

## **AUDIT REPORT**

<b>Date:</b>	<b>February 22, 2022</b>
<b>Department:</b>	<b>Falcon Field Airport</b>
<b>Subject:</b>	<b>Lease Payments</b>
<b>Lead Auditor:</b>	<b>Michelle Hutson, Senior Internal Auditor</b>

### **OBJECTIVE**

This audit was conducted to determine whether effective controls are in place to ensure revenues are accurately calculated, recorded, and collected; to prevent or detect errors, fraud, waste, or abuse; and to ensure compliance with policies, statutes, and other applicable requirements.

### **SCOPE & METHODOLOGY**

The scope of the audit was lease revenue received during the period July 1, 2020 through June 30, 2021.

To accomplish our objective, we:

- Interviewed Falcon Field personnel.
- Reviewed policies and procedures and observed processes to gain an understanding of Falcon Field's cash handling operations.
- Tested a sample of lease payments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **BACKGROUND & DISCUSSION**

Falcon Field is a financially self-sustaining airport that is owned and operated by the City of Mesa. Revenues are generated from airport users as well as from federal and state aviation grants. Airport user fees and charges primarily consist of payments received for its land (ground) leases and for the monthly rental space of city-owned properties.

Revenue generated from land (ground) leases are payments received from tenants, who have entered into Master Tenant Lease Agreements with the airport, to lease real property for the development and use for aeronautical purposes. During FY 2021, total lease revenue received from land (ground) leases was \$2.32 million.

Revenue generated from the monthly rental space of city-owned properties include the following:

- Tie-down fee – Assigned, uncovered aircraft parking spaces.
- Covered tie-down fee – Assigned, covered aircraft parking spaces.
- Hangar fee – T-hangars and square hangars for the storage of aircraft.
- Storage room fee – Storage of aviation-related items.

During FY 2021, total lease revenue received for city-owned property rentals was \$1.47 million.

As Falcon Field does not receive any General Fund monies to operate, it relies significantly on its lease revenue and grant monies to fund the airport's operating expenses and capital improvement program projects.

### **CONCLUSION**

In our opinion, Falcon Field Airport has effective controls in place to ensure lease revenue is accurately calculated, recorded, and collected. However, the airport should improve its controls over reconciling and monitoring its lease revenue to ensure compliance with the City's cash handling policies. Our observation and recommendation are summarized below. For additional details, please see the attached Issue and Action Plan.

### **SUMMARY OF OBSERVATION & RECOMMENDATION**

- 1. Observation:** Falcon Field Airport did not perform or retain documentation of its monthly cash activity reconciliations.

**Recommendation 1-1:** Develop and implement written policies and procedures for reconciling its lease revenue.

### **Issue and Action Plan #1**

#### **Issue #1: Falcon Field Airport did not perform or retain documentation of its monthly cash activity reconciliations.**

**Observation:** During FY 2021, Falcon Field received over \$3.8 million in lease revenue. However, it did not perform or retain documentation of its monthly cash activity reconciliations for the revenue received from its city-owned property rentals and its land (ground) leases.

**Criteria:** According to the City's Management Policy 210, *Cash Handling*, a reconciliation should be performed to (1) provide assurance that the amount reported as being deposited into the City's account and (2) provide assurance that general ledger balances were accurate.

In addition, according to MP 210, administration not directly involved with the cash receipt process should periodically review the monthly cash activity reconciliations.

**Comments:** There is an increased risk that lease revenue may not be accurately recorded in the City's financial system. In addition, there is also an increased risk that not all lease revenue collected by Falcon Field Airport is deposited and recorded.

**Recommendation and Management's Action Plan:** To ensure compliance with the City's Management Policy 210, *Cash Handling*, Falcon Field should:

**Recommendation #1-1:** Develop and implement written policies and procedures for reconciling its lease revenue, including:

- Performing monthly cash activity reconciliations for its city-owned property rentals and its land (ground) leases.
- Reviewing payment data reports for credit card payments processed online or through Business Services (Customer Service).
- Retaining documentation of its monthly cash activity reconciliations in accordance with department and city record retention requirements.
- Periodically reviewing the monthly cash activity reconciliations for accuracy and completeness as well as to ensure that the reconciliations are properly supported.

**Action Plan #1-1:** Systems Design with Accounts Receivable to create an iNovah monthly cash receipts summary:

- City-owned rental properties (Hangars, etc.)
- Falcon Field Land Lease properties – includes REACH autopay

Systems Design with Accounts Receivable to create an iNovah monthly credit card receipts summary:

- City-owned rental properties (Hangars, etc.)
- Falcon Field Land Lease properties – includes REACH autopay

Systems Design with CIS to create a monthly payments receipts summary by account for City-owned rental properties (Hangars, etc.).

Process monthly payment receipts summary (Credits) in FIN Info Advantage by account for Falcon Field Land Lease properties.

Conduct monthly reconciliation iNovah cash receipts summary and credit card receipts summary of City-owned rental properties (Hangars, etc.) to CIS monthly payments receipts summary by account

Conduct monthly reconciliation iNovah cash receipts summary and credit card receipts summary of Falcon Field Land Lease properties to FIN Info Advantage Credit summary by account.

Write specific procedures to retain documentation of monthly cash activity reconciliations in accordance with department and city record retention requirements.

Create instructions for the Director or designee to review monthly all reconciliations for City-owned rental properties and Land Lease properties for accuracy and completeness.

Develop and implement written policies and procedures for reconciling its lease revenue.

**Individual or Position Responsible:** Rick Welker, Financial Coordinator

**Estimated Completion Date:** July 1, 2022