAL is currently engaging in the SOP process to bid on Hangar 4. If EAL is successful in obtaining a lease for Hangar 4, a new lease agreement will be negotiated for them with respect to both Hangars 3 and 4 together.

Hangar 4

Lockheed abandoned Hangar 4 during 1996. The Board approved a lease with Creston Aviation in August 1998. Creston occupied Hangar 4 in September 1998. The lease agreement consisted of a deferred rent/security arrangement that after ramp up would be approximately \$17,000 per month (term end was December 1998, with two one-year options). Creston was delinquent with regard to rent payments from the outset. They were also not able to provide the County with the necessary security deposit and never paid any rent.

In July 1999, Creston was referred to County Counsel to begin collection and eviction proceedings. It was reported that the Airport Admin received a call from the headquarters at the Department of Justice ("DOJ") in Washington, DC asking for cooperation with Creston as they were working with the DOJ on classified matters (possibly drug interdiction cases). In this call the DOJ asked that Creston not be evicted.

In November 1999, recently reassigned Deputy County Counsel Fiona Luke initiated legal proceedings for unlawful detainer on Creston. Creston indicated that they would sign the unlawful detainer acknowledgement and make a settlement offer. However, no offer of settlement has ever been reached. In February 2000, the County obtained a favorable legal judgment for approximately \$200,000. We were not able to determine the actual date of Creston's departure from Hangar 4.

In August 2000, Kamp Systems occupied Hangar 4, while still maintaining a continuing presence in Hangar 1. We noted no lease agreement in place with regard to the occupation of Hangar 4, or for the out building utilized by Kamp Systems. In January 2001, Kamp Systems voluntarily relocated back to Hangar 1. This relocation was contingent upon Airports Department agreed upon leasehold improvements in Hangar 1.

In February 2001, Hangar 4 is currently not occupied. The SOP process is currently being initiated to obtain a qualified potential tenant pool. The lease will eventually be awarded to the best candidate.

Lockheed Hangar Summary

The economic conditions that existed (where supply of these types of hangars greatly exceeded their demand) in conjunction with the pressures to meet the debt service and general overhead requirements in maintaining such facilities, clearly contributed to the problems and issues that the County is still experiencing today. The Airports Department and Real Estate Services were not prepared to deal with these types of leases. Policies and procedures were not in place to provide a systematic and a uniform methodology for the initiation, analysis and eventual approval of such leases. A “some revenue is better than no revenue” attitude prevailed which allowed tenants of poor financial standing to gain a leasehold interest in the Airport hangars.

Real Estate Services and the Airport Department have been developing policies and procedures with respect to real estate leases. This should aid greatly in ensuring that qualified tenants are placed in Airport facilities

Objective

The objective of Phase VI is to assess the Department's efficiency and effectiveness in achieving its goal. To accomplish this goal we performed several key tasks:

- We obtained the general, operational-business, and budgetary plans relating to the Department. We reviewed these plans and other appropriate documents to develop an understanding of the Department's short and long term financial and operational plans.
- We assessed the efficiency and effectiveness in achieving the Department's goal. This assessment was based on information gathered from all Phases of our work.
- We prepared a summary of findings and recommendations in this section of the report.

Organization

The San Bernardino County Airports Department is staffed by a total of 26 (regular staff) employees in four locations. They are supplemented by temporary, part-time employees, as needed. The basic structure is the Director with his staff in San Bernardino, the Airport Manager of the Chino Airport and his staff in Chino, and the Airport Manager of the Desert Airports and her staff in Apple Valley Airport and Barstow-Daggett Airport.

The Department in San Bernardino is staffed with administrative and financial personnel. One position, the Operations Supervisor, supports the Director in operational matters and in supervising airport operations. This position is fairly new and vacant as the current Operations Supervisor became the interim Airport Manager at Chino Airport. The responsibilities of the Operations Supervisor and the Airport Managers seem to overlap at least in some areas, and the authority to "supervise the daily activities of airport personnel" is in direct conflict with the Airport Managers' task "to supervise assigned staff." There were several reasons to establish the Operations Supervisor's position in such an ambiguous manner. The previous Director understandably saw the need, but could establish only a temporary fix.

The operational staff at the Airports consists of three Maintenance Supervisors and their crews at Chino, Apple Valley and Barstow-Daggett. Approximately 19 Maintenance Workers and Public Service Employees perform the day-to-day duties of maintaining the six County Airports. The Maintenance Supervisors and Maintenance Workers are responsible for their duties seven days a week. In addition to the maintenance tasks, they also are involved in operations, including safety activities as well as limited security. Five positions at Apple Valley Airport, six positions at Barstow-Daggett Airport and eight positions at Chino Airport reflect the level of activities as well as the size of the operation at the different airports. Apple Valley Airport is short one Ops/Maintenance Worker II to provide the needed coverage seven days a week. The workers in Barstow-Daggett are also maintaining the remaining three desert airports: Needles, Baker and Twenty-nine Palms. Administrative support at the Airport Manager level is limited to one secretary at Chino and two Clerks at Apple Valley Airport.

At the Department level, the Administrative support staff consists of one Executive Secretary, a Supervising Accounting Technician and three Clerks (including one PSE).

The geographical distribution of the Department into four locations, and the separation of administrative tasks from operations, requires increased communication and additional cooperation to manage the Department as well as the Airport System. The Director is currently wearing two hats: a Department Manager within the Economic Development and Public Services Group and the Director of Airports.

The organization of the Airports Department (“Department”) seems to be based on available personnel rather than tasks at hand. The Director needs operations expertise in his staff to manage and supervise the six airports, especially as geographically distant as these Airports are to each other. Additionally, the Airport Managers need the authority and the manpower to operate these airports. The temporary absence of key personnel has aggravated the situation and needs to be solved with the highest priority. Finally, the Admin Office is understaffed for the complexity of the Department and needs property management expertise on staff.

The organization structure of the Department should be reviewed and changed. Furthermore, we recognize that the new Airports Director should have flexibility in structure recommendations since he is bringing new skills and experiences to the Department. One recommended solution to this issue is to create a new position of Assistant Director, add one Operations/Maintenance worker and a Property Manager. This would be a major step forward, provided all the other open authorized positions are also filled. See the recommended organizational diagram at Exhibit VI-1. A summary of all the changes is as follows:

1. Change the Operations Supervisor into Deputy / Assistant Director of Airports and assign full responsibility for supervising the Airport Managers to the Deputy/Assistant Director.
2. Change the Maintenance Supervisor/ Worker into an Operations/ Maintenance Supervisor /Worker.
3. Establish an Operations / Maintenance Worker II for Apple Valley Airport.
4. Establish a new position in the Admin Office for a Property Manager. Reassign Fiscal Clerk II currently processing receivables to assist in areas as directed by the Supervising Accounting Technician.

Staffing

The Department's personnel register shows 26 employees authorized, including the Director plus three full-time equivalent PSE's (temporary public service employees). As of January 5, 2001, 20 positions were filled and six positions were open. The six open positions were:

- Director of Airports
- Airport Manager (Chino)
- Two - administrative positions in San Bernardino (Clerk III and Fiscal Clerk II)
- Airport Maintenance Supervisor (Chino)
- Airport Maintenance Worker I (Chino)

Three extra-help positions were authorized and filled to cover for some of the open positions. The Director of Airports position was filled January 16, 2001. The Chino Airport Manager's position was filled with an "Acting Manager" by moving the Staff Supervisor of Operations to Chino. No replacement for this position has since been made. Interim coverage was provided for the Maintenance Supervisor at Chino and the open staff positions.

The San Bernardino Airports Department is in a transition phase. For the last six months the staffing levels have been more than 20% below authorized. This lack of staffing has been detrimental to the Department's ability to properly function. Improvisation was the key to survival, and dedicated staff and support from outside the Department have helped to avoid a collapse. Critical functions such as supervisory and management tasks were done on an interim or temporary basis. Shortages in administration and maintenance levels were covered by moving personnel within the Department and by adding responsibilities to the remaining workers.

Even at the fully staffed level of 26 authorized employees, the Department seems to be barely able to perform its tasks, as mentioned in the previous comment on the Organization. The three critical areas are:

1. Operations expertise at staff level.
2. Property management expertise at staff level.
3. Maintenance Workers at the Airports.

The current job description for the Operations Supervisor makes an attempt to bridge the gap between the needs of the Director and the authority of the Airport Managers. The Director needs operations expertise on his administrative staff for the primary purpose of coordinating and standardizing the operations of all the Airports collectively. The Managers are quite capable, however, of running the day-to-day operations of their respective airports without operational input from the staff. The present structure as discussed above tends to cause duplication of efforts and is in direct conflict with the Airport Managers' responsibilities. The lack of personnel has helped to avoid this conflict between the Operations Supervisor and the Airports Managers. Additionally, the intended benefits to the Director have not materialized because of the lack of staff.

Property management in the Airports' system is divided between three Managers. At the Airport level the Managers initiate property processes with limited authority. At the Department level, the Director is in charge of property management, again with limited authority. With the recent establishment of an assigned leasing expert from the County's Real Estate Services, a third party is integrated into the

leasing process. Due to the size and the public interest into the Airport leasing activities, it seems to be necessary to re-evaluate the task and streamline the process, from written goals and objectives to a task oriented structure of responsibilities. The Operations Supervisor or Assistant Director could be the coordinating authority for this important function. The present set-up with outsourced help from Real Estate Services (as needed as this expertise is) could result in conflicts in the future between the aviation needs and the market forces of the property/real estate developments. Additionally, the Department lacks the depth of property management expertise on the contract compliance, or after-the-fact administration of the leases.

The task of operating an airport exceeds the job description of the Airport Maintenance Worker. There is a need for maintenance as well as operations, based on a seven-day -a-week, twenty-four hours per day demand for services. The current manning is marginal at best. Despite commendable efforts and good intentions of a committed workforce, lack of personnel leads to fixing problems instead of more efficient maintenance programs and a general feeling of being over-tasked and stretched to the limit. Just filling the open positions with qualified personnel would probably go a long way to increase productivity and efficiency. Growing demand for services will also require additional personnel at the airports.

Pay scale and job descriptions seem to be in line with industry standards and the local / regional job market. The most important labor issue seems to be limited advancement opportunities. Specialized airport workers do not have many choices for employment within the County. However, continuously evaluating the job performance throughout the system should generate opportunities for career advancement.

In summary, the recommendation on this topic is to immediately fill the open positions with qualified candidates. Additionally, the County should make the changes to the Organization as described in the previous comment. The Department should develop career paths for as many positions as possible so that talent within the Department can stay. Finally, the property management responsibility ought to be re-evaluated to insure that potential conflicts between aviation and non-aviation use are carefully considered.

Grants and the Grant Process

Management of the Process

The subject of FAA and State Grants to Airports encompasses several activities from the funding process to the monitoring process. As Federal and State Grants should be a major part of any Airports Capital Improvement Plan, every effort should be made to garner all of the funding possible. Even though local sponsors must supply a portion of the capital funding, with FAA and State assistance, the local share is reduced significantly.

We discussed the Grants and Grant Process during our interviews. Based on this information, the Airport Managers do appear to have input into the Grant process, regarding the application process, through the Director. Currently, the Manager prepares the application, along with the estimates of the project cost and timing. After the submittal of this application, the Manager does not have further involvement in the process nor receive status information until it is approved and ready to begin. Based on our observations, pulling the Manager from the process at this point is detrimental to the entire Grant process.

Once the application process has been completed and forwarded to the Director, the Managers have no real information or feedback concerning Grant approvals dollar amounts, timing issues, reimbursements, etc. At this point, Management is not “in control” of the process. The Supervising Accounting Technician oversees, produces, requests reimbursements and closes out Grants. The SAT is holding the program together until someone takes charge.

The Grant Process is the lifeline for general aviation airports. Very seldom do they generate sufficient funds from operations to match the costs of being part of the airport system. The U.S. government recognizes this situation by appropriating billions of dollars every year to the FAA for the maintenance and improvement of the National Airport System. The process to obtain Federal and State Grants is regulated and requires system knowledge, planning and a continuous dialogue with the State and Federal agencies. A well-prepared and organized Grant process is needed to succeed in this system.

The Grant process in the Airports Department seems to lack the structure and focus to maximize the return for the Airport system. Since the Director has so many duties, as mentioned previously, it is difficult for him to spend the time needed to pursue Grants as aggressively as he should. The options seem to be to delegate the process and appropriate resources to the Managers or to task the earlier suggested Assistant Director with this important function. Either solution should be explored.

Administration Overhead

A&E, in the capacity of project manager, includes approximately a 10% administrative expense in the grant application. However, Airports does not include any of its overhead. Our research concluded that costs for administration and airport management could be submitted to the FAA and reimbursed. The administrative reimbursement is based on actual time incurred administering the grant. The Department currently accounts for their time in a way that would be easy to capture the labor cost. The overhead burden could then be added to direct compensation to arrive at the reimbursement for the Department. It is beyond the scope of this project to determine the reimbursement amount. However, we believe it would be equivalent to just less than the cost of a full-time person in the Department.

The reimbursement could have relieved the general fund in covering expenses and achieving a goal of economic self-sufficiency at the Airports.

Airport Rates and Fees

Currently, the Airports Department uses Ordinance 3794 in Title 1 of the County Code to set the General Charges and Fees for five of the six airports. There are no fees at the Emergency Landing Strip at Baker other than possibly general charges. The latest update for the 2000/2001-year was in August 2000.

Various types of user fees, such as tie downs, hangar leases, fuel flowage and housing rentals, are included in the definition of “Fees.” The General Charges cover many other services, such as Airport business permits, which enable individuals to do business at the Airport without renting or leasing space from the County. The Fee Ordinance does not include rates for land leases (aviation or non-aviation) or percentage fees for business on airport property. Land and facility rents are determined pursuant to a County appraisal process. The lease rates for hangars vary with size and location of the hangar from \$125 per month for a small “Mini Bay” at Chino to \$370 per month for a larger hangar also at Chino.

The sewer and water charge of \$47 per month indicates that the Department collects for the use of these utilities. A fuel flowage fee of \$0.065 per Gallon and \$0.075 per Quart of oil is set for all Airports. The land lease rates, not published in this Ordinance, vary between \$725 and \$740 at the Chino Airport. The agricultural rate is \$160 per acre per month. The main factors that determine airport fees and rates are:

- Type and quality of service
- Market
- Rules and Regulations

Small hangars are usually cheaper than larger hangars, newer more expensive than older and, in the case of Chino, even the distance to the prevailing runway determines a difference in rates of the same hangar type. The national average, according to a survey by AAAE in 1998, was between \$123 for a small hangar and \$163 for a larger one. See Exhibit VI-2. Hangar rates for multi-engine aircraft can be all the way up to \$700 per month or more. The local market mainly determines these rates.

The market for aviation facilities is driven by location and demand. Aircraft owners are interested in hangars in their community or their airport. Only few will choose a location for its rates. They will more likely try to influence the rates on their airport once they have moved up from the waiting list to the actual tenant status than shop around at different airports. The competition is therefore limited to the individual airport, and rate changes become “political” topics.

The larger hangars, such as the Lockheed Hangars located in Chino, operate in a completely different market. Here potential customers shop around looking for the best conditions to locate their business. For quite a few companies/businesses, this can be a nationwide effort, which means that hangar rates for business-type hangars compete not only in the local area but also out of state. In this situation the lease rate becomes only part of an equation that includes type of business, expected local impact, potential for secondary revenue and attracting other business and revenues etc. Rates again, become development tools with very little connection to local prices and values.

The regulatory requirement is the FAA policy that “airport operators maintain a schedule of charges for use of the airport that will make the airport as self sustaining as possible under the circumstances existing at the airport, including volume of traffic and economy of collection”. (49U.S.C. Paragraph 47107 (a) (13)) The FAA in its policies acknowledges the uniqueness of the aviation industry market and allows for exemptions to this policy such as market conditions, development, and public community purposes, not for profit organizations and use of property by military units. The policy also states specifically, that “airport owners and operators should not seek to create revenue surpluses that exceed the amounts to be used for airport system purposes...” and it warns “...the surplus funds accumulated from those fees must be used in accordance with 49 U.S.C. Para. 47107 (b)”. While this type of policy seems to be flexible, there is a strong supervision function with the FAA. The FAA relies on reporting from the airports to determine compliance as well as third party complaints. Investigations that determine abuse may result in loss of future funding as well as penalties for past funding. This is a strong tool to regulate the aviation fees and rates.

Overall, the rates at the Chino Airport compared to the industry sample presented in Exhibit VI-2 are not substantially different than “market.” We believe that Chino’s rates are below market; however, the Department should look at the cost structure for guidance and not other “comparables” or the local real estate market.

The Airports Department does not seem to have a clear direction or goal on their rate setting process. It is based on several factors, one of which is the “five-year” appraisal process. There should be a policy set by the County on what should be accomplished by setting rates.

Additionally, the Department should look at the consistency of certain charges. For instance, a person leasing a hangar from the County does not pay the Airport Business Permit. However, someone subleasing from a master lessee does have to pay the \$696 per year. Careful review and comparison to the market should be performed for all rates and charges.

Appraisal and Rate Setting Process

The appraisal and rate setting process has been described in both Phase I and V of this report. To summarize the process, every five years the County determines the fair market value of the Airports' properties. The fair market rental rates are then determined from the fair market value of each property. The ordinance rate schedules are updated annually so new rental rates can be incorporated the next year. Most of the non-ordinance leases contain provisions to incorporate adjusted rental rates resulting from the appraisal process.

Leases written prior to 1995 usually incorporated an annual escalation clause of either a 5% increase per year or based on CPI. In 1995, the County had the Real Estate Services Group prepare the appraisal for the Chino Airport. In our review of this appraisal and critiques commissioned on the appraisal, it seems that most of the properties were valued at or below the 1989 appraisal level, except the land rental rates. The 1995 fair market value of land rentals would have increased 50% over the 1989 level (or an annual compound rate of over 10%) had the appraisal been accepted. Another factor to consider is that real estate was depressed at this point in time. After further analysis, Real Estate Services made a recommendation to the Board in 1996 to “roll back most leases to the 1989 levels”.

During our review of the lease files, we found evidence of this “roll-back”. In 1996 letters were written to non-ordinance tenant rolling the rental rates back effective 1995 and issuing credits to their accounts for the “overpayment”. In one of the cases we observed, the annual escalation clause was also changed. The Department letter (dated August 20, 1996) to a tenant stated, “the review also concluded that a more equitable escalator should be applied to all leases, instead of the annual flat 5% increase, which was imposed until 1995 when it was frozen indefinitely. In the near future, the Airports Department will propose to establish a more equitable escalator based on the Consumer Price Index (CPI) ... [the Director] will recommend to the Board of Supervisors that the percent of gross income payment be eliminated”.

We reviewed the ordinance schedules by year for select properties at the Chino Airport. We found that beginning in the fiscal year 1997/1998, rental rates for some properties were lowered approximately 13%. In the subsequent year, many other rental rates were lowered from 1% to 22%. In at least one case (tiedown rental), the 1998/1999 was almost 10% less than the 1989 rate.

While determining the fair market value of rental rates is beyond the scope of this project, the assessment of property management practices of the Department can be commented on. Based on the information the County presented to us, by 1995 the Chino Airport rental rates exceeded fair market value. This information was communicated to the Board who approved a lowering of rates. The Director instructed personnel to adjust the rates and discontinue annual adjustments for non-ordinance leases. We saw no Board approval of this action. Additionally, the “more equitable escalator” was never implemented.

Finally, the “credit” issue to certain non-ordinance lessees seemed to be based on interpretation by the Director and not agreed to by the Board.

The lease contracts were not amended to reflect the changes above. Assuming the adjustment to the 1989 rates in 1996 (retro to 1995) was reasonable, it would also be reasonable to impose at least a CPI adjustment annually. Based on this reasoning, we believe that since 1996, the Department could have received more revenue to fund operations of the Airports. It is beyond the scope of this project to determine the “lost revenue opportunity”.

We recommend that the non-ordinance lease agreements be amended to reflect the arrangements with the County. Also, there should be restrictions and/or controls placed on any Departmental personnel to change rates and/or adjustments without the proper approvals.

We also recommend that the Department prepare revenue analysis on the various types of properties, which would incorporate year-to-year fluctuations, return on value and supply/demand of the property.

The process of receiving revenue from gross receipts, especially at the Chino Airport, seems to be in need of clarification and enforcement. Businesses that are actively providing goods or services on Airport property without renting space need to be properly licensed, insured and authorized by the owner of the Airport, the County. Unauthorized business activities could eventually end up as a liability for the County. The County code specifically refers to such activities as aircraft repair and maintenance and lists restrictions; however, there seems to be little enforcement by way of the leases or by controlling the activities.

Clarification is required as to which activities are considered Airport business and subject to proper authorization. Leases need to specify if the leased facility is for private or commercial use and therefore subject to a business permit and percentage payments or not. Business activities that are not covered by a lease have to be controlled with permits and/or percentage fees. Violations have to be identified and reported to the proper authorities. On top of the legal and liability aspect, there is also a strong economic incentive to establish a strong business policy. Properly licensed and insured businesses can use the Airport for profitable services and goods. Authorization protects them and their clients from poor business practices and are well worth the cost of a business license or the percentage fee.

The County should determine the benefits of charging revenue on gross receipts versus the permit rate. For the gross receipts concept the Department should perform some form of verification (at least on a test basis) of the gross receipt calculation. The audit function could be outsourced to another Department in the County or an outside firm.

Facilities

Out of the four facilities where the Department has permanent staffing, three were visited during this project. They were the Admin Office in San Bernardino and the Airport Managers’ facilities at the Chino and Apple Valley Airports. The working conditions and the type of facilities being utilized were observed. In addition, the visits were an opportunity to obtain an initial overview of the airfield facilities.

The Admin Office in San Bernardino is part of a County office complex with very little distinctive aviation influence. Other Departments that the Airports Department interacts with such as Real Estate

Services and Payroll are located in the same facility. The offices seem to be standard sized and equipped.

The Apple Valley Airport is a very clean, modern and inviting facility. The terminal building and office of the Airport Manager are what would be expected of a general use, general aviation facility. The Manager and Maintenance Supervisor take great pride in the facility as shown by their commitment to maintain an outstanding airport. Even though an inspection of the airfield was not conducted, what could be seen was in very good condition. The airfield does have room to expand and at the present time does not show any signs of encroachment.

The Chino Airport is a much older facility with aging buildings and a great deal more tenants and associated problem areas. The administrative office building is set within an area that is quite difficult to locate. The administrative office building is adequate, but would be user-friendlier if located on another area of the airport. The Manager stated that there are future plans to move the airport offices, but the Airport Capital Improvement Plan 2001 does not show any related construction activity at Chino Airport for the next six years. The quality of the Chino facilities ranges from “fairly new” to “probably could use some repair work.”

The administration facilities in San Bernardino seem to be suitable for housing the administrative staff. However, having the Department spread over four locations requires additional communication and transportation to maintain the needed supervision of the Department. While two locations for the high desert airports seem to be unavoidable, it might be feasible to evaluate the option of moving the Director and his administrative staff to the Chino Airport. Advantages would be the immediate contact with the largest airport in the system and more direct communication with prospective tenants and businesses. Disadvantages would include (1) physical separation from support functions of A&E, Legal, Personnel, Real Estate and County Administrative Offices; and (2) the Admin Group could be distracted by the Chino activities thus effecting the needs of the desert airports.

The offices of the airport management must portray a pleasant atmosphere and a welcome, open arms attitude for potential tenants and business prospects. Without an easy to locate office or an attractive facility to welcome business prospects, the first step in the negotiating process is off to a negative start.

Property Management and Staffing

The Airports Department is responsible for many functional areas such as airfield maintenance, finance, capital development and aviation planning for the County. Two key primary functions are: operations of general aviation airports and property management of the Airports facilities. Each of these two functions can be looked at as a separate business in relations to systems and staffing. The operations area has been discussed in a previous comment. The focus of this comment is on the property management function.

The property management function can easily be compared to a commercial business for purposes of our analysis. Property management can be further broken down into marketing the properties and administration of the leases. We will address each of these separately.

Marketing of the Airports' property is essential to keeping the highest level of revenue flowing into the Airports system to support operations. The properties are very diverse. They range from tie-downs to the large Lockheed hangars to buildings housing commercial businesses to raw land for either

agricultural use or future airport development. In our review we did find that most of the leases did somehow relate to aviation except for the agricultural leases.

The Department does not have a formal marketing plan to consistently market the diverse properties owned by the County. At the present time, the Department has almost full occupancy of the facilities at all of the Airports, except the large Lockheed hangars. This is commendable and due to the concentrated efforts of the Airports Managers and Real Estate Services. Going forward, however, marketing plays an essential role in the Airports system and should be formalized. We recommend that the Department formalize their marketing efforts. Once a plan is formalized, the staffing of it can be addressed. At a minimum, someone at a managerial level should be involved from Airports to bring the aviation knowledge along with an experienced leasing person from Real Estate Services.

The Department recently purchased property management software to support the administration of function. According to staff, the functionality of the software is appropriate for the needs of the Department. The Admin Office has not been able to implement the system to its full capabilities for instance tracking insurance compliance. Implementation has been slowed primarily due to staffing limitations and turnover in the Department.

The staffing in the administration of the property management area should also be addressed. Property management is not just an accounts receivable function. It is the management of contract compliance, which does happen to include payments. We recommend that the Department consider staffing the administration with a full time person who has property management experience in their background. By putting the proper resources in this area, many of the leasing compliance problems can be addressed on a timely basis. Additionally, it could have a direct, positive impact on the revenue collections.

Another alternative to staff could be to utilize 100% of the Real Estate Services person to not only be involved in the marketing and leasing process, but to also handle lease compliance and lessee relations. Then the administration support position can be kept at a clerk level. If this suggestion is acted upon, consideration should be given to the reporting relationship of the Real Estate Services person, should they be in the Airports Department with reporting relations to the Director or kept in Real Estate Services.

Finally, access to the property management software system has been practically limited to personnel in the Admin Office in San Bernardino. The Managers at the Airport sites have remote access to the system, but have not taken full advantage of its capabilities. Since the information is not easily available, administrative issues that could be addressed at the Airport site earlier is not, such as late or delinquent tenant payments. We recommend that the Department consider setting the property management system up so that the Airports sites would take advantage of remote access.

Airport Reporting

Currently, Airport Admin produces a monthly budget status report from FAS for each airport. This report compares the budget to encumbrances and expenditures then calculates the percentage of the budget available for the remaining fiscal year. Obviously, this is very useful in managing expenditures to a target budget number. Each report provides a summary by expense type for services and supplies, debt service, equipment, and transfers. A separate report is available for salaries and benefits. Admin is able to provide further detail such as the general ledger and warrant information when requested. Through our conversations with Airport personnel, we got the sense that in the past, the responsibility for the “numbers” was relegated to the accounting people. Airport management was informed only if problems arose or near year-end to determine what was left to spend. However, in the absence of an Airport

Director for four months, we observed that current Airport Managers did receive more frequent budget status reports for their area and appeared to take a more active interest in the numbers

We feel that current reporting is inadequate to manage facility operations. The budget status report only provides expense reporting. It is important that the Airport Manager understand the financial picture of the entire facility, including revenues. Current reporting emphasizes a cost center approach. We suggest viewing each facility as a County asset, with the goal to maximize the return as well as providing service to the communities.

A full cost accounting approach should also be implemented to record all costs and labor for each location. Currently Airport labor is budgeted and costs are recorded through Chino and Barstow-Daggett. From here, an allocation is made to Apple Valley since it is a special district. No other allocation is made for Needles, Twenty-nine Palms or Baker. Without a consistent method of allocation to all facilities, it is difficult to ascertain the actual costs of running each Airport. From a managerial perspective, this full cost approach is useful information for decision-making.

In consideration of reporting needs, we also recommend providing variance analysis such as month-to-month comparisons and annual comparisons of revenues and expenditures to chronicle and explain trends. This historical information can be lost during periods of managerial turnover such as that experienced by the Airports over the past several years.

Invoices are not posted to the FAS system for two to four weeks after leaving Airports Admin due to the payment review process in Purchasing and ACR. Therefore, information available is not current. We also recommend a review on the posting process with the goal of reducing the time needed for information to be reflected in the system.

After Hours Monitoring of Airport Activity

During our review we observed and were told of numerous activities that occur on the Airports sites, specifically the Chino Airport, that, if monitored, could result in capturing additional revenue for the Department. One example of an after-hours-activity is the transient charges. As mentioned earlier, it is difficult to capture revenue on an “honor basis” for landing or overnight parking fees when planes come in after the tower closes and before it opens.

Another example occurs on the weekends. We were told of maintenance companies/individuals coming on the airport site to provide services to tenants. There is no one to monitor if these maintenance companies are certified and licensed. Additionally, there is no way to insure these companies have paid the necessary Airport business permit of \$696 (annually) to conduct business on Airport property.

Monitoring of after hours activities is a difficult issue. The cost/benefit of adding personnel must be considered in the decision. The Department should consider the development of other programs to address the loss of revenue, liability exposure of the County and keeping a consistency of charges to those utilizing or conducting business at the Airports.

Master Leasing Inventory

Per our discussion with Airports Admin and Real Estate Services, there exists no master leasing listing which describes all property, currently leased and available, for all airport sites. Airport Admin is able to produce a listing of all current leaseholders for all Airport sites but not a comprehensive listing of available property for leasing. Each Airport site has the ability to produce such a listing but there exists no procedure to compile a complete and comprehensive listing of all Airport sites into one. Airports Admin reported that improvements and on going construction on Airport sites complicates the process of maintaining an up to date listing of available real estate.

Real Estate Services reported that they essentially become involved in real estate issues for the Airports essentially when requested. Their role is on a consulting basis and do not participate proactively in the direct management of Airport real estate holdings. Their involvement should be on a permanent, dedicated basis with some control by the Director of Airports. Real Estate Services, however, have the authority and responsibility to negotiate all leases of Airports real property, except those leases that the Airport Director has the authority to negotiate.

To effectively manage the real estate lease holdings, it is necessary to be fully informed of the total inventory, including what is and will be available. We recommend that such a compilation be accomplished and updated on a periodic basis as determined by Airports Admin, to maintain a reliable and comprehensive real estate inventory listing. This can also aid management in being proactive with respect to future real estate availability and the mitigation of vacancy issues.

Utility Metering Issues

Airport Admin reported that they primarily do not deal with utilities assessed on tenant leaseholders. If there is a separate utility meter that can be assigned to a lease then it is directly assessed on the leaseholder. If no separate metering can be assigned, the electric charges are not borne by the leaseholder but are paid through the general fund by Facilities Management. Water and sewer charges are accordingly assessed at a flat \$94 monthly rate (\$47 times 2). There currently exists no process for increasing utility charges to reflect economic realities.

For tenants that share a common meter, no method for allocation of utility charges has been employed. This clearly is unnecessarily encumbering the general fund for charges that should be borne by the lessees. The County should consider developing a fair and equitable method of allocation for these charges, or at least consider charging a flat fee to recoup some of the general fund expenditures.

Reporting to the Assessor's Office

The Assessor's office requests on an annual basis, information regarding leased property and personal property (e.g. aircraft) on all Airport premises for the purpose of the assessment of California Property Tax. The Assessor's office has requested that the report include property held (secured and unsecured) on airport premises as of January 1, for each succeeding year. Historically, these reports were prepared in the field at the respective Airport sites and forwarded directly to the Assessor's office. The Admin Office might be forwarded a copy on an inconsistent basis. Currently, reports are generated by the Admin Office, with the initial report dated January 26, 2000 for Chino Airport.

Reporting by the Airports to the Assessor's Office has not been timely and is incomplete with respect to unsecured property listings. Due to the staffing problems experienced by Airport Admin, this reporting responsibility has not been given a high priority. This of course contributes to the reporting inaccuracies and untimely filing.

Collections

Through our review of accounts receivable, we found instances where small amounts (i.e., \$50 or less) were being referred to the County's Central Collections. These small outstanding receivables consumed valuable County resources in collection efforts and resolving account status issues. We recommend that the County consider the cost-benefit of such referrals and establish a "materiality threshold" whereby small accounts under this threshold would simply be referred to an outside collection agency or simply written off. This should help in focusing valuable County resources where the cost of their efforts does not exceed the benefit realized.

Summary of Interviews

During the course of our review, we conducted numerous interviews to gather data to support our findings in this report. We worked with the Airports Department and the Auditor/Controller's ("ACRs") Office to determine most the appropriate individuals knowledgeable of Airport operations to speak with. We used the information gathered from these interviews in our reporting of Phase I through VI. The specific individuals we spoke with are as follows:

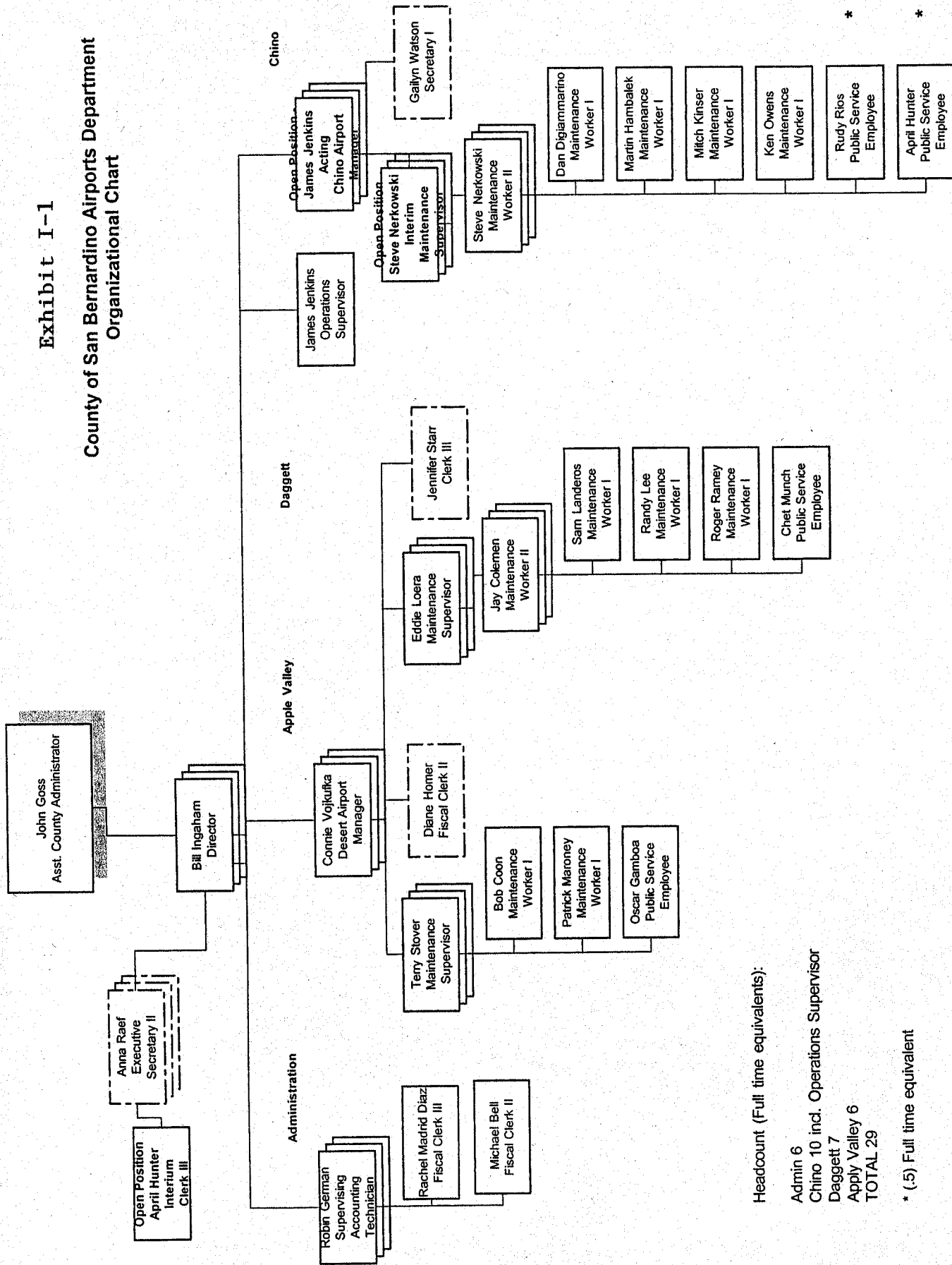
- Fred Aguiar, Supervisor Fourth District
- Cheryl Cargile, Supervising Technician (Payroll)
- Tom Forster, Administrative Analyst
- Robin German, Supervising Accounting Technician
- Betty Glantz, Personnel Technician (Human Resources)
- Millie Hogi, Field Representative
- Bill Ingraham, Director, Department of the Airports
- James Jenkins, Acting Chino Airport Manager
- Norman Kanold, Deputy Administrative Officer & Interim Director
- Tom King, Tenant at Chino Airport
- Rachel Madrid-Diaz, Fiscal Clerk II
- Bob Marlin, Building Construction Engineer II (A&E)
- Steve Mintle, Real Property Agent
- Robert Olislager, Prior Director, Department of the Airports
- Bill Postmus, Supervisor First District
- Keith Reed, Tenant at Chino Airport
- Scott Reid, Chief of Staff to Fred Aguiar
- Aly Saleh, Chief Deputy Auditor
- Betsy Starbuck, Assistant Auditor/Controller-Recorder
- Terry Stover, Maintenance Supervisor (Deserts)
- Joe Tidwell, Tenant at Chino Airport
- Connie Vojkufka, Desert Airports Manager
- Robert A. Wiswell, Director Aeronautics Program, Department of Transportation
- Larry Walker, Auditor/Controller-Recorder
- Marty Williams, Manager Internal Audits
- Seven tenants by telephone (to confirm lessee's name, address and business purpose).

EXHIBITS LISTING

<i>Exhibit I-1</i>	<i>County of San Bernardino Airports Department Organization Chart</i>
<i>Exhibit I-2</i>	<i>Purchasing Transactions</i>
<i>Exhibit I-3</i>	<i>Payable/Disbursement Transactions</i>
<i>Exhibit I-4</i>	<i>Accounts Receivable Transactions</i>
<i>Exhibit I-5</i>	<i>Payroll Transactions</i>
<i>Exhibit I-6</i>	<i>Capital Improvements Transactions</i>
<i>Exhibit I-7</i>	<i>Capital Fund Review</i>
<i>Exhibit II-1</i>	<i>Patrol Checklist</i>
<i>Exhibit II-2</i>	<i>Appropriations and Revenue</i>
<i>Exhibit II-3</i>	<i>County-wide Cost Allocations Plan (COWCAP)</i>
<i>Exhibit V-1</i>	<i>Lockheed Hanger Timeline (Approximate)</i>
<i>Exhibit VI-1</i>	<i>Organizational Diagram</i>
<i>Exhibit VI-2</i>	<i>Fee Comparison of General Aviation Airports</i>

Exhibit I-1

County of San Bernardino Airports Department Organizational Chart



Headcount (Full time equivalents):

Admin 6

Chino 10 inc. Operations Supervisor

Daggett 7

Apple Valley 6

TOTAL 29

* (.5) Full time equivalent

PURCHASING TRANSACTION TESTING

Exhibit I-2

Sample No.	Reference No.	FAS Date	Amount	Type	Purchase Document	Attribute					
						1	2	3	4	5	6
1	990232	06/27/2000	420.20	Travel	Travel Expenditures	Y	Y	NA	NA	NA	Y
2	911241	01/21/1999	195.18	Supplies	Central Stores Requisition	Y	Unknown	NA	NA	NA	Y
3	990216	04/21/2000	149.51	Service	Utilities	Y	NA	NA	NA	NA	Y
4	RT08457	01/26/2000	22,663.18	Correction	Journal Voucher	Y	NA	NA	NA	NA	Y
5	RT07716	01/07/00	1,782.99	Sup/Srvs	Vehicle Services	Y	N	NA	NA	NA	Y
6	Y001047-1	08/11/1999	799.54	Supplies	Blanket PO/Requisition	Y	Y	NA	NA	Y	Y
7	980410	01/25/1999	1,491.46	Service	Utility Bill	Y	N	NA	NA	NA	Y
8	RT10128	02/17/1999	241.17	Supplies	Transfer - Printing Srvs	Y	Y	NA	NA	NA	Y
9	Y000901-1	08/20/1999	722.85	Service	Blanket PO	Y	Y	NA	NA	Y	Y
10	W0198-1	10/16/2000	678.87	Supplies	Requisition	Y	Y	Y	NA	Y	Y
11	LV60035	10/01/1999	962.34	Supplies	Low Value Purchase Req	Y	Y	Y	N	Y	Y
12	980445	06/21/1999	8,375.00	Service	Permit fees	Y	N	NA	NA	NA	Y
13	Y001195-18	03/31/2000	248.70	Supplies	Petty cash	Y	N	NA	NA	NA	Y
14	LV70044	09/28/2000	159.70	Supplies	Low Value Purchase Req	Y	N	Y	NA	Y	Y
15	31111	08/17/2000	1,121.40	Service	Purchase Request	Y	Y	Y	Y	N	Y
16	991061	09/01/2000	40.09	Service	Utility Bill	Y	NA	NA	NA	NA	Y
17	RT13881	05/02/2000	5,549.96	Service	Vehicle Services	Y	N	NA	NA	NA	Y
18	980443	03/18/1999	140.50	Service	Travel Expenditures	Y	Y	NA	NA	NA	Y
19	RT08821	02/03/2000	8,162.44	Service	Vehicle Services	Y	N	NA	NA	NA	Y
20	RT10360	03/02/2000	294.61	Service	Visa Justification Stmt	Y	Y	NA	NA	Y	Y
21	900366	07/13/1998	672.93	Supplies	Central Stores Requisition	Y	Unknown	NA	NA	Y	Y
22	W0748-1	11/13/2000	875.01	Supplies	Requisition/BPO	Y	Y	Y	N	Y	Y
23	LV70104	12/18/2000	525.00	Supplies	Low Value Purchase Req	Y	N	Y	Y	Y	Y
24	PR61708A	12/28/2000	416.66	Service	Purchase Request	Y	Y	Y	Y	N	Y
25	LV70032	08/04/2000	25.00	Service	Low Value Purchase Req	Y	N	N	N	N	Y
26	LV70131	01/09/2001	1,230.83	Supplies	Low Value Purchase Req	Y	N	Y	N	Y	Y
27	LV70133	12/28/2000	110.30	Service	Low Value Purchase Req	Y	Y	N	N	N	Y
28	M1361	11/30/2000	2,770.00	Service	Requisition	Y	Y	Y	N	Y	Y
29	LV70038	07/28/2000	593.09	Service	Low Value Purchase Req	Y	N	Y	Y	Y	Y
30	Y000017-12	07/18/2000	282.61	Service	Blanket Purch. Order	Y	Y	Y	NA	Y	Y
Total Amount Tested:			61,701.12	Number of exceptions:		0	11	2	6	4	0

Attributes

1. Are the purchasing documents appropriate for the spending level and type of spending?
2. Is the Purchase Request signed by a requestor?
3. Are bid or sole source documents prepared by Admin if a low value purchase request?
4. Is one quote/bid from an ESBE?
5. Is the purchase request authorized and signed by Admin?
6. Is a purchase order number assigned?

* NA = not applicable

PAYABLES TRANSACTION TESTING

Exhibit I-3

Sample No.	FAS Date	Amount	Type	Purchasing Document	Payables Document	Attribute			
						1	2	3	4
1	06/27/2000	420.20	Service	Travel Expenditures	Travel Expenditures	Y	NA	Y	Y
2	01/21/1999	195.18	Supplies	Central Stores Requisition	Request for Transfer	Y	NA	NA	NA
3	04/21/2000	149.51	Service	Utilities	Payment Voucher	N	NA	Y	Y
4	01/26/2000	22,663.18	Correction	Journal Voucher	Request for Transfer	NA	NA	Y	Y
5	01/07/00	1,782.99	Service	Vehicle Services	Request for Transfer	NA	NA	NA	NA
6	08/11/1999	799.54	Supplies	Blanket PO/Requisition	Request for Payment	Y	NA	Y	Y
7	01/25/1999	1,491.46	Service	Utility Bill	Payment Voucher	N	NA	Y	Y
8	02/17/1999	241.17	Supplies	Transfer - Printing Srvs	Request for Transfer	Y	NA	Y	Y
9	08/20/1999	722.85	Service	Blanket PO	Request for Payment	Y	NA	Y	Y
10	10/16/2000	678.87	Supplies	Requisition	Request for Payment	Y	Y	Y	Y
11	10/01/1999	962.34	Supplies	Low Value Purchase Req	Request for Payment	Y	N	Y	Y
12	06/21/1999	8,375.00	Service	Permit fees	Payment Voucher	N	NA	Y	Y
13	03/31/2000	248.70	Supplies	Petty cash	Request for Payment	NA	NA	Y	Y
14	09/28/2000	159.70	Supplies	Low Value Purchase Req	Request for Payment	Y	Y	Y	Y
15	08/17/2000	1,121.40	Service	Purchase Request	Request for Payment	Y	Y	Y	Y
16	09/01/2000	40.09	Service	Utility Bill	Payment Voucher	N	NA	Y	Y
17	05/02/2000	5,549.96	Service	Vehicle Services	Request for Transfer	Y	NA	Y	NA
18	03/18/1999	140.50	Service	Travel Expenditures	Travel Expenditures	Y	NA	Y	Y
19	02/03/2000	8,162.44	Service	Vehicle Services	Request for Transfer	Y	NA	Y	NA
20	03/02/2000	294.61	Service	Visa Justification Stmt	Visa Justification Stmt	Y	NA	Y	Y
21	07/13/1998	672.93	Supplies	Central Stores Requisition	Request for Transfer	Y	Y	Y	Y
22	11/13/2000	875.01	Supplies	Requisition/BPO	Request for Payment	Y	Y	Y	Y
23	12/18/2000	525.00	Supplies	Low Value Purchase Req	Request for Payment	N	Y	Y	Y
24	12/28/2000	416.66	Service	Purchase Request	Request for Payment	Y	Y	Y	Y
25	08/04/2000	25.00	Service	Low Value Purchase Req	Request for Payment	N	Y	Y	Y
26	01/09/2001	1,230.83	Supplies	Low Value Purchase Req	Request for Payment	N	Y	Y	Y
27	12/28/2000	110.30	Service	Low Value Purchase Req	Request for Payment	Y	Y	Y	Y
28	11/30/2000	2,770.00	Service	Requisition	Requisition	Y	Y	Y	Y
29	07/28/2000	593.09	Service	Low Value Purchase Req	Request for Payment	Y	Y	Y	Y
30	07/18/2000	282.61	Service	Blanket Purch. Order	Requisition	Y	Y	Y	Y
Total Tested:		61,701.12	Number of exceptions:			7	0	0	0

Attributes

1. Is the invoice approved by a "receiver"?
2. Does the invoice amount match the authorized purchase documentation?
3. Does the request for payment reflect a complete account code?
4. Is the request for payment approved and signed by Admin?

ACCOUNTS RECEIVABLE TRANSACTION TESTING

Exhibit I-4

Sample No.	Reference No.	FAS Date	Amount	Transaction Type	Attribute					
					1	2	3	4	5	6
1	RT13150	4/22/1999	(230.00)	JV-Request for Transfer	NA	NA	NA	NA	NA	NA
2	D007630	4/6/1999	308.75	Cash receipt	Y	Y	Y	Y	Y	Y
3	D04182	12/3/1998	37.12	Cash receipt	Y	Y	Y	Y	Y	Y
4	19991115002	11/16/1999	25,719.19	JV-Property tax	NA	NA	NA	NA	NA	NA
5	D06091	2/14/2000	17,055.00	Cash receipt	Y	Y	Y	Y	Y	Y
6	D09741	6/15/2000	65,987.47	Cash receipt	Y	Y	Y	Y	N	Y
7	RT00885	7/30/1999	182.50	JV-Rent Payroll deduction	NA	NA	NA	NA	NA	NA
8	D00278	7/13/2000	4,806.06	Cash receipt	Y	N	N	Y	Y	Y
9	D002281	9/24/1998	10.00	Cash receipt	Y	Y	Y	Y	Y	Y
10	0700512345R	7/28/2000	(31,665.22)	JV-Interest reversal	NA	NA	NA	NA	NA	NA
11	00254	6/9/1999	383.96	JV-correct D008763	NA	NA	NA	NA	NA	NA
12	D000773	7/31/1998	20,639.00	Cash receipt	Y	Y	N	Y	Y	Y
13	D00224	7/9/1999	3,556.00	Cash receipt	Y	N	Y	Y	Y	Y
14	DR03784	11/12/1998	37.12	Cash receipt	Y	Y	Y	Y	Y	Y
15	19990104002	1/4/1999	551.68	JV-Property tax	NA	NA	NA	NA	NA	NA
16	A09738	6/18/1999	1,683,476.78	Cash receipt	Y	Y	Y	Y	Y	Y
17	RT00333	7/15/1999	2,000,000.00	JV-Request for Transfer	NA	NA	NA	Y	Y	Y
18	A06570	3/3/1999	229,284.85	Cash receipt	Y	Y	Y	Y	Y	Y
19	D00224	7/13/1999	103,930.54	Cash receipt	Y	N	Y	Y	Y	Y
20	RT03464	10/19/1998	17,191.20	JV-Request for Transfer	NA	NA	NA	NA	NA	NA
21	D05863	2/2/1999	60.00	Cash receipt	Y	Y	Y	Y	Y	Y
22	D04971	12/18/2000	611.00	Cash receipt	Y	Y	N	N	N	N
Total Amount Tested:			4,141,933.00	Number of exceptions:	0	3	3	1	2	1

Attributes

1. Did the Bank Deposit Acknowledgement and Deposit Distribution Form reflect a complete account code?
2. Did the Distribution total match the amount deposited, check log or cash receipt journal for the same period?
3. Were collections deposited promptly (within a week) and intact into an authorized bank account?
4. Was the Distribution reviewed and approved by an authorized airport personnel?
5. Were collections posted to the proper fund and revenue source?
6. Were all required documentations attached to the Distribution?

NA = not applicable

PAYROLL TRANSACTION TESTING

Exhibit I-5

Sample No.	Pay Center	FAS Date	PayPeriod Ending	Attributes							
				1	2	4	5	6	7	8	
1	592	02/11/2000	4/00	Y	Y	Y	Y	Y	Y	NA	NA
2	592	12/17/1999	26/99	Y	Y	Y	Y	Y	Y	NA	NA
3	592	05/07/1999	10/99	Y	Y	Y	Y	Y	Y	NA	NA
4	594	05/07/1999	10/99	Y	Y	Y	Y	Y	Y	NA	NA
5	593	05/07/1999	10/99	Y	Y	Y	Y	Y	Y	NA	NA
6	591	08/21/1998	18/98	Y	Y	Y	Y	Y	Y	NA	Y
7	594	10/20/2000	22/00	Y	Y	Y	Y	Y	Y	NA	NA
8	599	01/14/2000	2/00	Y	Y	Y	Y	Y	Y	NA	NA
9	591	04/23/1999	8/99	Y	Y	Y	Y	Y	Y	NA	NA
10	592	08/18/2000	18/00	Y	Y	Y	Y	Y	Y	NA	Y
11	593	08/14/1998	18/98	Y	Y	Y	Y	Y	Y	NA	NA
12	597	09/10/1999	20/99	Y	Y	Y	Y	Y	Y	Y	NA
13	592	10/06/2000	21/00	Y	Y	Y	Y	Y	Y	NA	NA
14	592	05/21/1999	11/99	Y	Y	Y	Y	Y	Y	NA	Y
15	592	01/01/1999	01/99	Y	Y	Y	Y	Y	Y	NA	NA
16	592	10/08/1999	21/99	Y	Y	Y	Y	Y	Y	NA	NA
Number of exceptions:				0	0	0	0	0	0	0	0

Attributes

1. Is a timescard submitted for the payperiod?
2. Does all regular time have a job code?
3. Are all hours and overtime are approved?
4. Does the timescard foot to total hours?
5. Are hours over 40 coded to overtime?
6. Are any pay rate changes authorized?
7. Are new hires authorized?
8. Are separations authorized and report timely?

NA = not applicable

CAPITAL TRANSACTION TESTING

Exhibit I-6

Sample No.	Reference Number	FAS Date	Fund	Originating Department	Object Code	Amount
1	RT00309	07/16/1998	RBT	APT	4005	50.00
2	980437	04/07/1999	RES	APT	4005	170.24
3	J1315-F	01/21/2000	RBT	APT	4005	2,150.00
4	RT05992	11/15/2000	RBT	ANE	4005	203.52
5	RT04422	10/29/1998	RDS	ANE	4010	90.97
6	LV90048	12/04/1998	REI	APT	4010	1,000.00
7	H5711-1	02/01/1999	RDO	APT	4010	12,300.00
8	LV50853	04/26/1999	REJ	APT	4010	616.22
9	RT14617	05/17/1999	RDX	ANE	4010	904.10
10	H5711	06/28/1999	RDO	APT	4010	2,460.00
11	99306-C	09/13/1999	REJ	APT	4010	467,393.34
12	RT03909	10/21/1999	REE	ANE	4010	695.34
13	990106	11/29/1999	RCH	APT	4010	248.75
14	99688-B	01/14/2000	REW	APT	4010	2,015.33
15	99306-G	02/08/2000	REJ	APT	4010	177,710.21
16	LV60115	04/11/2000	REE	APT	4010	517.20
17	RT14796	05/19/2000	RCH	ANE	4010	87.85
18	RT17674	06/26/2000	REE	ANE	4010	1,471.79
19	RT03870	10/10/2000	REW	GIM	4010	84.00
20	RT05992	11/15/2000	REE	ANE	4010	2,950.98
21	00546	06/30/1999	EBJ	ACR	4040	7,689.04
22	00622	06/30/2000	EBJ	ACR	4050	59,211.86
Total Amount Tested:						740,020.74

Land	18%	18%
Improvement	73%	73%
Equip	5%	4.5%
Vehicles	5%	4.5%
Total	100%	100%

Capital Improvements Transaction Testing

Exhibit 1-7

Fiscal Year End June 99

Interest Account	1999	CIP Budget	Transfer	CIP TY 99	CIP TY 99	Remaining	Prior Yr	Cash
Principle Accounts (Fontana)	Budget Bk	Balance	Appropriation (a)	Expenditures (b)	Encumbr. (c)	Budget (d)	Expenditures (e)	Balance (f)
RAA								7,126,129.00
RAI								1,780,161.00
CNO Land Acq.	1,819,000.00	1,819,000.00	0.00	20,383.00	7,395.00	1,791,222.00	3,783.00	189.00
APV Pavement, Roof, Café Impr.	100,000.00	100,000.00	0.00	13,443.00	800.00	85,757.00	0.00	14,508.00
DAG Underground Storage Tanks	191,160.00	131,160.00	(60,000.00)	48,392.00	19,008.00	63,760.00	24,600.00	144,274.00
Needles Underground Storage Tanks	125,150.00	185,150.00	60,000.00	170,100.00	14,327.00	723.00	11,900.00	14,742.00
CNO Storm Drainage	1,000,000.00	90,790.00	(909,210.00)	45,536.00	43,723.00	1,531.00	0.00	460,560.00
APV Commercial Hanger	1,000,000.00	1,000,000.00	0.00	15,002.00	104,544.00	880,454.00	0.00	34,998.00
CNO Parking Lot Reconstruction	275,000.00	275,000.00	0.00	266,619.00	2,379.00	6,002.00	24,600.00	13,793.00
CNO Taxiway D Relo/Storm Drainage	1,200,000.00	3,384,170.00	2,184,170.00	125,353.00	3,253,363.00	5,454.00	0.00	399,645.00
APV Land Acq.	0.00	1,455,000.00	1,455,000.00	1,451,941.00	0.00	3,059.00	0.00	7,915.00
Yucca Valley Feasibility Study	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Number of exceptions:

0 1 0 0 0

Fiscal Year End June 00

Interest Account	2000	CIP Budget	Transfer	CIP TY 00	CIP TY 00	Remaining	Prior Yr	Cash
Principle Account (Fontana)	Budget Bk	Balance	Appropriation	Expenditures	Encumbr.	Budget	Expenditures	Balance
RAA								5,262,000.00
RAI								2,812,000.00
CNO Land Acq.	174,500.00	224,500.00	50,000.00	213,197.00	5,180.00	6,123.00		7,582.00
APV Pavement, Roof, Café Impr.	145,000.00	192,500.00	47,500.00	175,166.00	0.00	17,334.00		1,693.00
DAG Underground Storage Tanks	0.00	0.00	0.00	0.00	0.00	0.00	2,571.00	0.00
Needles Underground Storage Tanks	0.00	0.00	0.00	0.00	0.00	0.00	8,027.00	0.00
CNO Storm Drainage	0.00	0.00	0.00	0.00	0.00	0.00	43,723.00	0.00
APV Commercial Hanger	1,200,000.00	1,200,000.00	0.00	51,535.00	89,990.00	1,058,475.00		36,112.00
CNO Parking Lot Reconstruction	0.00	0.00	0.00	0.00	0.00	0.00		0.00
CNO Taxiway D Relo/Storm Drainage	400,000.00	400,000.00	0.00	170,828.00	38,234.00	190,938.00		60,969.00
APV Land Acq.	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Yucca Valley Feasibility Study	0.00	54,000.00	54,000.00	17,084.00	34,970.00	1,946.00		37,615.00

Number of exceptions:

0 0 0 0 0

(a) Changes are supported by a transfer appropriation signed by Robin, the CAO and ACR.

(b) Expenditures from CIP reports FZ360, FZ395.

(c) Encumbrances are prepared by the ACR.

(d) All project spending is under budget.

(e) Prior year expenditures paid in the current FY are below amounts encumbered in the prior FY.

(f) Cash is allocated to fund RAA and transferred by Admin on an as needed basis.

Chino Airport

Exhibit II-1

Weekday Rounds/Patrol Checksheet

1. ☒ Open maintenance compound gate and perform visual inspection of all equipment and structures.
- ☒ Open maintenance office and deactivate security system:
 - a) ☒ Check personal mailbox and chalkboard for pass down notes.
 - b) ☒ Open safe, remove needed items, **SECURE SAFE**.
 - c) ☒ Turn on VHF and 800Mhz radios. Tune VHF to 125.50 verify negative ELT, return frequency 121.60
 - d) ☒ Perform vehicle checkout and required service.
 - e) ☐ If foggy or overcast, switch rotating beacon to manual override
3. ☒ Unlock Buildings A305, A430, A432 & A550 (Pilot's Lounge on weekends from 8:00 am to 5:00 pm).
4. ☒ 07:00, IN POSITION TO BEGIN AM SURFACE AND LIGHTING INSPECTION.
5. ☒ Complete surface & lighting inspection. Report all observed PAPI, VASI, significant pavement failures to ATCT
6. ☒ Complete/report lighting repairs as necessary.
7. ☒ 07:30, REPORT TO MINI PARK FOR COMMUNITY SERVICE CHECK-IN AND ASSIGNMENTS.
8. ☐ Inspect J Series & H Series hangars and trash dumpsters. Verify security of hgrs, remove/consolidate haphazardly deposited debris in dumpster area.
9. ☐ Service waste oil collection site/mitigate hazards.
10. ☒ Complete tie down log.
11. ☒ Perform ramp and facility inspection (County maintained areas only).
12. ☐ Inspect security gates 1-5.
13. ☒ Perform perimeter fenceline inspection and **SECURE ALL PERIMETER GATES**.
14. ☒ Inspect Commercial Hangar Compound.
15. ☒ Inspect Devries road, fenceline and storm water outflow area.
16. ☒ Verify Grove Ave flow gate free of debris, inspect Remington Avenue.
17. ☒ Inspect Comet Ave./Walker Ave. fence lines.
18. ☒ Restroom/Public Area Servicing: Complete the Janitorial/Custodial Duties
19. ☒ Record weather data - DAILY 40-56 . 30 precip.
20. ☐ Fuel and add 2 Cycle oil to the security golf cart (Sunday and Wednesday).
21. ☒ Secure A305 (Main Entry), A430 & A432
22. ☐ **FUEL VEHICLE: 1/2 TANK RULE.**
23. ☒ Remove And Secure All Tools And Equipment. Sweep Out Truck Bed.
24. ☒ Complete **DAILY EVENTS LOG**.
25. ☒ Secure all radios, keys and other specified items in safe.
26. ☒ 17:00, ready for departure. Activate security alarm prior to leaving.
27. ☐ Notes: _____

Signature

W. H. K.

Date

2-11-01

Reviewed By

Steven A. Delaney

Date

02-12-01

vised 8/22/00

Co. of San Bernardino - CSA 60 Apple Valley Airport
Appropriations and Revenue

Exhibit II-2

	FY 1999			Variance		FY 2000			Variance		FY 2001			Variance	
	Budget	Actual		Budget vs	Actual	Budget	Actual		Budget vs	Actual	Budget	Actual		Budget vs	Actual
Appropriations															
Salaries & Benefits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Supplies	312,475	249,176	63,299	-	-	311,674	270,467	41,207	-	-	702,891	432,424	-	-	-
Central Computer Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Charges	711,375	626,875	84,500	-	-	534,625	542,375	(7,750)	-	-	574,563	32,188	-	-	-
Equipment	112,500	114,972	(2,472)	-	-	50,000	42,983	7,017	-	-	-	(42,983)	-	-	-
Reimbursements	334,124	388,868	(54,744)	-	-	385,187	327,740	57,447	-	-	-	(327,740)	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Appropriations	1,470,474	1,379,891	90,583			1,281,486	1,183,565	97,921			1,277,454	93,889			
Revenue															
Tax Receipts	1,037,637	1,007,910	29,727	-	-	1,057,051	954,591	102,460	-	-	1,042,606	88,015	-	-	-
Interest on Delinquent Pmts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rents/Concessions	159,500	144,093	15,407	-	-	157,500	177,026	(19,526)	-	-	177,500	474	-	-	-
Grant, CA	10,000	10,000	-	-	-	10,000	35,269	(25,269)	-	-	10,000	(25,269)	-	-	-
Federal Aid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel Sales/Lease Comm.	18,300	1,099	17,201	-	-	18,700	311	18,389	-	-	13,400	13,089	-	-	-
Other Revenue	4,320	10,487	(6,167)	-	-	3,820	11,751	(7,931)	-	-	4,150	(7,601)	-	-	-
Fund Balance	240,717	240,717	-	-	-	34,415	34,415	-	-	-	29,798	(4,617)	-	-	-
Total Revenue	1,470,474	1,414,306	56,168			1,281,486	1,213,363	68,123			1,277,454	64,091			
Excess Funds - Carryover	-	34,415	34,415			-	29,798	29,798			-	(29,798)			

- 1) Contribution to capital improvement reserve.
- 2) Labor charges to APV (\$383,650) as Professional Services.
- 3) Gate cards, tenant utility fees.
- 4) Apple Valley financial sources greater than requirements, year to year carry over.

Co. of San Bernardino Airports Department (Excluding APV)
Appropriations and Revenue

Exhibit II-2

	Budget FY 1999		Actual FY 1999		Variance Budget vs Actual		Budget FY 2000		Actual FY 2000		Variance Budget vs Actual		Budget FY 2001		Variance FY 2000 vs Budget 2001	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Appropriations																
Salaries & Benefits	6	1,321,153	1,301,901	19,252	1,371,506	1,325,095	46,411	1,495,232	170,137				1,495,232	170,137		
Services & Supplies		827,981	849,378	(21,397)	897,461	868,592	28,869	831,620	(36,972)				831,620	(36,972)		
Central Computer Charges		20,335	-	20,335	1,405	1,600	(195)	1,857	257				1,857	257		
Other Charges	1	60,570	60,570	-	58,309	58,307	2	56,046	(2,261)				56,046	(2,261)		
Equipment		85,000	106,719	(21,719)	64,000	43,557	20,443	7,000	(36,557)				7,000	(36,557)		
Reimbursements	2	(331,624)	(431,451)	99,827	(385,187)	(332,271)	(52,916)	(1,537)	330,734				(1,537)	330,734		
Transfers	3	32,619	80,807	(48,188)	34,879	13,113	21,766	24,944	11,831				24,944	11,831		
Total Appropriation		2,016,034	1,967,924	48,110	2,042,373	1,977,993	64,380	2,415,162	437,169				2,415,162	437,169		
Revenue																
Tax Receipts		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest on Delinquent Pmts		9,300	7,218	2,082	4,320	4,381	(61)	5,360	979				5,360	979		
Rents/Concessions		1,961,967	1,845,511	116,456	1,981,789	2,008,975	(27,186)	1,936,500	(72,475)				1,936,500	(72,475)		
Grant, CA		40,000	40,000	-	40,000	40,000	-	40,000	-				40,000	-		
Federal Aid		-	18,508	(18,508)	-	-	-	-	-				-	-		
Fuel Sales/Lease Comm.		150,680	166,347	(15,667)	165,220	129,909	35,311	186,238	56,329				186,238	56,329		
Other Revenue	4	126,227	161,748	(35,521)	123,184	66,619	56,565	519,204	452,585				519,204	452,585		
Fund Balance	5	-	-	-	-	-	-	-	-				-	-		
Total Revenue		2,288,174	2,239,332	48,842	2,314,513	2,249,884	64,629	2,687,302	437,418				2,687,302	437,418		
Contribution to General Fund		272,140	271,408	(732)	272,140	271,891	(249)	272,140	249				272,140	249		
COWCAP Expenses, Incurred but not reflected in Budget	7	744,281	744,281	-	748,804	748,804	-	816,000	67,196				816,000	67,196		
Revenue less Appropriations less COWCAP (Expense)		(472,141)	(472,873)	732	(476,664)	(476,913)	249	(543,860)	(66,947)				(543,860)	(66,947)		
Staffing Headcount	6	29.1	29.1	-	29.0	29.0	-	31.6					31.6			

- 1) Principal and interest payment on state bonds. Balance of 283,400 at 12/31/00 at an average 7% interest rate, Chino runway project, 1985.
- 2) An accounting change for 2001 reflects personnel charges to APV (\$383,650) as Other Revenue and not Reimbursements as prior years.
- 3) Payroll support services and surveyors charges.
- 4) Gate cards, tenant utility fees and APV labor reimbursement beginning in 2001.
- 5) Relates to Apple Valley only
- 6) After hour security guards added to Chino and Daggett in 2001, \$55,000. Also increase in 2001 for RE services \$23,000 and MOU step increases \$45,726.
- 7) County wide allocation plan.

Co. of San Bernardino Airports Department (Combined Report)

Exhibit II-2

Revenue and Appropriations

	Budget FY 1999		Actual FY 1999		Variance Budget vs Actual		Budget FY 2000		Actual FY 2000		Variance Budget vs Actual		Budget FY 2001		Variance FY 2000 vs Budget 2001	
Appropriations																
Salaries & Benefits	1,321,153		1,301,901		19,252		1,371,506		1,325,095		46,411		1,495,232		170,137	
Services & Supplies	1,140,456		1,098,554		41,902		1,209,135		1,139,059		70,076		1,150,861		11,802	
Central Computer Charges	20,335		-		20,335		1,405		1,600		(195)		1,857		257	
Other Charges	771,945		687,445		84,500		592,934		600,682		(7,748)		630,609		29,927	
Equipment	197,500		221,691		(24,191)		114,000		86,540		27,460		7,000		(79,540)	
Reimbursements	2,500		(42,583)		45,083		-		(4,531)		4,531		(1,537)		2,994	
Transfers	32,619		80,807		(48,188)		34,879		13,113		21,766		24,944		11,831	
TOTAL APPR.	3,486,508		3,347,815		138,693		3,323,859		3,161,558		162,301		3,308,966		147,408	
Revenue																
Tax Receipts	1,037,637		1,007,910		29,727		1,057,051		954,591		102,460		1,042,606		88,015	
Interest on Delinquent Pmts	9,300		7,218		2,082		4,320		4,381		(61)		5,360		979	
Rents/Concessions	2,121,467		1,989,604		131,863		2,139,289		2,186,001		(46,712)		2,114,000		(72,001)	
Grant, CA	50,000		50,000		-		50,000		75,269		(25,269)		50,000		(25,269)	
Federal Aid	-		18,508		(18,508)		-		-		-		-		-	
Fuel Sales/Lease Comm.	168,980		167,446		1,534		183,920		130,220		53,700		199,638		69,418	
Other Revenue	130,547		172,235		(41,688)		127,004		78,370		48,634		139,704		61,334	
Fund Balance	240,717		206,302		34,415		34,415		4,617		29,798		29,798		25,181	
TOTAL REV	3,758,648		3,619,223		139,425		3,595,999		3,433,449		162,550		3,581,106		147,657	
(To General Fund)	(272,140)		(271,408)		(732)		(272,140)		(271,891)		(249)		(272,140)		(249)	
Staffing Headcount	29.1						29						31.6			

1) Principal and interest payment on state loans. Also APV contribution to a special aviation fund to finance land purchase.

2) An accounting change for 2001 reflects personnel charges to APV (\$383,650) as Services and Other Revenue.

3) Payroll support services and surveyors charges

4) Taxable sales to the public.

5) Apple Valley financial sources greater than requirements, year to year carry over.

6) After hour security guards added to Chino and Daggett in 2001, \$55,000. Also increase in 2001 for RE services \$23,000 and MOU step increases \$45,726.

Countywide Cost Allocation Plan
Airport Cost Allocation

Exhibit II-3

	FY 1999	FY 2000	FY 2001	Variance FY 00 to FY 01	3 year Change %
Space Use	103,514	103,488	97,829	(5,659)	-5%
Equipment Use	64,743	63,301	57,897	(5,404)	-8%
Utilities	397,795	470,159	467,016	(3,143)	-1%
Rent	-	(500)	-	500	nmf
Auditor/Controller	12,643	14,552	36,161	21,609	171%
Arch. & Eng.	59,932	25,559	89,896	64,337	107%
Admin Office	4,423	5,096	4,980	(116)	-3%
Grounds	1,620	1,340	725	(615)	-38%
County Counsel	26,346	23,994	20,522	(3,472)	-13%
Fac. Mgmt-Custodial	636	270	524	254	40%
Fac. Mgmt-Maintenance	2,462	5,580	3,255	(2,325)	-94%
Human Resources	7,816	8,579	9,037	458	6%
Purchasing	4,672	5,723	4,359	(1,364)	-29%
Treasurer/Tax Collector	488	233	-	(233)	-48%
Fac. Mgmt-Admin/Utilities	1,600	1,987	2,560	573	36%
Public Service Group	19,830	19,443	21,239	1,796	9%
Public Works Group	35,761	-	-	-	0%
TOTAL	744,281	748,804	816,000	67,196	9%

	FY 1999	FY 2000	FY 2001	Variance FY 00 to FY 01
Space Use	14%	14%	12%	-2%
Equipment Use	9%	8%	7%	-1%
Utilities	53%	63%	57%	-6%
Rent	0%	0%	0%	0%
Auditor/Controller	2%	2%	4%	2%
Arch. & Eng.	8%	3%	11%	8%
Admin Office	1%	1%	1%	0%
Grounds	0%	0%	0%	0%
County Counsel	4%	3%	3%	-1%
Fac. Mgmt-Custodial	0%	0%	0%	0%
Fac. Mgmt-Maintenance	0%	1%	0%	0%
Human Resources	1%	1%	1%	0%
Purchasing	1%	1%	1%	0%
Treasurer/Tax Collector	0%	0%	0%	0%
Fac. Mgmt-Admin/Utilities	0%	0%	0%	0%
Public Service Group	3%	3%	3%	0%
Public Works Group	5%	0%	0%	0%

% of Allocation

Exhibit V-1
Lockheed Hangar Timeline (Approximate)
Chino Airport

Date	Hangar 1	Hangar 2	Hangar 3	Hangar 4
Pre-1988	Board approves construction of 4 hangars at cost of \$16M. Financed with 30yr bond with 10yr lease agreement with Lockheed as sole tenant.	Board approves construction of 4 hangars at cost of \$16M. Financed with 30yr bond with 10yr lease agreement with Lockheed as sole tenant.	Board approves construction of 4 hangars at cost of \$16M. Financed with 30yr bond with 10yr lease agreement with Lockheed as sole tenant.	Board approves construction of 4 hangars at cost of \$16M. Financed with 30yr bond with 10yr lease agreement with Lockheed as sole tenant.
1988	Phase 2: construction of Hangar 1 completed Lockheed occupies hangar.	Phase 2: construction of Hangar 2 completed Lockheed occupies hangar.	Phase 1: construction of Hangar 3 completed This was initial hangar constructed. Lockheed occupies hangar.	Phase 2: construction of Hangar 4 completed Lockheed occupies hangar.
1996	Lockheed abandons facility County secures \$3.1M lease buyout.	Lockheed abandones facility County secures \$3.1M lease buyout.	Lockheed abandones facility County secures \$3.1M lease buyout.	Lockheed abandones facility County secures \$3.1M lease buyout.
Jan-97	Kamp Systems lease hangar 1 60 month, Term end 12-31-02, deferred rent arrangement, approx. \$17,000/month	Not occupied	Not occupied	Not occupied
Jan-98			EAL leases hangar 3 under deferred rent arrangement, monthly fee approx. \$16,000 Term end 12-98 with two 1 yr options	
Mar-98		EAL leases 1/2 of hangar 2 Deferred rent arrangement, approx \$8000/month Term end 12-98.		
Sep-98				Creston Aviation occupies hangar 4 Deferred rent arrangement, term end 8-03, approx. \$17,000/month
Feb-99		EAL vacates 1/2 of hangar 2		
Dec-99		See Note 1		
Mar-00		EAL Aviation occupies 1/2 of hangar 2 at rate of \$200/day for up to 10 days per month. Equivalent to \$2000/month rate. See Note 4 Northstar occupies 1/2 of hangar 2 at rate of \$200/day for up to 10 days per month. Equivalent to \$2000/month rate. See Note 5		
Feb-00				County obtains favorable judgement, approx. \$220,000.00 See Note 6

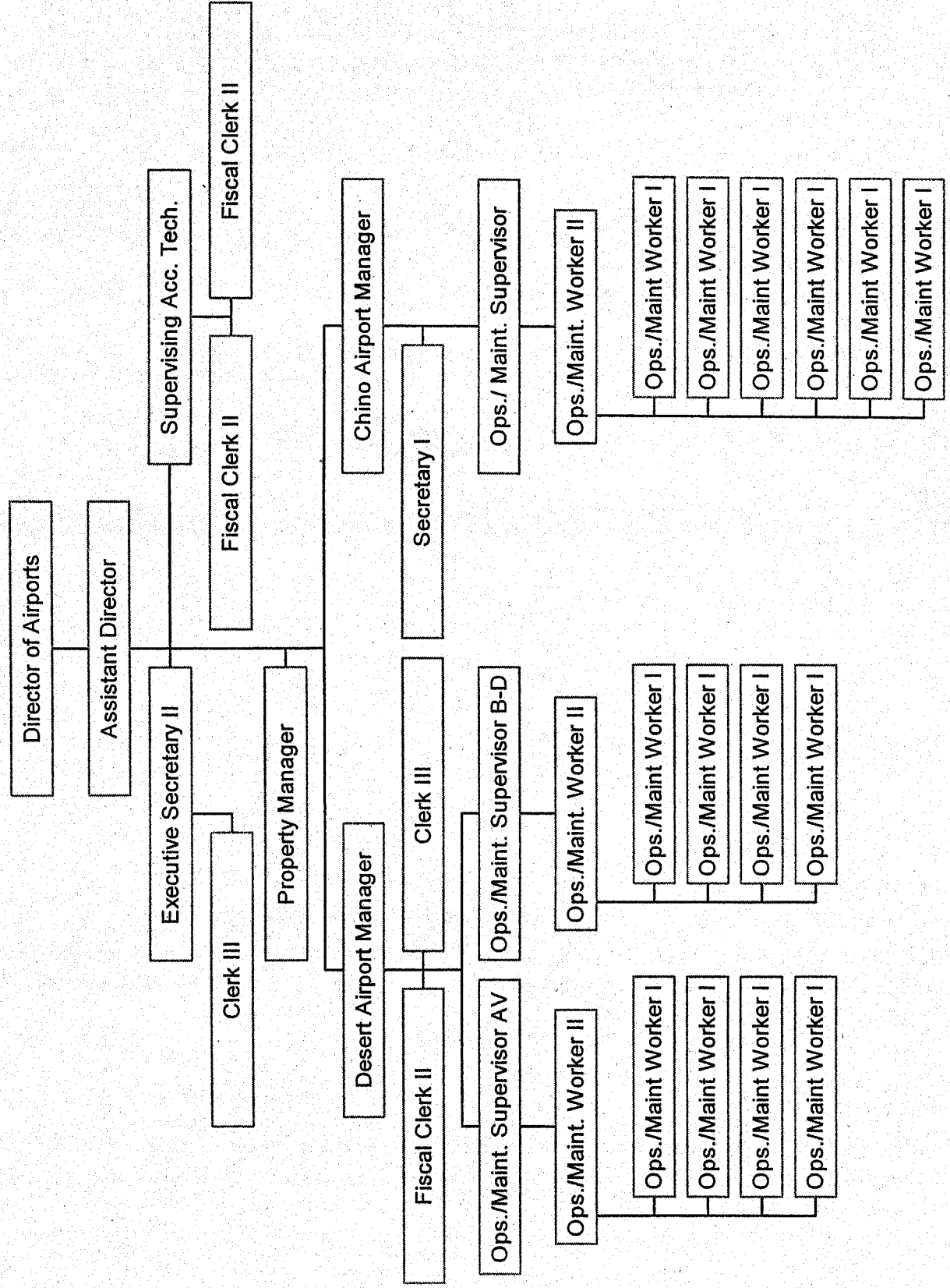
Exhibit V-1
Lockheed Hangar Timeline (Approximate)
Chino Airport

EXHIBIT V-1

Date	Hangar 1	Hangar 2	Hangar 3	Hangar 4
Jul-00		EAL Aviation vacates 1/2 of hangar 2		
Aug-00	Kamp Systems partially relocates to hangar 4. Workspace is not relocated, apparently only office space was relocated. Therefore, currently occupying both hangar 1 & 4.	EAL files for Chapter 11 Bankruptcy EAL requests dismissal within few months time frame.	EAL files for Chapter 11 Bankruptcy EAL requests dismissal within few months time frame.	Kamp Systems occupies hangar 4, while still maintaining presence in hangar 1 See Note 3
Jan-01	See Note 2 Repairs and improvements done for Kamp Systems. Kamp Systems now fully integrated in hangar 1.			Kamp Systems moves out of hangar 4 and relocates back to hangar 1 per voluntary agreement with Airport Admin.
Feb-01	Kamp Systems raided by Federal Agents, Computer systems confiscated, hangar locked down.	Northstar still occupying hangar 2, temporary state until planes & equipment removed. Considered current tenant.	EAL still tenant. See Note 7	Not occupied. SOP's currently being sought.

- Note 1 Northstar leases blast ramp in Dec-99 at rate of \$500/month
- Note 2 Airport Director requested Kamp Systems to relocate to Hangar 4. Presumably to accommodate proposed EAL occupation of hangar 1 & 2. Hangar 1 lease agreement provides for reimbursement of lessee move expenses where county requires the move.
- Note 3 No evidence in file for an approved county agreement for the occupation of hangar 4 or for the use of an out building located nearby.
- Note 4 Unable to locate lease agreement
- Note 5 Per discussion with Robin German, Northstar was not invoiced for the month of 4,5,6 of 2000. The first invoice was issued in July of 2000. Per discussion with the current Acting Airports Manager, a former Airport Manager allowed Northstar to occupy the leasehold before perfection of any lease agreement. The Airports Director initiated this permit lease to minimize any liability.
- Note 6 Unable to determine date of Creslon's departure from airport, basically in default from beginning. Departure approximately in this time frame.
- Note 7 EAL lease currently in holdover. Per discussion with Robin German, Steve Mintel was instructed by Supervisor Aguilar to continue holdover status because EAL is currently one of the potential SOP for hangar 4. If EAL is successful, a new lease will encompass both hangars 3 & 4.

Exhibit VI-1



FEE COMPARISON GENERAL AVIATION AIRPORTS CALIFORNIA

1997 - 1998

	CHINO	NATIONAL AVERAGE	CORONA	FRENCH VALLEY	GILLESPIE FIELD, S.D.	NOVATO, GROSS FIELD	MONTGOMERY SAN DIEGO	SOUTH CAL. GEORGE AFB	P. SPRINGS, THERMAL	VAN NUYS
OPERATIONS	195,000		100,000	90,000	187,831	85,000	248,000	16,425	85,000	520,080
SIZE (ACRES)	950		96	261	411		546	3,000	2,473	725
FBO FEES										
Ground SqFt/Yr	\$ 0.04	\$ 0.24		\$ 1.20		\$ 0.84	\$ 0.08	\$ 0.04	\$ 0.08	\$ 0.33
Hangar SqFt/Yr	\$ 3.17	\$ 3.57		\$ 1.50		\$ 3.24			\$ 0.08	\$ 3.00
% Gross Sales	2.00%					1.00%	.5% - 30.00%	8.00%	75.00%	
Fuel Flowage	\$ 0.07	\$ 0.05	\$ 0.02	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.04	\$ 0.07	\$ 0.05	\$ 0.03
Tiedown	\$ 63.00	\$ 30.00	\$ 40.00	\$ 45.00	\$ 40.00	\$ 66.00	\$ 50.00	\$ 50.00	\$ 50.00	
Transient Aircraft	\$ 5.00	\$ 5.60	\$ 3.00	\$ 2.00	\$ 3.00	\$ 6.00	\$ 5.00	\$ 5.00		
Hangar Fee / Month										
T Hangar SE	\$ 258.00	\$ 123.06	\$ 250.00	\$ 317.00	\$ 275.00	\$ 265.00	\$ 255.00			
T Hangar SE large		\$ 109.54	\$ 900.00	\$ 467.00	\$ 315.00					
T Hangar TE	\$ 357.00	\$ 133.38	\$ 250.00	\$ 317.00	\$ 700.00	\$ 265.00	\$ 400.00			
T Hangar TE large		\$ 162.62	\$ 900.00		\$ 600.00	\$ 700.00	\$ 550.00			