

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
BCC-AIRPORT & INDUSTRIAL PARK
AIRPORT PROPERTY LEASING OPERATIONS
FOLLOW UP 1
MARCH 30, 2006

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM

TO: Donald Silvernell, Airport Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: March 30, 2006

SUBJECT: Airport Property Leasing Operations Follow-up 1

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the Audit Services Department exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected. Specific areas for improvement are addressed later in this report.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

copy: BOARD OF COUNTY COMMISSION:

Commissioner Christopher "Chris" Kingsley
Commissioner Hannah "Nancy" M. Robinson
Chairperson Diane Rowden
Commissioner Robert C. Schenck
Commissioner Jeff Stabins
Gary Kuhl, County Administrator
Larry Jennings, Deputy County Administrator
Jon Jouben, Assistant County Attorney
George Zoettlein, Office of Management and Budget Director

CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

OTHER:

Lori Nissen, Partner, KPMG
Hernando Today
St. Petersburg Times - Hernando Edition
WWJB Radio Station
Hernando County Public Library

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Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork. I thank management and staff for their cooperation.

Fieldwork was performed by: Peggy Prentice, CIA, CISA, Audit Services Director

Management's response was provided by: Don Silvernell, Airport Director

Management's response was authorized by: Larry Jennings, Deputy County Administrator

This report was reviewed and authorized by: Karen Nicolai, Clerk of Circuit Court, on March 28, 2006.

Purpose and Scope

PURPOSE

The objective of this audit was to address management's corrective action in response to audit recommendations reported in the Airport Property Leasing Operations Audit, issued August 18, 2004.

SCOPE

During this audit, the Audit Services Department (ASD) provided management with independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. The scope of work included a request for and a review of management's response to the audit recommendations. The ASD addressed whether management implemented corrective actions which effectively addressed the original findings and recommendations. The corrective actions, or lack of the same, were evaluated under current conditions (August 19, 2004, through March 17, 2006). A determination was made as to what, if any, corrective action is still needed to alleviate any concerns.

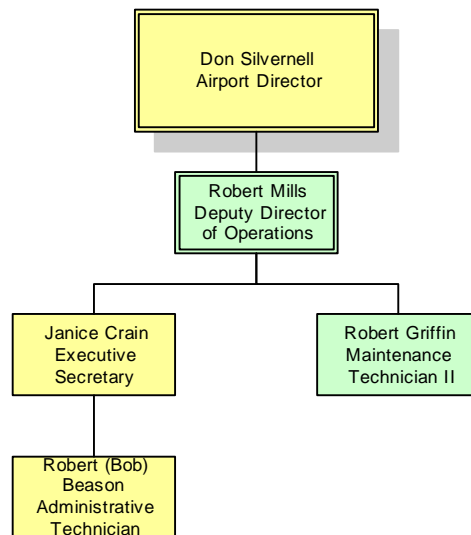
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BASELINE

There were no administrative staffing changes since August 2004 (*as indicated in the organization chart below*).

Airport & Industrial Park Organization Chart March 2006



Staff in yellow boxes perform functions related to the Airport property lease operations. Staff in green boxes perform operations in the maintenance functions which is outside the scope of this follow-up a

Since August 2004, no significant changes were made to the Airport's property leasing operations other than the following:

- ✚ Bob Beason currently administers the leased property insurance certificate/endorsement function. This function was previously performed by Janice Crain;
- ✚ The Airport updated its Insurance Certificate/Endorsement Procedure; and
- ✚ The Airport updated its lease templates.

DISCUSSION POINTS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES

SUMMARY OF THE ASD'S AUDIT COMMENT – AUGUST 2004: LEASE FILE MAINTENANCE, RECORDKEEPING, RECORDING, AND REPORTING

It appears that the Airport reasonably ensures that tenants maintain the appropriate insurance coverage based upon the terms and conditions in their lease agreement.

It was very recently brought to management's attention (by Risk Management) that in addition to requiring a certificate of insurance, the Airport should also require an endorsement from the insurance carrier.

Although, based upon communications with management, the Airport has begun implementation of requiring an endorsement from the insurance carrier, not enough time has passed for the Airport to edit their lease template (if necessary) and revise their standard operating procedures (SOP).

Recommendation 1, August 2004: *Consideration should be given to following through on the commitment to fully implement this new insurance requirement.*

Management Response, August 2004: *The Airport lease template has been revised to include the requirement of a copy of an endorsement along with the certificate of insurance. The Airport will revise the "Lease Payment and Insurance Procedures" policy to include verification of the endorsement in the section on Insurance Certificates.*

Management Response, November 2005: *The Airport's lease template was modified in July of 2004 to require an endorsement from the insurance carrier. The Airport Technician I reviews and checks insurance certificates/endorsements as per the lease payment and insurance procedures SOP. The "Insurance Certificate/Endorsement Procedure" section of the SOP was revised November 8, 2005 to reflect current actions taken.*

Audit Comment, March 2006: *The Airport implemented a procedure for requiring an endorsement from the insurance carrier for any leased Airport property. The ASD tested a sample of leases negotiated in 2005, test results indicate that the Airport requires a certificate of insurance and an endorsement. Based upon testing, it appears that Airport personnel comply with the "Insurance Certificate/Endorsement Procedure."*

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Although recently-written leases appear to minimize the County's potential for liability, leases written years ago may not. The ASD recognizes that the County may not have the authority to rewrite leases that are in effect. The County may be able to renegotiate lease terms when leases expire.

Recommendation 2, August 2004: *Consideration should be given to reviewing leases when they are renegotiated or come to term (expire). Renegotiated or expired leases should be updated with the most recent lease template. This will minimize the County's potential for liability.*

Management Response, August 2004: *Currently, any time a request is made to assign, exercise an option or extend a lease, the Airport attempts to negotiate a new lease utilizing the new lease template. Any extension beyond the original term of the lease will be on the new lease template.*

Management Response, November 2005: *Any time a request is made to assign a lease airport management attempts to negotiate a new lease utilizing the new lease template. All requests for lease extension and all new leases utilize the new lease template.*

Audit Comment, March 2006: *Based upon testing, it appears that the Airport renegotiates leases that come to term (expire) and updates them with the most recent lease template. All of the lease agreements negotiated during 2005 and reviewed by the ASD specified insurance requirements including naming/listing the Board of County Commissioners as additional insured.*

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SUMMARY OF THE ASD'S AUDIT COMMENT – AUGUST 2004: FAA COMPLIANCE AND INTERPRETATION OF FAA CRITERION

The expenditures from Airport revenue-producing property must have a direct and immediate benefit to the Airport. Rates based on the fair market value (FMV) must be tied to an index. The lease rates must be equitable. Any exceptions must be justified.

Airport management requested an interpretation of FAA rules that relate to use of non-aviation Airport property. The ASD was asked to assist with this interpretation not because of any immediate and/or significant impact to the County, but rather, to provide some level of assurance that the Airport's activities are in compliance with the FAA criteria.

***Use of Non-Aviation Airport Property** - Hernando County Fire Rescue (HCFR) occupies non-aviation Airport property rent free. General legal principles for government surplus property dictate that Airport rental facilities cannot be rented below the market rate. The FAA requires that Airports not allow favoritism to government and/or not-for-profit entities. The Airport must be as self-sustaining as possible. The FAA requires anyone using non-aviation property to pay the fair market value or its equivalent. The rental rate must be equivalent to that charged to other tenants. In-kind services may offset some or all of the actual rent charged.*

***Recommendation 3, August 2004:** Consideration should be given to recovering the Airport's revenue from the HCFR to which it has been diverted for non-airport purposes. The Airport should attempt to obtain fair market value for any non-aviation use of Airport property.*

***Management Response, August 2004:** The Airport is working with the County Attorney's Office to draft an agreement with HCFR to show that the Airport will receive fair market value for the use of Airport property. Any future use of Airport property will require an agreement approved by the County Attorney's Office, which will include payment of fair market value for the use of the property.*

***Management Response, November 2005:** A DRAFT Inter-departmental Memorandum of Understanding (MOU) has been written by the County Attorney's Office for use between the Airport and HCFR. The MOU will be in final form for approval within the next 90 days.*

***Audit Comment, March 2006:** During fieldwork, the Airport executed a lease agreement with HCFR for the fair market value (FMV) of the leased property.*