

# **AUDIT REPORT**

DUTCHESS COUNTY DEPARTMENT OF PUBLIC WORKS – AVIATION DIVISION

LIMITED SCOPE AUDIT

JANUARY 1, 2014 – DECEMBER 31, 2014

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## Background and Organization

The Dutchess County Department of Public Works (DPW) – Aviation Division (Airport) is located in the Town of Wappingers. The Department of Public Works Commissioner is the overseer of the Aviation Division which currently employs a staff of 11 responsible for the administration, operations and line services at the Airport.

## Audit Scope, Objective and Methodology

An audit was performed to review and assess the department's financial procedures, recordkeeping, billing and the aging and collection of late fees. Also examined was a review of any changes to the policy and procedures implemented by the department in response to the findings of a recent independent audit report for the 2013 year-end financial statements. Information was derived from tenant leases, contracts and insurance; various fiscal reports, records and documentation from the Aviation Division and Finance, as well as staff interviews.

## Summary of Findings and Recommendations

- ❖ The department's documentation and records reviewed were readily available and generally in good order.
- ❖ Enhancements to duty segregation for the department's processes and procedures for the receipt of lease payments would strengthen internal controls.
- ❖ The department's posting of payments, accounting and financial recordkeeping was in good order.

## Detailed Findings

### EA.5610.17700 - Airport Fees

<u>GL Account</u>	<u>Description</u>	<u>Authorized Budget</u>	<u>Y-T-D Transactions as of December 2014</u>
EA.5610.17700.00	Nightly Tie Downs	\$2,300.00	\$5,057.50
EA.5610.17700.01	T-Hangars	\$430,000.00	\$458,404.32
EA.5610.17700.02	Tie Downs	\$41,820.00	\$45,742.00
EA.5610.17700.03	Leases	\$240,000.00	\$223,348.84
EA.5610.17700.05	Landing Fees	\$13,000.00	\$18,365.00
EA.5610.17700.06	Miscellaneous	\$6,000.00	\$14,655.00
EA.5610.17700.07	Snow Removal	\$4,500.00	\$4,559.40
EA.5610.17700.08	Fuel Flow Charges	\$20,000.00	\$17,823.57

### Hangars, Tie-Downs and Terminal Leases

#### Procedure Review, General Accounting and Separation of Duties for billing and collection of airport fees and management of tenant accounts and information:

The Airport's process of the billing and collection of airport fees were revised in response to the findings of a 2013 independent audit and the implementation of new 2015 contract terms. Prior to the new terms of the 2015 contracts, approximately two weeks before the first of the month invoices were prepared to be sent out to the tenants by the Accounting Clerk. At this time the Accounting Clerk also assesses finance charges to tenants with outstanding balances. A statement of the late charges owed from prior months was enclosed with the tenant's bill for the upcoming months rent. This information can be reviewed on Quick Books however no copies of the statement of late charges is retained in the tenant's folder. An Aging Report was run by the Accounting Clerk primarily to summarize which tenants have payments in arrears. For tenants who were over 90 days in arrears the Accounting Clerk notified the Dutchess County Attorney's Office who would send letters to the tenants.

#### Updated Procedures –

The terms of the new 2015 contract states a 1 ½ % late fee will be charged on all rental payments that are received after the 10th of the month. The procedures for late fees has been revised and now on the 11th of the month the Accounting Clerk prepares, prints and mails the tenants a statement from Quick Books for any late or outstanding fees owed. The Aging Report is run at this time to determine which accounts with payments are delinquent (over 90 days late). These tenants are then reported to the Dutchess County Attorney's Office for further action as in the process described above.

Rent payments are received either by mail or in person and are posted onto Quick Books. The payments are securely retained until they are prepared for deposit into the Airport Enterprise checking account. Deposits to the bank are generally done weekly, however if a greater volume of payments are received, deposits are made more frequently. Copies of the deposit slips, a detailed summary of the tenant invoices and payment amounts received are sent to the Dutchess County Finance Department (Finance) with a breakdown of the appropriate revenue lines

the funds should be posted to. A copy of the Aging Report is also sent to assist in the posting of the revenue for late charges.

**Observation:** The numbers on the Aging Report do not necessarily reflect a systematic compounded calculation of late charges as the tenants sometimes make payments from older statements which may only reflect part of the late charges owed.

The Airport's Accounting Clerks prepare reports at various times during the month which are sent to Finance to assist in their reconciliation of the Airport's accounts receivable. Copies of all reports, the back-up as well as copies of all deposits and checks are retained in a folder designated for each specific month. One report effective the first of the month for the rentals and leases provides the Airport's anticipated revenue for that month. A second report is run at the end of the month which lists all the payments and transactions for that month. When late fee payments are received, they are included in the Airport's bank deposits and the correct revenue line is designated and sent with documentation to Finance by the Accounting Clerk. The Accountant in Finance enters the deposits as cash receipts, posts them to the designated revenue lines, does any necessary journal entries and reconciles figures to the general ledger and to the reports received from the Airport throughout the month.

**Observation:** The Airport Enterprise's monthly bank statement is sent directly to Finance which is reviewed and reconciled by a Principal Accounting Clerk in Finance providing for duty segregation.

**Tenant Contracts and Insurance for Hangars and Tie-Downs**

Currently the Airport has 166 total hangar and tie-down spaces. The availability and usage at the time of the audit is illustrated below:

<u>Location</u>	<u>Spaces</u>	<u>Occupied</u>	<u>Vacant</u>	<u>Dutchess County</u>	<u>Plane Wash Area &amp; Fuel Truck Parking</u>	<u>Unusable</u>
<b>Large Hangars</b>						
Juliet	1	1				
Whitefield	1	1				
Jet Center	1	1				
<b>Large Hangars</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>T-Hangars</b>						
Juliet Ranch Hangars	10	9	1			
Juliet T-Hangars	67	63	1	3		
Gulf Plastic T-Hangars	13	6	1	6		
<b>T-Hangars</b>	<b>90</b>	<b>78</b>	<b>3</b>	<b>9</b>	<b>0</b>	<b>0</b>
<b>Tie-Downs</b>						
Juliet Paved Tie-Down	29	21	2			6
New Alpha Tie-Down	14	9	4		1	
Alpha Paved Tie-Down	22	10	12			0
<b>Tie-Downs</b>	<b>65</b>	<b>40</b>	<b>18</b>	<b>0</b>	<b>1</b>	<b>6</b>
<b>Terminal Ramp</b>						
Tenant & Transient Parking	8	1	varies		2	1
<b>Terminal Ramp</b>	<b>8</b>	<b>1</b>	<b>varies</b>	<b>0</b>	<b>2</b>	<b>1</b>
<b>Totals</b>	<b>166</b>	<b>122</b>	<b>25</b>	<b>9</b>	<b>3</b>	<b>7</b>

The tenants' files were reviewed to ascertain if proper records and documentation were being maintained. Paperwork considered as necessary for the criteria included a fully executed contract and proper insurance documentation. As previously mentioned, a new 2015 contract was being implemented and as a result not all final

paperwork was in place at the time of our site review. For this reason copies of the 2015 contracts signed by the tenants that were sent to the Dutchess County Attorney's Office for full execution were also reviewed.

### **Observations**

Initial Review:

- 111 out of 115 tenants' folders contained a fully executed contract from prior years.
- 86 out of 115 tenants' folders contained current insurance documentation
- 26 out of 115 tenants had fully executed 2015 contracts
- 76 out of 115 tenants signed the 2015 contract and these contracts were awaiting full execution by the Dutchess County Attorney's Office.
- 13 out of 115 tenants required a specialized contract (ex. storage units) not yet completed by the Dutchess County Attorney's Office for the tenant's signature.

The Accounting Clerks update paperwork and records as changes to the tenant's information and contracts were noted or received. They continued to reach out to the tenants via phone calls or mail to obtain signed 2015 contracts, proof of current insurance or other necessary documentation. Below are the figures regarding the status of fully executed 2015 tenant leases as of June 11<sup>th</sup>, 2015.

Follow up Review:

- 95 out of 115 tenants had fully executed 2015 contracts
- 7 out of 115 tenants with no fully executed 2015 contract  
(Note: actions have been taken but still awaiting resolution)
- 1 out of 115 no longer a tenant
- 12 out of 115 waiting for special leases from the Dutchess County Attorney's Office

### **Terminal, Other Buildings and Ground Leases**

The Airport Terminal as well as other buildings and land located at the Dutchess County Airport are leased by several businesses. These tenants' files were also reviewed to ascertain if proper records and documentation are being maintained. In total 13 files were examined. Paperwork considered as necessary for the criteria included a fully executed contract, specified current terms of the lease and proper insurance documentation.

### **Observations**

- 7 out of 8 tenants' folders had fully executed contracts
- 1 out of 8 tenants' folders had a signed interdepartmental lease agreement
- 8 out of 8 tenants' folders had current terms specified either in original contract or amendments to the contract
- 4 out of 8 tenants' folders contained current insurance documentation
- 3 out of 8 tenants are either Dutchess County or Federal agencies and the insurance is not retained in their folders. This was verified with the Dutchess County Attorney's Office.
- 1 out of 8 tenants' folders did not have current insurance

### **Line Services**

**Procedure Review, General Accounting and Separation of Duties for billing and collection of airport line service fees:**

The Line Service Staff of the DPW-Aviation Division provides a variety of services to the tenants and to transient Airport customers. Some services provided for which customers are charged include: landing fees, overnight tie-down fees and fuel cost. When a particular service is provided the Line Service Attendant collects the payment, issues a receipt for the charge and logs the sale on the Daily Sales Record spreadsheet. The payments and receipts are secured until shift end. At that time the Line Service Attendant reviews and verifies the spreadsheet entries, places the Daily Sales Record with the cash and merchant (credit card) receipts into an envelope, dates and initials.

An Accounting Clerk verifies the cash amounts and transaction receipts to the Daily Sales Record spreadsheet and also runs tapes to confirm the totals which are then attached to the transactions. The cash, merchant receipts and all documentation is placed in an envelope on which the dollar amounts for both the cash and charge totals, the date and initials of the reviewing Accounting Clerk are written. This verification process is then repeated by another Accounting Clerk.

The majority of the line service transactions are paid by credit card using the Epic Card Service. These merchant receipts are further checked against an online report run by the Accounting Clerk which lists all transactions for a particular day made through the EPIC Card Service. This report breaks out the processing fee for each transaction from the fuel or non-fuel amounts. Once verified, all the received payments are entered into a Daily Summary spreadsheet that designates payment type, amount and specific type of product sold, as well as the proper GL lines

to be credited. This spreadsheet tracks the sale of supplies and services on a daily basis. The figures and information from these Daily Summary sheets tie into other spreadsheets which are used to summarize transactions for the reports which are sent to Finance and DPW.

In addition there is one client that is billed monthly by the Accounting Clerk for their regular line service usage. The billing process is similar to that of the tie-downs, hangars and terminal tenants in that invoices are sent for all landing fees within a monthly period and the fuel purchased. The reports for Line Services are prepared and sent at various times throughout the month to the Finance Department.

One report is sent approximately mid-month which summarizes all transactions from the 1<sup>st</sup> through the 15<sup>th</sup> of the month. Another report is sent after the end of the month which summarizes the transactions from the 16<sup>th</sup> through the last day of the month. A final report run by the Accounting Clerk summarizes the entire month's transactions and the General Ledger lines that were credited. Accompanying this report are summary sheets with totals identifying the appropriated revenue lines the funds should be posted to, as well as, copies of corresponding documentation such as: deposit slips, checks and a listing of the EPIC charges for the month. The reports and documentation are sent to the Accountant in Finance who enters the deposits as cash receipts, posts them to the designated revenue lines, does any necessary journal entries and reconciles the figures to the general ledger.

#### **Findings**

- The same individual often received, recorded, prepared and made deposits for rental lease payments.
- While the airport had a written policy that required the attestation of individuals who reviewed the funds transmitted in envelopes, the envelopes documenting the attestation were not retained for audit purposes.
- Tenant insurance policies were not consistently reviewed to ensure the coverage is current and in compliance with airport policies. In addition the name of the insured and plane(s) insured should be verified with information on the tenant leases.
- The written procedures were incomplete and not comprehensive for the description of all duties and responsibilities.

#### **Recommendations**

- To ensure the proper segregation of duties and internal control for receipt of rental payments, the same person should not receive, record, prepare and make the deposit of payments.
- Envelopes that contained payments which have been verified and documented by multiple staff members should be retained with the deposit receipts.
- Copies of the statements notifying tenants of delinquent payments and the assessed late fees should be retained for documentation until the payments are received and resolved.
- A periodic and systematic review of tenant insurance should be implemented to ensure the policies have not lapsed and are in compliance with Airport policy. A document tracking the insurance expiration dates should be developed and utilized to review the lapsing policies and terms. This review should be documented in order to ensure that the new procedure is being performed consistently.
- The written procedures detailing the process, responsibilities and all duties of the staff should be updated periodically to ensure a comprehensive document is in place.